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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020
Commission file number 001-35934

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

(Exact name of registrant as specified in its charter)

Mexican Economic Development, Inc.
(Translation of registrant's name into English)

United Mexican States
(Jurisdiction of incorporation or organization)

General Anaya No. 601 Pte., Colonia Bella Vista, Monterrey, NL 64410 Mexico
(Address of principal executive offices)

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General Anaya No. 601 Pte., Colonia Bella Vista, Monterrey, NL 64410 Mexico
(Name, telephone, email and/or facsimile number and address of company contact person)

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

Title of each class:	Trading Symbols:	Name of each exchange on which registered:
American Depositary Shares, each representing 10 BD Units, and each BD Unit consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value	FMX	New York Stock Exchange
2.875% Senior Notes due 2023	FMX23	New York Stock Exchange
4.375% Senior Notes due 2043	FMX43	New York Stock Exchange
3.500% Senior Notes due 2050	FMX50	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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

2,161,177,770	BD Units, each consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value. The BD Units represent a total of 2,161,177,770 Series B Shares, 4,322,355,540 Series D-B Shares and 4,322,355,540 Series D-L Shares.
1,417,048,500	B Units, each consisting of five Series B Shares without par value. The B Units represent a total of 7,085,242,500 Series B Shares.

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

Yes

No

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

Yes

No

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

Yes

No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes

No

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Yes

No

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

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

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

Item 17

Item 18

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

Yes

No

TABLE OF CONTENTS

INTRODUCTION	1
References	1
Currency Translations and Estimates	1
Forward-Looking Information	1
ITEMS 1-2. NOT APPLICABLE	2
ITEM 3. KEY INFORMATION	2
Selected Consolidated Financial Data	2
Dividends	4
Risk Factors	5
ITEM 4. INFORMATION ON THE COMPANY	20
Introduction	20
Corporate Information	21
Corporate History and Recent Developments	21
Ownership Structure	23
Significant Subsidiaries	23
Business Strategy	24
Coca-Cola FEMSA	25
Overview	25
Capital Stock	25
Business Strategy	26
Coca-Cola FEMSA's Territories	28
Coca-Cola FEMSA's Products	28
Packaging	29
Sales Volume and Transactions Overview	29
Seasonality	31
Marketing	32
Product Sales and Distribution	32
Principal Competitors	34

Table of Contents

<u>Raw Materials</u>	35
<u>FEMSA Comercio</u>	37
<u>Proximity Division</u>	38
<u>Health Division</u>	42
<u>Fuel Division</u>	45
<u>Heineken Investment</u>	46
<u>Other Businesses</u>	46
<u>Description of Property, Plant and Equipment</u>	47
<u>Insurance</u>	48
<u>Capital Expenditures and Divestitures</u>	48
<u>Regulatory Matters</u>	49
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	59
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	59
<u>Overview of Events, Trends and Uncertainties</u>	59
<u>Effects of Changes in Economic Conditions</u>	60
<u>Operating Leverage</u>	61
<u>Critical Accounting Judgments and Estimates</u>	61
<u>Future Impact of Recently Issued Accounting Standards not yet in Effect</u>	65
<u>Operating Results</u>	65
<u>Liquidity and Capital Resources</u>	71
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	81
<u>Directors</u>	81
<u>Senior Management</u>	88
<u>Compensation of Directors and Senior Management</u>	92
<u>EVA Stock Incentive Plan</u>	92
<u>Insurance Policies</u>	93
<u>Ownership by Management</u>	93
<u>Board Practices</u>	93

Table of Contents

<u>Employees</u>	94
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	95
<u>Major Shareholders</u>	95
<u>Related-Party Transactions</u>	96
<u>Voting Trust</u>	96
<u>Interest of Management in Certain Transactions</u>	97
<u>Business Transactions between Coca-Cola FEMSA, FEMSA and The Coca-Cola Company</u>	98
<u>ITEM 8. FINANCIAL INFORMATION</u>	99
<u>Consolidated Financial Statements</u>	99
<u>Dividend Policy</u>	99
<u>Legal Proceedings</u>	99
<u>Significant Changes</u>	100
<u>ITEM 9. THE OFFER AND LISTING</u>	100
<u>Description of Securities</u>	100
<u>Trading Markets</u>	101
<u>Trading on the Mexican Stock Exchange</u>	101
<u>ITEM 10. ADDITIONAL INFORMATION</u>	101
<u>Bylaws</u>	101
<u>Taxation</u>	108
<u>Material Contracts</u>	112
<u>Documents on Display</u>	118
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	118
<u>Interest Rate Risk</u>	118
<u>Foreign Currency Exchange Rate Risk</u>	121
<u>Equity Risk</u>	125
<u>Commodity Price Risk</u>	125
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	125
<u>ITEM 12A. DEBT SECURITIES</u>	126
<u>ITEM 12B. WARRANTS AND RIGHTS</u>	126

ITEM 12C.OTHER SECURITIES	126
ITEM 12D.AMERICAN DEPOSITARY SHARES	126
ITEMS 13-14. NOT APPLICABLE	126
ITEM 15.CONTROLS AND PROCEDURES	126
ITEM 16A.AUDIT COMMITTEE FINANCIAL EXPERT	130
ITEM 16B.CODE OF ETHICS	130
ITEM 16D.NOT APPLICABLE	131
ITEM 16E.PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	131
ITEM 16F.NOT APPLICABLE	131
ITEM 16G.CORPORATE GOVERNANCE	131
ITEM 16H.NOT APPLICABLE	133
ITEM 17.NOT APPLICABLE	133
ITEM 18.FINANCIAL STATEMENTS	133
ITEM 19. EXHIBITS	134

INTRODUCTION

This annual report contains information materially consistent with the information presented in the audited consolidated financial statements and is free of material misstatements of fact that would result in material inconsistencies with the information in the audited consolidated financial statements.

References

The terms “FEMSA,” “our company,” “the Group,” “we,” “us” and “our” are used in this annual report to refer to Fomento Económico Mexicano, S.A.B. de C.V. and, except where the context otherwise requires, its subsidiaries on a consolidated basis. We refer to our former subsidiary Cuauhtémoc Moctezuma Holding, S.A. de C.V. (formerly FEMSA Cerveza, S.A. de C.V.) as “Heineken Mexico” or “FEMSA Cerveza,” to our subsidiary Coca-Cola FEMSA, S.A.B. de C.V. as “Coca-Cola FEMSA” and to our subsidiary FEMSA Comercio, S.A. de C.V. as “FEMSA Comercio.” FEMSA Comercio is comprised of a “Proximity Division,” a “Fuel Division” and a “Health Division.” Our equity investment in Heineken, N.V., through subsidiaries of FEMSA, including CB Equity LLP (“CB Equity”) is referred to as the “Heineken Investment.”

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

“U.S. dollars,” “US\$,” “dollars” or “\$” refer to the lawful currency of the United States of America (“United States”). “Mexican pesos,” “pesos” or “Ps.” refer to the lawful currency of Mexico. “Euros” or “€” refer to the lawful currency of the European Economic and Monetary Union (the “Euro Zone”).

As used in this annual report, “sparkling beverages” refers to non-alcoholic carbonated beverages. “Still beverages” refers to non-alcoholic non-carbonated beverages. “Waters” refers to flavored and non-flavored waters, whether or not carbonated.

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 19.8920 to US\$ 1.00, the noon buying rate for Mexican pesos on December 31, 2020, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. On April 9, 2021, this exchange rate was Ps. 20.1620 to US\$ 1.00.

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

Per capita growth rates, consumer price indices and population data have been taken from statistics prepared by the National Institute of Statistics, Geography and Information of Mexico (*Instituto Nacional de Estadística, Geografía e Informática* or “INEGI”), the U.S. Federal Reserve Board and the Mexican Central Bank (*Banco de México*), local entities in each country and upon our estimates.

Forward-Looking Information

This annual report contains words such as “believe,” “expect,” “anticipate” and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including, but not limited to, effects on our company from changes in our relationship with or among our affiliated companies, effects on our company’s points of sale performances from changes in economic conditions, changes or interruptions in our information technology systems, effects on our company from changes to our various suppliers’ business and demands, competition, significant developments in the countries where we operate, our ability to successfully integrate mergers and acquisitions we have completed in recent years, international economic or political conditions, health epidemics, pandemics and similar outbreaks including future outbreak of diseases, or the

spread of existing diseases (including COVID-19) and their effect on customer behavior and on economic, political, social and other conditions in the countries where we operate and globally. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

ITEMS 1-2. NOT APPLICABLE

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2020, 2019 and 2018. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

This annual report presents financial information for 2020, 2019, 2018, 2017 and 2016 in nominal terms in Mexican pesos, taking into account local inflation of any hyperinflationary economic environment pursuant to IFRS. Our non-Mexican subsidiaries maintain their accounting records in their local currency and in accordance with accounting principles generally accepted in the country where they are located. For presentation in our consolidated financial statements, we adjust these accounting records into IFRS and report in Mexican pesos under these standards.

In the case of Argentina, on July 1, 2018, the economy was designated as hyperinflationary based on various economic factors, including that Argentina’s cumulative inflation over the three-year period prior to such date exceeded 100%, according to the available indexes in the country. As a result, the financial statements of our Argentine operations were remeasured in its functional currency (Argentine peso) but they were not restated in its presentation currency (Mexican pesos) since Mexico is not considered a hyperinflationary economy. In addition, our financial statements for prior periods were not restated for comparative purposes. Effective as of January 1, 2018, we revised the financial information of our Argentine operations to recognize the inflationary effects before it was converted to Mexican pesos using the official exchange rate published by the local central bank at the end of each period. For further information, see Notes 3.3 and 3.4 to our audited consolidated financial statements.

For each non-hyperinflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for equity and the average exchange rate for the period for the income statement and comprehensive income. For further information, see Notes 3.3 and 3.4 to our audited consolidated financial statements.

In August 2018, Coca-Cola FEMSA’s subsidiary Controladora de Inversiones en Bebidas Refrescantes, S.L. (“CIBR”) notified The Coca-Cola Company (“TCCC”) of its decision to exercise its option to sell its 51.0% stake in Coca-Cola FEMSA Philippines, Inc. (“KOF Philippines”) and, on December 13, 2018, CIBR completed this sale. As a result, KOF Philippines was classified as an asset held for sale commencing on August 31, 2018 and as a discontinued operation for the year ended December 31, 2018, and the corresponding results for 2017 were restated for comparative purposes. Commencing on January 1, 2018, Coca-Cola FEMSA stopped accounting for KOF Philippines and, specifically its Asia division, as a separate reporting segment. The net gain derived from the sale of KOF Philippines, as well as KOF Philippines’ results of operations from January 1, 2018 through December 12, 2018 were recorded in Coca-Cola FEMSA’s consolidated financial statements as part of its Mexico and Central America consolidated reporting segment.

Except when specifically indicated, information in this annual report is presented as of December 31, 2020 and does not give effect to any transaction, financial or otherwise, subsequent to that date.

The following table presents selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements, including the notes thereto. The selected financial information contained herein is presented on a consolidated basis and is not

necessarily indicative of our financial position or results at or for any future date or period. See Note 3 to our audited consolidated financial statements for our significant accounting policies.

	December 31,					
	2020(1)	2020	2019	2018(4)	2017(2)(3)(4)	2016(2)
(in millions of Mexican pesos or millions of U.S. dollars, except percentages and share and per share data)						
Income Statement Data (for the year ended):						
Total revenues	\$ 24,782	Ps. 492,966	Ps. 506,711	Ps. 469,744	Ps. 439,932	Ps. 399,507
Gross profit	9,534	189,653	191,481	175,170	162,090	148,204
Income before income taxes from continuing operations and share of the profit of equity accounted investees	970	19,311	32,296	33,630	35,771	28,556
Income taxes	745	14,819	10,476	10,169	10,213	7,888
Consolidated net income	188	3,756	28,048	33,079	37,207	27,175
Controlling interest net (loss) income from continuing operations	(98)	(1,930)	20,699	22,560	40,864	21,140
Non-controlling interest net income (loss) from continuing operations	286	5,686	7,349	7,153	(7,383)	6,035
Basic controlling interest net (loss) income from continuing operations:						
Per Series B Share	(0.00)	(0.10)	1.03	1.13	2.04	1.05
Per Series D Share	(0.01)	(0.12)	1.29	1.41	2.55	1.32
Diluted controlling interest net (loss) income from continuing operations:						
Per Series B Share	(0.00)	(0.10)	1.03	1.13	2.04	1.05
Per Series D Share	(0.01)	(0.12)	1.29	1.41	2.55	1.32
Weighted average number of shares outstanding (in millions):						
Series B Shares	9,246.4	9,246.4	9,246.4	9,246.4	9,246.4	9,246.4
Series D Shares	8,644.7	8,644.7	8,644.7	8,644.7	8,644.7	8,644.7
Allocation of earnings:						
Series B Shares	46.11 %	46.11 %	46.11 %	46.11 %	46.11 %	46.11 %
Series D Shares	53.89 %	53.89 %	53.89 %	53.89 %	53.89 %	53.89 %
Financial Position Data (as of):						
Total assets	\$ 34,428	Ps. 684,848	Ps. 637,541	Ps. 576,381	Ps. 588,541	Ps. 545,623
Total current liabilities	5,953	118,413	136,534	101,464	105,022	86,289
Long-term debt ⁽⁵⁾	9,042	179,864	101,747	114,990	117,758	131,967
Leases liabilities ⁽⁶⁾	2,591	51,536	47,292	—	—	—
Other non-current liabilities ⁽⁷⁾	1,400	27,848	26,217	24,385	28,849	41,197
Capital stock	168	3,348	3,348	3,348	3,348	3,348
Total equity	15,442	307,187	325,751	335,542	336,912	286,170
Total controlling interest	11,951	237,743	251,989	257,053	250,291	211,904
Non-controlling interest	3,491	69,444	73,762	78,489	86,621	74,266
Other Information						
Depreciation	\$ 1,257	Ps. 25,006	Ps. 23,361	Ps. 14,698	Ps. 13,799	Ps. 12,076
Capital expenditures ⁽⁸⁾	1,050	20,893	25,579	24,266	23,486	22,155
Gross margin ⁽⁹⁾	38 %	38 %	38 %	37 %	37 %	37 %

- (1) Translation to U.S. dollar amounts at an exchange rate of Ps. 19.8920 to US\$ 1.00 solely for the convenience of the reader.
- (2) The exchange rate used to translate our operations in Venezuela as of and for the year ended on December 31, 2017 which was the DICOM rate of 22,793 bolivars to US\$ 1.00 and compared to the year ended on December 31, 2016 of 673.76 bolivars to US\$ 1.00. See "Item 3. Key Information—Selected Consolidated Financial Data" and Note 3.3 of our audited consolidated financial statements.
- (3) Effective as of December 31, 2017, Coca-Cola FEMSA deconsolidated its operations in Venezuela and as a result began accounting for the results of operations of Coca-Cola FEMSA de Venezuela, S.A. ("KOF Venezuela") as an investment under the fair value method pursuant to IFRS 9, Financial Instruments. Effective as of January 1, 2018, Coca-Cola FEMSA no longer includes the results of operations of KOF Venezuela in its consolidated financial statements.
- (4) The consolidated information presented does not include Coca-Cola FEMSA's 51% stake in KOF Philippines as a result of the sale which was finalized on December 13, 2018. The operations of KOF Philippines were reclassified as discontinued operations in our audited consolidated income statements for the years ended December 31, 2018 and 2017 (revised). For related information regarding the sale of KOF Philippines, see "Item 4. Information on the Company—Corporate History and Recent Developments".
- (5) Includes long-term debt minus the current portion of long-term debt.
- (6) We have adopted IFRS 16 "Leases" as of January 1, 2019 using the modified retrospective approach under which the comparative information is not restated. See Note 2.4.1 to our audited consolidated financial statements.
- (7) Includes employee benefits, deferred tax liabilities, provisions and other non-current financial liabilities.
- (8) Includes investments in property, plant and equipment, intangible and other assets, net of cost of long-lived assets sold and written-off.
- (9) Gross margin is calculated by dividing gross profit by total revenues.

Dividends

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

The table below sets forth the nominal amount of dividends paid per share in Mexican pesos and translated into U.S. dollars and their respective payment dates for the 2016 to 2019 fiscal years. On March 24, 2021, our shareholders approved a cash dividend of Ps. 7,686,624,026, consisting of Ps. 0.3833 per Series B Share and Ps. 0.4792 per Series D Share, for the 2020 fiscal year, which will be paid in two installments on May 6, 2021 and November 5, 2021.

Date Dividend Paid	Fiscal Year with Respect to which Dividend was Declared	Aggregate Amount of Dividend Declared	Per Series B Share Dividend	Per Series B Share Dividend ⁽¹⁾	Per Series D Share Dividend	Per Series D Share Dividend ⁽¹⁾
May 5, 2017 and November 3, 2017	2016	Ps. 8,636,000,000	Ps. 0.4307	\$ 0.0226	Ps. 0.5383	\$ 0.0282
May 5, 2017			Ps. 0.2153	\$ 0.0113	Ps. 0.2692	\$ 0.0142
November 3, 2017			Ps. 0.2153	\$ 0.0112	Ps. 0.2692	\$ 0.0140
May 4, 2018 and November 6, 2018	2017	Ps. 9,220,625,674	Ps. 0.4598	\$ 0.0236	Ps. 0.5748	\$ 0.0294
May 4, 2018			Ps. 0.2299	\$ 0.0120	Ps. 0.2874	\$ 0.0150
November 6, 2018			Ps. 0.2299	\$ 0.0116	Ps. 0.2874	\$ 0.0145
May 7, 2019 and November 5, 2019	2018	Ps. 9,691,944,126	Ps. 0.4833	\$ 0.0253	Ps. 0.6042	\$ 0.0316
May 7, 2019			Ps. 0.2417	\$ 0.0127	Ps. 0.3021	\$ 0.0159
November 5, 2019			Ps. 0.2417	\$ 0.0126	Ps. 0.3021	\$ 0.0157
August 20, 2020 and November 5, 2020	2019	Ps. 10,360,354,065	Ps. 0.5167	\$ 0.0241	Ps. 0.6458	\$ 0.0301
August 20, 2020			Ps. 0.2583	\$ 0.0117	Ps. 0.3229	\$ 0.0146
November 5, 2020			Ps. 0.2583	\$ 0.0124	Ps. 0.3229	\$ 0.0155

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

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

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

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

Risk Factors

Risks Related to Our Company

The COVID-19 pandemic has adversely affected, and could continue to adversely affect, our business, operating results and financial condition.

The COVID-19 pandemic has negatively affected global and regional economic conditions. Due to the speed with which the COVID-19 pandemic developed and the uncertainty of its duration, the full impact of the COVID-19 pandemic on our business is unknown at this time and difficult to predict. Government responses aimed at containing the pandemic have caused temporary closures of points of sale, distribution centers, warehouses and manufacturing facilities of our key suppliers, causing fluctuations in the availability, sale volumes and prices of certain relevant categories in our stores and products we sell, such as beer, gasoline, some beverage categories and presentations, among others. To date, these measures and regulations have included the direction to refrain from dining at restaurants, the cancellation of major sporting and entertainment events, a material reduction in travel, the promotion of social distancing, the adoption of work-from-home policies and, in certain territories, compulsory lockdowns. Any prolonged or resurging outbreaks or any variant of COVID-19 could result in the imposition of more restrictive measures in the territories in which FEMSA operates, further quarantines or closures, supply-chain disruptions, travel and transportation restrictions and/or import and export restrictions which could further adversely affect FEMSA's business. The COVID-19 pandemic has also impacted, and is expected to continue to impact, our non-consolidated entities, including Heineken. Most countries where Heineken operates reacted to the pandemic by taking far-reaching containment measures such as restrictions of movement for populations and outlet closures, sometimes combined with the mandatory lockdown of production facilities. Heineken's volumes and results in 2020 were heavily affected by devaluation of emerging markets currencies versus the U.S. dollar and the euro, and increased risks on credit losses from customers, business continuity of small suppliers, impairments and non-effective hedge contracts. We cannot predict how long the pandemic will last, whether it will worsen or whether there will be further outbreaks in the future in any of the markets where we operate.

The pandemic has caused and continues to cause significant volatility in financial markets, undermining investors' confidence in the growth of countries and businesses. In addition, the longer-term economic effects of the COVID-19 pandemic may include lower or negative growth rates in the markets where we operate, less favorable exchange rates in a variety of our businesses, and reduced demand for the products we sell or a shift to lower margin products.

Unfavorable outcome of legal proceedings could have an adverse effect on our business, financial condition and results of operations.

Our operations and the operations of our business units have from time to time been and may continue to be subject to investigations and proceedings by antitrust authorities relating to alleged anticompetitive practices, as well as investigations and proceedings on tax, consumer protection, environmental, labor and commercial matters. We cannot assure you that these investigations and proceedings will not have an adverse effect on our business units' business, financial condition and results of operations. See "Item 8. Financial Information—Legal Proceedings."

Cybersecurity incidents and other breaches of network or information technology security could have an adverse effect on our business and our reputation.

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

Our business expansion strategy and entry into new markets and new lines of business may not be successful and may lead to decreased profit margins and integration risks.

We and our business units have entered into new markets and new lines of business through the acquisition of other businesses and continue to seek investment opportunities through this strategy. This includes the acquisition by FEMSA Comercio of other small-format retail businesses and our acquisition in 2020 of a majority-controlling interest in WAXIE Sanitary Supply (“WAXIE”) and North American Corporation. These new businesses may not experience the same growth rates or may be less profitable than our more established businesses.

Key elements to achieving the benefits and expected synergies of these acquisitions are our ability to implement our strategies for these acquisitions, the effectiveness of those strategies, the integration of acquired businesses’ operations into ours in a timely and effective manner, and the retention of qualified and experienced key personnel. We may incur unforeseen liabilities in connection with acquiring, taking control of, or managing businesses and may encounter difficulties and unforeseen or additional costs in restructuring and integrating them into our operating structure. We cannot assure you that these efforts will be successful or completed as expected, and our business, financial condition and results of operations could be adversely affected if we are unable to do so.

Risks Related to Coca-Cola FEMSA

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

Substantially all of Coca-Cola FEMSA’s sales are derived from sales of *Coca-Cola* trademark beverages. Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages through standard bottler agreements in the territories where it operates, which we refer to as “Coca-Cola FEMSA’s territories.” Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages from affiliates of TCCC, which price may be unilaterally determined from time to time by TCCC in all such territories. Coca-Cola FEMSA is also required to purchase sweeteners and other raw materials only from companies authorized by TCCC. Increases in the cost, disruption of supply or shortage of ingredients for concentrate could have an adverse effect on Coca-Cola FEMSA’s business. See “Item 4. Information on the Company—Coca-Cola FEMSA—Coca-Cola FEMSA’s Territories.”

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

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

Coca-Cola FEMSA depends on TCCC to continue with its bottler agreements. Coca-Cola FEMSA’s bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew the applicable agreement. In addition, these agreements generally may be terminated in the case of material breach. See “Item 10. Additional Information—Material Contracts—Material Contracts Relating to Coca-Cola FEMSA—Bottler Agreements.” Termination of any such bottler agreement would prevent Coca-Cola FEMSA from selling *Coca-Cola* trademark beverages in the affected territory. The foregoing and any other adverse changes in Coca-Cola FEMSA’s relationship with TCCC would have an adverse effect on its business, financial condition and results of operations.

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

TCCC has substantial influence on the conduct of Coca-Cola FEMSA’s business. As of the date of this report, TCCC indirectly owned 27.8% of Coca-Cola FEMSA’s outstanding capital stock, representing 32.9% of Coca-Cola FEMSA’s capital stock with full voting rights. TCCC is entitled to appoint up to five of Coca-Cola FEMSA’s maximum of 21 directors and the vote of at least two of them is required to approve certain actions by Coca-Cola FEMSA’s board

of directors. See “Item 10. Additional Information—Material Contracts—Material Contracts Relating to Coca-Cola FEMSA—Shareholders Agreements.” The interests of TCCC may be different from the interests of Coca-Cola FEMSA’s other shareholders, which may result in Coca-Cola FEMSA taking actions contrary to the interests of such other shareholders.

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

The beverage industry is evolving mainly as a result of changes in consumer preferences and regulatory actions. There have been different plans and actions adopted in recent years by governmental authorities in some of the countries where Coca-Cola FEMSA operates. These include increases in tax rates or the imposition of new taxes on the sale of certain beverages and other regulatory measures, such as restrictions on advertising for some of Coca-Cola FEMSA’s products and additional regulations concerning the labeling or sale of Coca-Cola FEMSA’s products. Moreover, researchers, health advocates and dietary guidelines encourage consumers to reduce their consumption of certain types of beverages sweetened with sugar, artificial sweeteners and high fructose corn syrup (“HFCS”). In addition, concerns over the environmental impact of plastic may reduce the consumption of Coca-Cola FEMSA’s products sold in plastic bottles or result in additional taxes that could adversely affect consumer demand. Increasing public concern about these issues, new or increased taxes, other regulatory measures or Coca-Cola FEMSA’s failure to meet consumers’ preferences or its inability to successfully introduce new beverage products or replace plastic bottles with more environmentally friendly containers, could reduce demand for some of Coca-Cola FEMSA’s products, which would adversely affect its business, financial condition and results of operations. See “Item 4. Information on the Company—Coca-Cola FEMSA—Business Strategy.”

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

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

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

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

Coca-Cola FEMSA makes investments in personnel, technologies, cyber insurance and training of its personnel. Coca-Cola FEMSA also maintains an IT risk management program that is supervised by its senior management. Reports on such IT risk management program are presented to the Audit Committee of its board of directors on a quarterly basis. As part of this program, Coca-Cola FEMSA has a cybersecurity framework, internal policies and cross-functional surveillance. Despite Coca-Cola FEMSA’s investments and focus on risk management programs, Coca-Cola FEMSA may be subject to unexpected security breaches, and there is no assurance that the measures Coca-Cola FEMSA implements will be sufficient to prevent such breaches.

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

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

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

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

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

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

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

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

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

Increases in the prices of raw materials, supply chain disruptions or shortages of raw materials could increase Coca-Cola FEMSA's cost of goods sold and may adversely affect its business, financial condition and results of operations.

In addition to water, Coca-Cola FEMSA's most significant raw materials are concentrate, which Coca-Cola FEMSA acquires from affiliates of TCCC, sweeteners and packaging materials.

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

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

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

Increases in the cost, disruption of supply or shortage of energy or fuel could adversely affect Coca-Cola FEMSA's business and results of operations.

Coca-Cola FEMSA's bottling operations operate large fleets of trucks and other motor vehicles to distribute and deliver beverage products to its business partners and customers. In addition, Coca-Cola FEMSA uses a significant amount of electricity, natural gas and other energy sources to operate its bottling plants and distribution facilities. An increase in the price, disruption of supply or shortage of fuel and other energy sources in the countries where Coca-Cola FEMSA operates, which may be caused by increased demand, natural disasters, power outages or government regulations, taxes, policies or programs, including programs designed to reduce greenhouse gas emissions to address climate change, could increase its operating costs and negatively impact its business and results of operations. Changes in government regulations in the countries where Coca-Cola FEMSA operates, including reforms related to distribution and other costs, could lead to a substantial increase in its electricity cost. See "Item 4. Information on the Company—Regulatory Matters."

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

The principal areas in which Coca-Cola FEMSA is subject to laws and regulations are anti-corruption, anti-bribery, anti-money laundering, water, environment, energy, labor (including with respect to outsourcing), taxation, health, antitrust and price controls. See "Item 4. Information on the Company—Regulatory Matters." Changes in existing laws and regulations, the adoption of new laws or regulations, or a stricter interpretation or enforcement thereof in the countries where Coca-Cola FEMSA operates may increase Coca-Cola FEMSA's operating and compliance costs or impose restrictions on its operations which, in turn, may adversely affect its business, financial condition and results of operations.

Coca-Cola FEMSA currently offers non-refillable and refillable containers across its territories, among other product presentations. Certain legislative and regulatory reforms have been proposed in some of the territories where Coca-Cola FEMSA operates to restrict the sale of single-use plastics and similar legislation or regulations may be proposed or enacted in the future. See “Item 4. Information on the Company—Coca-Cola FEMSA—Raw Materials.” Consumers’ increased concerns and changing attitudes about the solid waste streams and environmental responsibility and the related publicity could result in the adoption of such legislation or regulations. If these types of requirements are adopted and implemented on a large scale in any of Coca-Cola FEMSA’s territories, they could affect Coca-Cola FEMSA’s costs or require changes in its distribution model and packaging, which could reduce Coca-Cola FEMSA’s net operating revenues and profitability.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where Coca-Cola FEMSA operates. See “Item 4. Information on the Company—Regulatory Matters—Price Controls.” We cannot assure you that existing or future laws and regulations in the countries where Coca-Cola FEMSA operates relating to goods and services (in particular, laws and regulations imposing statutory price controls) will not affect Coca-Cola FEMSA’s products, Coca-Cola FEMSA’s ability to set prices for its products, or that Coca-Cola FEMSA will not need to implement price restraints, which could have a negative effect on Coca-Cola FEMSA’s business, financial condition and results of operations.

Coca-Cola FEMSA operates in multiple territories and is subject to complex regulatory frameworks with increased enforcement activities. Coca-Cola FEMSA maintains a global integrity and compliance program that is supervised by its senior management and employs a chief compliance officer in each country where it operates. Reports on such compliance program are presented to the Audit Committee of its board of directors on a semi-annual basis. Despite Coca-Cola FEMSA’s internal governance and compliance processes, Coca-Cola FEMSA may be subject to unexpected breaches by its employees, contractors or other agents to its code of ethics, anti-corruption and anti-money laundering policies and other internal guidelines, including instances of fraudulent behavior, corrupt practices and dishonesty by any of them. Coca-Cola FEMSA’s failure to comply with applicable laws and other standards could harm its reputation, subject Coca-Cola FEMSA to substantial fines, sanctions or penalties and adversely affect its business. There is no assurance that Coca-Cola FEMSA will be able to comply with changes in any laws and regulations within the timelines established by the relevant regulatory authorities.

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

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

Climate change and legal or regulatory responses thereto may have an adverse impact on Coca-Cola FEMSA’s business.

There is increasing concern that a gradual rise of global average temperatures due to increased concentration of carbon dioxide and other greenhouse gases in the atmosphere will cause significant changes in weather patterns around the globe and an increase in the frequency and severity of natural disasters. Decreased agricultural productivity in certain regions of the world as a result of changing weather patterns may limit the availability or increase the cost of key agricultural commodities, such as sugarcane, and corn, which are important sources of ingredients for Coca-Cola FEMSA’s products. Increasing concern over climate change also may result in additional legal or regulatory requirements designed to reduce or mitigate the effects of carbon dioxide and other greenhouse gas emissions on the environment. Increased energy or compliance costs and expenses due to increased legal or regulatory requirements may cause disruptions in, or an increase in the costs associated with, the manufacturing and distribution of Coca-Cola FEMSA’s beverage products. The effects of climate change and legal or regulatory initiatives to address climate change could have an adverse impact on Coca-Cola FEMSA’s business.

In addition, from time to time, Coca-Cola FEMSA establishes and publicly announces goals and commitments to reduce its carbon footprint by increasing its use of recycled packaging materials and participating in environmental and sustainability programs and initiatives organized or sponsored by non-governmental organizations and other groups

to reduce greenhouse gas emissions industrywide. If Coca-Cola FEMSA fails to achieve or improperly report on its progress toward achieving its carbon footprint reduction goals and commitments, the resulting negative publicity could adversely affect consumer preference and demand for its beverage products.

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

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

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

Weather conditions, natural disasters and public health crises may adversely affect Coca-Cola FEMSA's business, financial condition and results of operations.

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

An impairment in the carrying value of distribution rights under Coca-Cola FEMSA's bottler agreements and goodwill of acquired businesses could negatively affect its financial condition and results of operations.

Coca-Cola FEMSA periodically reviews the carrying value of its intangible assets, including distribution rights under its bottler agreements and goodwill of acquired businesses, to determine whether there is any indication that such assets have suffered an impairment. An impairment is recognized and the asset is reduced to fair value via a charge to earnings, when the carrying value of such asset exceeds its recoverable amount, which is the higher of its fair value less the cost to sell the asset, and its value in use. Events and conditions that could result in an impairment include changes in the industry in which Coca-Cola FEMSA operates, including competition, changes in consumer preferences, and other factors leading to reduction in expected sales or profitability. An impairment on the value of the distribution rights under its bottler agreements or goodwill of acquired businesses could have a material adverse effect on Coca-Cola FEMSA's financial condition and results of operations.

Risks Related to FEMSA Comercio

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

The retail sector is highly competitive in the markets where FEMSA Comercio operates. The Proximity Division participates in the retail sector primarily through its OXXO stores, which face competition from small-format stores (such as 7-Eleven, Circle K, Tiendas D1, Ara, Tostao, Tambo Mas and OK Market), other numerous chains of grocery retailers with different size formats (such as Wal-Mart, H-E-B, Soriana, La Comer, and Chedraui, among others), other regional small-format retailers and small neighborhood stores. In particular, small neighborhood stores in Mexico may improve their technological capabilities to enable credit card processing or online bill payments or carry other products or provide other services, which would diminish one of the Proximity Division's competitive advantages.

FEMSA Comercio participates through the Health Division in Mexico, Chile, Colombia and Ecuador. In Mexico, it faces competition from other drugstore chains such as Farmacias Similares, Farmacias Guadalajara, Farmacias del Ahorro and Farmacias Benavides, as well as regional and independent pharmacies, supermarkets and

other informal neighborhood drugstores. In Chile, relevant competitors are chain drugstores such as Farmacias Ahumada and Salcobrand, while in Colombia, the most relevant competitors are La Rebaja, Unidrogas, Olimpica, Cafam, Colsubsidio and Farmatodo. In Ecuador, Grupo Difare and Farmaenlace are the main competitors.

For the Fuel Division, the government reforms over Mexico's fuel distribution market have altered the competitive dynamics of the industry. The consolidation process, expected to continue as more large companies and international competitors continue to enter and expand through the market, may occur rapidly and materially alter the market dynamics in Mexico. Currently, the Fuel Division faces competition from international players such as British Petroleum, Mobil, Repsol and Shell, regional chains such as Corpogas, Hidrosina, G500 and Petro-7 and hard discount chains like Good Price, Cargo Gas and Gulf, as well as small independently owned and operated service stations.

FEMSA Comercio may face additional competition from new market participants. The increase in competition may limit the number of new locations available or result in a reduction in revenues. Consequently, future competition may affect the results of operations and financial condition of FEMSA Comercio. The shift in the retail sector from brick-and-mortar retailers to online and mobile platforms could also adversely affect FEMSA Comercio's business, results of operations and financial condition.

We expect the competitive environment will continue to evolve as new technologies are developed based on changing consumer behavior. The continuing migration and evolution of retailing and financial services to online and mobile-based platforms for consumers may increase competition that could adversely affect FEMSA Comercio.

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

The markets in which FEMSA Comercio operates are highly sensitive to economic conditions, because a decline in consumer purchasing power is often a consequence of an economic slowdown which, in turn, results in a decline in the overall consumption of main product categories. During periods of economic slowdown, FEMSA Comercio's points of sale may experience a decline in same-store traffic and average ticket per customer, which may result in a decline in overall performance. See "Item 5. Operating and Financial Review and Prospects—Overview of Events, Trends and Uncertainties."

Regulatory changes in the countries where we operate may adversely affect FEMSA Comercio's business.

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

FEMSA Comercio is subject to anti-money laundering laws and regulations in the countries in which it operates. Any violation of any such laws or regulations may adversely affect FEMSA Comercio's business.

FEMSA Comercio is subject to anti-money laundering laws and regulations in the jurisdictions in which it operates and is required to comply with the applicable laws and regulations of the countries in which it operates. Such laws and regulations require FEMSA Comercio to adopt and implement policies, procedures and controls designed to detect and prevent transactions with third parties involved in money laundering. Although we have such policies, procedures and controls in place, given the number of transactions made in its stores, FEMSA Comercio may be subject to the risk that its clients or third parties may misuse its services and engage in money laundering or other related illegal activities. There can be no assurance that FEMSA Comercio's internal policies, procedures and controls will be sufficient to detect or prevent all inappropriate practices, including money laundering, fraud or other violations of law or that any person will not take actions in violation of FEMSA Comercio's policies, procedures and controls. If FEMSA Comercio is unable to fully comply with anti-money laundering laws and regulations, the relevant governmental authorities have the power and authority to investigate FEMSA Comercio and, in the event that it determines that FEMSA Comercio is in violation of anti-money laundering laws and regulations, impose significant fines, penalties and

remedies. Third parties that FEMSA Comercio has partnerships or commercial relationships with, or otherwise interacts with in the ordinary course may also fail to comply with their obligations under anti-money laundering regulations applicable to them.

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

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

In order to address risks to its IT systems, FEMSA Comercio continues to make investments in training personnel, technologies and cyber insurance. FEMSA Comercio maintains an IT risk management program which is supervised by its senior management. Reports on such IT risk management program are presented to the Audit Committee of the board of directors on a quarterly basis. As part of this program, FEMSA Comercio has a cybersecurity framework, internal policies and cross-functional surveillance and governance.

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

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

The performance of FEMSA Comercio's points of sale would be adversely affected by increases in the price of utilities on which the stores and stations depend, such as electricity. Electricity prices could potentially increase further as a result of inflation, shortages, interruptions in supply, changes in the regulatory framework or other reasons, and such an increase could adversely affect the results of operations and financial condition of FEMSA Comercio's business.

Negative or inaccurate information on social media could adversely affect FEMSA Comercio's reputation.

In recent years, there has been a considerable increase in the use of social media and similar platforms, including weblogs (blogs), social media websites, and other forms of Internet-based communications that allow individual access to a broad audience of consumers and other interested persons. Consumers value readily available information concerning retailers, manufacturers and their goods and services, and often act on such information without further investigation, authentication and without regard to its accuracy. The availability of information on social media platforms and devices is virtually immediate as is its impact. Social media platforms and devices immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. The opportunity for dissemination of information, including inaccurate information, is virtually limitless.

Negative or inaccurate information concerning or affecting FEMSA Comercio's trademarks may be posted on such platforms at any time. This information may harm FEMSA Comercio's reputation or brand image without affording the corporation an opportunity for redress or correction. Further, the disclosure of non-public company-sensitive information by FEMSA Comercio's workforce or others through external social media channels may have adverse legal implications. The risks associated with any such negative publicity could in turn have a material adverse effect on its business, results of operations and financial condition.

An erosion of FEMSA Comercio's business reputation could have a material adverse effect on its brand, its ability to secure new resources and its business and results of operations

FEMSA Comercio's reputation, trademarks and other proprietary rights are important to its competitive position, and FEMSA Comercio benefits from well-recognized brands. If FEMSA Comercio is unsuccessful in protecting its intellectual property rights, or if another party prevails in litigation claiming any rights thereto, the value of the brands could be diminished, causing customer confusion and materially adversely impacting FEMSA Comercio's

business and financial results. Failure to maintain product safety and quality could materially adversely affect FEMSA Comercio's brand image and reputation and lead to potential product liability claims, governmental agency investigations and damages claims.

Societal expectations of businesses are also increasing, with a focus on business ethics, contribution to society, safety and minimizing damage to the environment, among others. Also, there is increasing focus on the role of oil and gas and large retail businesses in the context of climate change and energy transition. If FEMSA Comercio is unable to meet society demands in this regard, its brands and reputation could be negatively affected, thus limiting FEMSA Comercio's ability to deliver its strategy, reducing consumer demand for its products, harming its ability to secure new resources and contracts and restricting its ability to access capital markets or attract employees. Many other factors, including the materialization of the risks discussed in several of the other risk factors herein, could negatively affect FEMSA Comercio's reputation and could have a material adverse effect on its business, financial condition and results of operations.

Tax changes in the countries where we operate could adversely affect FEMSA Comercio's business.

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

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

The Proximity Division increased the number of OXXO stores at a compound annual growth rate of 6.5% from 2016 to 2020. The growth in the number of OXXO stores has driven growth in total revenue and results of operations at the Proximity Division over the same period. As the overall number of stores increases, percentage growth in the number of OXXO stores is likely to slow. In addition, as small-format store penetration in Mexico grows, the number of viable new store locations may decrease, and new store locations may be less favorable in terms of same-store sales, average ticket and store traffic. As a result, our future results and financial condition may not be consistent with prior periods and may be characterized by lower growth rates in terms of total revenue and results of operations. In view of the uncertain outlook in 2020 due to the COVID-19 pandemic in the countries where the Proximity Division operates, it opened fewer new stores than in previous years and various OXXO stores were closed as they did not reach the profitability desired. We cannot assure that the revenues and cash flows of the Proximity Division that come from future retail stores will be comparable with those generated by existing retail stores. See "Item 4. Information on the Company—FEMSA Comercio—Proximity Division—Store Locations."

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

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

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

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

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

The Fuel Division mainly sells gasoline and diesel through owned or leased retail service stations. Previously, the prices of these products were regulated in Mexico by the Energy Regulatory Commission (*Comisión Reguladora de Energía*, or "CRE"). Since 2017, fuel prices gradually began to follow the dynamics of the international fuel market, and in 2021 we expect them to continue to do so in accordance with the regulatory framework, which may also adversely affect the results of operations and financial condition of the Fuel Division's business.

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

The Fuel Division mainly purchases gasoline and diesel for its operations in Mexico. The fuel market in Mexico recently experienced structural changes that should gradually increase the number of suppliers. In the event of changes in the industry, commercial terms for the Fuel Division could deteriorate in the future, and potential disruptions to the supply chain to our gas stations could adversely impact the financial performance of the Fuel Division.

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

Federal, state and municipal laws and regulations for the installation and operation of service stations are becoming more stringent. Compliance with these laws and regulations is often difficult and costly. Global trends to reduce the consumption of fossil fuels through incentives and taxes could push sales of these fuels at service stations to slow or decrease in the future and automotive technologies, including efficiency gains in traditional fuel vehicles and increased popularity of alternative fuel vehicles, such as electric and liquefied petroleum gas ("LPG") vehicles, have caused a significant reduction in fuel consumption globally. Other new technologies could further reduce the sale of traditional fuels, all of which could adversely affect results of operations and financial condition of the Fuel Division. See "Item 4. Information on the Company—Regulatory Matters—Environmental Regulations."

The nature of the Fuel Division's operations exposes it, and the communities in which it operates, to a range of health, safety, security and environmental risks.

The nature of the Fuel Division's operations expose it to certain risks, particularly at its fuel stations. These risks include equipment failure, work accidents, fires, explosions, vapor emissions, spills and leaks at its facilities, service stations or other sites. These types of hazards and accidents may cause personal injuries or the loss of life, business interruptions and damage or contamination to the environment and the Fuel Division's property, equipment or reputation. Further, we may be subject to litigation, compensation claims, governmental fines or penalties or other liabilities or losses in relation to such incidents and accidents, and may incur significant costs as a result. Such incidents and accidents may also affect our reputation or our brands, leading to a decline in sales of our products and services, and may adversely impact our business, financial condition and results of operations.

Risks Related to Mexico and the Other Countries Where We Operate

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

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. For the year ended December 31, 2020, 65.1% of our consolidated total revenues were attributable to Mexico. During 2019 and 2020, the Mexican gross domestic product ("GDP") decreased by approximately 0.1% and 8.5%, respectively, on an annualized basis compared to the previous year. We cannot assure that such conditions will not continue to slow down in the future or will not have a material adverse effect on our business, results of operations and financial condition going forward. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our results.

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

In addition, an increase in interest rates in Mexico would increase the cost of our debt and would cause an adverse effect on our financial position and results. Mexican peso-denominated debt (including currency hedges) constituted 33.1% of our total debt as of December 31, 2020.

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

Depreciation of the Mexican peso and of our other local currencies relative to the U.S. dollar increases the cost of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars, and thereby negatively affects our financial position and results. A severe devaluation or depreciation of the Mexican peso, which is our main operating currency, may result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated debt or obligations in other currencies. The Mexican peso is a free-floating currency and, as such, it experiences exchange rate fluctuations relative to the U.S. dollar over time. As of December 31, 2020, the Mexican peso depreciated relative to the U.S. dollar by approximately 5.5% compared to 2019. As of December 31, 2019 and 2018, the Mexican peso experienced fluctuations relative to the U.S. dollar consisting of 3.9% and 0.02% of appreciation, respectively, compared to the prior year. Through April 9, 2021, the Mexican peso has depreciated 1.1% since December 31, 2020.

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

When the financial markets are volatile, as they have been in recent periods, our results may be substantially affected by variations in exchange rates and commodity prices and, to a lesser degree, interest rates. These effects include foreign exchange gain and loss on assets and liabilities denominated in U.S. dollars, fair value gain and loss on derivative financial instruments, commodities prices and changes in interest income and interest expense. These effects can be much more volatile than our operating performance and our operating cash flows. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Exchange Rate Risk.”

Political events in Mexico could adversely affect our operations.

Mexican political events may significantly affect our operations. We cannot predict whether potential changes in Mexican governmental and economic policy could adversely affect economic conditions in Mexico or the sector in which we operate. The Mexican president and Congress have a strong influence over new policies and governmental actions regarding the Mexican economy, and the current federal administration could implement substantial changes in law, policy and regulations in Mexico, including reforms to the Constitution, which could negatively affect our business, results of operations and financial condition. In response to these actions, opponents of the administration could react with, among other things, riots, protests and looting that could negatively affect our operations.

As of the date of this annual report, the MORENA Political Party holds an absolute majority in the Chamber of Deputies and the Senate and a strong influence in various local legislatures. Moreover, mid-term federal and local elections will take place in Mexico in June 2021, after which the Chamber of Representatives may have new representatives and 15 Mexican states will elect new governors. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, results of operations and financial condition.

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

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

The Mexican economy and the market value of securities issued by Mexican issuers may be, to varying degrees, affected by economic and market conditions in other emerging market countries and in the United States. Furthermore, economic conditions in Mexico have been highly correlated with economic conditions in the United States

primarily as a result of the North American Free Trade Agreement (“NAFTA”) and more recently, the United States-Mexico-Canada Agreement (“USMCA”), which came into force on July 1, 2020. It remains to be seen what impact the adoption of the USMCA or any subsequent trade agreements made as a response to the USMCA will have on us and our business. For example, in June and July 2020, the Mexican Congress approved several new laws and reforms to existing laws in connection with the enactment of the USMCA, including the new *Ley Federal de Protección a la Propiedad Industrial* and reforms to the *Ley de los Impuestos Generales de Importación y Exportación*. If the United States were to withdraw from or materially modify other international trade agreements to which it is a party, or if the United States were to withdraw from the World Trade Organization, certain foreign-sourced goods that we sell may no longer be available at a commercially attractive price or at all, which in turn could have a material adverse effect on our business, results of operations and financial condition. However, there can be no assurance as to what the new U.S. administration will do, and the impact of these measures or any others adopted by the new U.S. administration cannot be predicted.

Adverse economic conditions in the United States or other related events could have an adverse effect on the Mexican economy. Although economic conditions in other emerging market countries and in the United States may differ significantly from economic conditions in Mexico, investors’ reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican issuers or of Mexican assets. For example, in Chile, an increase in social unrest in late 2019 led to the announcement of a constitutional referendum, which was held on October 25, 2020 and resulted in the approval of a plan to call a Constitutional Convention, to be composed of elected members, in which a new constitution will be drafted. In June 2022, a second nationwide referendum will take place, in which the new constitution will be submitted for voters’ approval. If social unrest continues in Chile, FEMSA Comercio’s business in the country could be negatively affected. There can be no assurance that future developments in other emerging market countries and in the United States, over which we have no control, will not have a material adverse effect on our financial condition and results.

Natural disasters, weather conditions and public health issues, such as the coronavirus pandemic, could adversely affect our business.

Different regions of Mexico and other countries in which we operate could experience torrential rains, hurricanes, earthquakes or other adverse weather and climate conditions, as well as public health issues (including tainted food, food-borne illnesses, food tampering, tampering with or failure of water supply or widespread/pandemic illness such as COVID-19, Ebola, the avian or H1N1 flu, MERS) which may negatively impact consumer purchasing power and behavior that could result in reduced sales across our businesses. Additionally, such adverse weather conditions, natural disasters and public health issues may affect our personnel, assets, road infrastructure and points of sale in the territories in which we operate and thereby limit our ability to operate. Such events, or the containment measures to prevent or control them could also trigger increases in costs, disruption of supply, shortages of products, or consumer behavior changes including a decrease in an overall consumer mobility, thus affecting our business, financial condition and results of operations. If any of these events becomes significant in duration, our financial condition and results of operations could be materially adversely affected. FEMSA Comercio’s points of sales and some operating facilities have been affected by hurricanes and other weather events in the past, which have resulted in temporary closures and losses. Also, any of these events could force us to increase our capital expenditures to put our assets back in operation. See “Item 4. Information on the Company—Insurance.”

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

In recent years, Mexico has experienced a period of increasing criminal activity and particularly homicide rates, primarily due to organized crime. The presence of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, or an increase in other types of crime, pose a risk to our business, and might negatively impact business continuity. Historically, these incidents have been relatively concentrated along the northern Mexican border, in cities such as in Tijuana, Ciudad Juarez and the state of Tamaulipas, and during recent years in certain other Mexican states such as Baja California, Colima, Chihuahua, Zacatecas and Guanajuato. The north of Mexico is an important region for some of our FEMSA Comercio operations, and an increase in crime rates could negatively affect our sales and customer traffic, increase our security expenses, affect our hours of operation and result in higher turnover of personnel or damage to the perception of our brands. This situation could worsen and adversely impact our business and financial results because consumer habits and patterns adjust to the increased perceived and real security risks, as people refrain from going out as much and gradually shift some on-premise consumption to off-premise consumption of food and beverages on certain occasions.

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

The devaluation of the local currencies against the U.S. dollar in our non-Mexican territories can increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso can negatively affect the translation of our results for these countries. Future currency devaluation or the imposition of exchange controls in any of these countries, or in Mexico, would have an adverse effect on our financial position and results.

More generally, future currency devaluations or the imposition of exchange controls in any of the countries where we operate may potentially increase our operating costs, which could have an adverse effect on our results of operations and financial condition. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Exchange Rate Risk.”

Risks Related to the Heineken Investment

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

In 2010, we exchanged 100% of our beer operations for a 20% economic interest in Heineken N.V. and Heineken Holding N.V. (together with their respective subsidiaries, “Heineken” or the “Heineken Group”). As a result of this transaction (the “Heineken transaction”), we participate in the Heineken Holding N.V. Board of Directors (the “Heineken Holding Board”) and in the Heineken N.V. Supervisory Board (the “Heineken Supervisory Board”). However, we are not a majority or controlling shareholder of Heineken N.V. or Heineken Holding N.V., nor do we control the decisions of the Heineken Holding Board or the Heineken Supervisory Board. Therefore, the decisions made by the majority or controlling shareholders of Heineken N.V. or Heineken Holding N.V. or the Heineken Holding Board or the Heineken Supervisory Board may not be consistent with or may not consider the interests of our shareholders or may be adverse to the interests of our shareholders. Additionally, we have agreed not to disclose non-public information and decisions taken by Heineken. In 2017, we completed the sale of a 5.24% of combined shareholding in the Heineken Group, reducing our economic interest from 20% to 14.76%. Our aforementioned governance rights did not change as a result of the sale.

Heineken operates in a large number of countries.

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

The Mexican peso may strengthen compared to the euro.

In the event of a depreciation of the euro against the Mexican peso, the fair value of the Heineken Investment will be adversely affected. Furthermore, the cash flow that is expected to be received in the form of dividends from Heineken will be in euros, and therefore, in the event of a depreciation of the euro against the Mexican peso, the amount of expected cash flow will be adversely affected. “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Exchange Rate Risk.”

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

Heineken N.V. and Heineken Holding N.V. are listed companies whose stocks trade publicly and are subject to market fluctuation. A reduction in the price of Heineken N.V. or Heineken Holding N.V. shares would result in a reduction in the economic value of the Heineken Investment.

Risks Related to Our Principal Shareholders and Capital Structure

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

As of March 24, 2021 the voting trust owned 38.69% of our capital stock and 74.86% of our capital stock with full voting rights, consisting of Series B Shares. Consequently, the voting trust has the power to elect a majority of the members of our board of directors and to play a significant or controlling role in the outcome of substantially all matters to be decided by our board of directors or our shareholders. The interests of the voting trust may differ from those of our other shareholders. See “Item 7. Major Shareholders and Related-Party Transactions” and “Item 10. Additional Information—Bylaws—Voting Rights and Certain Minority Rights.”

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are a holding company. Accordingly, our cash flows are principally derived from dividends, interest and other distributions made to us by our subsidiaries. Currently, our subsidiaries do not have contractual obligations that require them to pay dividends to us. In addition, debt and other contractual obligations of our subsidiaries may in the future impose restrictions on our subsidiaries' ability to make dividend or other payments to us, which in turn may adversely affect our ability to pay dividends to shareholders and meet our debt and other obligations. As of March 31, 2021, we had no restrictions on our ability to pay dividends. Further, our non-controlling shareholder position in Heineken means that we will be unable to require payment of dividends with respect to the Heineken Investment.

ITEM 4. INFORMATION ON THE COMPANY

Introduction

FEMSA is a leading company that participates in the following businesses:

- In the beverage industry, through Coca-Cola FEMSA, the largest franchise bottler of Coca-Cola products in the world by volume;
- In the retail industry, through FEMSA Comercio, comprised of the following divisions: (1) the Proximity Division, operating the OXXO small-format store chain, (2) the Fuel Division, operating the OXXO Gas chain of retail service stations and (3) the Health Division, which includes drugstores and related operations;
- In the beer industry, through the Heineken Investment, which is the second largest equity holding in Heineken, one of the world's leading brewers with operations in over 70 countries; and

- In other ancillary businesses, through our Other Businesses (as defined below), including logistics services, specialized distribution, point-of-sale refrigeration, food processing equipment and plastics solutions.

Corporate Information

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

Any filings we make electronically are available to the public over the internet at our website www.femsa.com. This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL, is not and shall not be deemed to be incorporated into this annual report. The SEC maintains an internet site that contains reports and other information regarding issuers that file electronically with the SEC at www.sec.gov. See “Item 10. Additional Information—Documents on Display.”

Corporate History and Recent Developments

FEMSA traces its origins to the establishment of Mexico’s first brewery, Cervecería Cuauhtémoc, S.A. (“Cervecería Cuauhtémoc”), which was established in 1890. Descendants of certain of the founders of Cervecería Cuauhtémoc are participants of the voting trust that controls our company.

The following paragraphs describe certain key transactions and developments of FEMSA in the past three years.

In 2018, FEMSA Comercio renamed its businesses formerly known as the “Retail Division” to the “Proximity Division” and transferred those operations that are not directly related to its proximity store business, such as its restaurant and discount retail formats, into Other Businesses. The Proximity Division now only includes the operations from its small-format chain stores mainly under the OXXO brand. For more information, see “Item 4. Information on the Company—Proximity Division.”

In 2018, FEMSA Comercio entered the market in Peru starting operations through the Proximity Division.

In 2018, Coca-Cola FEMSA sold, through its subsidiary CIBR, its 51% stake in KOF Philippines to TCCC through an exercise of CIBR’s option to sell. CIBR originally acquired KOF Philippines from TCC in 2013.

In 2019, FEMSA Comercio, through its subsidiary Socofar, acquired Corporación FYBECA GPF (“GPF”), a leading drugstore operator based in Quito, Ecuador with more than 620 points of sale nationwide under the Fybeca and SanaSana trademarks.

In 2019, FEMSA Comercio acquired a 50% interest in Raízen Conveniências (“Raízen”), now commercially known as “Grupo Nós.” Raízen is a 50-50 joint venture in Brazil between Cosan Limited and Royal Dutch Shell. Raízen operates more than 6,200 Shell service stations in Brazil, approximately 1,000 of which have a Select brand convenience store. The acquisition is limited to the convenience store business and excludes the fuel service station operations.

In 2019, FEMSA acquired a minority stake in Jetro Restaurant Depot (“JRD”), a privately held cash and carry retailer. The transaction includes an investment in the operating and real estate-holding entities of JRD as well as the terms and conditions for a proposed joint venture between FEMSA and JRD to implement JRD’s business model in Mexico and other Latin American markets. In October 2020, FEMSA acquired an additional minority stake in JRD.

In 2019, FEMSA, through its subsidiary, Solistica, S.A. de C.V., completed the acquisition of AGV, a leader in value-added warehousing and distribution in Brazil.

In January 2020, FEMSA Comercio became the sole shareholder of Grupo Socofar, a leading South American drugstore operator based in Santiago, Chile, acquiring the remaining 40% interest that it did not already own in Socofar following the exercise of a put right by its minority partner to sell its interest. FEMSA Comercio acquired its original 60% stake in Socofar in 2015.

In May 2020, FEMSA closed a transaction with the shareholders of WAXIE and North American Corporation to form a new company (now known as “Envoy Solutions”) within the janitorial-sanitation, packaging and specialized distribution industry in the United States, with FEMSA acquiring a majority controlling interest in the combined company.

In May 2020, Specialty's Cafe & Bakery, Inc. (“Specialty’s”), a subsidiary of the company, filed for bankruptcy pursuant to Chapter 7 of the U.S. Bankruptcy Code after receiving approval to do so from its board of directors on May 26, 2020. The case is pending before the United States Bankruptcy Court for the Northern District of California.

In October 2020, FEMSA Comercio entered into definitive agreements with SMU, S.A., a leading Chilean retailer, to acquire its *OK Market* store chain, with more than 120 locations in Chile. The transaction is subject to customary regulatory and anti-trust approvals and is expected to close during 2021.

In December 2020, FEMSA announced and closed the acquisition of two independent specialized distribution businesses in the United States: Southeastern Paper Group, Inc., based in Spartanburg, South Carolina, and Southwest Paper Company, Inc., (doing business as “SWPlus”) based in Wichita, Kansas.

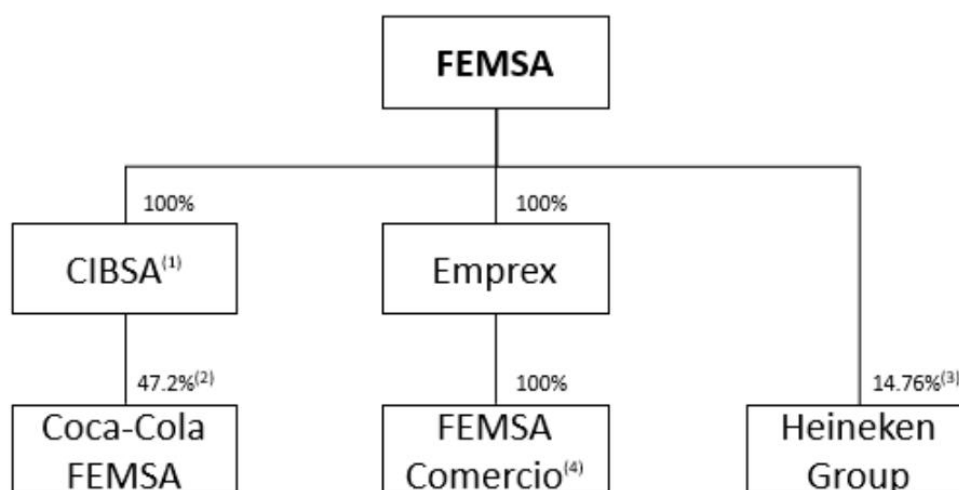
In February 2021, Coca-Cola FEMSA entered into a new distribution agreement with Heineken Brazil that is intended to replace its previous distribution agreement with Heineken Brazil. The effectiveness of this distribution agreement is subject to various conditions, including the approval of the Brazilian antitrust authorities. Pursuant to the new distribution agreement, Coca-Cola FEMSA will continue to sell and distribute *Kaiser*, *Bavaria* and *Sol* beer brands in Brazil and will add the premium brand *Eisenbahn* and other premium international brands to its portfolio. Coca-Cola FEMSA will also cease to sell and distribute *Heineken* and *Amstel* beer brands upon the effectiveness of the new distribution agreement. Moreover, Coca-Cola FEMSA will have the right to produce and distribute alcoholic beverages and other beers in Brazil based on a certain proportion of Heineken’s portfolio in Brazil. The agreement has a five-year term and may be automatically renewed for an additional five-year term subject to certain conditions. Upon the effectiveness of the new distribution with Heineken Brazil, Coca-Cola FEMSA intends to withdraw from the arbitration and other legal proceedings against Heineken Brazil and waive any rights with respect to any awards or judgements resulting from such arbitration and legal proceedings.

For more information on: (i) the recent Heineken transaction, see “Item 10. Additional Information—Material Contracts,” (ii) FEMSA Comercio’s recent transactions, see “Item 4. Information on the Company—FEMSA Comercio” and (iii) Coca-Cola FEMSA’s recent transactions, see “Item 4. Information on the Company—Coca-Cola FEMSA.”

Ownership Structure

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

Ownership Structure as of March 31, 2021



- (1) Compañía Internacional de Bebidas, S.A. de C.V., which we refer to as “CIBSA.”
- (2) Percentage of issued and outstanding capital stock owned by CIBSA (56% of Coca-Cola FEMSA’s capital stock with full voting rights). See “Item 4. Information on the Company—Coca-Cola FEMSA—Capital Stock.”
- (3) Our Heineken Investment is held indirectly by various subsidiaries of FEMSA, including CB Equity.
- (4) Includes the Proximity Division, the Health Division and the Fuel Division. See “Item 4. Information on the Company—FEMSA Comercio.”

Significant Subsidiaries

The following table sets forth our significant subsidiaries as of December 31, 2020:

Name of Company	Jurisdiction of Establishment	Percentage Owned
CIBSA:	Mexico	100.0 %
Coca-Cola FEMSA	Mexico	47.2 % ⁽¹⁾
Emprex:	Mexico	100.0 %
FEMSA Comercio	Mexico	100.0 %
CB Equity	United Kingdom	100.0 %

- (1) Percentage of capital stock. FEMSA, through CIBSA, owns 56% of the ordinary voting shares of Coca-Cola FEMSA after giving effect to the eight-for-one stock split consummated by Coca-Cola FEMSA on April 11, 2019. See “Item 4. Information on the Company—Coca-Cola FEMSA—Capital Stock.”

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

Operations by Segment—Overview
Year Ended December 31, 2020 and % of growth (decrease) vs. previous year

	FEMSA Comercio									
	Coca-Cola FEMSA		Proximity Division		Fuel Division		Health Division		Heineken Investment	
	(in millions of Mexican pesos, except for employees and percentages)									
Total revenues	Ps. 183,615	(6)%	Ps. 181,277	(2)%	Ps. 34,292	(28)%	Ps. 65,172	11 %	Ps. —	—
Gross profit	82,811	(5)%	74,296	(1)%	4,300	(10)%	19,575	11 %	—	—
Share of the (loss) of equity accounted investees, net of taxes	(281)	115 %	(18)	(300)% ⁽¹⁾	—	—	—	—	(434)	(107)%
Total assets	263,066	2 %	121,200	3 %	15,878	(10)%	60,107	11 %	92,444	7 %
Employees	82,334	0 %	165,433	1 %	7,487	(3)%	28,482	3 %	—	—

(1) Reflects the percentage decrease between the loss of Ps. 18 million recorded in 2020 and the gain of Ps. 9 million recorded in 2019.

Total Revenues Summary by Segment⁽¹⁾

	Year Ended December 31,		
	2020	2019	2018
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	Ps. 183,615	Ps. 194,471	Ps. 182,342
FEMSA Comercio			
Proximity Division	181,277	184,810	167,458
Health Division	65,172	58,922	51,739
Fuel Division	34,292	47,852	46,936
Other Businesses	49,414	41,788	42,293
Consolidated total revenues	Ps. 492,966	Ps. 506,711	Ps. 469,744

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

Business Strategy

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

Our objective is to generate economic and social value through our companies and institutions.

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

In our drugstore business in Mexico and South America, and our fuel service station business in Mexico, we are applying our retail and operational capabilities to develop attractive value propositions for consumers in these formats.

Coca-Cola FEMSA

Overview

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

- Mexico—a substantial portion of central Mexico, the southeast and northeast of Mexico.
- Guatemala.
- Nicaragua.
- Costa Rica.
- Panama.
- Colombia—most of the country.
- Brazil—a major part of the states of São Paulo and Minas Gerais, the states of Parana, Santa Catarina and Mato Grosso do Sul and part of the states of Rio de Janeiro, Rio Grande do Sul and Goias.
- Argentina—Buenos Aires and surrounding areas.
- Uruguay.

Coca-Cola FEMSA also operates in Venezuela through its investment in KOF Venezuela.

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

The following is an overview of Coca-Cola FEMSA's operations by consolidated reporting segment in 2020.

Operations by Consolidated Reporting Segment—Overview Year Ended December 31, 2020

	Total Revenues		Gross Profit	
	(in millions of Mexican pesos, except percentages)			
Mexico and Central America ⁽¹⁾	Ps. 106,783	58.2 %	Ps. 52,906	63.9 %
South America ⁽²⁾	76,832	41.8 %	29,905	36.1 %
Consolidated	183,615	100.0 %	82,811	100.0 %

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

(2) Includes Colombia, Brazil, Argentina and Uruguay.

Capital Stock

On April 11, 2019, Coca-Cola FEMSA completed an eight-for-one stock split, whereby (a) for each Series A share, holders of Series A shares received eight new Series A shares, (b) for each Series D share, holders of Series D shares received eight new Series D shares and (c) for each Series L share, holders of Series L shares received one unit (each consisting of 3 Series B shares (with full voting rights) and 5 Series L shares (with limited voting rights)).

Effective on April 11, 2019, Coca-Cola FEMSA's units were listed for trading on the Mexican Stock Exchange and ADSs, each representing 10 units, were listed for trading on the NYSE.

As of the date of this report, (1) FEMSA indirectly owned Series A shares equal to 47.2% of Coca-Cola FEMSA's capital stock (56.0% of Coca-Cola FEMSA's capital stock with full voting rights), and (2) TCCC indirectly owned Series D shares equal to 27.8% of Coca-Cola FEMSA's capital stock (32.9% of Coca-Cola FEMSA's capital stock with full voting rights). Series L shares with limited voting rights constituted 15.6% of Coca-Cola FEMSA's capital stock, and Series B shares constituted the remaining 9.4% of Coca-Cola FEMSA's capital stock (the remaining 11.1% of Coca-Cola FEMSA's capital stock with full voting rights).



*Series L and Series B shares are listed and trade in the form of units (each unit consisting of 3 Series B shares and 5 Series L shares) in the Mexican Stock Exchange under the trading symbol "KOF UBL" and in the form of ADSs in the NYSE under the trading symbol "KOF" (each ADS represents 10 units)

Business Strategy

Coca-Cola FEMSA operates with a large geographic footprint in Latin America. To consolidate its position as a global leader in the beverage business, Coca-Cola FEMSA continues to expand its robust portfolio of beverages, transforming and enhancing its operational capabilities, inspiring a cultural evolution, and embedding sustainability throughout its business to create economic, social and environmental value for all of Coca-Cola FEMSA's stakeholders.

Coca-Cola FEMSA's view on sustainable development is a comprehensive part of its business strategy. Coca-Cola FEMSA bases its efforts in its ethics and values, focusing on (i) its people, (ii) its communities and (iii) the planet. Coca-Cola FEMSA also takes a responsible and disciplined approach to the use of resources and capital allocation.

To maximize growth and profitability and driven by its centers of excellence's initiatives, Coca-Cola FEMSA plans on continuing to execute the following key strategies: (i) accelerate revenue growth, (ii) increase its business scale and profitability across categories, (iii) continue its expansion through organic growth and strategic joint ventures, mergers and acquisitions, (iv) accelerate its end-to-end transformation through the digitization of Coca-Cola FEMSA's processes, (v) empower people to lead this transformation and (vi) create a leaner and more efficient organization focused on value creation.

Coca-Cola FEMSA seeks to accelerate its revenue growth through the introduction of new categories, products and presentations that better meet its consumers' needs and preferences, while maintaining its core products and improving its profitability. To address its consumers' diverse lifestyles, Coca-Cola FEMSA has developed new products through innovation and has expanded the availability of low-and non-caloric beverages by reformulating and broadening its product portfolio to reduce added sugar and offering smaller presentations of its products. As of December 31, 2020, approximately 38.8% of Coca-Cola FEMSA's brands were low-or non-caloric beverages, and Coca-Cola FEMSA continues to expand its product portfolio to offer more options to its consumers so they can satisfy their hydration and

nutrition needs. See “Item 4. Information on the Company—Coca-Cola FEMSA Products” and “Item 4. Information on the Company—Coca-Cola FEMSA—Packaging.” In addition, Coca-Cola FEMSA informs its consumers through front labeling on the nutrient composition and caloric content of its beverages. Coca-Cola FEMSA has been a pioneer in the introduction of the Guideline Daily Amounts (“GDA”), and Coca-Cola FEMSA performs responsible advertising practices and marketing. Coca-Cola FEMSA voluntarily adheres to national and international codes of conduct in advertising and marketing, including communications targeted to minors who are developed based on the Responsible Marketing policies and Global School Beverage Guidelines of TCCC, achieving full compliance with all such codes and guidelines in all of the countries where Coca-Cola FEMSA operates.

Coca-Cola FEMSA views its relationship with TCCC as integral to Coca-Cola FEMSA’s business, and together Coca-Cola FEMSA and TCCC have developed marketing strategies to better understand and address Coca-Cola FEMSA’s consumer needs. See “Item 4. Information on the Company—Coca-Cola FEMSA—Marketing.”

Coca-Cola FEMSA's Territories

The following map shows Coca-Cola FEMSA's territories, giving estimates in each case of the population to which Coca-Cola FEMSA offers products and the number of retailers carrying its beverages as of December 31, 2020:



Coca-Cola FEMSA's Products

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

based drinks). In addition, Coca-Cola FEMSA distributes and sells Heineken beer products in its Brazilian territories and *Monster* products in all of the countries where it operates.

Coca-Cola FEMSA's most important brand, Coca-Cola, together with its line of low-calorie products, accounted for 63.9%, 62.4% and 62.2% of Coca-Cola FEMSA's total sales volume in 2020, 2019 and 2018, respectively.

The following table sets forth the trademarks of the main products Coca-Cola FEMSA distributed in 2020:

Colas:

Coca-Cola
Coca-Cola Sin Azúcar
Coca-Cola Light

Flavored Sparkling Beverages:

<i>Crush</i>	<i>Kuat</i>	<i>Schweppes</i>
<i>Fanta</i>	<i>Mundet</i>	<i>Sprite</i>
<i>Fresca</i>	<i>Quatro</i>	<i>Yoli</i>

Still Beverages:

<i>AdeS</i>	<i>FUZE Tea</i>	<i>Leão</i>	
<i>Cepita</i>	<i>Hi-C</i>	<i>Monster</i>	<i>Santa Clara</i>
<i>Del Valle</i>	<i>Kapo</i>	<i>Powerade</i>	<i>Valle Frut</i>

Water:

<i>Alpina</i>	<i>Brisa</i>	<i>Dasani</i>	<i>Shangri-la</i>
<i>Aquarius</i>	<i>Ciel</i>	<i>Manantial</i>	<i>Topo Chico</i>
<i>Bonaqua</i>	<i>Crystal</i>	<i>Kin</i>	<i>Vitale</i>

Packaging

Coca-Cola FEMSA produces, markets, sells and distributes Coca-Cola trademark beverages in each of its territories in containers authorized by TCCC, which consist primarily of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles mainly made of PET resin. Coca-Cola FEMSA uses the term presentation to refer to the packaging unit in which Coca-Cola FEMSA sells its products. Presentation sizes for Coca-Cola FEMSA's Coca-Cola trademark beverages range from a 6.5-ounce personal size to a 3-liter multiple serving size. For all of Coca-Cola FEMSA's products excluding water, Coca-Cola FEMSA considers a multiple serving size as equal to, or larger than, 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. Coca-Cola FEMSA offers both returnable and non-returnable presentations, which allow it to offer portfolio alternatives based on convenience and affordability to implement sales strategies and to target specific distribution channels and population segments in its territories. In addition, Coca-Cola FEMSA sells some Coca-Cola trademark beverage syrups in containers designed for soda fountain use, which Coca-Cola FEMSA refers to as fountain. Coca-Cola FEMSA also sells bottled water products in bulk sizes, which refer to presentations equal to or larger than 5.0 liters and up to 20.0 liters, which have a much lower average price per unit case than its other beverage products.

Sales Volume and Transactions Overview

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

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

	Sales Volume		Transactions	
	2020	2019	2020	2019
	(Millions of unit cases or millions of single units, except percentages)			
Mexico	1,759.2	1,838.3	8,202.6	9,584.6
Central America ⁽¹⁾	232.4	236.9	1,635.8	1,945.0
Mexico & Central America	1,991.6	2,075.3	9,838.4	11,529.6
<i>Growth</i>	(4.0)%	0.5 %	(14.7)%	0.2 %
Colombia	254.8	265.5	1,572.8	1,967.9
Brazil ⁽²⁾	862.9	846.5	5,208.3	5,726.2
Argentina	133.8	139.3	593.1	782.9
Uruguay	41.2	42.4	185.1	214.0
South America	1,292.7	1,293.6	7,559.2	8,691.0
<i>Growth</i>	(0.1)%	2.9 %	(13.0)%	5.8 %
Total	3,284.4	3,368.9	17,397.7	20,220.6
<i>Growth</i>	(2.5)%	1.4 %	(14.0)%	2.5 %

The following table illustrates the multiple serving presentations and returnable packaging for sparkling beverages volume:

	Multiple Serving Presentations		Returnable packaging	
	2020	2019	2020	2019
Mexico	71.3 %	66.2 %	42.2 %	38.0 %
Central America ⁽¹⁾	59.6 %	49.3 %	40.6 %	41.4 %
Colombia	80.3 %	74.6 %	27.1 %	31.3 %
Brazil ⁽²⁾	81.2 %	79.3 %	19.7 %	18.5 %
Argentina	88.9 %	78.7 %	29.7 %	27.5 %
Uruguay	85.3 %	81.5 %	22.0 %	23.6 %
Total	74.9 %	69.9 %	33.6 %	31.8 %

The following table illustrates Coca-Cola FEMSA's historical sales volume and number of transactions performance by category for each of its operations and its reporting segments for 2020 as compared to 2019:

	Year Ended December 31, 2020				
	Sparkling	Stills	Water	Bulk Water	Total
Sales Volume Growth					
Mexico	(3.7)%	(4.9)%	(26.0)%	0.5 %	(4.3)%
Central America ⁽¹⁾	1.3 %	(16.8)%	(29.9)%	(20.9)%	(1.9)%
Mexico and Central America	(3.1)%	(6.7)%	(26.5)%	0.4 %	(4.0)%
Colombia	0.9 %	(8.7)%	(33.8)%	(13.7)%	(4.0)%
Brazil ⁽²⁾	2.8 %	(1.2)%	(9.4)%	18.8 %	1.9 %
Argentina	(2.8)%	3.5 %	(32.0)%	48.4 %	(3.9)%
Uruguay	(5.1)%	36.2 %	18.0 %	—	(2.8)%
South America	1.6 %	(1.9)%	(18.3)%	2.5 %	(0.1)%
Total	(1.1)%	(5.0)%	(22.6)%	0.6 %	(2.5)%

	Year Ended December 31, 2020				
	Sparkling	Stills	Water	Bulk	Total
Number of Transactions Growth					
Mexico	(13.2)%	(16.4)%	(25.8)%	—	(14.4)%
Central America ⁽¹⁾	(13.0)%	(30.7)%	(28.2)%	—	(15.9)%
Mexico and Central America	(13.2)%	(19.3)%	(26.1)%	—	(14.7)%
Colombia	(15.0)%	(26.4)%	(39.6)%	—	(20.1)%
Brazil ⁽²⁾	(8.7)%	(7.6)%	(14.5)%	—	(9.0)%
Argentina	(23.9)%	(8.4)%	(39.3)%	—	(24.2)%
Uruguay	(16.5)%	9.0 %	9.2 %	—	(13.5)%
South America	(11.6)%	(11.2)%	(25.9)%	—	(13.0)%
Total	(12.5)%	(16.1)%	(26.0)%	—	(14.0)%

The following table illustrates Coca-Cola FEMSA's unit case mix by category for each of its operations and its consolidated reporting segments for 2020:

	Sparkling Beverages		Stills		Water ⁽³⁾	
	Years Ended December 31,					
	2020	2019	2020	2019	2020	2019
Unit Case Mix by Category						
Mexico	73.6 %	73.2 %	6.3 %	6.4 %	20.0 %	20.4 %
Central America ⁽¹⁾	88.9 %	86.1 %	7.3 %	8.6 %	3.8 %	5.3 %
Mexico and Central America	75.4 %	74.7 %	6.5 %	6.6 %	18.1 %	18.7 %
Colombia	81.8 %	77.8 %	5.2 %	5.5 %	13.0 %	16.7 %
Brazil ⁽²⁾	87.6 %	86.8 %	5.9 %	6.1 %	6.5 %	7.1 %
Argentina	80.9 %	80.0 %	7.5 %	7.0 %	11.6 %	13.0 %
Uruguay	89.0 %	91.1 %	1.2 %	0.9 %	9.8 %	8.0 %
South America	85.8 %	84.4 %	5.8 %	5.9 %	8.4 %	9.7 %
Total	79.5 %	78.4 %	6.2 %	6.4 %	14.3 %	15.2 %

(1) Includes sales volume and transactions from Guatemala, Nicaragua, Costa Rica and Panama.

(2) Excludes beer sales volume and transactions.

(3) Includes bulk water volume and transactions.

Seasonality

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

Argentina, Coca-Cola FEMSA's highest sales levels occur during the summer months of October through March, including the year-end holidays in December.

Marketing

Coca-Cola FEMSA, in conjunction with TCCC, has developed a marketing strategy to promote the sale and consumption of Coca-Cola FEMSA's products. Coca-Cola FEMSA relies extensively on advertising, sales promotions and retailer support programs to target the particular preferences of its consumers. Coca-Cola FEMSA's consolidated marketing expenses in 2020 were Ps. 5,043 million, net of Ps. 1,482 million contributed by TCCC.

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

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

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

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

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

Product Sales and Distribution

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

	As of December 31, 2020	
	Mexico and Central America ⁽¹⁾	South America ⁽²⁾
Distribution centers	196	72
Retailers	1,059,181	879,040

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

(2) Includes Colombia, Brazil, Argentina and Uruguay.

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

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

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

As a result of the COVID-19 pandemic, Coca-Cola FEMSA continues to reinforce its presence in its emerging distribution channels, which consist primarily of digital sales channels, such as food aggregators, digital platforms and telemarketing, in an effort to safeguard the health of its workforce and business partners and to address the growing demand from its business partners through such sales channels. This reinforcement is aligned with Coca-Cola FEMSA's overall digitization and omnichannel strategies.

In 2020, no single customer accounted for more than 10.0% of Coca-Cola FEMSA's consolidated total sales.

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

Mexico. Coca-Cola FEMSA contracts with a subsidiary of FEMSA, Solistica, S.A. de C.V., for most of the transportation of finished products from Coca-Cola FEMSA's bottling plants to its distribution centers in Mexico. See "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions." From the distribution centers, Coca-Cola FEMSA distributes its finished products to retailers mainly through its own fleet of trucks. In designated areas in Mexico, third-party distributors deliver Coca-Cola FEMSA's products to retailers and consumers, allowing Coca-Cola FEMSA to access these areas on a cost-effective basis.

In Mexico, Coca-Cola FEMSA sells a majority of its beverages through its traditional distribution channel, which consists of sales at small retail stores to consumers who may take the beverages for consumption at home or elsewhere. Coca-Cola FEMSA also sells products through modern distribution channels, the "on-premise" consumption segment, home delivery, supermarkets and other locations. Modern distribution channels include large and organized chain retail outlets such as wholesale supermarkets, discount stores and convenience stores that sell fast-moving consumer goods, where retailers can buy large volumes of products from various producers. The "on-premise" consumption segment consists of sales through points-of-sale where products are consumed at the establishment from which they were purchased. This includes retailers such as restaurants and bars as well as stadiums, auditoriums and theaters.

In 2020, the "on-premise" channel was the most affected in Coca-Cola FEMSA's Mexican operations, as a result of COVID-19 containment measures. This effect was partially offset by increased sales through its emerging distribution channels, which consist primarily of digital channels and platforms such as food aggregators, e-commerce and other digital platforms. Additionally, other "direct-to-consumer" channels such as Coca-Cola FEMSA's own home delivery routes had an increase in demand.

Brazil. In Brazil, Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third-party distributors, while maintaining control over the selling activities. In designated zones in Brazil, third-party distributors purchase Coca-Cola FEMSA's products and resell them to retailers. In Brazil, Coca-Cola FEMSA sells a majority of its beverages at small retail stores. Coca-Cola FEMSA also sells products through modern distribution channels and "on-premise" consumption. Modern distribution channels in Brazil include large and organized chain retail outlets such as wholesale supermarkets and discount stores that sell fast-moving consumer goods.

In 2020, the “on-premise” channel in Coca-Cola FEMSA’s Brazil operations was the most affected as a result of COVID-19 containment measures. This effect was partially offset by increased sales through its emerging distribution channels, which consist primarily of digital channels and platforms such as food aggregators, e-commerce and other digital platforms. Additionally, the rollout of the omnichannel platform allowed Coca-Cola FEMSA to serve its consumers in Brazil through a digital app and its proprietary chatbot-enabled order-taking platform.

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

In 2020, a large percentage of Coca-Cola FEMSA’s sales in its territories other than Mexico and Brazil were made through modern distribution channels, as the imposition of measures and regulations aimed at containing the COVID-19 pandemic had an impact on consumer preferences towards these channels. The “on-premise” channel was the most affected sales and distribution channel in these territories as a result of containment measures. As these countries began to ease restrictions and lockdowns, there was a subsequent recovery in the “on-premise” channel. This effect was partially offset by an increase in demand for its emerging distribution channels, which consist primarily of digital channels and platforms such as food aggregators, e-commerce and other digital platforms.

Principal Competitors

Coca-Cola FEMSA is a leader in the beverage market, being the largest franchise bottler of Coca-Cola trademarks in the world by sales volume. During 2020, Coca-Cola FEMSA produced and sold approximately 11.3% of the Coca-Cola system’s volume worldwide.

The characteristics of Coca-Cola FEMSA’s territories are very diverse. Central Mexico and Coca-Cola FEMSA’s territories in Argentina are densely populated and have a large number of competing beverage brands as compared to the rest of its territories. Coca-Cola FEMSA’s territories in Brazil are densely populated but have lower consumption of beverage products as compared to Mexico. Uruguay has a high per capita consumption and low population density. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with low population density, low per capita income and low consumption of beverages.

Coca-Cola FEMSA’s principal competitors are local Pepsi bottlers and other bottlers and distributors of local beverage brands. Coca-Cola FEMSA also faces competition in many of its territories from producers of low price beverages, commonly referred to as “B brands.” A number of Coca-Cola FEMSA’s competitors in Central America, Brazil, Argentina and Colombia offer beer in addition to sparkling beverages, still beverages and water, which may enable them to achieve distribution efficiencies that other competitors who do not offer an integrated portfolio may not be able to achieve.

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

Mexico and Central America. Coca-Cola FEMSA’s principal competitors in Mexico are bottlers of Pepsi products. Coca-Cola FEMSA competes with Organización Cultiva, S.A.B. de C.V., a joint venture formed by Grupo Embotelladoras Unidas, S.A.B. de C.V., the former Pepsi bottler in central and southeast Mexico, a subsidiary of PepsiCo and Empresas Polar, S.A., a beer distributor and Pepsi bottler. Coca-Cola FEMSA’s main competition in the juice category in Mexico is Grupo Jumex. In the water category, Coca-Cola FEMSA’s main competitor is Bonafont, a water brand owned by Danone. In addition, Coca-Cola FEMSA competes with Cadbury Schweppes in sparkling beverages and with other local brands in its Mexican territories, as well as “B brand” producers, such as Ajemex, S.A. de C.V. (Big Cola bottler) and Consorcio AGA, S.A. de C.V. (Red Cola bottler), that offer various presentations of sparkling and still beverages.

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

South America. Coca-Cola FEMSA's principal competitor in Colombia is Postobón, a local bottler (Manzana Postobón and Colombiana bottler). Postobón sells Pepsi products and is a vertically integrated producer, the owners of which hold other significant commercial and industrial interests in Colombia. Coca-Cola FEMSA also competes with low-price producers, such as Ajecolombia S.A., the producers of Big Cola, which principally offer multiple serving size presentations in the sparkling and still beverage industry.

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

In Argentina, Coca-Cola FEMSA's main competitor is Buenos Aires Embotellador S.A. (BAESA), a Pepsi bottler, which is owned by Argentina's principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In the water category, Levité, Villavicencio and Villa del Sur are water brands owned by Danone, which is Coca-Cola FEMSA's main competition. In addition, Coca-Cola FEMSA competes with a number of competitors offering "B brands," low-priced sparkling beverages, as well as many other generic products and private label proprietary supermarket brands that are gaining importance in the market. Manaos, a brand owned by Refres Now S.A. is Coca-Cola FEMSA's main competitor in this segment.

In Uruguay, Coca-Cola FEMSA's main competitor is Salus, a water brand owned by Danone. Coca-Cola FEMSA also competes against Fábricas Nacionales de Cerveza S.A. (FNC), a Pepsi bottler and distributor that is partially owned by Argentina's principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In addition, Coca-Cola FEMSA competes with low-priced regional producers, as well as many other "B brands" and imported products.

Raw Materials

Pursuant to Coca-Cola FEMSA's bottler agreements, Coca-Cola FEMSA is authorized to manufacture, sell and distribute Coca-Cola trademark beverages within specific geographic areas, and Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages in all of its territories from affiliates of TCCC and sweeteners and other raw materials from companies authorized by TCCC. Concentrate prices for *Coca-Cola* trademark beverages are determined as a percentage of the weighted average retail price in local currency net of applicable taxes. Although TCCC has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with TCCC. See "Item 10. Additional Information—Material Contracts—Material Contracts Relating to Coca-Cola FEMSA—Bottler Agreements."

In the past, TCCC has increased concentrate prices for Coca-Cola trademark beverages in some of the countries where Coca-Cola FEMSA operates. For example, TCCC (i) gradually increased concentrate prices for certain Coca-Cola trademark beverages in Costa Rica and Panama beginning in 2014 and through 2018; (ii) gradually increased concentrate prices for flavored water in Mexico beginning in 2015 and through 2018 and (iii) began to gradually increase concentrate prices for certain *Coca-Cola* trademark beverages in Mexico beginning in 2017 and through 2019, followed by a subsequent increase in 2020. TCCC may continue to unilaterally increase concentrate prices in the future, and Coca-Cola FEMSA may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the prices of its products or its results. See "Item 10. Additional Information—Material Contracts—Material Contracts Relating to Coca-Cola FEMSA—Cooperation Framework with The Coca-Cola Company."

In addition to concentrate, Coca-Cola FEMSA purchases sweeteners, carbon dioxide, PET resin and preforms to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Coca-Cola FEMSA's bottler agreements provide that these materials may be purchased only from suppliers approved by TCCC. Prices for certain raw materials, including those used in the bottling of Coca-

Cola FEMSA's products, mainly PET resin, finished plastic bottles, aluminum cans, HFCS and certain sweeteners, are paid in or determined with reference to the U.S. dollar, and therefore local prices in a particular country may increase based on changes in the applicable exchange rates. Coca-Cola FEMSA's most significant packaging raw material costs arise from the purchase of PET resin, the price of which is related to crude oil prices and global PET resin supply. The average price that Coca-Cola FEMSA paid for PET resin in U.S. dollars in 2020 decreased 17.0% as compared to 2019 in all Coca-Cola FEMSA's territories. In addition, given that high currency volatility has affected and continues to affect most of Coca-Cola FEMSA's territories, the average price for PET resin in local currencies was lower in 2020 in Mexico, Colombia and Brazil and higher in Argentina. In 2020, Coca-Cola FEMSA purchased certain raw materials in advance, implemented a price fixing strategy and entered into certain derivative transactions, which helped Coca-Cola FEMSA capture opportunities with respect to raw material costs and currency exchange rates.

Under its agreements with TCCC, Coca-Cola FEMSA may use raw or refined sugar, artificial sweeteners and HFCS in its products. Sugar prices in all of the countries where Coca-Cola FEMSA operates, other than Brazil, are subject to local regulations and other barriers to market entry that, in certain countries, often cause Coca-Cola FEMSA to pay for sugar in excess of international market prices. In recent years, international sugar prices experienced significant volatility. Across Coca-Cola FEMSA's territories, its average price for sugar in U.S. dollars, taking into account its financial hedging activities, decreased by approximately 9.2% in 2020 as compared to 2019.

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

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

Mexico and Central America. In Mexico, Coca-Cola FEMSA mainly purchases PET resin from Indorama Ventures Polymers México, S. de R.L. de C.V. and DAK Resinas Americas Mexico, S.A. de C.V., which Alpla México, S.A. de C.V., known as Alpla, and Envases Universales de México, S.A.P.I. de C.V. manufacture into non-returnable plastic bottles for us. Also, Coca-Cola FEMSA has introduced into its business Asian global suppliers, such as Far Eastern New Century Corp., known as FENC, SFX – Jiangyin Xingyu New Material Co. Ltd. and Hainan Yisheng Petrochemical Co. Ltd., which support its PET resin strategy and are known as the top PET global suppliers.

Coca-Cola FEMSA purchases all of its cans from Crown Envases México, S.A. de C.V., formerly known as Fábricas de Monterrey, S.A. de C.V., and Envases Universales de México, S.A.P.I. de C.V. Coca-Cola FEMSA mainly purchases its glass bottles from Owens America, S. de R.L. de C.V., FEVISA Industrial, S.A. de C.V., known as FEVISA, and Glass & Silice, S.A. de C.V.

Coca-Cola FEMSA purchases sugar from, among other suppliers, PIASA, Beta San Miguel, S.A. de C.V. or Beta San Miguel and Ingenio La Gloria, S.A., all of them sugar cane producers. As of April 8, 2021, Coca-Cola FEMSA held a 36.4% and 2.7% equity interest in PIASA and Beta San Miguel, respectively. Coca-Cola FEMSA purchases HFCS from Ingredion México, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

Sugar prices in Mexico are subject to local regulations and other barriers to market entry that often cause Coca-Cola FEMSA to pay higher prices than those paid in the international market. As a result, prices in Mexico have no correlation to international market prices. In 2020, sugar prices in local currency in Mexico increased approximately 11.2% as compared to 2019.

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

South America. In Colombia, Coca-Cola FEMSA uses sugar as a sweetener in all of its caloric beverages, which Coca-Cola FEMSA buys from several domestic sources. Sugar prices in Colombia decreased by 11.9% in U.S. dollars and decreased 0.7% in local currency, as compared to 2019. Coca-Cola FEMSA purchases non-returnable plastic

bottles from Amcor Rigid Plastics de Colombia, S.A. and Envases de Tocancipa S.A.S. (affiliate of Envases Universales de México, S.A.P.I. de C.V.). Coca-Cola FEMSA has historically purchased all of its non-returnable glass bottles from O-I Peldar and other global suppliers in the Middle East. Coca-Cola FEMSA purchases all of its cans from Crown Envases México, S.A. de C.V. and Crown Colombiana, S.A. Grupo Ardila Lulle (owners of Coca-Cola FEMSA's competitor Postobón) owns a minority equity interest in certain of Coca-Cola FEMSA's suppliers, including O-I Peldar and Crown Colombiana, S.A.

In Brazil, Coca-Cola FEMSA also uses sugar as a sweetener in all of its caloric beverages. Sugar is available at local market prices, which historically have been similar to international prices. Sugar prices in Brazil decreased approximately 6.2% in U.S. dollars and increased 20.8% in local currency as compared to 2019. Taking into account Coca-Cola FEMSA's financial hedging activities, its sugar prices in Brazil decreased approximately 10.0% in U.S. dollars. See **"Item 11. Quantitative and Qualitative Disclosures about Market Risk—Commodity Price Risk."** Coca-Cola FEMSA purchases non-returnable glass bottles, plastic bottles and cans from several domestic and international suppliers. Coca-Cola FEMSA mainly purchases PET resin from local suppliers such as Indorama Ventures Polímeros S.A.

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

In Uruguay, Coca-Cola FEMSA also uses sugar as a sweetener in all of its caloric beverages, which is available at Brazil's local market prices. Sugar prices in Uruguay decreased approximately 1.7% in U.S. dollars and increased 16.7% in local currency as compared to 2019. Coca-Cola FEMSA's main supplier of sugar is Nardini Agroindustrial Ltda., which is based in Brazil. Coca-Cola FEMSA purchases PET resin from several Asian suppliers, such as SFX – Jiangyin Xingyu New Material Co. Ltd. and India Reliance Industry (a joint venture with DAK Resinas Americas Mexico, S.A. de C.V.), and Coca-Cola FEMSA purchases non-returnable plastic bottles from global PET converters, such as Cristalpet S.A. (affiliate of Envases Universales de México, S.A.P.I. de C.V.).

FEMSA Comercio

Overview

FEMSA Comercio operates through the following divisions:

- **Proximity Division**, which operates a chain of small-format stores with 19,566 locations as of December 31, 2020, under the trade name OXXO.
- **Health Division**, which operates drugstores and related operations with 3,368 points of sale in Mexico, Chile, Ecuador and Colombia as of December 31, 2020.
- **Fuel Division**, which operates retail service stations for fuels, motor oils and other car care products. As of December 31, 2020, the Fuel Division operated 558 service stations located in 17 states throughout Mexico, concentrated mainly in the northern region of Mexico.

These divisions operate distinct business models that allow them to focus on different customer needs within their specific markets.

Operations by Division—Overview
Year Ended December 31, 2020

	(in millions of Mexican pesos, except percentages)			
	Total Revenues		Gross Profit	
	2020	2020 vs.2019	2020	2020 vs.2019
Proximity Division	Ps. 181,277	(2)%	Ps. 74,296	(1)%
Health Division	65,172	11 %	19,575	11 %
Fuel Division	34,292	(28)%	4,300	(10)%

Proximity Division

Business Strategy

The Proximity Division intends to continue increasing its store base while capitalizing on the retail business and market knowledge gained at existing stores. We intend to open new stores in locations where we believe there is high growth potential or unsatisfied demand, while also increasing customer traffic and average ticket per customer in existing stores. Our expansion focuses on both entering new markets and strengthening our presence in Mexico, Colombia, Chile, Brazil and Peru. A fundamental element of the Proximity Division's business strategy is to leverage its retail store formats, know-how, technology and operational practices to continue growing in a cost-effective and profitable manner. This scalable business platform has provided a strong foundation for continued organic growth in Mexico, improving traffic and average ticket sales at our existing stores and facilitating entry into new small-format retail industries. Beyond Mexico, the Proximity Division seeks to increase its scale while continuing its expansion in Colombia, Chile, Peru and Brazil. In Brazil, since 2019 and through Grupo Nós, our joint-venture agreement with Raízen, we are exploring this market's opportunities for the long-term expansion of our value proposition.

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

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

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

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

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

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

During 2020, the COVID-19 pandemic affected the Proximity Division's operations and impacted many of its main performance indicators. Government responses to the pandemic have caused, and may continue to cause, temporary closures, category restrictions and social distancing measures at our points of sale, which have reduced consumer mobility and shifted consumer behavior, which in turn impacted the performance of our proximity stores. Despite the negative effects of the COVID-19 pandemic, we remain committed to our long-term business strategy, while we look for new opportunities to improve and adapt our value proposition to the changing environment.

Store Locations

The Proximity Division operates the largest small-format store chain in the Americas, measured by number of stores. As of December 31, 2020, there are 19,295 OXXO stores in Mexico, 110 OXXO stores in Colombia, 104 stores in Chile and 57 stores in Peru. Despite the adverse conditions due to the COVID-19 pandemic, the Proximity Division has expanded its operations by opening 236 new OXXO stores in Mexico, Colombia, Chile and Peru during 2020.

Additionally, as of December 2020, Grupo Nós operated 9 stores in Brazil.

**OXXO Stores
Regional Allocation in Mexico(*)
as of December 31, 2020**



The Proximity Division has aggressively expanded its number of OXXO stores over the past several years. However, during 2020, we opened fewer new stores due to operating restrictions and reduced customer mobility in the countries where we operate related to the COVID-19 pandemic. The average investment required to open a new OXXO store varies, depending on location and format and whether the store is opened in an existing retail location or requires construction of a new store. The Proximity Division is generally able to use supplier credit to fund the initial inventory of new OXXO stores.

**OXXO Stores
Total Growth**

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Total OXXO stores	19,566	19,330	17,999	16,577	15,225
Store growth (% change over previous year)	1.2 %	7.4 %	8.6 %	8.9 %	8.3 %

While in 2020 the Proximity Division decreased its rate of expansion due to the COVID-19 pandemic and the resulting changes on customer behavior and overall economic environment, we expect to resume this expansion strategy by emphasizing growth in areas of high economic potential in existing markets and by expanding in underserved and unexploited markets, while adjusting for post-pandemic changes in consumer behavior.

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

Both the identification of locations and the pre-opening planning to optimize the results of new OXXO stores are important elements in the Proximity Division's growth plan. The Proximity Division continuously reviews store performance against certain operating and financial benchmarks to optimize the overall performance of the chain. Stores of the Proximity Division that are unable to maintain benchmark standards are generally closed. Between December 31, 2016 and 2020, the total number of OXXO stores increased by 4,341, which resulted from the opening of 5,010 new stores and the closing of 669 stores. These numbers reflect stores which were closed during 2020 due to the impact that the COVID-19 pandemic had on their performance.

In view of the uncertain outlook in 2020 due to the COVID-19 pandemic in the countries where the Proximity Division operates, we opened fewer new stores than in previous years and various OXXO stores were closed as they did not reach the profitability desired.

Competition

The Proximity Division, mainly through OXXO stores, competes in the retail market, which we believe is highly competitive. OXXO stores face competition from small-format stores such as 7-Eleven and Circle K in Mexico, Tiendas D1, Ara and Tostao in Colombia, OK Market in Chile, and Tambo Mas in Peru, as well as from other numerous retail and grocery chains (such as Wal-Mart, H-E-B, Soriana, La Comer and Chedraui, among others) to small informal neighborhood stores across the markets where they operate. In addition, as more services and products are offered in OXXO stores, the number and type of competitors have also increased, including banks and fast-food outlets, among others. OXXO stores compete not only for consumers and new store locations but also for human resources to operate those stores. The Proximity Division has more presence in Mexico than any of its competitors, with operations in every state, while in Colombia it has operations in Bogotá and Bucaramanga, and in Chile and Peru, it has operations in each country’s capital.

In Brazil, Grupo Nós competes in a fragmented traditional market and with institutional convenience store operators, such as BR Distribuidora, Ipiranga and Lojas Americanas.

Market and Store Characteristics

Market Characteristics

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

In Mexico, approximately 65% of OXXO stores’ customers are between the ages of 15 and 35. The Proximity Division also segments the market according to demographic criteria, including income level.

OXXO Store Characteristics

The average size of an OXXO store is approximately 105 square meters of selling space, excluding space dedicated to refrigeration, storage or parking. The average constructed area of a store is approximately 189 square meters and, when parking areas are included, the average store size is approximately 407 square meters. In 2020, a typical OXXO store carried an average of 3,351 different stock keeping units (SKUs) in 32 main product categories.

Proximity Division—Operating Indicators

	Year Ended December 31,				
	2020	2019	2018(1)	2017	2016
	(percentage increase compared to previous year)				
Total revenues	(1.9)%	10.4 %	11.8 %	12.5 %	14.4 %(2)
OXXO same-store sales(3)	(5.4)%	5.0 %	5.2 %	6.4 %	7.0 %

- (1) In 2018, FEMSA Comercio’s “Retail Division” removed operations that are not directly related to proximity store business, including restaurant and discount retail units. The removed operations are included in “Other Businesses.” The business segment is now named the Proximity Division. See Note 27 of our audited consolidated financial statements.
- (2) Includes revenues of Comercial Big John Limitada.
- (3) Same-store sales increase is calculated by comparing the sales of stores for each year that have been in operation for more than 12 months with the sales of those same stores during the previous year.

Beer, cigarettes, soft drinks and other beverages and snacks continue to represent the main product categories for OXXO stores, despite changes to the sales mix in 2020 resulting from reduced mobility and changes in consumer behavior resulting from the COVID-19 pandemic. Previously, OXXO stores in Mexico only carried beer brands produced and distributed by Heineken Mexico. However, following certain modifications to the terms of our existing

commercial relationship with Heineken Mexico and our new commercial relationship with Grupo Modelo in 2019, the Proximity Division now sells the beer brands of Grupo Modelo in certain regions of Mexico and expects to gradually cover the entire country by the end of 2022.

Approximately 45% of OXXO stores in Mexico are operated by independent managers responsible for all aspects of store operations. The store managers are commission agents and are not employees of the Proximity Division. Each store manager is the legal employer of the store's staff, which typically numbers six people per store. The Proximity Division continually invests in on-site operating personnel, with the objective of promoting loyalty, customer service and reducing personnel turnover in the stores.

Advertising and Promotion

The Proximity Division's marketing efforts for OXXO stores include both specific product promotions and image advertising campaigns. These strategies are designed to increase store traffic, increase sales and continue to promote the OXXO brand and market position.

The Proximity Division manages its advertising for OXXO stores on three levels depending on the nature and scope of the specific campaign: (1) local or store-specific, (2) regional and (3) national. Store-specific and regional campaigns are closely monitored to ensure consistency with the overall corporate image of OXXO stores and to avoid conflicts with national campaigns. The Proximity Division primarily uses point-of-purchase materials, flyers, handbills and print and radio media for promotional campaigns, although television is used occasionally for the introduction of new products and services. OXXO stores' image and brand name are presented consistently across all stores, irrespective of location.

Inventory and Purchasing

The Proximity Division has placed considerable emphasis on improving operating performance. As part of these efforts, the Proximity Division continues to invest in extensive information management systems to improve inventory management.

Management believes that the OXXO store chain's scale of operations provides the Proximity Division with a competitive advantage in its ability to realize strategic alliances with suppliers. General category offerings are determined on a national level, although purchasing decisions are implemented on a local, regional or national level, depending on the nature of the product category. In Mexico, given the fragmented nature of the retail industry in general, Mexican producers of beer, soft drinks, bread, dairy products, snacks and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 51% of the OXXO store chain's total sales in Mexico consist of products that are delivered directly to the stores by suppliers. Other products with longer shelf lives are distributed to stores by the Proximity Division's Mexican distribution system, which includes 21 regional warehouses located in Guadalajara, Mexicali, Merida, Leon, Obregon, Puebla, Queretaro, Chihuahua, Reynosa, Saltillo, Tampico, Tijuana, Toluca, Veracruz, Villahermosa, Culiacan two in Mexico City and two in Monterrey. Our logistics services subsidiary operates a fleet of approximately 852 trucks in Mexico that make deliveries from the distribution centers to each store approximately two times per week.

Seasonality

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

Health Division

Business Strategy

The Health Division's vision is focused on two main strategies: first, to gain relevant scale by building a Latin American pharmacy retail platform that operates across several countries and markets, and second, to constantly improve our value proposition and service by being closer to our customers through more stores, a digital strategy and loyalty

programs, and by giving our customers access to a broader assortment, better options and availability of medicines, personal care, beauty and relevant health and wellness products and services. In order to achieve this, the Health Division is working on leveraging two strong capability sets: (i) the Health-industry knowledge, marketing and operational skills acquired through the incorporation of Chile-based Socofar and (ii) the skills that FEMSA Comercio has developed in the operation and growth of other small retail formats, particularly in Mexico. These capabilities include commercial, marketing and production skills as well as site selection, logistics, business processes, human resources, inventory and supplier management.

The drugstore markets in Mexico and Colombia are still fragmented, and FEMSA Comercio believes it is well equipped to create value by continuing to grow in these markets and by assuming a value-creating role in its long-term consolidation. Furthermore, Socofar gives FEMSA Comercio the opportunity to pursue a regional strategy across South America from a solid platform anchored in the Chilean market and with compelling growth opportunities in Colombia, Ecuador and beyond.

Store Locations

As of December 31, 2020, the Health Division operated 3,368 points of sale, including 1,331 in Mexico, 900 in Chile, 693 in Ecuador and 444 in Colombia.

During 2020, the Health Division expanded its operations by 207 additional stores on top of the 3,161 stores operating in 2019. In Ecuador and Colombia there was a negative impact in the expansion plan due to the economic crisis and social mobility restrictions related to the COVID-19 pandemic. The average investment required to open a new store varies, depending on location and whether the store is opened in an existing store location or requires construction of a new store. Although our expansion plans in Ecuador and Colombia were affected by the effects of the COVID-19 pandemic during 2020, the Health Division expects to continue implementing its expansion strategy by emphasizing growth in markets where it currently operates and by expanding in underserved and unexploited markets. Most of the drugstore-related real estate is operated under lease agreements.

Competition

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

Market and Store Characteristics

Market Characteristics

The drugstore market in Mexico is highly fragmented among national and regional chains as well as independent drugstores, supermarkets and other informal neighborhood drugstores. There are more than 30,000 drugstores in Mexico; however, the Health Division only represents 3.7% of the total number of pharmacies in Mexico with a presence in 16 of 32 states in the country.

The market in Colombia is slightly less fragmented and in general includes national and regional chains. The national healthcare system in Colombia covers a large amount of the country's population and operates through Health Promoting Entities (*Entidades Promotoras de Salud*) in the private and public sectors to provide healthcare services to the Colombian population. Dispensing medicine to such Health Promoting Entities' clients as well as to the consumer retail market with medicines and health or personal care products represent growth opportunities in Colombia.

In Chile, the market is more concentrated and our Health Division through Socofar is the leading drugstore operator in the country. Socofar is also the largest distributor of pharmaceuticals in the country. The Chilean market, where our operation's healthcare services are sold to both institutional and personal consumers, continues to represent an attractive growth opportunity.

In Ecuador, the market is highly competitive, and our Health Division, through Corporación GPF, is among the leading operators in the country, along with Difare and Farmaenlace. The market continues to experience steady organic growth, and we and our competitors participate in retail, franchises and distribution, all of which present attractive growth opportunities for the Health Division.

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

In the Health Division, 66% of the customers are between the ages of 25 and 54, 57% of which are female. The Health Division also segments the market according to demographic criteria, including income level and purchase frequency.

Store Characteristics

The Health Division's stores are operated under the following trade names: Farmacias YZA, Farmacias Moderna and Farmacias Farmacon in Mexico; Fybeka and Sana Sana in Ecuador; Farmacias Cruz Verde in Chile and Colombia; and beauty stores under the trade name Maicao in Chile. The average size of the Health Division's stores is 88 square meters in Mexico, 178 square meters in Chile, 88 square meters in Colombia and 130 meters in Ecuador, including selling space and storage area. On average, each store has between 4 and 10 employees depending on the size of and traffic into the store. Patented and generic pharmaceutical drugs, beauty products, medical supplies, wellness and personal care products are the main products sold at the Health Division's stores.

The Health Division's stores also offer different value-added services, product delivery services and medical examinations.

Advertising and Promotion

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

Inventory and Purchasing

The South American operations of our Health Division seek to align the purchasing and logistics process with consumer needs. A key competitive advantage is our strong logistics chain, which relies on an integrated view of the supply chain. In Chile, we operate three distribution centers, the largest of which is a modern distribution center with advanced technology that services stores and healthcare institution customers throughout the country. In each of Colombia and Ecuador, we operate one distribution center that distributes products to all our locations throughout each country.

In Mexico, we have made progress to integrate our acquired companies into a single model of operation and we have built two distribution centers to improve availability of products and efficiency. One distribution center serves a significant portion of the needs of our stores located in the north of Mexico, while the second distribution center provides service to stores located in the south. We still rely on third-party distributors for some products in Mexico.

Seasonality

The Health Division's sales can be seasonal in nature with pharmaceutical drug sales affected by the timing and severity of the cough, cold and flu season. Revenues tend to be higher during the winter season but can be offset by extreme weather due to the rainy season in certain regions of Mexico in December and January. Revenues from our operations in Chile, Colombia and Ecuador tend to be higher during December, mainly due to an increase in the purchase of beauty and personal care products for gift-giving during the holidays; otherwise, early in the year during January and February, revenues tend to fall slightly after the holiday period.

Fuel Division

Business Strategy

The Fuel Division's business strategy is to accelerate the rate at which it opens service stations, in previously identified regions in Mexico, by way of leases, procurement or construction of stations.

The Fuel Division also aims to strengthen its services in its retail gas stations in Mexico to fulfill consumers' needs and increase traffic in those service stations while developing and maintaining an attractive value proposition to draw potential customers and face the entry of new competitors in the industry. Furthermore, although the Proximity and Fuel Divisions operate as separate businesses, the Fuel Division's service stations often have an OXXO store on the premises, strengthening the OXXO brand and complementing the value proposition. Despite market volatility and the impact of the COVID-19 pandemic, which significantly decreased overall traffic and in turn affected our sales and overall financial performance during 2020, we remain focused on improving our customer value proposition and enhancing underlying profitability by fine-tuning our business model, revenue management capabilities and adjusting our pricing strategies in an increasingly competitive market.

Service Station Locations

As of December 31, 2020, the Fuel Division operated 558 service stations, concentrated in the northern region of the country but with a presence in 17 states throughout Mexico.

In 2020, the Fuel Division leased two additional service stations, built nine new service stations and added two service stations operated by third parties.

Competition

Despite the existence of other groups competing in this sector, the Fuel Division's main competitors continue to be small retail service station chains owned by regional family businesses, which compete in the aggregate with the Fuel Division in total sales, new station locations and labor. The biggest chains competing with the Fuel Division in terms of number of service stations are regional chains such as Petro-7 (operated by 7-Eleven Mexico), Corpo Gas, G500, Hidrosina, international players operating in Mexico, such as British Petroleum, Mobil, Repsol and Shell and hard discount chains such as Good Price, Cargo Gas and Gulf.

Market and Store Characteristics

Market Characteristics

The retail service station market in Mexico has approximately 13,000 service stations and is highly fragmented. The majority of the retail service stations in the country are either owned by small regional family businesses or are other regional chains such as Petro-7 and G500. In recent years, however, international players such as British Petroleum, Mobil and Repsol have increased their network of franchised service stations, and now also represent significant competition.

Service Station Characteristics

Each service station under the "OXXO Gas" trade name comprises offices, parking lots, a fuel service area and an area for storage of gasoline in underground tanks.

The average size of the fuel service dispatch area is 216 square meters. On average, each service station has 12 employees.

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

Advertising and Promotion

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

Inventory and Purchasing

The distribution, mainly from gasoline and diesel, for the supply of our operations in the Fuel Division is mainly carried out directly between our supplier and our service stations. Since we do not have storage facilities, the product delivery is made daily according to a supply and logistics plan, which considers the capacity and inventory levels as well as the behavior of the demand of each one of our service stations; ensuring a continuous and sufficient supply to serve the markets where we operate.

Seasonality

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

Heineken Investment

FEMSA owns a non-controlling interest in the Heineken Group, one of the world's leading brewers. As of December 31, 2020, our 14.76% economic interest in the Heineken Group comprised 35,318,320 shares of Heineken Holding N.V. and 49,697,203 shares of Heineken N.V. For 2020, FEMSA recognized equity loss of Ps. 434 million from its economic interest in the Heineken Group, which was 14.76% during the year. See Note 10 to our audited consolidated financial statements.

The Proximity Division had a distribution agreement with subsidiaries of Heineken Mexico, now part of the Heineken Group, pursuant to which OXXO stores in Mexico only carried beer brands produced and distributed by Heineken Mexico. In 2019, the Proximity Division agreed to an extension of its existing commercial relationship with Heineken Mexico with certain important changes and entered into a new commercial relationship with Grupo Modelo. Under the terms of both agreements, the Proximity Division now sells the beer brands of Grupo Modelo in certain regions of Mexico and will be gradually covering the entire country by the end of 2022. Our logistic services subsidiary also provides certain services to Cuauhtémoc Moctezuma and its subsidiaries. Coca-Cola FEMSA also continues to distribute and sell Heineken beer products in Coca-Cola FEMSA's Brazilian territories pursuant to Coca-Cola FEMSA's distribution agreement entered into in 1993 with Heineken Brazil. In February 2021, Coca-Cola FEMSA entered into a new distribution agreement with a five-year term, which is subject to automatic renewal subject to certain terms and conditions. See "Item 4. Information on the Company—Coca-Cola FEMSA—Sales Volume and Transactions Overview—South America (Excluding Venezuela)" and "Item 8. Financial Information—Legal Proceedings."

Other Businesses

Our other businesses ("Other Businesses") consist of the following operations that support our core operations:

- Our logistics and distribution services subsidiary provides a broad range of third-party logistics and vehicle maintenance services to Coca-Cola FEMSA, FEMSA Comercio and third-party clients in a broad array of industries. It also provides specialized distribution of jan-san solutions and products to institutional third-party customers. Our logistic services and specialized distribution subsidiary operates in Mexico, Brazil, Colombia, Panama, Costa Rica, Guatemala, Nicaragua and in the United States.
- Quick-service restaurants under the Doña Tota brand name, as well as other small format stores, which include soft discount stores with a focus on perishables and liquor.
- Our refrigeration business manufactures vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 624,400 units at December 31, 2020. In 2020, this business sold 298,444 refrigeration units, 28% of which were sold to Coca-Cola FEMSA, and the remainder of which were sold to other clients. Also, this business includes manufacturing operations for food processing, storage and weighing equipment.

Description of Property, Plant and Equipment

As of December 31, 2020, Coca-Cola FEMSA owned all of its manufacturing facilities and more than 79.7% of its distribution centers, consisting primarily of production and distribution facilities for its soft drink operations and office space. In addition, the Proximity Division owns approximately 13% of OXXO stores, while the remaining stores are located on leased properties and substantially almost all of its distribution centers are under long-term lease arrangements with third parties. The Health Division leases seven distribution centers, three of which are in Chile, two in Mexico, one in Colombia and one in Ecuador, and it also has one manufacturing facility for generic pharmaceuticals in Chile. Most of the Health Division's stores are under lease arrangements with third parties.

The table below summarizes by country, installed capacity and average annual percentage utilization and utilization during peak month of Coca-Cola FEMSA's production facilities:

**Bottling Facility Summary
As of December 31, 2020**

Country	Installed Capacity (thousands of unit cases)	Average Annual Utilization ⁽¹⁾⁽²⁾ (%)	Utilization in Peak Month ⁽¹⁾ (%)
Mexico	2,858,533	56	60
Guatemala	155,000	78	82
Nicaragua	100,114	44	53
Costa Rica	92,747	40	43
Panama	72,241	34	44
Colombia	664,429	30	39
Brazil	1,567,409	56	71
Argentina	417,263	26	36
Uruguay	135,181	34	46

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

(2) Annualized rate.

The table below summarizes by Coca-Cola FEMSA's principal production facilities in terms of installed capacity, including their location and facility area:

**Bottling Facility by Location
As of December 31, 2020**

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	Toluca, Estado de México	317
	León, Guanajuato	124
	Morelia, Michoacán	50
	Ixtacomitán, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	La Pura Altamira, Tamaulipas	300
	San Juan del Río, Querétaro	84
Guatemala	Guatemala City	46
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San José	52
Panama	Panama City	29
Colombia	Barranquilla, Atlántico	37
	Bogotá, DC	105

	Tocantins, Tocantins	298
Brazil	Jundiaí, São Paulo	191
	Marília, São Paulo	159
	Curitiba, Paraná	119
	Itabirito, Minas Gerais	320
	Porto Alegre, Rio Grande do Sul	196
Argentina	Alcorta, Buenos Aires	73
Uruguay	Montevideo, Montevideo	120

Insurance

We maintain an “all risk” insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disasters, including hurricanes, hail, earthquakes and damages caused by human acts, including explosions, fire, vandalism and riots. We also maintain a freight transport insurance policy that covers damages to goods in transit. In addition, we maintain a liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. In 2020, the policies for “all risk” property insurance were issued by AXA Seguros, S.A. de C.V., policies for liability insurance were issued by Mapfre México, S.A. and the policy for freight transport insurance was issued by AXA Seguros, S.A. de C.V. Our “all risk” coverage was partially reinsured in the international reinsurance market. We believe that our coverage is consistent with the coverage maintained by similar companies.

Capital Expenditures and Divestitures

Our consolidated capital expenditures, net of disposals, for the years ended December 31, 2020, 2019 and 2018 were Ps. 20,893, Ps. 25,579 million and Ps. 24,266 million, respectively, which were primarily funded with cash from operations generated by our subsidiaries. These amounts were invested in the following manner:

	Year Ended December 31,		
	2020	2019	2018
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	Ps. 10,354	Ps. 11,465	Ps. 11,069
FEMSA Comercio			
Proximity Division	6,907	10,374	9,441
Health Division	1,694	1,529	1,162
Fuel Division	549	706	520
Other	1,389	1,505	2,074
Total	Ps. 20,893	Ps. 25,579	Ps. 24,266

Coca-Cola FEMSA

In 2020, 2019 and 2018, Coca-Cola FEMSA focused its capital expenditures on investments in (i) increasing production capacity; (ii) placing coolers with retailers; (iii) returnable bottles and cases; (iv) improving the efficiency of its distribution infrastructure and (v) information technology. Through these measures, Coca-Cola FEMSA continuously seeks to improve its profit margins and overall profitability.

FEMSA Comercio

Proximity Division

The Proximity Division’s principal investment activity is the construction and opening of new stores and refurbishment of existing stores, which are mostly OXXO Stores. During 2020, FEMSA Comercio opened 690 new stores and definitely closed 454, resulting in 236 net new OXXO stores. These numbers reflect the effects that the consumer behavior changes in connection with the COVID-19 pandemic had on the Proximity Division’s overall performance.

The Proximity Division invested Ps. 6,907 million in 2020 in the addition of new stores, warehouses and improvements to leased properties, renewal of equipment and information technology related investments.

Health Division

The Health Division's principal investment activity is the construction and opening of new drugstores in the countries where we operate. During 2020, the Health Division opened 75 net new drugstores in Mexico and 132 net new drugstores in Chile, Colombia and Ecuador. The Health Division invested Ps. 1,694 million in 2020 in the addition of new stores, warehouses and improvements to leased properties and information technology investments.

Fuel Division

During 2020, the Fuel Division invested Ps. 549 million on capital expenditures, mainly in major maintenance and remodeling of service stations, IT systems and opening thirteen new service stations.

Regulatory Matters

We are subject to different regulations in each of the territories where we operate. The adoption of new laws or regulations or changes in existing laws or regulations in the countries where we operate may increase our operating and compliance costs, our liabilities or impose restrictions on our operations which, in turn, may adversely affect our business financial condition, and financial results.

Tax Reforms

Chile

In 2020, corporate income tax rate in Chile remains 27%. The Chilean tax authority included an instant depreciation regime of 50% for acquisition of new assets acquired between January 1, 2019 and December 31, 2021, with the possibility to apply accelerated depreciation to the 50% residual basis.

Mexico

On January 1, 2020, a new tax regime in Mexico came into effect regarding foreign transparent vehicles and changes were made to the preferential tax regime. As a result of such changes, the dividends from Heineken Group are subject to a 30.0% income tax in Mexico when received.

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

In addition to the above, on October 30, 2019, Mexico approved a new tax reform, which was effective on January 1, 2020. The most relevant changes are: (i) taxpayers has been limited to a net interest deduction equal to 30.0% of the entity's Adjusted Taxable Income ("ATI"). ATI is determined similarly to EBITDA (earnings before interest, taxes, depreciation and amortization). An exception up to Ps. 20 million (approximately USD 1 million) 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 of Ps. 1.17 per liter to Ps. 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 is subject to an annual increase based on the inflation of the previous year; (iii) the excise tax of 25.0% on energized beverages is applicable whenever the beverages include a mixture of caffeine with any other substances with stimulating effects; (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) the reform added a disclosure obligation of certain reportable transactions to tax authorities; and (vi) the reform increased the tax authorities' discretion to limit tax benefits or attributes in situations where authorities understand there is a lack of business reason and no economic benefit obtained other than the tax benefit.

On January 1, 2019, the Mexican government eliminated the right to offset any tax credit against any payable tax (general offset or *compensación universal*). As of such date, the right to offset any tax credit is against taxes of the same nature and payable by the same person (not being able to offset tax credits against taxes payable by third parties). Additionally, by Executive Decree, certain tax benefits related to the value-added tax and income tax were provided to

businesses located in the northern border of Mexico. Due to the territories where we operate, this last provision is not applicable to our business.

Colombia

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 0.0% for 2021. In addition, the thin capitalization ratio was adjusted from 3:1 to 2:1, and was modified to apply only to transactions between related parties. Commencing on January 1, 2019, value-added tax, which was applied only to the first sale in the supply chain prior to December 31, 2018, began to be applied and transferred throughout the entire supply chain, which in our case results in charging value-added tax on the sales price of our finished goods (applicable to our Colombian subsidiary located in the free trade zone). For companies located in free trade zones, the value-added tax is charged on the cost of imported raw materials of national and foreign origin, which we are able to credit against the value-added tax on the sales price of our products. The municipality sales tax is 50.0% deductible against income tax payable in 2019 and 100.0% deductible in 2020. Finally, the value-added tax paid on acquired fixed assets will be credited against income tax or the minimum assumed income tax.

Additionally, this tax reform increased the tax rate on dividends paid to foreign individuals and non-resident entities from 5.0% to 7.5%. The tax reform also imposed a tax rate of 7.5% on dividends paid to Colombian companies. This tax is charged only on the first distribution of dividends from one Colombian corporate entity to another, and a credit resulting from the tax withholding is carried forward until a Colombian company makes a distribution to a shareholder that is an individual residing in Colombia or a non-resident individual or entity.

In October 2019, the Colombian courts declared the tax reform that became effective on January 1, 2019 unconstitutional. On December 27, 2019, the Colombian government enacted a new tax reform, which became effective as of January 1, 2020. In general, the reform maintained the provisions introduced on the previous tax reform and included some additional changes, as follows: (i) the minimum assumed income tax rate (*renta presuntiva sobre el patrimonio*) was reduced from 1.5% to 0.5% for 2020 and reduced to 0.0% for year 2021 and beyond; (ii) the tax rate on dividends paid to Colombian resident individuals was reduced from 15.0% to 10.0%; (iii) the tax rate on dividends paid to foreign individuals and non-resident entities was increased from 7.5% to 10.0%; (iv) the possibility to deduct 100.0% of the municipality sales tax against payable income tax was postponed to 2022; and (v) taxpayers were granted more flexibility to credit or recover the value-added tax of imported goods from free trade zones.

Costa Rica

On July 1, 2019, a tax reform became effective in Costa Rica. This reform allowed tax credits on sales taxes to be recorded on goods, administrative services and general expenses. The value-added tax rate of 13.0% on services provided within Costa Rica now applies to both domestic and foreign service providers. Capital gains taxes are now imposed at a rate of 15.0% on sales of assets located in Costa Rica. New income tax withholding rates are now imposed on salaries and other employee benefits at the rates of 25.0% and 20.0%, depending on the salary bracket. Finally, a new thin capitalization rule provides that interest expenses paid to entities other than members of the Costa Rican financial system that exceed 20.0% of a company's EBITDA are not deductible for income tax purposes.

Panama

Until November 17, 2019, Panama imposed an excise tax of 5.0% on carbonated beverages and imported non-carbonated beverages and a 10.0% selective consumption tax on syrups, powders and concentrate used to produce sugary drinks. On November 18, 2019, Panama replaced this excise tax with an excise tax of 7.0% on carbonated beverages with more than 7.5 grams of sugar or any caloric sweetener per 100 milliliter, and a 10.0% tax on syrups, powders and concentrate used to produce sugary drinks. As of January 1, 2020, Panama imposes an excise tax of 5.0% on non-carbonated beverages with more than 7.5 grams of sugar or any caloric sweetener per 100 milliliter, whether imported or produced locally. Beverages derived from dairy products, grains or cereals, nectars, fruit juices and vegetables with natural fruit concentrates are exempt from this tax.

Nicaragua

On March 1, 2019, a tax reform became effective in Nicaragua, increasing the excise tax for all beverages (except for water) from 9.0% to 11.0% in 2019, to 13.0% beginning on January 1, 2020 and to 15.0% beginning on January 1, 2021. In addition, starting on March 1, 2019, the minimum alternative income tax increased from 1.0% to 3.0%.

Uruguay

On December 29, 2020, the Uruguayan government issued an executive decree to modify the way the excise tax credit of beverages sold in returnable bottles is calculated, which excise tax credit is currently 1.15 Uruguayan pesos (Ps.0.54 as of December 31, 2020) per liter. Starting on January 1, 2021 until June 30, 2021, the excise tax credit shall be calculated based on the ratio of purchases made by any entity in Uruguay of returnable bottles produced in Uruguay in the last three years to the total purchases of returnable bottles, made by such entity in and outside Uruguay in the last three years. We expect that the Uruguayan government will issue another executive decree with rules that will apply beginning on June 30, 2021.

Brazil

The Brazilian federal production tax rates and federal sales tax rates increased in 2018 and remained flat in 2019 and 2020. In early 2017, the Supreme Court decided that the value-added tax would not be used as the basis for calculating the federal sales tax, resulting in a reduction of the federal sales tax. The Brazilian tax authorities have appealed the Supreme Court's decision and such appeal is in process. However, our Brazilian subsidiaries commenced legal proceedings to ascertain their ability to calculate federal sales tax without using the value-added tax as a basis, in accordance with the Supreme Court's ruling, and obtained a final favorable resolution in 2019. In 2020, the federal production and sales taxes together resulted in an average of 15.9% tax over net sales.

In recent years, the excise tax rate on concentrate in Brazil has undergone recurrent temporary fluctuations. The excise tax rate was reduced from 20.0% to 4.0% from September 1, 2018 to December 31, 2018, was increased from 4.0% to 12.0% from January 1, 2019 to June 30, 2019, was reduced to 8.0% from July 1, 2019 to September 30, 2019 and was increased to 10.0% from October 1, 2019 to December 31, 2019. The excise tax rate was reduced to 4.0% from January 1, 2020 to May 31, 2020, was increased to 8.0% from June 1, 2020 to November 30, 2020, was reduced again to 4.0% on December 1, 2020 until January 31, 2021 and was increased to 8% from February 1, 2021 onward.

Argentina

Beginning on January 1, 2021, taxpayers may adjust inflationary effects for income tax purposes in one sole year instead of through a period of six years.

On January 1, 2020, a tax reform became effective in Argentina. This reform maintained the income tax at a rate of 30.0% and the withholding tax on dividends paid to non-resident stockholders and resident individuals at a rate of 7.0% for two more years. In addition, as of January 1, 2020, taxpayers have been able to deduct 100.0% of the negative or positive inflation adjustment annually, instead of deducting such inflation adjustment through a period of six years.

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. The tax reform decreased the sales tax rate in the province of Buenos Aires from 1.75% to 1.5% in 2018.

However, the reform increased the sales tax rate in the City of Buenos Aires from 1.0% to 2.0% in 2018, and scheduled a reduction to 1.5% in 2019, to 1.0% in 2020, to 0.5% in 2021 and to 0.0% in 2022. Nonetheless, the Argentine government issued an executive decree with an order to maintain the sales tax rate in the City of Buenos Aires at a rate of 1.5% through 2020, without ruling on whether the scheduled reductions for 2021 and 2022 will occur. On December 11, 2020, Argentine government signed a new commitment to suspend the reduction of sales taxes rate until December 31, 2021. The rate for both Buenos Aires City and Buenos Aires province will remain at 1.5%.

Taxation of Beverages

All the countries where Coca-Cola FEMSA operates, except for Panama, impose value-added tax on the sale of sparkling beverages, with a rate of 16.0% in Mexico, 12.0% in Guatemala, 15.0% in Nicaragua, an average percentage of 15.9% in Costa Rica, 19.0% in Colombia, 21.0% in Argentina, 22.0% in Uruguay, and in Brazil 16.0% in the states of Parana and Rio de Janeiro, 17.0% in the states of Goias and Santa Catarina, 18.0% in the states of São Paulo and Minas Gerais, and 20.0% in the states of Mato Grosso do Sul and Rio Grande do Sul. The states of Rio de Janeiro, Minas Gerais and Parana also charge an additional 2.0% on sales as a contribution to a poverty eradication fund. In Brazil the value-added tax is grossed-up and added, along with federal sales tax, at the taxable basis. In addition, Coca-Cola FEMSA is responsible for charging and collecting the value-added tax from each of our retailers in Brazil, based on average retail prices for each state where we operate, defined primarily through a survey conducted by the government of each state, which in 2020 represented an average taxation of approximately 17.4% over net sales.

Several of the countries where Coca-Cola FEMSA operates impose excise or other taxes, as follows:

- Mexico imposes an excise tax of Ps. 1.3036 per liter on the production, sale and import of beverages with added sugar and HFCS as of January 1, 2021. This excise tax is applied only to the first sale and Coca-Cola FEMSA is responsible for charging and collecting it. This excise tax rate will be in effect until December 31, 2021, and will thereafter be subject to an annual increase based on the previous year's inflation rate. From January 1, 2020 to December 31, 2020 the excise tax was Ps.1.2616 per liter.
- Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.46 as of December 31, 2020) per liter of sparkling beverage.
- Costa Rica imposes a specific tax on non-alcoholic carbonated bottled beverages based on the combination of packaging and flavor, currently assessed at 19.494 colones (Ps. 0.63 as of December 31, 2020) per 250 ml, and an excise tax (which is a contribution to the National Institute of Rural Development (*Instituto Nacional de Desarrollo Rural*)) currently assessed at 6.796 colones (Ps.0.22 as of December 31, 2020) per 250 ml.
- Since January 1, 2020, Nicaragua imposes a 15.0% tax on beverages, except for water. From January 1, 2020 to December 31, 2020 the excise tax was 13.0%, from March 1, 2019 to December 31, 2019 the excise tax was 11.0% and prior to March 1, 2019 the excise tax was 9.0%, and municipalities impose a 1.0% tax on our Nicaraguan gross income.
- Until November 17, 2019, Panama imposed an excise tax of 5.0% on carbonated beverages and on imported non-carbonated beverages and a 10.0% selective consumption tax on syrups, powders and concentrate used to produce sugary drinks. As of November 18, 2019, Panama replaced such excise tax with an excise tax of 7.0% on carbonated beverages with more than 7.5 grams of sugar or any caloric sweetener per 100 ml, and a 10.0% tax on syrups, powders and concentrate used to produce sugary drinks. Since January 1, 2020, Panama imposes an excise tax of 5.0% on non-carbonated beverages with more than 7.5 grams of sugar or any caloric sweetener per 100 ml, whether imported or produced locally. Beverages derived from dairy products, grains or cereals, nectars, fruit juices and vegetables with natural fruit concentrates are exempt from this tax.
- Argentina imposes an excise tax of 8.7% on sparkling beverages containing less than 5.0% lemon juice or less than 10.0% fruit juice, and an excise tax of 4.2% on sparkling water and flavored sparkling beverages with 10.0% or more fruit juice, although this excise tax is not applicable to some of Coca-Cola FEMSA's products.
- Brazil assesses an average production tax of 4.1% and an average sales tax of approximately 11.8% over net sales. Except for sales to wholesalers, these production and sales taxes apply only to the first sale and Coca-Cola FEMSA is responsible for charging and collecting these taxes from each of its retailers. For sales to wholesalers, they are entitled to recover the sales tax and charge this tax again upon the resale of Coca-Cola FEMSA's products to retailers.
- Colombia's municipalities impose a sales tax that varies between 0.35% and 1.2% of net sales.

- Uruguay imposes an excise tax of 19.0% on sparkling beverages, an excise tax of 12.0% on fruit juices and beverages containing less than 5.0% lemon juice or less than 10.0% fruit juice, and an excise tax of 8.0% on sparkling water and still water.

Antitrust Legislation

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

We are subject to antitrust legislation in the countries where we operate. Certain relevant acquisitions or divestitures of businesses may be subject to the requirement to obtain certain authorizations from the relevant authorities.

Price Controls

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where Coca-Cola FEMSA operates. Coca-Cola FEMSA operates, except for those voluntary price restraints in Argentina, where authorities directly supervise certain of Coca-Cola FEMSA’s products sold through supermarkets as a measure to control inflation. Currently, there are no price controls on Coca-Cola FEMSA’s products in any of the territories where it has operations, except for Argentina. Due to the COVID-19 pandemic, the Argentine government imposed statutory price restraints with respect to certain of Coca-Cola FEMSA’s products and expanded the list of products to which the voluntary price restraints applies apply.

Environmental Regulations

We have an Environmental Management System (“EMS”) that includes environmental policies and procedures that intend to identify, address and minimize environmental risks, as well as to implement appropriate strategies for the use of clean and renewable energy, efficient use of water and waste management throughout the value chain of all of our operations. We have programs that seek to reduce energy consumption and diversify our portfolio of clean and renewable energy sources in order to reduce greenhouse gas emissions and contribute to the fight against climate change. In addition, we establish short-, medium-, and long-term goals and indicators for the use, management and confinement of energy, air emissions, water discharges, solid waste and disposal of hazardous materials.

During 2020, 72.1% of Coca-Cola FEMSA’s total energy requirements were obtained from clean energy sources. Additionally, as part of its waste management strategies, in 2020, 29% of its PET resin packaging was comprised of recycled materials and Coca-Cola FEMSA recycled 98% of the total post-industrial waste generated.

In 2020, 62.2% of FEMSA Comercio’s total energy requirements in Mexico were obtained from renewable energy sources.

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

laws, including a program that installs catalytic converters and liquid petroleum gas in delivery trucks for its operations in Mexico City. See “Item 4—Information on the Company—Coca-Cola FEMSA—Product Sales and Distribution.”

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

In June 2019, the government of the state of Oaxaca, Mexico amended the Law for the Prevention and Management of Solid Waste (*Ley para la Prevención y Gestión Integral de los Residuos Sólidos*) to prohibit the use, sale and distribution of single-use PET bottles for water and all other beverages in the state of Oaxaca. Coca-Cola FEMSA has filed a legal recourse against the amended law, which is pending resolution. If this legal recourse is unsuccessful, this amended law could have an adverse impact on our business and results of operations in Mexico.

In Coca-Cola FEMSA’s Mexican operations, Coca-Cola FEMSA established a partnership with TCCC and Alpla, its supplier of plastic bottles in Mexico, to create Industria Mexicana de Reciclaje (IMER), a PET recycling facility located in Toluca, Mexico. In 2020, this facility recycled 13,000 tons of PET resin. Coca-Cola FEMSA has also continued contributing funds to ECOCE, A.C., a nationwide collector of containers and packaging materials. In 2020, ECOCE collected 53.0% of the total PET resin waste in Mexico.

All of Coca-Cola FEMSA’s bottling plants located in Mexico have received a Certificate of Clean Industry (*Certificado de Industria Limpia*).

Coca-Cola FEMSA’s Central American operations are subject to several federal and state laws and regulations related to the protection of the environment and the disposal of hazardous and toxic materials, as well as water usage. In December 2019, the Costa Rican government enacted Law No. 9,786, which requires that companies that sell, distribute or produce plastic bottles made of single use plastics comply with at least one of the following obligations: (a) produce plastic bottles that contain a percentage of recycled resin (such percentage to be defined in a separate regulation not yet enacted), (b) implement a recycling or collection program of the plastic bottles sold by such company (such programs to be defined in a separate regulation not yet enacted), (c) participate in waste management programs appropriate to the relevant industry or product, (d) use or produce packaging or products that minimize the generation of solid waste, or (e) establish strategic partnerships with at least one municipality to improve its collection and waste management programs. Although this law is already enacted, Coca-Cola FEMSA is not required to comply with it until its regulations are enacted. In December 2020, the Panamanian government enacted Law No. 187 aiming towards progressively reducing and replacing single-use plastics with recycled or biodegradable materials. A separate regulation related to Law No. 187 is expected to be passed this year, and we cannot assure you that such regulation will not have an adverse impact on Coca-Cola FEMSA’s business and results of operations in Panama.

Coca-Cola FEMSA’s Colombian operations are subject to several Colombian federal and state laws and regulations related to the protection of the environment and the use of treated water and hazardous materials. These laws include the control of air emissions, noise emissions, use of treated water and strict limitations on the use of chlorofluorocarbons. In 2018, the Colombian government enacted Law 1407, which regulates the use and management of packaging waste in the form of paper, cardboard, plastic, glass and metal. The law imposes certain goals on producers for the use and recycling of such packaging waste (e.g. in 2021 the goal set forth by the law is the use and recycling of 10.0% of packaging waste) and imposes the obligation to report to the corresponding authorities their progress on such activities and their strategies to achieve the imposed targets. In December 2020, Coca-Cola FEMSA’s Colombian subsidiary filed its plan of environmental management of packaging waste.

Coca-Cola FEMSA’s Brazilian operations are subject to several federal, state and municipal laws and regulations related to the protection of the environment. Among the most relevant laws and regulations are those dealing with the emission of greenhouse gases, the disposal of wastewater and solid waste, and soil contamination, which impose penalties, such as fines, facility closures and criminal charges depending upon the level of non-compliance. Among other regulations, a municipal regulation of the City of São Paulo, implemented pursuant to Law 13.316/2002, requires us to collect 90.0% of PET resin bottles sold. Coca-Cola FEMSA is currently unable to collect the entire required volume of PET resin bottles we sell in the City of São Paulo and could be fined and be subject to other

sanctions, such as the suspension of operations in any of our bottling plants and/or distribution centers located in the City of São Paulo. In October 2010, the municipal authority of São Paulo levied a fine on our Brazilian operating subsidiary of 250,000 Brazilian reais (Ps.0.9 million as of December 31, 2020). Coca-Cola FEMSA has filed a legal recourse against the imposition of this fine, which is pending resolution.

In August 2010, Law No. 12.305/2010 was enacted, establishing the Brazilian National Solid Waste Policy to regulate the recycling and correct management of solid waste, which policy is regulated by Federal Decree No. 7.404/2010. The Brazilian National Solid Waste Policy is based on the principle of shared responsibility between the government, companies and consumers; it provides for the post-consumption return of products and requires public authorities to implement waste management programs. In order to comply with the Brazilian National Solid Waste Policy, in December 2012, an agreement proposal was created by almost 30 associations involved in the packaging sector, including ABIR in its capacity as representative for TCCC, Coca-Cola FEMSA's Brazilian subsidiary and other bottlers, and was provided to the Ministry of the Environment. The agreement proposed the creation of a "coalition" to implement systems for packaging waste reverse logistics. The proposal described strategies for sustainable development and the improvement of the management of solid waste to increase recycling rates and decrease incorrect disposal. Although the Ministry of Environment approved and signed this agreement in November 2015, in August 2016, public prosecutor's offices of the state of São Paulo and the state of Mato Grosso do Sul filed several class actions against the parties that signed the agreement, challenging the validity of certain terms of the agreement and the effectiveness of the mandatory measures to be taken by the companies of the packaging sector to comply with the Brazilian National Solid Waste Policy, and requiring the payment of certain dues in exchange for the state's provision of selective waste management services. At the end of 2020, an agreement was signed between the public prosecutor's office of the state of Mato Grosso do Sul and the associations involved in the packaging sector, including ABIR as representative of Coca-Cola FEMSA's Brazilian subsidiaries, aiming to resolve and conclude the class actions. In exchange, the companies located in Mato Grosso do Sul pledged to demonstrate their compliance with the Mato Grosso do Sul state's Decree No. 15.340/2019 that establishes the guidelines and targets to implement systems for packaging waste reverse logistics in Mato Grosso do Sul.

Coca-Cola FEMSA's Argentine operations are subject to federal and municipal laws and regulations relating to the protection of the environment. The most significant of these are regulations concerning waste management, which is regulated by federal Law 24.051 and Law 9111/78, and waste water discharge. Such regulations are enforced by the Ministry of Natural Resources and Sustainable Development (*Secretaría de Ambiente y Desarrollo Sustentable*) and the Provincial Organization for Sustainable Development (*Organismo Provincial para el Desarrollo Sostenible*) for the province of Buenos Aires. Coca-Cola FEMSA's Alcorta bottling plant is in compliance with environmental standards and Coca-Cola FEMSA has been, and continue to be, certified for ISO 14001:2004 for the bottling plants and operative units in Buenos Aires.

In Uruguay, Coca-Cola FEMSA is subject to laws and regulations relating to the protection of the environment, including regulations concerning waste management and waste water discharge and disposal of hazardous and toxic materials, among others. Coca-Cola FEMSA owns a water treatment plant to reuse water in certain processes. Coca-Cola FEMSA has established a program for recycling solid wastes and is currently certified for ISO 14001:2015 for its bottling plant in Montevideo.

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

We do not believe that Coca-Cola FEMSA's business activities pose a material risk to the environment, and we believe that Coca-Cola FEMSA is in material compliance with all applicable environmental laws and regulations.

Water Supply

Given that water is an essential resource to carry out all human activity, and given its key role in Coca-Cola FEMSA's business as a beverage bottler, comprehensive and efficient water management is of utmost importance. As a result, Coca-Cola FEMSA set a target to improve its overall water use ratio to 1.5 liters of water per liter of beverage produced by 2020. In addition, Coca-Cola FEMSA's goal is to further reduce its water consumption and to return to the environment and its communities the same amount of water used to produce its beverages. With respect to waste water treatment, all of Coca-Cola FEMSA's bottling plants have their own waste water treatment plants or have contracted related services to ensure the quality of the waste water discharge.

In Mexico, Coca-Cola FEMSA obtains water directly from wells pursuant to concessions obtained from the Mexican government for each bottling plant. Water use in Mexico is regulated primarily by the National Waters Law (*Ley de Aguas Nacionales*), as amended, and regulations issued thereunder, which created the National Water Commission (*Comisión Nacional del Agua*). The National Water Commission is in charge of overseeing the national system of water use. Under the National Waters Law, concessions for the use of a specific volume of ground or surface water generally run from five to fifty-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms be extended before the expiration of the same. The Mexican government may reduce the volume of ground or surface water granted for use by a concession by whatever volume of water that is not used by the concessionaire for two consecutive years, unless the concessionaire proves that the volume of water not used is because the concessionaire is saving water by an efficient use of it. Coca-Cola FEMSA's concessions may be terminated if, among other things, it uses more water than permitted or it fails to pay required concession-related fees and does not cure such situations in a timely manner. As part of its water management processes, Coca-Cola FEMSA periodically runs assessments to monitor the use and condition of its water sources.

In addition, the 1992 Water Law provides that plants located in Mexico must pay a fee either to the local governments for the discharge of residual waste water to drainage or to the federal government for the discharge of residual waste water into rivers, oceans or lakes. Pursuant to this law, certain local and federal authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by the National Water Commission. In the case of non-compliance with the law, penalties, including closures, may be imposed. All of Coca-Cola FEMSA's bottling plants located in Mexico meet these standards.

In Brazil, Coca-Cola FEMSA obtains water and mineral water from wells pursuant to concessions granted by the Brazilian government for each bottling plant. According to the Brazilian Constitution and the National Water Resources Policy, water is considered an asset of common use and can only be exploited for the national interest by Brazilians or companies formed under Brazilian law. Concessionaires and users can be held responsible for any damage to the environment. The exploitation and use of mineral water is regulated by the Code of Mining, Decree Law No. 227/67 (*Código de Mineração*), the Mineral Water Code, Decree Law No. 7841/1945 (*Código de Águas Minerais*), the National Water Resources Policy, Decree No. 24.643/1934 and Law No. 9433/97 and by regulations issued thereunder. The companies that exploit water are supervised by the National Mining Agency (*Agência Nacional de Mineração*, or "ANM") and the National Water Agency (*Agência Nacional de Águas*) in connection with federal health agencies, as well as state and municipal authorities. Coca-Cola FEMSA uses spring water in its bottling plants where it has obtained all the necessary permits.

In Colombia, in addition to natural spring water for *Manantial*, Coca-Cola FEMSA obtains water directly from wells and from utility companies. Coca-Cola FEMSA is required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Decree No. 1076 issued in 2015. In May 2019, the Colombian government enacted Law 1955 of 2019 (National Development Plan 2018-2022), which applies to certain of the plants in Coca-Cola FEMSA's Colombian operations and allows the discharge of industrial waste water into the drainage system without the need to obtain a specific permit until the end of 2022. Coca-Cola FEMSA expects that this Law will be extended for another five years at the end of 2022 through the next National Development Plan, however we cannot assure you that this Law will be extended or that any future laws and regulations adopted by the Colombian government in this regard will not have a material adverse effect on our business.

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

In Uruguay, Coca-Cola FEMSA acquires water from the local water system, which is managed by the Organism of Sanitary Works (*Obras Sanitarias del Estado*). Additionally, Coca-Cola FEMSA is required by the Uruguayan federal government to discharge all of its water excess to the sanitation system for recollection.

In Nicaragua, the use of water is regulated by the National Water Law (*Ley General de Aguas Nacionales*), and Coca-Cola FEMSA obtains water directly from wells. In November 2017, Coca-Cola FEMSA obtained a permit to increase its monthly amount of water used for production in Nicaragua and renewed Coca-Cola FEMSA's concession for the exploitation of wells for five more years, extending the expiration date to 2022. In Costa Rica, the use of water is regulated by the Water Law (*Ley de Aguas*). In both of these countries, Coca-Cola FEMSA exploits water from wells granted to Coca-Cola FEMSA through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in Coca-Cola FEMSA's own bottling plants. In Panama, Coca-Cola FEMSA acquires water from a state water company, and the use of water is regulated by the Panama Use of Water Regulation (*Reglamento de Uso de Aguas de Panamá*).

Energy Regulations

In 2013, the Mexican government approved a decree containing amendments and additions to the Mexican Constitution in matters of energy (the "Mexican Energy Reform"). The Mexican Energy Reform opened the Mexican energy market to the participation of private parties including companies with foreign investment, allowing for FEMSA Comercio to participate directly in the retail of fuel products. Secondary legislation and regulation of the approved Mexican Energy Reform was implemented during 2016 and 2017. Prior 2017, fuel retail prices were established by the Mexican executive power by decree by end of 2017 retail prices were fully deregulated and freely determined by market conditions. As part of the secondary legislation in connection with the Mexican Energy Reform, the Security, Energy and Environment Agency (the *Agencia de Seguridad, Energía y Ambiente*, or "ASEA") was created as a decentralized administrative body of SEMARNAT. ASEA is responsible for regulating and supervising industrial and operational safety and environmental protection in the installations and activities of the hydrocarbons sector, which includes all our Fuel Division operations. Additionally, the CRE is the regulatory body responsible for the authorization of sale of fuel to the public at gas stations. We believe that the Fuel Division is in material compliance with the relevant ASEA and CRE regulations and administrative provisions.

Effective as of July 2020, the Mexican Energy Regulatory Commission (*Comisión Reguladora de Energía*) ("CRE") approved an increase to transmission fees payable by entities that generate energy from renewable sources or efficient cogeneration sources. While this increase applies directly to the energy producers of such projects, end-users, such as ourselves, may face increases in our fees for energy consumption from such energy producers. A number of legal recourses against such increase have been filed by the energy producers with whom we have entered into power purchase agreements. As a result, the competent courts suspended the effects of such increased transmission fees until the legal proceedings are definitively resolved. We cannot assure you that these legal measures will have the desired effect or that this increase will not have an adverse impact on our results of operations.

In October 2020, the CRE approved resolution RES/1094/2020, which establishes the rules for the amendment or assignment of generation and power supply permits. This resolution limits the incorporation of new consumption centers to self-supply schemes, which was previously done in order to receive electric power at competitive prices. We have filed a legal recourse against this resolution, which is pending resolution. If our legal recourse is unsuccessful, this resolution could have an adverse impact on our business and results of operations in Mexico.

In March 2021, the Mexican government approved changes to the Mexican Electricity Law to, among other things, modify the order in which the energy of the National Electric System (*Sistema Eléctrico Nacional*) is dispatched; condition the granting of permits to conform with the planning criteria of the National Electric System; and allow the authorities to revoke energy self-supply permits, such as those granted to certain companies that supply us with electricity. Such changes were challenged by different market participants and its effectiveness has been suspended by the courts until the legal proceedings are definitively resolved. We are currently evaluating the impact that these changes could have on our business and the actions that we may take with respect to such changes.

Other Regulations

In 2014, the Brazilian government enacted Law No. 12,997 (Law of Motorcycle Drivers), which requires employers to pay a premium of 30.0% of the base salary to all employees that are required to drive a motorcycle to

perform their job duties. This premium became enforceable in 2014, when the related rules and regulations were issued by the Ministry of Labor and Employment. Coca-Cola FEMSA believes that these rules and regulations (Decree No. 1.565/2014) were unduly issued because such Ministry did not comply with all the requirements of applicable law (Decree No. 1.127/2003). In 2014, Coca-Cola FEMSA's Brazilian subsidiary, in conjunction with other bottlers of the Coca-Cola system in Brazil and through the ABIR, filed a claim before the Federal Court to stay the effects of such decree. ABIR's associated companies, including Coca-Cola FEMSA's Brazilian subsidiary, were granted a preliminary injunction staying the effects of the decree and exempting Coca-Cola FEMSA from paying the premium. The Ministry of Labor and Employment filed an interlocutory appeal against the preliminary injunction in order to restore the effects of Decree No. 1.565/2014. This interlocutory appeal was denied. In 2016, a decision was rendered by the Federal Court declaring Decree No. 1.565/2014 to be null and void and requesting the Ministry of Labor and Employment to revise and reissue its regulations under Law No. 12,997. The Ministry of Labor and Employment, with the participation of all interested parties, is in the process of revising Decree No. 1.565/2014. Such revision has not concluded, therefore we cannot assure you that any changes made to Decree No. 1.565/2014 will not have an adverse effect on Coca-Cola FEMSA's business; however, Coca-Cola FEMSA is currently not responsible for paying such 30.0% premium.

In 2018, the Uruguayan government enacted Decree No. 272/018, which imposes an obligation to label certain food and beverage products that contain sodium, sugar, fats or saturated fats with health warnings. In September 2020, the Uruguayan government enacted a subsequent decree, Decree No. 246/020, changing the parameter to measure if any product is required to have health warnings, and the date to start complying was extended until February 1, 2021. Coca-Cola FEMSA is currently in compliance with this decree.

In 2018, the Brazilian government enacted Law No. 13,709/2018 (Personal Data Protection Law), which imposes control measures and other rights and obligations with respect to the processing of personal data by natural persons and legal entities, including by digital means. This law aims to create higher levels of certainty and transparency for data owners, containing obligations to display evidence of compliance and strict penalties for perpetrators who cause damage as a result of their violation of the law. Although this law is already enacted and in full force since September 2020, penalties and fines will be imposed starting in August 2021. Coca-Cola FEMSA is currently implementing procedures to be able to meet the law's requirements.

In March 2020, the Mexican government amended the existing Official Mexican Standard ("NOM-051"), which regulates the labeling of prepackaged food and non-alcoholic beverages ("Products"), to introduce a new labeling system for Products sold in Mexico. The amended regulation sets forth that Products' nutrition facts labels must include protein, sugar, added sugar, sodium, saturated fat and other fat contents per 100 grams or 100 milliliters. Nutrition facts labels must also include complementary nutritional information by means of octagonal seals, which shall apply to Products that exceed the NOM-051 parameters regarding recommended sugar, calorie, sodium, saturated fat and other fat contents, as well as warnings for any Products that contain caffeine or non-caloric sweeteners. In accordance with the amended NOM-051, Coca-Cola FEMSA's entire portfolio (except for water) was required to comply with the new labeling guidelines by October 1, 2020. We have filed a legal recourse against this regulation, which is pending resolution. If our legal recourse is unsuccessful, this regulation could have an increase in operating costs and expenses and an adverse impact on our business and results of operations in Mexico.

In August 2020, the government of the State of Tabasco, Mexico amended the Health Law of the State of Tabasco (*Ley de Salud del Estado de Tabasco*), Law of Education of the state of Tabasco (*Ley de Educación del Estado de Tabasco*) and Municipal Finance Law of the State of Tabasco (*Ley de Hacienda Municipal del Estado de Tabasco*) to prohibit: (i) the sale or supply to minors (except to parents or legal guardians of minors) certain products, including prepackaged and carbonated beverages with added sugar and (ii) the sale of (or installing vending machines to sell) prepackaged and carbonated beverages with added sugar, among other products, in public or private schools (elementary schools through high schools), public and private hospitals and health centers. In addition, the amended Municipal Finance Law imposes an increase of 25.0% to fees payable to advertise these products and prohibits the placement of advertisements at a certain distance from private and public schools, hospitals and health centers. We have filed a legal recourse against this amended law, which is pending resolution. If our legal recourse is unsuccessful, this amended law could have an adverse impact on our business and results of operations in Mexico.

In recent years, several governments in the countries in which we operate have enacted regulations addressing corporate policies for the prevention of money laundering and finance of terrorism, as well as cross-border anti-bribery programs. In compliance with such regulations, we have implemented internal policies including know-your-counterparty procedures, anti-money laundering and finance of terrorism clauses in agreements and reporting of

suspicious operations and established anti-bribery programs to comply with the basic requirements set forth in these regulations, such as performing due diligence in merger and acquisition transactions and including clauses regarding delivery of gifts, remuneration to contractors, political contributions, donations, whistleblowing channels and anti-corruption in agreements.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview of Events, Trends and Uncertainties

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

- The unprecedented health crisis arising from the spread of the COVID-19 pandemic has resulted in a severe global economic downturn and has caused significant volatility, uncertainty, and disruption. We are closely monitoring the evolution of the COVID-19 pandemic in the countries where we operate to take preventive measures to ensure the continuity of operations and safeguard the health and safety of our personnel and customers. Based on the information available as of the date of this annual report, below is a summary of the main strategies and effects of the COVID-19 pandemic on our business and results of operations:
 - Keeping our people safe and healthy is our first priority. Among other initiatives, during the COVID-19 pandemic, we identified more than 25,000 vulnerable employees across our business units and sent them home with pay. We have enabled remote collaboration and eliminated travel where possible. We are providing our personnel with all required protection equipment and have put in place enhanced safety and sanitary protocols at all stores and facilities. Furthermore, our firm objective is to provide job security for our employees, and we are working hard to avoid job losses.
 - We strive to provide a safe environment every time we interact with one of our millions of customers. We provide sanitizer at our stores, encourage proper distancing and avoid high concentrations of customers in our locations. We are also increasingly offering our customers more ways to make their purchases, leveraging digital channels, with Coca-Cola FEMSA leading the way in omni-channel and FEMSA Comercio making progress with their digital initiatives.
 - We are leveraging our scale and reach to donate and channel resources to our communities in need. Examples include Coca-Cola FEMSA bringing hydration to health centers, our Other Businesses contributing manufacturing expertise in a collaborative effort to produce low-cost medical ventilators in Mexico, and various monetary and in-kind donations by FEMSA Comercio.
 - We have adjusted our business focus to ensure we can operate under significant stress, and we have strengthened our cash balances by accessing a portion of our available credit lines. Each business unit has considered scenarios with varying durations and stress levels, and we have laid out the strategy for potential contingencies. We put in place aggressive cost reduction and efficiency measures and are prepared to adjust capital expenditures as needed.
 - Coca-Cola FEMSA collaborated with a resilient traditional trade channel (sales made at small retail stores to consumers), which is its most important sales channel. In addition, its sales through digital channels, such as food aggregators, digital platforms and telemarketing, increased as the imposition of measures and regulations aimed at containing the COVID-19 pandemic tilted some consumer preferences towards these channels. Coca-Cola FEMSA continues to reinforce its presence in digital sales channels in an effort to safeguard the health of its workforce and business partners and to

address the growing demand from its business partners through such sales channels. This reinforcement is aligned with Coca-Cola FEMSA's overall digitization and omnichannel strategies.

- The Proximity Division felt the effects of the COVID-19 pandemic in the form of reduced customer mobility and traffic, which significantly impacted certain consumption occasions and store segments. It faced broad health-related operating, category-specific, schedule and social distancing restrictions, contributing to a slow pace of recovery in OXXO stores. Many of the consumer needs they serve, such as thirst or craving for a snack or meal on-the-go, involve immediate, spur-of-the-moment purchasing decisions, and those categories were particularly sensitive to the lack of consumer mobility. Nevertheless, same-store sales during the second half of the year showed a gradual, but sustained trend of recovery that stabilized in the final weeks of December, though still below the levels of the comparable period of 2019. To ensure continued financial liquidity, the Proximity Division focused on expense efficiencies and cost containment, including moderating store expansions, closing stores with marginal or subpar productivity, and adjusting opening hours.
- The Health Division had a mixed impact due to the increased demand of COVID-19-related products, offset by the different containment measures that local governments enacted in response to the pandemic. Although in Mexico our operations benefited from increased demand of COVID-19-related products, in the Health Division's operations in South America, this increased demand was limited by strict mobility and operating restrictions, especially in Colombia and Ecuador. In Chile, while COVID-19-related restrictions and reduced consumer mobility impacted our performance throughout the first half of the year, these were more than offset by economic aid programs, reduced restrictions, and an undemanding comparison base during the fourth quarter which still reflected the impacts of operational disruptions in Chile during the fourth quarter of 2019. To maintain a healthy financial position amidst the economic uncertainties of the year, the Health Division slowed down its store expansion rate, particularly in Colombia and Ecuador.
- In the Fuel Division, mobility restrictions related to the COVID-19 pandemic caused a severe contraction in vehicle usage and, consequently, had an adverse impact on the sales of OXXO Gas. However, being designated as an essential activity, OXXO Gas remained open during the contingency, while implementing sanitization protocols in all our service stations to safeguard both our employees and customers.
- The COVID-19 pandemic has also impacted Heineken and is expected to continue to impact its operations. Many countries where Heineken operates have reacted to the pandemic by taking far-reaching containment measures such as restrictions of movement for populations and outlet closures, sometimes combined with the mandatory lockdown of production facilities. Heineken has taken necessary measures to reduce its costs, secure additional financing and adapt to the fast changes Heineken sees in its markets. Heineken will continue to monitor the impact of the pandemic on its business and results of operations.
- Our consolidated results are also significantly affected by the performance of the Heineken Group, because of our 14.76% economic interest. Our consolidated net income for 2020 included a loss of Ps. 434 million related to our non-controlling interest in the Heineken Group, as compared to Ps. 6,428 million income for 2019.
- Our results and financial position are affected by the economic and market conditions in the countries where our subsidiaries conduct their operations, particularly in Mexico. Changes in these conditions are influenced by a number of factors, including those discussed in "Item 3. Key Information—Risk Factors."

Effects of Changes in Economic Conditions

Our results are affected by changes in economic conditions in Mexico, Brazil, the United States and the other countries where we operate. For the years ended December 31, 2020, 2019 and 2018, 65.1%, 68.4% and 68.0% respectively, of our total sales were attributable to Mexico. Other than Venezuela and the United States, the participation of these other countries as a percentage of our total sales has not changed significantly during the last five years.

Our results are affected by the economic conditions in the countries where we conduct operations. Some of these economies continue to be influenced by the U.S. economy, and therefore, deterioration in the U.S. economy may affect the economies in which we operate. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a

material adverse effect on our results and financial condition. Our business may also be significantly affected by the interest rates, inflation rates and exchange rates of the currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for Coca-Cola FEMSA's products or the other products we carry in our stores, our services, lower real pricing of products or a shift to lower margin products, or a decrease in store traffic or average ticket. In addition, an increase in interest rates would increase the cost to us of variable rate funding, which would have an adverse effect on our financial position.

Beginning in the fourth quarter of 2019 and through 2020, the exchange rate between the Mexican peso and the U.S. dollar fluctuated from a low of Ps. 18.57 per US\$ 1.00, to a high of Ps. 25.13 per US\$ 1.00. At December 31, 2020, the exchange rate (noon buying rate) was Ps. 19.8920 per US\$ 1.00. On April 9, 2021, this exchange rate was Ps. 20.1620 per US\$ 1.00. A depreciation of the Mexican peso or local currencies in the countries where we operate relative to the U.S. dollar increases our cost of raw materials priced in U.S. dollars, including raw materials whose prices are set with reference to the U.S. dollar. In addition, a depreciation of the Mexican peso or local currencies in the countries where we operate relative to the U.S. dollar will increase our U.S. dollar-denominated debt obligations, which could negatively affect our financial position and results. However, this effect could be offset by a corresponding appreciation of our U.S. dollar-denominated cash position.

Operating Leverage

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

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

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

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

Critical Accounting Judgments and Estimates

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

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

Judgments

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

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

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

We assess at each reporting date whether there is an indication that a long-lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, we estimate the asset’s recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated from the use of the asset or CGU are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available.

If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Our forecasts assume our defensive profile and a recovery in the economic activity in the countries where we operate starting in 2021 and therefore, an improvement in sales volume. We expect the effects from the pandemic to be temporary and we estimate our industry will continue growing in the near term. Likewise, we will continue with the analyses of utilization levels of our assets, the recoverability of the accounts receivable, profitability of the business, etc. to identify any indications of impairment.

The key assumptions used to determine the recoverable amount for our CGUs, including a sensitivity analysis, are further explained in Notes 3.20 and 13 to our audited consolidated financial statements.

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

Property, plant and equipment, including returnable bottles which are expected to provide benefits over a period of more than one year, as well as intangible assets with defined useful lives, are depreciated/amortized over their estimated useful lives. We base our estimates on the experience of our technical personnel as well as based on our experience in the industry for similar assets. See Notes 3.15, 3.18, 11 and 13 to our audited consolidated financial statements.

Post-employment and other non-current employee benefits

We regularly evaluate the reasonableness of the assumptions used in our post-employment and other long-term employee benefit computations. Information about such assumptions is described in Note 17 to our audited consolidated financial statements.

Income taxes

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We recognize deferred tax assets for unused tax losses and other credits and regularly review them for recoverability based on our judgment regarding the probability of

the timing and level of future taxable income, the expected timing of the reversals of existing taxable temporary differences and future tax planning strategies. See Note 25 to our audited consolidated financial statements.

Tax, labor and legal contingencies and provisions

We are subject to various claims and contingencies, related to tax, labor and legal proceedings as described in Note 26 to our audited consolidated financial statements. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. We periodically assess the probability of loss for such contingencies and accrue a provision and/or disclose the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a provision for the estimated loss. Our judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

We periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a tax authority will accept an uncertain tax treatment. We measure our tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Valuation of financial instruments

We are required to measure all derivative financial instruments at fair value. The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient reliable and verifiable data, recognized in the financial sector. We base our forward price curves upon market price quotations. We believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments. See Note 21 to our audited consolidated financial statements.

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

Business combinations

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

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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, “*Income Taxes*” and IAS 19, “*Employee Benefits*,” respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or to our share-based payment arrangements entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, “*Share-based Payment*” at the acquisition date, see Note 3.27 to our audited consolidated financial statements;
- 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 indemnifiable liabilities, subject to any contractual limitations.

For each acquisition, our judgment must be exercised to determine the fair value of the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. In particular, we must apply estimates or judgments in techniques used, especially in forecasting CGU's cash flows, in the computation of weighted average cost of capital ("WACC") and estimation of inflation during the identification of intangible assets with indefinite lives, mainly, goodwill and distribution and trademark rights, and estimation of useful life during the identification of intangible assets with definite lives, mainly customer relationships.

Equity accounted investees

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

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between us and the investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

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

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

- Whether the extent of our ownership is significant relative to other shareholders (i.e. a lack of concentration of other shareholders);
- Whether our significant shareholders, subsidiaries or officers hold additional investment in the investee; and
- Whether we are part of significant investee committees, such as the executive committee or the finance committee.

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

Venezuela exchange rates and deconsolidation

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

Leases

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

- If we are 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 us to exercise, or not, such options, taking into account whether the lease option is enforceable, when we have the unilateral right to apply the option in question.
- Determination of the non-cancellable period for evergreen contracts and lifelong leases, considering whether we are reasonably certain to terminate the lease and/or estimating a reasonable period for the use of the asset, based on significant leasehold improvements made on the leased properties that provide reasonable certainty to us about the remaining period to obtain the benefits of such improvements on leased properties.

Future Impact of Recently Issued Accounting Standards not yet in Effect

See Note 29 to our audited consolidated financial statements.

Operating Results

The following table sets forth our consolidated income statement under IFRS for the years ended December 31, 2020, 2019 and 2018:

	2020(1)	Year Ended December 31,			
		2020	2019	2018	
		(in millions of U.S. dollars and Mexican pesos)			
Net sales	\$ 24,654	Ps. 490,425	Ps. 504,059	Ps. 468,894	
Other operating revenues	128	2,541	2,652	850	
Total revenues	24,782	492,966	506,711	469,744	
Cost of goods sold	15,248	303,313	315,230	294,574	
Gross profit	9,534	189,653	191,481	175,170	
Administrative expenses	1,156	22,988	19,930	17,313	
Selling expenses	6,204	123,405	121,871	114,573	
Other income	168	3,343	1,013	673	
Other expenses	622	12,381	4,905	2,947	
Interest expense ⁽²⁾	881	17,516	14,133	9,825	
Interest income	106	2,100	3,168	2,832	
Foreign exchange gain (loss), net	19	385	(2,467)	(248)	
Monetary position gain, net	19	384	260	216	
Market value loss on financial instruments	13	264	320	355	
Income before income taxes from continuing operations and share of the profit of equity accounted investees	970	19,311	32,296	33,630	
Income taxes	745	14,819	10,476	10,169	
Share in the (loss) profit of equity accounted investees, net of taxes	(37)	(736)	6,228	6,252	
Net income from continuing operations	\$ 188	Ps. 3,756	Ps. 28,048	Ps. 29,713	
Net income from discontinued operations	—	—	—	3,366	
Consolidated net income	\$ 188	Ps. 3,756	Ps. 28,048	Ps. 33,079	
Controlling interest from continuing operations	(98)	(1,930)	20,699	22,560	
Controlling interest from discontinued operations	—	—	—	1,430	
Non-controlling interest from continuing operations	286	5,686	7,349	7,153	
Non-controlling interest from discontinued operations	—	—	—	1,936	
Consolidated net income	\$ 188	Ps. 3,756	Ps. 28,048	Ps. 33,079	

[Table of Contents](#)

- (1) Translation to U.S. dollar amounts at an exchange rate of Ps. 19.8920 to US\$ 1.00, provided solely for the convenience of the reader.
(2) Reflects the finance charges payable for leases due to the adoption of IFRS 16 – “Leases” in 2020 and 2019. See Note 19 to our audited consolidated financial statements.

The following table sets forth certain operating results by reportable segment under IFRS for each of our segments for the years ended December 31, 2020, 2019 and 2018.

	Year Ended December 31,					
	2020	2019	2018 ⁽³⁾⁽⁴⁾	2020 vs. 2019	2019 vs. 2018	
	(in millions of Mexican pesos, except margins)			Percentage Growth (Decrease)		
Net sales						
Coca-Cola FEMSA	Ps. 181,520	Ps. 192,342	Ps. 181,823	(5.6)%	5.8 %	
FEMSA Comercio						
Proximity Division	180,826	184,488	167,168	(2.0)%	10.4 %	
Health Division	65,172	58,922	51,739	10.6 %	13.9 %	
Fuel Division	34,292	47,852	46,936	(28.3)%	2.0 %	
Total revenues						
Coca-Cola FEMSA	183,615	194,471	182,342	(5.6)%	6.7 %	
FEMSA Comercio						
Proximity Division	181,277	184,810	167,458	(1.9)%	10.4 %	
Health Division	65,172	58,922	51,739	10.6 %	13.9 %	
Fuel Division	34,292	47,852	46,936	(28.3)%	2.0 %	
Cost of goods sold						
Coca-Cola FEMSA	100,804	106,964	98,404	(5.8)%	8.7 %	
FEMSA Comercio						
Proximity Division	106,981	109,711	101,929	(2.5)%	7.6 %	
Health Division	45,597	41,277	35,874	10.5 %	15.1 %	
Fuel Division	29,992	43,077	42,705	(30.4)%	0.9 %	
Gross profit						
Coca-Cola FEMSA	82,811	87,507	83,938	(5.4)%	4.3 %	
FEMSA Comercio						
Proximity Division	74,296	75,099	65,529	(1.1)%	14.6 %	
Health Division	19,575	17,645	15,865	10.9 %	11.2 %	
Fuel Division	4,300	4,775	4,231	(9.9)%	12.9 %	
Gross margin⁽¹⁾⁽²⁾						
Coca-Cola FEMSA	45.1 %	45.0 %	46.0 %	0.1 p.p.	(1.0)p.p.	
FEMSA Comercio						
Proximity Division	41.0 %	40.6 %	39.1 %	0.4 p.p.	1.5 p.p.	
Health Division	30.0 %	29.9 %	30.7 %	0.1 p.p.	(0.8)p.p.	
Fuel Division	12.5 %	10.0 %	9.0 %	2.5 p.p.	1.0 p.p.	
Administrative expenses						
Coca-Cola FEMSA	7,891	8,427	7,999	(6.4)%	5.4 %	
FEMSA Comercio						
Proximity Division	5,696	4,590	3,587	24.1 %	28.0 %	
Health Division	3,314	2,709	2,055	22.3 %	31.8 %	
Fuel Division	252	215	242	17.2 %	(11.2)%	
Selling expenses						
Coca-Cola FEMSA	48,553	52,110	49,925	(6.8)%	4.4 %	
FEMSA Comercio						
Proximity Division	56,030	52,545	47,589	6.6 %	10.4 %	
Health Division	13,540	12,462	11,557	8.7 %	7.8 %	
Fuel Division	3,226	3,281	3,526	(1.7)%	(6.9)%	
Share in the (loss) profit of equity accounted investees, net of taxes						
Coca-Cola FEMSA	(281)	(131)	(226)	114.5 %	(42.0)%	
FEMSA Comercio						
Proximity Division	(18)	9	(17)	(300.0)%	(152.9)%	
Heineken Investment	(434)	6,428	6,478	(106.8)%	(0.8)%	

(1) Gross margin is calculated as gross profit divided by total revenues.

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

- (3) Revised for the restructuring of the Proximity Division. In 2018, FEMSA Comercio's "Retail Division" removed operations that are not directly related to proximity store business, including restaurant and discount retail units. The removed operations are included in "Other Businesses." The business segment is now named the Proximity Division. See Note 27 of our audited consolidated financial statements.
- (4) The information presented does not include Coca-Cola FEMSA's 51% stake in KOF Philippines as a result of the sale which was finalized on December 13, 2018. The operations of KOF Philippines were reclassified as discontinued operations.

Results from our Operations for the Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

FEMSA Consolidated

FEMSA's consolidated total revenues decreased 2.7% to Ps. 492,966 million in 2020 compared to Ps. 506,711 million in 2019. Coca-Cola FEMSA's total revenues decreased 5.6% to Ps. 183,615 million, mainly as a result of unfavorable price-mix effects in connection with the COVID-19 pandemic and currency translation effects resulting from the depreciation of all of Coca-Cola FEMSA's operating currencies in South America against the Mexican peso, particularly the Brazilian real, which had a 14.5% unfavorable translation effect. This figure includes other operating revenues related to entitlements to reclaim tax payments in Brazil in 2020 for Ps. 1,359 million. FEMSA Comercio's Proximity Division's revenues decreased 1.9% to Ps. 181,277 million, driven by an average decrease of 5.4% in same-store sales reflecting reduced customer mobility coupled with operating restrictions driven by the COVID-19 pandemic. The Health Division's revenues increased 10.6% to Ps. 65,172 million, driven by an average increase of 1.4% in same-store sales, and the addition of 207 net new stores, partially offset by strict mobility restrictions across our South American operations and a negative currency translation effect related to the depreciation of the Chilean and Colombian pesos compared to the Mexican peso. The Fuel Division revenues decreased 28.3% to Ps. 34,292 million in 2020, driven by a 29.2% decrease in same-station sales, reflecting reduced mobility in connection with the COVID-19 pandemic.

Consolidated gross profit decreased 1.0% to Ps. 189,653 million in 2020 compared to Ps. 191,481 million in 2019. Gross margin increased 70 basis points to 38.5% of total revenues compared to 2019, reflecting gross margin expansion across all our business units.

Consolidated administrative expenses increased 15.3% to Ps. 22,988 million in 2020 compared to Ps. 19,930 million in 2019. As a percentage of total revenues, consolidated administrative expenses increased 80 basis points, from 3.9% in 2019, to 4.7% in 2020.

Consolidated selling expenses increased 1.3% to Ps. 123,405 million in 2020 as compared to Ps. 121,871 million in 2019. As a percentage of total revenues, selling expenses increased 90 basis points, from 24.1% in 2019 to 25.0% in 2020.

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

Other income mainly reflects dividends received from FEMSA's investment in shares. During 2020, other income increased to Ps. 3,343 million in 2020 from Ps. 1,013 million in 2019.

During 2020, other expenses increased to Ps. 12,381 million from Ps. 4,905 million in 2019, which mainly reflects impairments driven by the effects that the COVID-19 pandemic had in some of FEMSA's long-lived assets, and Ps. 3,253 million of ancillary charges related to the extraordinary tax payment agreed with the Mexican tax authority during 2020.

Comprehensive financing result, which includes interest income and expense, foreign exchange gain (loss), monetary position gain (loss) and market value gain (loss) on financial instruments, increased to Ps. 14,911 million in 2020 from Ps. 13,492 million in 2019, reflecting higher interest expense, partially offset by a foreign exchange gain related to the effect of FEMSA's US Dollar-denominated cash position, as impacted by the depreciation of the Mexican peso during 2020.

Our provision for income taxes in 2020 was Ps. 14,819 million, as compared to Ps. 10,476 million in 2019, resulting in an effective tax rate of 76.7% in 2020, as compared to 32.4% in 2019, driven by: (1) lower income before income taxes and share of profit in associate results described above; (2) a Ps. 5,500 million expense reflecting the part of

the Ps. 8,754 extraordinary tax payment agreed with the Mexican tax authority during 2020, that stems from the current income tax portion of such agreement; (3) impairments of Ps. 2,349 recognized at Coca-Cola FEMSA; and (4) an increase in income credit taxes also recognized at Coca-Cola FEMSA.

Share of the profit of equity accounted investees, net of taxes, which mainly reflects our participation in Heineken's results, resulted in a loss of Ps. 736 million in 2020 compared to an income of Ps. 6,228 million in 2019, mainly driven by the effects that the COVID-19 pandemic had on Heineken's results.

Consolidated net income was Ps. 3,756 million in 2020 compared to Ps. 28,048 million in 2019, reflecting (1) lower income from operations; (2) higher taxes and other non-operating expenses reflecting the extraordinary tax payment of Ps. 8,790 million agreed with the Mexican tax authority during the second quarter; (3) impairments including for certain assets at Coca-Cola FEMSA and the closure of our Specialty's Café and Bakery operation also during the second quarter; (4) higher interest expenses and (5) a negative impact due to FEMSA's participation in Heineken's results. These were partially offset by a non-cash foreign exchange gain related to FEMSA's U.S. dollar-denominated cash position as impacted by the depreciation of the Mexican peso.

Coca-Cola FEMSA

The comparability of Coca-Cola FEMSA's financial and operating performance in 2020 as compared to 2019 was affected by the following factors: (1) translation effects from fluctuations in exchange rates; and (2) Coca-Cola FEMSA's results in Argentina, which since January 1, 2018 has been considered a hyperinflationary economy. For the convenience of the reader, Coca-Cola FEMSA has included a discussion of the financial information below on a comparable basis, excluding the translation effects from fluctuations in exchange rates. To translate the full-year results of Argentina for the years ended December 31, 2020 and 2019, Coca-Cola FEMSA used the exchange rate at December 31, 2020 of 84.15 Argentine pesos per U.S. dollar and the exchange rate at December 31, 2019 of 59.89 Argentine pesos per U.S. dollar, respectively. The depreciation of the exchange rate of the Argentine peso at December 31, 2020, as compared to the exchange rate at December 31, 2019, was 40.5%. In addition, the average depreciation of currencies used in Coca-Cola FEMSA's main operations relative to the U.S. dollar in 2020, as compared to 2019, were: 11.6% for the Mexican peso, 30.7% for the Brazilian real, and 12.6% for the Colombian peso.

Coca-Cola FEMSA's consolidated total revenues decreased by 5.6% to Ps. 183,615 million in 2020 as compared to 2019, mainly as a result of unfavorable price-mix effects due to the COVID-19 pandemic and currency translation effects resulting from the depreciation of all of our operating currencies in South America against the Mexican peso, particularly the Brazilian real, which had a 14.5% unfavorable translation effect. These effects were partially offset by favorable pricing and revenue management initiatives. This figure includes other operating revenues related to an entitlement to reclaim tax payments in Brazil. See Note 25.2 to Coca-Cola FEMSA's consolidated financial statements. On a comparable basis, total revenues would have decreased by 1.0% in 2020 as compared to 2019.

Total sales volume decreased by 2.5% to 3,284.4 million unit cases in 2020 as compared to 2019, mainly as a result of social distancing and other measures adopted as a result of the COVID-19 pandemic, which had an adverse effect on some of our points-of-sale.

- In 2020, sales volume of Coca-Cola FEMSA's sparkling beverage portfolio decreased by 1.1%, sales volume of its colas portfolio decreased by 0.2%, and sales volume of Coca-Cola FEMSA's flavored sparkling beverage portfolio decreased by 5.0%, in each case as compared to 2019.
- Sales volume of Coca-Cola FEMSA's still beverage portfolio decreased by 5.0% in 2020 as compared to 2019.
- Sales volume of Coca-Cola FEMSA's bottled water category, excluding bulk water, decreased by 22.6% in 2020 as compared to 2019.
- Sales volume of Coca-Cola FEMSA's bulk water category increased by 0.6% in 2020 as compared to 2019.

Consolidated average price per unit case decreased by 3.5% to Ps. 50.63 in 2020, as compared to Ps. 52.46 in 2019, mainly as a result of unfavorable price-mix effects and the negative translation effect resulting from the depreciation of most of Coca-Cola FEMSA's operating currencies relative to the Mexican peso. This was partially offset

by price increases aligned with or above inflation. On a comparable basis, average price per unit case would have remained flat at 0.3% in 2020 as compared to 2019, driven by Coca-Cola FEMSA's revenue management and pricing initiatives.

Coca-Cola FEMSA's gross profit decreased by 5.4% to Ps. 82,811 million in 2020 as compared to 2019; with a gross margin increase of 10 basis points as compared to 2019 to reach 45.1% in 2020. This gross margin increase was mainly driven by Coca-Cola FEMSA's pricing initiatives, together with lower PET resin costs and stable sweetener prices in most of its operations, which were partially offset by higher concentrate costs in Mexico, higher concentrate costs in Brazil due to the reduction of tax credits on concentrate purchased from the Manaus Free Trade Zone, coupled with its decision to suspend such tax credits, and the depreciation in the average exchange rate of most of our operating currencies as applied to U.S. dollar-denominated raw material costs. On a comparable basis, Coca-Cola FEMSA's gross profit would have decreased by 1.3% in 2020 as compared to 2019.

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

Coca-Cola FEMSA's administrative and selling expenses decreased by 6.8% to Ps. 56,444 million in 2020 as compared to 2019. Coca-Cola FEMSA's administrative and selling expenses as a percentage of total revenues decreased by 40 basis points to 30.7% in 2020 as compared to 2019, mainly as a result of operating expense efficiencies in labor, maintenance and marketing. In 2020, Coca-Cola FEMSA continued investing across its territories to support marketplace execution, increase its cooler coverage, and bolster its returnable presentation base.

Coca-Cola FEMSA recorded other expenses net of Ps. 3,611 million in 2020 as compared to Ps. 2,490 million in 2019, which increase was mainly as a result of unusual other operating expenses related to impairments in Estrella Azul in Panama and in Leão Alimentos, Coca-Cola FEMSA's non-carbonated beverage associate in Brazil, which were partially offset by the implementation of Coca-Cola FEMSA's efficiency program to create a leaner and more agile organization. For more information, see Note 10 to Coca-Cola FEMSA's consolidated financial statements.

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

Comprehensive financing result in 2020 recorded an expense of Ps. 6,678 million as compared to an expense of Ps. 6,071 million in 2019. This 10.0% increase was mainly driven by a one-time interest expense related to the repurchase and redemption in full of Coca-Cola FEMSA 3.875% senior notes due 2023. In addition, Coca-Cola FEMSA incurred short-term financing as a preventive measure to reinforce Coca-Cola FEMSA's cash position. These effects were partially offset by debt prepayments.

In 2020, Coca-Cola FEMSA's effective income tax rate was increased to 33.8%, as compared to its effective income tax rate of 30.7% in 2019, mainly as a result of the Estrella Azul impairment recognized during the period and a net effect of deferred tax assets driven by tax losses and tax credits. For more information, see Note 25 to Coca-Cola FEMSA's consolidated financial statements.

In 2020, Coca-Cola FEMSA recorded a loss of Ps. 281 million in the share in the loss of equity accounted investees, net of taxes, mainly due to the results of Leão Alimentos, Coca-Cola FEMSA's associate in Brazil, and Estrella Azul in Panama.

Coca-Cola FEMSA reported a net controlling interest income of Ps. 10,307 million in 2020, as compared to a Ps. 12,101 million in 2019. This 14.8% decrease was mainly driven by lock-downs and social distancing measures related to the COVID-19 pandemic coupled with impairments on equity method investees recognized during the year, which were partially offset by Coca-Cola FEMSA's cost saving, revenue management and pricing initiatives.

Proximity Division

Proximity Division total revenues decreased 1.9% to Ps. 181,277 million in 2020 compared to Ps. 184,810 million in 2019, reflecting an average decrease in same-store sales of 5.4%. As of December 31, 2020, there were a total of 19,566 OXXO stores. As referenced above, OXXO same-store sales decreased an average of 5.4% compared to 2019, driven by a 16.8% decrease in same-store traffic, partially offset by a 13.7% increase in average ticket.

Cost of goods sold decreased 2.5% to Ps. 106,981 million in 2020, compared to Ps. 109,711 million in 2019. Gross margin increased 40 basis points to reach 41.0% of total revenues. This increase reflects the sustained growth of the services category, including income from financial services and commercial income activity, which have higher gross margins. As a result, gross profit decreased 1.1% to Ps. 74,296 million in 2020 compared with 2019.

Administrative expenses increased 24.1% to Ps. 5,696 million in 2020, compared to Ps. 4,590 million in 2019. As a percentage of sales, administrative expenses increased to 3.1% in 2020, from 2.5% in 2019. Selling expenses increased 6.6% to Ps. 56,030 million in 2020 compared with Ps. 52,545 million in 2019. As a percentage of sales, selling expenses reached 31.0% in 2020. The increase in administrative and selling expenses was driven by: (1) our continuing initiative to strengthen our compensation structure of key in-store personnel in a tight labor market, including the gradual shift from commission-based store teams to employee-based teams and (2) higher expenses related to IT programs and infrastructure.

Health Division

Health Division total revenues increased 10.6% to Ps. 65,172 million compared to Ps. 58,922 million in 2019, mainly driven by a same-store sale increase of 1.4%, reflecting positive trends in Mexico. This was partially offset by strict mobility restrictions across our South American operations and a negative currency translation effect related to the depreciation of the Chilean and Colombian peso compared to the Mexican Peso. As of December 31, 2020, there were a total of 3,368 drugstores in Mexico, Chile, Colombia and Ecuador. On an organic basis (excluding the effects of significant mergers and acquisitions in the last twelve months) total revenues grew 3.1%. This excludes the effects of significant mergers and acquisitions in the last twelve months.

Cost of goods sold increased 10.5% to Ps. 45,597 million in 2020, compared with Ps. 41,277 million in 2019. Gross margin increased 10 basis points to reach 30.0% of total revenues. This was mainly driven by (1) positive sales mix effect driven by consumer behavior shifts due to the strict mobility restrictions in our operations in South America; and (2) more effective collaboration with key supplier partners across our operations. Gross profit increased 10.9% to Ps. 19,575 million in 2020 compared with 2019.

Administrative expenses increased 22.3% to Ps. 3,314 million in 2020, compared with Ps. 2,709 million in 2019. As a percentage of sales, administrative expenses reached 5.1% in 2020 from 4.6% in 2019. Selling expenses increased 8.7% to Ps. 13,540 million in 2020 compared with Ps. 12,462 million in 2019. As a percentage of sales, selling expenses reached 20.7% in 2020. The increase in administrative and selling expenses was mainly driven by the organic growth in Mexico and South America, partially offset by cost efficiencies and tight expense control throughout our territories.

Fuel Division

Fuel Division total revenues decreased 28.3% to Ps. 34,292 million in 2020 compared to Ps. 47,852 in 2019, reflecting a 29.2% average decrease in same-station sales. As of December 31, 2020, there were a total of 558 OXXO Gas service stations. As referenced above, same-station sales decreased an average of 29.2% compared to 2019, as the average volume decreased 24.3%, and the average price per liter decreased by 6.6%, reflecting reduced mobility in connection with the COVID-19 pandemic.

Cost of goods sold decreased 30.4% to Ps. 29,992 million in 2020, compared to Ps. 43,077 million in 2019. Gross margin increased 250 basis points to reach 12.5% of total revenues. This increase reflects more favorable supply terms. Gross profit decreased 9.9% to Ps. 4,300 million in 2020 compared with 2019.

Administrative expenses increased 17.2% to Ps. 252 million in 2020, compared to Ps. 215 million in 2019. As a percentage of sales, administrative expenses decreased 30 basis points to 0.7% in 2020 from 0.4% in 2019. The increase in administrative expenses reflects OXXO Gas's organic expansion. Selling expenses decreased 1.7% to Ps. 3,226 million in 2020 compared with Ps. 3,281 million in 2019. As a percentage of sales, selling expenses increased 250 basis points to 9.4% in 2020. The decrease in selling expenses reflects tight expense control and increased expense efficiencies.

Results from our Operations for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

This analysis can be found in Item 5 of our annual report on Form 20-F for fiscal year 2019.

Liquidity and Capital Resources

Liquidity

Each of our sub-holding companies generally finances its operational and capital requirements on an independent basis. During 2020, as a result of the COVID-19 pandemic, we incurred financings in certain countries as a preventative measure to reinforce our cash position. We subsequently repaid these financings and have maintained adequate liquidity throughout the pandemic. As of December 31, 2020, 49% of our outstanding consolidated total indebtedness was at the level of our sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA.

During 2020, we issued US\$ 2,500 million aggregate principal amount of 3.500% senior notes due 2050 with an implied yield of 3.577% that were listed on the NYSE.

In September 2020, Coca-Cola FEMSA issued US\$ 705 million aggregate principal amount of 1.85% senior notes due 2032.

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

In March 2020, Coca-Cola FEMSA entered into certain short-term bank loans in Mexican pesos for an aggregate principal amount of Ps. 10,000 million, which were mostly repaid during 2020.

In February 2020, Coca-Cola FEMSA issued (i) Ps. 3,000 million aggregate principal amount of eight-year fixed rate *certificados bursátiles* bearing an annual interest rate of 7.35% due January 2028, and (ii) Ps. 1,727 million aggregate principal amount of 5.5-year floating rate *certificados bursátiles*, priced at 28-day Equilibrium Interbank Interest Rate (*Tasa de Interés Interbancaria de Equilibrio*, or "TIIE") plus 0.08% and due August 2025. These series of *certificados bursátiles* are guaranteed by Coca-Cola FEMSA subsidiaries: Propimex S. de R.L. de C.V., Comercializadora La Pura 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").

In February 2020, Coca-Cola FEMSA's 4.625% senior notes due 2020 were repaid in full at maturity.

In January 2020, Coca-Cola FEMSA issued US\$ 1,250 million aggregate principal amount of 2.750% senior notes due 2030. These notes are guaranteed by certain subsidiaries of Coca-Cola FEMSA. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by Coca-Cola FEMSA and restricts the incurrence of liens and the entering into sale and leaseback transactions by Coca-Cola FEMSA and its significant subsidiaries.

In January 2020, Coca-Cola FEMSA repurchased and repaid in full its 3.875% senior notes due 2023 that were originally issued in 2013.

In 2019, Coca-Cola FEMSA repaid the three-year promissory note issued for a total amount of 1,166 million Brazilian reais, which was partially offset on November 14, 2018 as a result of the occurrence of certain contingencies for which the sellers agreed to indemnify Coca-Cola FEMSA, as part of the purchase price paid for its acquisition of Vonpar. 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 decreased based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar. On December 6, 2019, this promissory note matured and was paid in full in cash for the outstanding amount of 1,002 million Brazilian reais, which was at the time equivalent to US\$ 236 million (Ps. 4,670 million as of December 31, 2019).

In 2017, Coca-Cola FEMSA issued Ps. 8,500 million aggregate principal amount of 10-year fixed rate Mexican peso-denominated bonds (*certificados bursátiles*) bearing an annual interest rate of 7.87% due June 2027 and Ps. 1,500 million aggregate principal amount of five-year floating rate *certificados bursátiles*, prices at 28-day THIE plus 0.25% due June 2022. These series of *certificados bursátiles* are guaranteed by the Guarantors.

In 2016, we issued EUR 1,000 million aggregate principal amount of 1.750% fixed rate senior notes due 2023 with a total yield of 1.824% that were listed on the Irish Stock Exchange (ISE).

In 2013, we issued US\$ 300 million aggregate principal amount of 2.875% senior notes due 2023 and US\$ 700 million aggregate principal amount of 4.375% senior notes due 2043 that were listed on the NYSE.

In 2013, Coca-Cola FEMSA issued US\$ 400 million aggregate principal amount of 5.250% senior notes due 2043. In 2014, Coca-Cola FEMSA issued an additional US\$ 200 million in aggregate principal amount of 5.250% senior notes due 2043 under previously series issued in November 2013. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by Coca-Cola FEMSA and restricts the incurrence of liens and the entering into sale and leaseback transactions by Coca-Cola FEMSA and its significant subsidiaries.

In 2013, Coca-Cola FEMSA issued Ps. 7,500 million aggregate principal amount of 10-year fixed rate *certificados bursátiles* bearing an annual interest rate of 5.46% due May 2023, and these series of *certificados bursátiles* are guaranteed by the Guarantors.

In 2011, Coca-Cola FEMSA issued Ps. 2,500 million of 10-year fixed rate *certificados bursátiles* bearing an annual interest of 8.27% coupon due April 2021. These series of *certificados bursátiles* are guaranteed by the Guarantors.

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

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

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

Our sub-holding companies generally incur short-term indebtedness in the event that they are temporarily unable to finance operations or meet capital requirements with cash from operations. A significant decline in the business of any of our sub-holding companies may affect the sub-holding company's ability to fund its capital

requirements. A significant and prolonged deterioration in the economies where we operate or in our businesses may affect our ability to obtain short-term and long-term credit or to refinance existing indebtedness on terms satisfactory to us.

The following is a summary of the principal sources and uses of cash for the years ended December 31, 2020, 2019 and 2018, from our consolidated statement of cash flows:

Principal Sources and Uses of Cash
Years ended December 31, 2020, 2019 and 2018
(in millions of Mexican pesos)

	2020	2019	2018
Net cash flows provided by operating activities from continuing operations	Ps. 53,173	Ps. 61,638	Ps. 46,929
Net cash flows (used in) investing activities from continuing operations	(31,367)	(14,132)	(57,178)
Net cash flows provided by (used in) financing activities from continuing operations	19,575	(38,433)	(23,011)
Dividends paid	(15,868)	(13,629)	(12,933)

Principal Sources and Uses of Cash for the Year ended December 31, 2020 Compared to the Year Ended December 31, 2019

Our net cash generated by operating activities from continuing operations decreased Ps. 8,465 million to Ps. 53,173 million in 2020 compared to Ps. 61,638 million in 2019. This was primarily the result of:

- An increase of Ps. 5,369 million due to lower commercial activity due to the COVID-19 pandemic compared to 2019, and an increase of Ps. 5,388 million due to lower commercial activity due to the COVID-19 pandemic;
- A decrease of Ps. 12,077 million due to lower supplier activity due to the COVID-19 pandemic compared to 2019 and Ps. 857 due to an increase in other current financial liabilities; and
- A decrease in cash flow of Ps. 5,277 million in our cash flow from operating activities before changes in operating working capital accounts mainly due to lower net income, partially offset by higher impairments, loss in share of the profit of equity accounted investees, and higher interest expenses related with new borrowings.

Our net cash used in investing activities from continuing operations was Ps. 31,367 million for the year ended December 31, 2020, compared to Ps. 14,132 million used in investing activities from continuing operations for the year ended December 31, 2019, an overall decrease in cash flows related to investing activities of Ps. 17,235 million. This was primarily the result of:

- Lower cash inflows of Ps. 15,232 million due to lower maturity of investments purchased in 2018, which included variable interest rate government and corporate debt securities;
- Lower cash outflows of Ps. 4,266 million due to lower acquisitions of capital expenditures in property, plant and equipment in 2020 related to the COVID-19 pandemic; and
- Higher cash outflows of Ps. 7,089 million mainly due to business acquisitions and other investments in equity instruments in 2020.

Our net cash provided by financing activities from continuing operations was Ps. 19,575 million for the year ended December 31, 2020, compared to Ps. 38,433 million used in financing activities from continuing operations for the year ended December 31, 2019, an overall increase in cash flows related to financing activities of Ps. 58,008 million. This was primarily due to:

- Higher cash inflows of Ps. 111,091 million mainly due to higher proceeds from borrowings in 2020 of Ps. 129,371 million as compared to Ps. 18,280 million in 2019;

- Higher cash outflows of Ps. 36,977 million due to higher payments of bank loans in 2020 of Ps. 63,278 million, as compared to Ps. 26,301 million in 2019;
- Higher cash outflows of Ps. 3,112 million due to higher finance charges related with new borrowings; and
- Higher cash outflows of Ps. 10,964 million due to the acquisition of non-controlling interest.

Principal Sources and Uses of Cash for the Year ended December 31, 2019 Compared to the Year Ended December 31, 2018

This analysis can be found in Item 5 of our annual report on Form 20-F for fiscal year 2019.

Consolidated Total Indebtedness

Our consolidated total indebtedness as of December 31, 2020 was Ps. 188,665 million compared to Ps. 117,951 million in 2019 and Ps. 128,664 million in 2018. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 8,801 million and Ps. 179,864 million, respectively, as of December 31, 2020, as compared to Ps. 16,204 million and Ps. 101,747 million, respectively, as of December 31, 2019, and Ps. 13,674 million and Ps. 114,990 million, respectively, as of December 31, 2018. Cash and cash equivalents were Ps. 107,624 million as of December 31, 2020, as compared to Ps. 65,562 million as of December 31, 2019 and Ps. 62,047 million as of December 31, 2018.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2020.

	Maturity					Total
	Less than 1 year	1 - 3 years	3 - 5 years	In excess of 5 years		
(in millions of Mexican pesos)						
Long-term debt						
Mexican pesos	Ps. 2,788	Ps. 9,181	Ps. 8,139	Ps. 14,492	Ps.	34,600
Brazilian reais	102	82	20	—		204
Colombian pesos	18	7	—	—		25
U.S. dollars	—	5,975	2,293	113,951		122,219
Euro	—	24,469	—	—		24,469
Chilean pesos	654	994	—	—		1,648
Uruguayan pesos	770	261	—	—		1,031
Interest payments⁽¹⁾						
Mexican pesos	244	495	401	1,263		2,403
Brazilian reais	7	5	1	—		13
Colombian pesos	14	0	—	—		15
U.S. dollars	—	172	85	7,805		8,061
Argentine pesos	318	—	—	—		318
Chilean pesos	62	23	—	—		85
Euro	—	428	—	—		428
Uruguayan pesos	155	21	—	—		176
Guatemalan quetzal	4	—	—	—		4
Interest rate swaps and cross-currency swaps⁽²⁾						
Mexican pesos	3,183	6,049	4,885	6,259		20,376
Brazilian reais	709	1,410	637	—		2,756
Colombian pesos	30	3	—	—		33
U.S. dollars	763	1,545	2,105	18,402		22,815
Argentine pesos	206	—	—	—		206
Chilean pesos	62	23	—	—		85
Euro	—	429	—	—		429
Uruguayan pesos	70	14	—	—		84
Guatemalan quetzal	4	—	—	—		4
Commodity price contracts						
Sugar ⁽³⁾	1,260	366	—	—		1,626
Aluminum ⁽³⁾	695	99	—	—		794
PX+MEG ⁽³⁾	729	—	—	—		729
Expected benefits to be paid for pension and retirement plans, seniority premiums, post-retirement medical services and post-employment						
	926	1,112	1,304	4,108		7,450
Lease liabilities	11,511	—	36,172	40,911		88,594
Other long-term liabilities⁽⁴⁾	—	—	—	14,562		14,562

- (1) Interest was calculated using long-term debt outstanding and interest rates in effect on December 31, 2020 without considering interest rate swap agreements. The debt and applicable interest rates in effect are shown in Note 19 to our audited consolidated financial statements. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 19.8920 per US\$ 1.00, the exchange rate quoted to us by *Banco de México* for the settlement of obligations in foreign currencies on December 31, 2020.
- (2) Reflects the amount of future payments that we would be required to make. The amounts were calculated by applying the rates giving effect to interest rate swaps and cross-currency swaps applied to long-term debt as of December 31, 2020, and the market value of the unhedged cross-currency swaps.
- (3) Reflects the notional amount of the futures and forward contracts used to hedge sugar, aluminum and PX + MEG cost with a fair value asset of Ps. 404 million. See Note 21.6 to our audited consolidated financial statements.
- (4) Other long-term liabilities include provisions and others, but not deferred taxes. Other long-term liabilities additionally reflect those liabilities whose maturity date is undefined and depends on a series of circumstances out of our control; therefore, these liabilities have been considered to have a maturity of more than five years.

As of December 31, 2020, Ps. 8,801 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

As of December 31, 2020, our consolidated average cost of borrowing, after giving effect to the cross-currency and interest rate swaps, was approximately 4.7%. As of December 31, 2019, our consolidated average cost of borrowing, after giving effect to the cross-currency swaps, was 6.7% (the total amount of debt used in the calculation of this percentage was obtained by converting only the units of investment debt for the related cross-currency swap, and it also includes the effect of related interest rate swaps). As of December 31, 2020, after giving effect to cross-currency swaps, approximately 33.1% of our total consolidated indebtedness was denominated and payable in Mexican pesos, 45.3% in U.S. dollars, 0.5% in Colombian pesos, 0.4% in Argentine pesos, 4.2% in Brazilian reais, 2.2% in Chilean pesos, 0.8% Uruguayan pesos and the remaining 13.5% in euros.

Overview of Debt Instruments

The following table shows the allocations of total debt of our company as of December 31, 2020:

	Total Debt Profile of our Company			
	FEMSA and Others	Coca-Cola FEMSA	FEMSA Comercio	Total Debt
	(in millions of Mexican pesos)			
Short-term Debt				
<i>Mexican pesos:</i>				
Bank loans	Ps. —	Ps. —	Ps. 360	Ps. 360
<i>U.S. dollars:</i>				
Bank loans	—	—	1,150	1,150
<i>Colombian pesos:</i>				
Bank loans	—	436	224	660
<i>Chilean pesos:</i>				
Bank loans	—	—	1,027	1,027
<i>Argentine pesos:</i>				
Bank loans	—	711	—	711
<i>Uruguayan pesos:</i>				
Bank loans	—	498	—	498
<i>Guatemalan quetzal:</i>				
Bank loans	63	—	—	63
Long-term Debt⁽¹⁾				
<i>Mexican pesos:</i>				
Bank loans	—	9,337	599	9,936
Domestic Senior notes	—	24,662	—	24,662
<i>Euros:</i>				
Senior unsecured notes	24,469	—	—	24,469
<i>U.S. dollars:</i>				
Bank loans	—	—	2,293	2,293
Senior Notes	69,329	50,598	—	119,927
<i>Brazilian reais:</i>				
Bank loans	—	205	—	205
<i>Colombian pesos:</i>				
Bank loans	—	—	25	25
<i>Chilean pesos:</i>				
Bank loans	1,633	—	15	1,648
<i>Uruguayan pesos:</i>				
Bank loans	—	1,031	—	1,031
Total Debt	Ps. 95,494	Ps. 87,478	Ps. 5,693	Ps. 188,665
Average Cost ⁽²⁾				
Mexican pesos	7.0 %	7.1 %	6.3 %	7.1 %
U.S. dollars	3.5 %	2.7 %	3.7 %	3.2 %
Euro	1.7 %	—	—	1.7 %
Brazilian reais	—	8.0 %	—	8.0 %
Argentine pesos	—	44.7 %	—	44.7 %
Colombian pesos	—	4.0 %	4.4 %	4.0 %
Chilean pesos	2.3 %	—	2.0 %	2.1 %
Uruguayan pesos	—	11.5 %	—	11.5 %
Guatemalan quetzal	6.3 %	—	—	6.3 %
Total	3.5 %	6.1 %	3.4	4.7 %

(1) Includes the Ps. 4,332 million current portion of long-term debt.

(2) Includes the effect of cross-currency and interest rate swaps. Average cost is determined based on interest rates as of December 31, 2020.

Restrictions Imposed by Debt Instruments

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

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

Summary of Debt

The following is a summary of our indebtedness as of December 31, 2020:

Coca-Cola FEMSA

- Coca-Cola FEMSA's total indebtedness was Ps. 87,478 million as of December 31, 2020, as compared to Ps. 69,977 million as of December 31, 2019. Short-term debt and long-term debt were Ps. 5,017 million and Ps. 82,461 million, respectively, as of December 31, 2020, as compared to Ps. 11,485 million and Ps. 58,492 million, respectively, as of December 31, 2019. Total debt decreased by Ps. 17,501 million in 2020, compared to year end 2019. As of December 31, 2020, Coca-Cola FEMSA's cash and cash equivalents were Ps. 43,497 million, as compared to Ps. 20,491 million as of December 31, 2019. Coca-Cola FEMSA had cash outflows in 2020 mainly resulting from repayment of debt and dividend payments, which were partially offset by generation of cash from operating activities. As of December 31, 2020, Coca-Cola FEMSA's cash and cash equivalents were comprised of 72.0% U.S. dollars, 11.0% Mexican pesos, 12.0% Brazilian reais, 2.0% Colombian pesos, 1.0% Argentine pesos and 2.0% other legal currencies. Coca-Cola FEMSA believes that these funds, in addition to the cash generated by its operations, are sufficient to meet their own operating requirements.
- Future currency devaluations, the imposition of exchange controls in any of the countries where Coca-Cola FEMSA has operations and the continuation of the COVID-19 pandemic could have an adverse effect on Coca-Cola FEMSA's financial position and liquidity.
- As part of Coca-Cola FEMSA's financing policy, Coca-Cola FEMSA expects to continue to finance its liquidity needs mainly with cash flows from its operating activities. Nonetheless, as a result of regulations in certain countries where Coca-Cola FEMSA operates, it may not be beneficial or practicable for Coca-Cola FEMSA to remit cash generated in local operations to fund cash requirements in other countries. Exchange controls may also increase the real price of remitting cash to fund debt requirements in other countries. In the event that cash in these countries is not sufficient to fund future working capital requirements and capital expenditures, Coca-Cola FEMSA may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In the future, Coca-Cola FEMSA may finance its working capital and capital expenditure needs with short-term or other borrowings.
- Coca-Cola FEMSA continuously evaluates opportunities to pursue acquisitions or engage in strategic transactions. Coca-Cola FEMSA would expect to finance any significant future transactions with a combination of any of cash, long-term indebtedness and the issuance of shares of its company.
- Coca-Cola FEMSA's financing, treasury and derivatives policies provide that the planning and finance committee of its board of directors is responsible for determining Coca-Cola FEMSA's overall financial strategy, including the dividends policy, investments of Coca-Cola FEMSA's funds, cash flow and working capital strategies, mergers and acquisitions, debt and equity issuances, repurchases of stock, financial derivative instruments strategies (only for hedging purposes), purchase and lease of assets and indebtedness of Coca-Cola FEMSA, among others; which is ultimately approved by Coca-Cola FEMSA's board of directors and implemented by its corporate finance department.

FEMSA Comercio

- As of December 31, 2020, FEMSA Comercio had total outstanding debt of Ps. 5,693 million. Short-term debt (including the current portion of long-term debt) and long-term debt were Ps. 3,402 million and Ps. 2,291 million, respectively. As of December 31, 2020, cash and cash equivalents were Ps. 10,671 million.

FEMSA and other businesses

- As of December 31, 2020, FEMSA and other businesses had total outstanding debt of Ps. 95,494 million, which is composed of Ps. 1,696 million of bank debt in other legal currencies, Ps. 5,975 million of senior notes due 2023, Ps. 13,805 million of senior notes due 2043, Ps. 49,549 million of senior notes due 2050 and Ps. 24,469 million of Senior Unsecured Notes due 2023. See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Liquidity.” FEMSA and other businesses’ average cost of debt, after giving effect to interest rate swaps and cross-currency swaps, as of December 31, 2020, was 7.0% in Mexican pesos.

Contingencies

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

The following table presents the nature and amount of loss contingencies recorded as of December 31, 2020:

	Loss Contingencies As of December 31, 2020	
	(in millions of Mexican pesos)	
Indirect taxes	Ps.	3,153
Legal	Ps.	1,293
Labor	Ps.	1,857
Total	Ps.	6,303

As is customary in Brazil, we have been asked by the tax authorities to collateralize tax contingencies currently in litigation amounting to Ps. 7,342 million, Ps. 10,471 million and Ps. 7,739 million as of December 31, 2020, 2019 and 2018, respectively, by pledging fixed assets or providing bank guarantees.

We have other contingencies that, based on a legal assessment of their risk of loss, have been classified by our internal legal counsel as more than remote but less than probable. These contingencies have a financial impact that is disclosed as loss contingencies in the notes of the audited consolidated financial statements. These contingencies, or our assessment of them, may change in the future, and we may record reserves or be required to pay amounts in respect of these contingencies. As of December 31, 2020, the aggregate amount of such contingencies for which we had not recorded a reserve was Ps. 86,855 million.

Capital Expenditures

For the past five years, we have had significant capital expenditure programs, which for the most part were financed with cash from operations. Capital expenditures were Ps. 20,893 million in 2020, compared to Ps. 25,579 million in 2019, a decrease of 18.3%. The amount invested in 2020 was driven by additional investments at FEMSA Comercio, mainly related to the opening of new stores, drugstores and retail service stations. The principal components of our capital expenditures have been investments in increasing production capacity, placing coolers with retailers, returnable bottles and cases and distribution network expansion at Coca-Cola FEMSA and expansion of the Proximity Division, the Health Division and the Fuel Division, as mentioned above. See “Item 4. Information on the Company—Capital Expenditures and Divestitures.”

Expected Capital Expenditures for 2021

Our capital expenditure budget for 2021 is expected to be US\$ 1,307 million (Ps. 26,068 million). The following discussion is based on each of our sub-holding companies' internal budgets. The capital expenditure plan for 2021 is subject to change based on market and other conditions, such as the recent outbreak of COVID-19, and the subsidiaries' results and financial resources.

Coca-Cola FEMSA has budgeted approximately US\$ 607 million (Ps. 12,106 million) for its capital expenditures in 2021. Coca-Cola FEMSA has budgeted capital expenditures in an amount ranging between 6.0% and 6.5% of total revenues for 2021, which amount will mainly depend on market and other conditions, including the development of the COVID-19 pandemic across Coca-Cola FEMSA's territories. Coca-Cola FEMSA's capital expenditures in 2021 are primarily intended for:

- investments in production capacity;
- market investments;
- returnable bottles and cases;
- improvements throughout Coca-Cola FEMSA's distribution network; and
- investments in information technology.

Coca-Cola FEMSA estimates that of its projected capital expenditures for 2021, approximately 42.3% will be for its Mexican territories and the remaining will be for its non-Mexican territories. Coca-Cola FEMSA believes that internally generated funds will be sufficient to meet its budgeted capital expenditure for 2021.

The Proximity Division's capital expenditures budget in 2021 is expected to total US\$ 471 million (Ps. 9,399 million), and will be allocated to the opening of new OXXO stores and the refurbishing of existing OXXO stores. In addition, investments are planned for FEMSA Comercio's IT systems, ERP software updates and transportation equipment.

The Health Division's capital expenditures budget in 2021 is expected to total US\$ 94 million (Ps. 1,880 million), and will be allocated to the opening of new drugstores and, to a lesser extent, the refurbishing of existing stores. In addition, investments are planned in warehouses, IT hardware and ERP software updates.

The Fuel Division's capital expenditures budget in 2021 is expected to total US\$ 40 million (Ps. 789 million), and will be allocated to the opening of new service stations, to the refurbishing of existing OXXO Gas service stations and to adding vapor recovery units on the service stations.

Our capital expenditures budget in 2021 for Other Businesses is expected to total US\$ 95 million (Ps. 1,893 million), and will be allocated to our ancillary logistical and refrigeration businesses.

Hedging Activities

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

The following table provides a summary of the fair value of derivative financial instruments as of December 31, 2020. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon

technical models we believe are supported by sufficient, reliable and verifiable market data, recognized in the financial sector.

	Fair Value at December 31, 2020				Fair Value Asset
	Maturity less than 1 year	Maturity 1-3 years	Maturity 3-5 years	Maturity in excess of 5 years	
Derivative financial instruments net position	Ps. (554)	Ps. 10,365	Ps. (2,353)	Ps. 2,529	Ps. 9,986

(in millions of Mexican pesos)

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors

Management of our business is vested in the board of directors and in our chief executive officer. Our bylaws provide that the board of directors will consist of no more than 21 directors and their corresponding alternate directors elected by our shareholders at the AGM. Directors are elected for a term of one year. Alternate directors are authorized to serve on the board of directors in place of their specific directors who are unable to attend meetings and may participate in the activities of the board of directors. Our bylaws provide that the holders of the Series B Shares elect at least 11 directors and that the holders of the Series D Shares elect five directors. See “Item 10. Additional Information—Bylaws.”

In accordance with our bylaws and article 24 of the Mexican Securities Market Law, at least 25% of the members of our board of directors must be independent (as defined by the Mexican Securities Market Law).

The board of directors may appoint interim directors in the event that a director is absent or an elected director and corresponding alternate are unable to serve. Such interim directors shall serve until the next AGM, at which the shareholders shall ratify or elect a replacement.

Our bylaws provide that the board of directors shall meet at least once every three months. Actions by the board of directors must be approved by at least a majority of the directors present and voting. The chairman of the board of directors, the chairman of our audit or corporate practices committee or at least 25% of our directors may call a board of directors’ meeting and include matters in the meeting agenda.

Our board of directors was elected at the AGM held on March 24, 2021, and currently comprises 18 directors and nine alternate directors. The following table sets forth the current members of our board of directors:

Series B Directors

José Antonio	Born:	1954
Fernández Carbajal ⁽¹⁾⁽²⁾	First elected (Chairman):	2001
<i>Executive Chairman of the Board</i>	First elected (Director):	1984
	Term expires:	2022
	Principal occupation:	Executive Chairman of the board of directors of FEMSA

<p>Javier Gerardo Astaburuaga Sanjines</p>	<p>Other directorships:</p>	<p>Chairman of the board of directors of Coca-Cola FEMSA, Fundación FEMSA A.C. (“Fundación FEMSA”) and Instituto Tecnológico y de Estudios Superiores de Monterrey (“ITESM”); member of the Heineken Holding Board, and vice-chairman of the Heineken Supervisory Board; chairman of the Americas Committee and member of the Preparatory Committee and Selection Appointment Committee of Heineken, N.V.; member of the board of directors of Industrias Peñoles, S.A.B. de C.V. (“Peñoles”); and member of the board of trustees of the Massachusetts Institute of Technology Corporation</p>
	<p>Business experience:</p>	<p>Joined FEMSA’s strategic planning department in 1988, after which he held managerial positions at FEMSA Cerveza’s commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991 and Chief Executive Officer in 1995, a position he held until December 31, 2013. On January 1, 2014, he was appointed Executive Chairman of our board of directors</p>
	<p>Education:</p>	<p>Holds a degree in Industrial Engineering and a Master in Business Administration (“MBA”) from ITESM</p>
	<p>Alternate director:</p>	<p>Federico Reyes García</p>
	<p>Born:</p>	<p>1959</p>
	<p>First elected:</p>	<p>2006</p>
	<p>Term expires:</p>	<p>2022</p>
	<p>Principal occupation:</p>	<p>Independent Consultant</p>
	<p>Other directorships:</p>	<p>Alternate member of the board of directors of Coca-Cola FEMSA; member of the Heineken Supervisory Board; and member of the audit committee of Heineken N.V.; member of the finance and investment committee of ITESM; and member of the board of directors and audit committee of Grupo Acosta Verde, S.A.B. de C.V.</p>
	<p>Business experience:</p>	<p>Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance, held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer, and for two years was FEMSA Cerveza’s Director of Sales for the north region of Mexico until 2003, in which year he was appointed FEMSA Cerveza’s Co-Chief Executive Officer; held the position of Chief Financial and Corporate Officer of FEMSA from 2006 to 2015 and the position of Vice-President of Corporate Development of FEMSA until 2020.</p>
<p>Education:</p>	<p>Holds an accounting degree from ITESM and is licensed as a certified public accountant</p>	



Eva María Garza Lagüera Gonda ⁽¹⁾⁽³⁾	Born: First elected: Term expires: Principal occupation: Other directorships:	1958 1999 2022 Private Investor Member of the board of directors of ITESM, Patronato Premio Eugenio Garza Sada, Inmobiliaria Valmex, S.A. de C.V., Desarrollo Inmobiliaria La Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V. and Peñitas, S.A. de C.V.
	Education: Alternate director:	Holds a communication degree from ITESM José Antonio Fernández Garza Lagüera ⁽⁹⁾
Mariana Garza Lagüera Gonda ⁽¹⁾⁽³⁾	Born: First elected: Term expires: Principal occupation: Other directorships:	1970 1999 2022 Private investor Member of the board of directors of ITESM, Museo de Historia Mexicana, Inmobiliaria Valmex, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V. and Monte Serena, S.A. de C.V.
	Education:	Holds an industrial engineering degree from ITESM and a Master of International Management from the Thunderbird American Graduate School of International Management.
José Fernando Calderón Rojas ⁽⁴⁾	Born: First elected: Term expires: Principal occupation:	1954 1984 2022 Chief Executive Officer and chairman of the board of directors of Franca Servicios, S.A. de C.V., Servicios Administrativos de Monterrey, S.A. de C.V., Regio Franca, S.A. de C.V. and Franca Industrias, S.A. de C.V.
	Other directorships:	Member of the board of directors of Alfa, S.A.B. de C.V. ("Alfa") and ITESM; member of the regional consulting board of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, S.A. de C.V. ("BBVA") and member of the audit committee of Alfa. Member of Fundación UANL, A.C. and founder of Centro Integral Down A.C.; President of Patronato del Museo del Obispado A.C., and member of the external advisory board of Facultad de Derecho y Criminología of the Universidad Autónoma de Nuevo León ("UANL")

	Education:	Holds a law degree from UANL, completed specialization studies in tax at UANL and various courses in business administration by ITESM
	Alternate director:	Francisco José Calderón Rojas(4)
Alfonso Garza Garza(5)(6)	Born:	1962
	First elected:	2001
	Term expires:	2022
	Principal occupation:	Chief Executive Officer of Strategic Businesses of FEMSA
	Other directorships:	Member of the board of directors of ITESM, and Grupo Nutec, S.A. de C.V. Chairman of Fondo de Agua Metropolitano de Monterrey, A.C. and vice-chairman of the executive commission of Confederación Patronal de la República Mexicana, S.P. (“COPARMEX Nacional”)
	Business experience:	Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Cerveza and as Chief Executive Officer of FEMSA Empaques
	Education:	Holds an industrial engineering degree from ITESM and an MBA from Instituto Panamericano de Alta Dirección de Empresa (“IPADE”)
	Alternate director:	Juan Carlos Garza Garza(5)(6)
Bertha Paula Michel González(7)	Born:	1964
	First elected:	2020
	Term expires:	2022
	Principal occupation:	Professor at Universidad Nacional Autónoma de México (“UNAM”)
	Other directorships:	Member of the board of directors of Círculo Francés de México, A.C. and ITESM Zona Metropolitana and alternate member of the board of directors of El Puerto de Liverpool, S.A.B. de C.V. (“Liverpool”) and Liceo Franco Mexicano, A.C.
	Education:	Holds a basic biomedical research bachelor and master’s degree and a biotechnology doctorate degree from UNAM
	Alternate director:	Maximino José Michel González(7)
Alberto Bailleres González(8)	Born:	1931
	First elected:	1989
	Term expires:	2022

	Principal occupation:	Chairman of the boards of directors of the following companies which are part of Grupo BAL: Peñoles, Grupo Nacional Provincial, S.A.B. (“GNP”), Fresnillo Plc, Grupo Palacio de Hierro, S.A.B. de C.V., Grupo Profuturo, S.A.B. de C.V., Profuturo Pensiones, S.A. de C.V., Profuturo Afore, S.A. de C.V., Controladora Petrobal, S.A. de C.V., Energía Bal, S.A. de C.V., ElectroBal, S.A. de C.V., and Tane, S.A. de C.V.; and chairman of the governance board of Instituto Tecnológico Autónomo de México (“ITAM”) and founding member of Fundación Alberto Bailleres, A.C.
	Other directorships:	Member of the board of directors of Dine, S.A.B. de C.V., Grupo Televisa, S.A.B. (“Televisa”) and Grupo Kuo, S.A.B. de C.V.; and member of the Consejo Mexicano de Negocios
	Education:	Holds an economics degree and an Honorary Doctorate from ITAM
	Alternate director:	Alejandro Bailleres Gual(8)
Francisco Javier Fernández Carbajal ⁽²⁾	Born:	1955
	First elected:	2004
	Term expires:	2022
	Principal occupation:	Chief Executive Officer of Servicios Administrativos Contry, S.A. de C.V.
	Other directorships:	Member of the board of directors of Visa, Inc., Alfa, and Cemex, S.A.B. de C.V.; and alternate member of the board of directors of Peñoles
	Education:	Holds a mechanical and electrical engineering degree from ITESM and an MBA from Harvard University Business School
Ricardo Guajardo Touché <i>Independent Director</i>	Born:	1948
	First elected:	1988
	Term expires:	2022
	Principal Occupation:	Independent Consultant
	Other directorships:	Member of the board of directors of Coca-Cola FEMSA, Grupo Valores Operativos Monterrey, S.A.P.I. de C.V., Grupo Financiero BBVA Bancomer, BVA, Grupo Aeroportuario del Sureste, S.A. de C.V., Grupo Bimbo, S.A.B. de C.V. (“Bimbo”), and Vitro, S.A.B. de C.V.
	Education:	Holds an electrical engineering degree from ITESM and the University of Wisconsin and a Master’s degrees from the University of California at Berkeley
Barbara Garza Lagüera Gonda ⁽³⁾	Born:	1959
	First elected:	1998
	Term expires:	2022
	Principal occupation:	Private investor and president of the acquisitions committee of Colección FEMSA

	Other directorships:	Vice-president of the board of directors of ITESM Campus Mexico City, and member of the board of directors of Solfi, S.A. de C.V. (“Solfi”), Inmobiliaria Valmex, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V. and BECL, S.A. de C.V.
	Education:	Hold a business administration degree from ITESM
	Alternate director:	Paulina Garza Lagüera Gonda ⁽³⁾
Luis Alberto Moreno Mejía <i>Independent Director</i>	Born:	1953
	First elected:	2021
	Term expires:	2022
	Principal Occupation:	Managing Director at Allen & Co. LLC
	Other directorships:	Served as Chairman of Inter-American Development Bank from 2015 to 2020. He was Colombia’s ambassador to the United States of America from 1998 to 2005 and was Minister of Economic Development of Colombia from 1992 to 1994.
	Education:	Hold a business and economics degree from Florida Atlantic University, an MBA from Thunderbird School of Global Management and an honoris causa doctorate from Universidad Nacional Mayor de San Marcos.
Miguel Eduardo Padilla Silva	Born:	1955
	First elected:	2014
	Term expires:	2022
	Principal Occupation:	Chief Executive Officer of FEMSA
	Other directorships:	Member of the board of directors of Coca-Cola FEMSA, Grupo Lamosa, S.A.B. de C.V., Universidad Tec Milenio and Grupo Coppel, S.A. de C.V. (“Coppel”)
	Business experience:	Held the positions of Planning and Control Officer of FEMSA from 1997 to 1999 and Chief Executive Officer of the Strategic Procurement Business Division of FEMSA from 2000 to 2003. He held the position of Chief Executive Officer of FEMSA Comercio from 2004 to 2016 and prior to his current position, he held the position of Chief Financial and Corporate Officer of FEMSA from 2016 to 2017.
	Education:	Hold a mechanical engineering degree from ITESM, an MBA from Cornell University and executive management studies at IPADE
Series D Directors		
Ricardo Ernesto Saldívar Escajadillo <i>Independent Director</i>	Born:	1952
	First elected:	2006
	Term expires:	2022
	Principal occupation:	Private Investor

	Other directorships:	Member of the board of directors of Axtel, S.A.B. de C.V., ITESM, Universidad TecMilenio and Grupo AIE.
	Education:	Holds a mechanical and industrial engineering degree from ITESM, a Master's degree in systems engineering from Georgia Tech Institute and in executive studies from IPADE
	Alternate:	Francisco Zambrano Rodríguez
Alfonso González Migoya <i>Independent Director</i>	Born:	1945
	First elected:	2006
	Term expires:	2022
	Principal occupation:	Business consultant and managing partner at Acumen Empresarial, S.A. de C.V.
	Other directorships:	Member of the board of directors of Coca-Cola FEMSA, Bolsa Mexicana de Valores, S.A.B. de C.V., Servicios Corporativos Javer, S.A.B. de C.V., Regional, S.A.B. de C.V., Controladora Vuela Compañía de Aviación, S.A.B. de C.V., Invercap Holdings, S.A.P.I. de C.V., Grupo Cuprum S.A.P.I. de C.V. and Pinturas Berel, S.A. de C.V.
	Education:	Holds a mechanical engineering degree from ITESM and an MBA from the Stanford University Graduate School of Business
	Alternate director:	Enrique F. Senior Hernández
Michael Larson <i>Independent Director</i>	Born:	1959
	First elected:	2006
	Term expires:	2022
	Principal occupation:	Chief Investment Officer of William H. Gates III
	Other directorships:	Member of the board of directors of Republic Services, Inc. and Ecolab, Inc., and eleven registered investment companies within the Western Asset Management fund complex
	Education:	Holds an MBA from the University of Chicago and a BA from Claremont McKenna College
Robert Edwin Denham <i>Independent Director</i>	Born:	1945
	First elected:	2001
	Term expires:	2022
	Principal occupation:	Partner at Munger, Tolles & Olson LLP
	Other directorships:	Member of the board of directors of New York Times Company (Presiding Director), Oaktree Capital Group, LLC and Chevron Corp.
	Education:	Holds a BA (<i>magna cum laude</i>) from the University of Texas, a JD (<i>magna cum laude</i>) from Harvard Law School and an MA in Government from Harvard University
Víctor Alberto Tiburcio Celorio <i>Independent Director</i>	Born:	1951
	First elected:	2018
	Term expires:	2022
	Principal occupation:	Independent consultant

Other directorships:	Member of the board of directors and member of the audit committee of Coca-Cola FEMSA, Grupo Palacio de Hierro S.A.B. de CV., Grupo Financiero Scotiabank Inverlat, Profuturo Afore, S.A. de C.V., Grupo Nacional Provincial
Education	S.A.B. and Fresnillo, Plc; investor and member of the board of directors of TankRoom S.A.P.I. de C.V. and member of the governance board of ITAM. Holds a public accountant degree from IBERO and an MBA from ITAM

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- (1) José Antonio Fernández Carbajal and Eva María Garza Lagüera Gonda are spouses.
 - (2) José Antonio Fernández Carbajal and Francisco Javier Fernández Carbajal are siblings.
 - (3) Mariana Garza Lagüera Gonda, Eva María Garza Lagüera Gonda, Paulina Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda are siblings.
 - (4) Francisco José Calderón Rojas and José Fernando Calderón Rojas are siblings.
 - (5) Alfonso Garza Garza and Juan Carlos Garza Garza are siblings.
 - (6) Juan Carlos Garza Garza and Alfonso Garza Garza are cousins of Eva María Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Paulina Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda.
 - (7) Bertha Michel González and Max Michel González are siblings.
 - (8) Alberto Bailleres González is the father of Alejandro Bailleres Gual.
 - (9) José Antonio Fernández Carbajal and Eva María Garza Lagüera Gonda are parents of José Antonio Fernández Garza Lagüera

Senior Management

The names and positions of the members of our current senior management and that of our principal sub-holding companies, their dates of birth and information on their principal business activities both within and outside of FEMSA are as follows:

FEMSA

José Antonio Fernández Carbajal <i>Executive Chairman of the Board</i>	Born: Joined FEMSA: Appointed to current position: Principal occupation: Directorships:	1954 1987 2001 Executive Chairman of the board of directors Chairman of the board of directors of Coca-Cola FEMSA, Fundación FEMSA and ITESM; member of the Heineken Holding Board, and vice-chairman of the Heineken Supervisory Board; chairman of the Americas Committee and member of the Preparatory Committee and Selection Appointment Committee of Heineken, N.V.; member of the board of directors of Peñoles and member of the board of trustees of the Massachusetts Institute of Technology Corporation
	Business experience:	Joined FEMSA's strategic planning department in 1988, after which he held managerial positions at FEMSA Cerveza's commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991, and Chief Executive Officer in 1995, a position he held until December 31, 2013. On January 1, 2014, he was appointed Executive Chairman of our board of directors.

	Education:	Holds an industrial engineering degree and an MBA from ITESM
Miguel Eduardo Padilla Silva <i>Chief Executive Officer</i>	Born:	1955
	Joined FEMSA:	1997
	Appointed to current position:	2018
	Business experience within FEMSA:	Held the positions of Planning and Control Officer of FEMSA from 1997 to 1999 and Chief Executive Officer of the Strategic Procurement Business Division of FEMSA from 2000 to 2003. He held the position of Chief Executive Officer of FEMSA Comercio from 2004 to 2016 and prior to his current position, he held the position of Chief Financial and Corporate Officer of FEMSA from 2016 to 2017.
	Other business experience:	Had a 20-year career in Alfa, culminating with a ten-year tenure as Chief Executive Officer of Terza, S.A. de C.V.; his major areas of expertise include operational control, strategic planning and financial restructuring
	Directorships:	Member of the board of directors of FEMSA, Coca-Cola FEMSA, Lamosa, Universidad Tec Milenio and Coppel
	Education:	Holds a mechanical engineering degree from ITESM, an MBA from Cornell University and executive management studies at IPADE
Francisco Camacho Beltrán <i>Chief Corporate Officer</i>	Born:	1965
	Joined FEMSA:	2020
	Appointed to current position:	2020
	Business experience:	He served as Danone’s Executive Vice President responsible for the Dairy and Plant-based business worldwide and Vice President of Growth, Innovation and Global Clients. He served as member of the Executive Committee of Danone at Paris, France and held various executive positions with global and regional responsibilities.
	Education:	Holds a computer systems degree and an MBA from ITESM.
Roberto Campa Cifrián <i>Vice President of Corporate Affairs</i>	Born	1957
	Joined FEMSA:	2019
	Appointed to current position:	2019
	Directorships:	Chief Executive Officer and Chairman of the board of directors of Campa y Grassi S.C.
	Business Experience:	Has an extensive professional career in the public, private and social sectors. His positions include those of Secretary of Labor and Social Welfare of the Federal Government; Undersecretary of the Interior; Federal Consumer Attorney; representative in the Legislative Assembly of the Federal District and Federal Deputy
	Education:	Holds a law degree from Universidad Anahuac with studies in economics from ITAM

Alfonso Garza Garza <i>Chief Executive Officer of Strategic Businesses</i>	Born: Joined FEMSA: Appointed to current position: Directorships: Business experience: Education:	1962 1985 2009 Member of the board of directors of FEMSA, ITESM and Grupo Nutec, S.A. de C.V. President of Fondo de Agua Metropolitano de Monterrey, A.C. and vice-chairman of the executive commission of COPARMEX Nacional Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Cerveza and as Chief Executive Officer of FEMSA Empaques Holds an industrial engineering degree from ITESM and an MBA from IPADE
Gerardo Estrada Attolini <i>Vice President of Administration and Corporate Control</i>	Born: Joined FEMSA: Appointed to current position: Directorships: Business experience: Education:	1957 2000 2020 Member of the audit and finance committee of Club Industrial, A.C. Held the position of Director of Corporate Finance of FEMSA from 2006 to 2020, Chief Financial Officer of FEMSA Cerveza from 2001 to 2006 and was Director of Corporate Finance of Grupo Financiero Bancomer from 1995 to 2000 Holds a degree in accounting and an MBA from ITESM
Eugenio Garza y Garza <i>Director of Finance and Corporate Development</i>	Born: Joined FEMSA: Appointed to current position: Directorships: Business experience: Education:	1971 2018 2020 Advisory Council Member of the Stanford University Graduate School of Business and member (Treasurer) of the board of American School Foundation of Monterrey, A.C. and. Joined FEMSA in 2018 as Director of Strategic Planning and Corporate Development. From 2008 to 2016 he was the Chief Financial Officer and later Chief Executive Officer of Javer. Additionally he has had execution and managerial roles in investment banking with Goldman Sachs, Merrill Lynch and Lazard in New York and Mexico. Holds a chemical engineering degree from ITESM and an MBA from Stanford University.
Carlos Eduardo Aldrete Ancira <i>General Counsel and Secretary of the Board of Directors</i>	Born: Joined FEMSA: Appointed to current position:	1956 1979 1996

Directorships: Secretary of the board of directors of FEMSA, Coca-Cola FEMSA and all other sub-holding companies of FEMSA. Alternate member of the board of directors of Industrias Mexstarch, S.A.P.I. de C.V. and alternate Secretary of the board of directors of ITESM and Jugos del Valle S.A.P.I. de C.V.

Business experience: Extensive experience in international business and financial transactions, debt issuances and corporate restructurings and expertise in securities and private mergers and acquisitions

Education: Holds a law degree from UANL and a master's degree in Corporate Law from the College of Law of the University of Illinois

Coca-Cola FEMSA

John Anthony Santa Maria Otazua
Chief Executive Officer of Coca-Cola FEMSA

Born: 1957
Joined FEMSA: 1995
Appointed to current position: 2014
Business experience within FEMSA: Has served as Strategic Planning and Business Development Officer and Chief Operating Officer of the Mexican operations of Coca-Cola FEMSA. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of South America division of Coca-Cola FEMSA. He also has experience in several areas of Coca-Cola FEMSA, namely development of new products and mergers and acquisitions.

Other business experience: Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management

Directorships: Member of the board of directors of Coca-Cola FEMSA, Genera and member of the board of directors and commercial committee of Banco Compartamos, S.A., Institución de Banca Múltiple

Education: Holds a degree in Business Administration and an MBA with a major in Finance from Southern Methodist University

FEMSA Comercio

Daniel Alberto Rodríguez Cofré
Chief Executive Officer of FEMSA Comercio

Born: 1965
Joined FEMSA: 2015
Appointed to current position: 2016
Business experience: Has broad experience in international finance in Latin America, Europe and Africa, held several financial roles at Shell International Group in Latin America and Europe. In 2008, he was appointed as Chief Financial Officer of Centros Comerciales Sudamericanos S.A., and from 2009 to 2014, he held the position of Chief Executive Officer at the same company. From 2015 to 2016, he was Chief Financial and Corporate Officer of FEMSA.

Directorships:	Chairman of the board of Socofar, S.A.
Education:	Holds a forest engineering degree from Austral University of Chile and an MBA from Adolfo Ibañez University

Compensation of Directors and Senior Management

The compensation of Directors is approved at the AGM. For the year ended December 31, 2020, the aggregate compensation paid by FEMSA to its directors by FEMSA was approximately Ps. 81 million. In addition, in the year ended December 31, 2020, Coca-Cola FEMSA paid approximately Ps. 22.4 million in aggregate compensation to the Directors and executive officers of FEMSA who also serve as directors on the board of Coca-Cola FEMSA.

For the year ended December 31, 2020, the aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries was approximately Ps. 2,688 million. Aggregate compensation includes bonuses we paid to certain members of senior management and payments in connection with the EVA stock incentive plan described in the section below and in Note 18 to our audited consolidated financial statements. Our senior management and executive officers participate in our benefit plan and post-retirement medical services plan on the same basis as our other employees. Members of our board of directors do not participate in our benefit plan and post-retirement medical services plan, unless they are retired employees of our company. As of December 31, 2020, amounts set aside or accrued for all employees under these retirement plans were Ps. 10,254 million, of which Ps. 3,001 million is already funded.

EVA Stock Incentive Plan

In 2004, we, along with our subsidiaries, commenced a new stock incentive plan for the benefit of our senior executives, which we refer to as the EVA stock incentive plan. This plan uses as its main evaluation metric the Economic Value Added (“EVA”) framework developed by Stern Value Management, a compensation consulting firm. Under the EVA stock incentive plan, eligible employees are entitled to receive a special cash bonus, which will be used to purchase shares of FEMSA (in the case of employees of FEMSA) or of both FEMSA and Coca-Cola FEMSA (in the case of employees of Coca-Cola FEMSA). Under the plan, it is also possible to provide stock options of FEMSA or Coca-Cola FEMSA to employees; however, since the plan’s inception, only shares have been granted.

Under this plan, each year, our Chief Executive Officer together with the Corporate Governance Committee of our board of directors, together with the Chief Executive Officer of the respective sub-holding company, determines the employees eligible to participate in the plan. A bonus formula is then created for each eligible employee, using the EVA framework, which determines the number of shares to be received by such employee. The terms and conditions of the share-based payment arrangement are then agreed upon with the eligible employee, such that the employee can begin to accrue shares under the plan. Until 2015, the shares vested ratably over a six-year period; from January 1, 2016, they ratably vest over a four-year period, with retrospective effects. We account for the EVA stock incentive plan as an equity-settled share-based payment transaction, as we will ultimately settle our obligations with our employees by issuing our own shares or those of our subsidiary, Coca-Cola FEMSA.

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

The shares are administered by a trust for the benefit of the eligible executives (the “Administrative Trust”). We created the Administrative Trust with the objective of administering the purchase of FEMSA and Coca-Cola FEMSA shares, so that the shares can then be assigned to the eligible executives participating in the EVA stock incentive plan. The Administrative Trust’s objectives are to acquire shares of FEMSA or of Coca-Cola FEMSA and to manage the shares granted to the individual employees based on instructions set forth by the Technical Committee of the Administrative Trust. Once the shares are acquired following the Technical Committee’s instructions, the Administrative Trust assigns to each participant their respective rights. As the trust is controlled and therefore consolidated by FEMSA, shares purchased in the market and held within the Administrative Trust are presented as treasury stock (as it relates to FEMSA’s shares) or as a reduction of the non-controlling interest (as it relates to Coca-Cola FEMSA’s shares). Should an employee leave prior to their shares vesting, they would lose the rights to such shares, which would then remain

within the Administrative Trust and be able to be reallocated to other eligible employees as determined by us. The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year.

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

As of April 9, 2021, the trust that manages the EVA stock incentive plan held a total of 4,315,443 BD Units of FEMSA and 1,879,720 BL Units of Coca-Cola FEMSA, each representing 0.20% and 0.04% of the total number of shares outstanding of FEMSA and of Coca-Cola FEMSA, respectively.

Insurance Policies

We maintain life insurance policies for all of our employees. These policies mitigate the risk of having to pay benefits in the event of an industrial accident, natural or accidental death within or outside working hours and total and permanent disability. We maintain a directors' and officers' insurance policy covering all directors and certain key executive officers for liabilities incurred in their capacities as directors and officers.

Ownership by Management

Several of our directors are participants of a voting trust. Each of the trust participants of the voting trust is deemed to have beneficial ownership with shared voting power over the shares deposited in the voting trust. As of March 24, 2021, 6,922,134,985 Series B Shares representing 74.86% of the outstanding Series B Shares were deposited in the voting trust. See "Item 7. Major Shareholders and Related Party Transactions."

The following table shows the Series B Shares, Series D-B Shares and Series D-L Shares as of March 24, 2021 beneficially owned by our directors and alternate directors who are participants in the voting trust, other than shares deposited in the voting trust:

Beneficial Owner	Series B		Series D-B		Series D-L	
	Shares	Percent of Class	Shares	Percent of Class	Shares	Percent of Class
Eva María Garza Lagüera Gonda	2,769,980	0.03 %	5,470,960	0.13 %	5,470,960	0.13 %
José Antonio Fernández Garza Lagüera	8,062	0.00 %	16,124	0.00 %	16,124	0.00 %
Mariana Garza Lagüera Gonda	2,815,480	0.03 %	5,630,960	0.13 %	5,630,960	0.13 %
Bárbara Garza Lagüera Gonda	2,665,480	0.03 %	5,330,960	0.12 %	5,330,960	0.12 %
Paulina Garza Lagüera Gonda	2,665,480	0.03 %	5,330,960	0.12 %	5,330,960	0.12 %
Alberto Bailleres González	9,668,801	0.10 %	12,051,322	0.28 %	12,051,322	0.28 %
Alfonso Garza Garza	22,362,000	0.24 %	4,028,000	0.09 %	4,028,000	0.09 %
Juan Carlos Garza Garza	22,362,000	0.24 %	4,028,000	0.09 %	4,028,000	0.09 %
Maximino Michel González and Bertha Paula Michel González	17,362,545	0.19 %	34,725,090	0.80 %	34,725,090	0.80 %
Francisco José Calderón Rojas and José Fernando Calderón Rojas ⁽¹⁾	8,389,104	0.09 %	16,583,458	0.38 %	16,583,458	0.38 %

(1) Shares beneficially owned through various family-controlled entities.

To our knowledge, no other director or officer is the beneficial owner of more than 1% of any class of our capital stock.

Board Practices

Our bylaws state that the board of directors will meet at least once every three months following the end of each quarter to discuss our operating results and the advancement in the achievement of strategic objectives. Our board of directors can also hold extraordinary meetings. See "Item 10. Additional Information—Bylaws."

Under our bylaws, directors serve one-year terms, although they continue in office even after the term for which they were appointed ends for up to 30 calendar days, as set forth in article 24 of Mexican Securities Market Law. None of our directors or senior managers of our subsidiaries has service contracts providing for benefits upon termination of employment, other than post-retirement medical services plans and post-retirement pension plans for our senior managers on the same basis as our other employees.

Our board of directors is supported by committees, which are working groups that analyze issues and provide recommendations to the board of directors regarding their respective areas of focus. The executive officers interact periodically with these committees to address management issues. Each committee has a secretary who attends meetings but is not a member of the committee. The following are the three committees of the board of directors, the members of which were elected at our AGM on March 24, 2021:

- *Audit Committee.* The Audit Committee is responsible for (1) reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements, (2) the recommendation on the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee and (3) identifying and following-up on contingencies and legal proceedings. The Audit Committee has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters. Pursuant to the Mexican Securities Market Law, the chairman of the audit committee is elected by the shareholders at the AGM. The chairman of the Audit Committee submits a quarterly and an annual report to the board of directors of the Audit Committee's activities performed during the corresponding fiscal year, and the annual report is submitted at the AGM for approval. The current Audit Committee members are: Víctor Alberto Tiburcio Celorio (chairman and financial expert), Alfonso González Migoya and Francisco Zambrano Rodríguez. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Market Law and applicable U.S. securities laws and applicable NYSE listing standards. The secretary (non-member) of the Audit Committee is Gerardo Estrada Attolini, FEMSA's Vice President of Administration and Corporate Control.
- *Strategy and Finance Committee.* The Strategy and Finance Committee's responsibilities include (1) evaluating the investment and financing policies of our company; (2) evaluating the risk factors to which our company is exposed, as well as evaluating its management policies; (3) making recommendations on our dividend policy; (4) strategic analysis and assessment of our business units and strategic alternatives for their growth and (5) making recommendations to our board of directors on annual operation plans and strategic projects for our business units. The current Strategy and Finance Committee members are: Ricardo Guajardo Touché (chairman), Michael Larson, Federico Reyes García, Robert E. Denham, Francisco Javier Fernández Carbajal, Enrique F. Senior Hernández, José Antonio Fernández Carbajal, Ricardo Saldivar Escajadillo and Javier Gerardo Astaburuaga Sanjines. The secretary (non-member) of the Strategy and Finance Committee is Eugenio Garza y Garza.
- *Corporate Practices Committee.* The Corporate Practices Committee is responsible for preventing or reducing the risk of performing operations that could damage the value of our company or that benefit a particular group of shareholders. The committee may call a shareholders' meeting and include matters on the agenda for that meeting that it may deem appropriate, approve policies on the use of our company's assets or related-party transactions, approve the compensation of the Chief Executive Officer and relevant officers and support our board of directors in the elaboration of reports on accounting practices. Pursuant to the Mexican Securities Market Law, the chairman of the Corporate Practices Committee is elected by the shareholders at the AGM. The chairman of the Corporate Practices Committee submits a quarterly and an annual report to the board of directors of the Corporate Practices Committee's activities performed during the corresponding fiscal year, and the annual report is submitted at the AGM for approval. The members of the Corporate Practices Committee are: Ricardo Saldivar Escajadillo (chairman), Robert E. Denham, Ricardo Guajardo Touché and Luis Alberto Moreno Mejía. Each member of the Corporate Practices Committee is an independent director. The secretary (non-member) of the Corporate Practices Committee is Raymundo Yutani Vela.

Employees

As of December 31, 2020, our headcount by geographic region was as follows: 245,157 in Mexico, 8,033 in Central America, 15,448 in Colombia, 30,281 in Brazil, 2,167 in Argentina, 1,777 in the United States, 4,258 in

Ecuador, 530 in Peru, 898 in Uruguay and 12,069 in Chile. We include in the headcount employees of third-party distributors and non-management store employees. The table below sets forth headcount for the years ended December 31, 2020, 2019 and 2018:

	2020			2019			2018		
	Non-Union	Union	Total	Non-Union	Union	Total	Non-Union	Union	Total
Sub-holding company:									
Coca-Cola FEMSA ⁽¹⁾	37,816	44,518	82,334	33,991	48,195	82,186	35,014	48,350	83,364
FEMSA Comercio									
Proximity Division ⁽¹⁾⁽²⁾	79,669	85,764	165,433	78,411	80,830	159,241	70,605	71,823	142,428
Fuel Division ⁽¹⁾	1,001	6,486	7,487	993	6,710	7,703	952	6,211	7,163
Health Division ⁽¹⁾	4,805	23,677	28,482	3,955	23,651	27,606	3,212	18,762	21,974
Other ⁽¹⁾	19,279	17,603	36,882	14,899	23,021	37,920	16,038	26,106	42,144
Total	142,570	178,048	320,618	132,249	182,407	314,656	125,821	171,252	297,073

- (1) Includes employees of third-party distributors, whom we do not consider to be our employees, amounting to 13,874, 12,023 and 12,870 in 2020, 2019 and 2018.
(2) Includes non-management store employees, whom we do not consider to be our employees, amounting to 62,537, 60,757 and 54,332 in 2020, 2019 and 2018.

As of December 31, 2020, our subsidiaries had entered 691 collective bargaining or similar agreements with 209 labor unions. In the opinion of management, we generally have a good relationship with the labor unions.

In 2020 and 2021, in response to the COVID-19 outbreak, we have taken, and continue to take, preventive measures at our facilities to ensure continued operations and to keep our teams healthy and safe. As part of those preventive measures, we advised our employees to reduce large gatherings and increase social distancing, and have directed certain office-based employees to work from home. In addition, we created and implemented internal protocols to respond to any suspected or diagnosed cases of COVID-19 among our workforce. Measures include implementing reinforced health, sanitation and hygiene protocols across our facilities and providing our employees with additional protective equipment such as masks, gloves and sanitizing gels.

The table below sets forth the number of collective bargaining agreements and unions for our employees:

**Collective Bargaining Labor Agreements between
Sub-holding Companies and Unions
As of December 31, 2020**

Sub-holding Company	Collective Bargaining Agreements	Labor Unions
Coca-Cola FEMSA	181	101
FEMSA Comercio ⁽¹⁾	204	17
Others	306	91
Total	691	209

- (1) Does not include non-management store employees, who are employed directly by each individual store.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table identifies each owner of more than 5% of any class of our shares known to our company as of March 24, 2021. Except as described below, we are not aware of any holder of more than 5% of any class of our shares. Only the Series B Shares have full voting rights under our bylaws.

Ownership of Capital Stock as of March 24, 2021

Shareholder	Series B Shares ⁽¹⁾		Series D-B Shares ⁽²⁾		Series D-L Shares ⁽³⁾		Total Shares of FEMSA Capital Stock
	Shares Owned	Percent of Class	Shares Owned	Percent of Class	Shares Owned	Percent of Class	
Technical Committee and Trust Participants under the Voting Trust ⁽⁴⁾	6,922,134,985	74.86 %					38.69 %
William H. Gates III ⁽⁵⁾	278,873,490	3.02 %	557,746,980	12.9 %	557,746,980	12.9 %	7.79 %

(1) As of March 24, 2021, there were 2,161,177,770 Series B Shares outstanding.

(2) As of March 24, 2021, there were 4,322,355,540 Series D-B Shares outstanding.

(3) As of March 24, 2021, there were 4,322,355,540 Series D-L Shares outstanding.

(4) As a consequence of the voting trust's internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power of the shares deposited in the voting trust: BBVA Bancomer, S.A., as Trustee under Trust No. F/25078-7 (controlled by the estate of Max Michel Suberville), BBVA Bancomer, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres), Invex, S.A., as Trustee under Trust No. 3763 controlled by the Garza Lagüera Gonda Family. Paulina Garza Lagüera Gonda, Max Brittingham, Maia Brittingham, Bárbara Garza Lagüera Gonda, Bárbara Braniff Garza Lagüera, Eugenia Braniff Garza Lagüera, Lorenza Braniff Garza Lagüera, Mariana Garza Lagüera Gonda, Paula Treviño Garza Lagüera, Inés Treviño Garza Lagüera, Eva María Garza Lagüera Gonda, Eugenio Fernández Garza Lagüera, Daniela Fernández Garza Lagüera, Eva María Fernández Garza Lagüera, José Antonio Fernández Garza Lagüera, Consuelo Garza Lagüera de Garza, Alepage, S.A. (controlled by Consuelo Garza Lagüera de Garza), Alfonso Garza Garza, Juan Pablo Garza García, Alfonso Garza García, María José Garza García, Eugenia María Garza García, Patricio Garza Garza, Viviana Garza Zambrano, Patricio Garza Zambrano, Marigel Garza Zambrano, Ana Isabel Garza Zambrano, Juan Carlos Garza Garza, José Miguel Garza Celada, Gabriel Eugenio Garza Celada, Ana Cristina Garza Celada, Juan Carlos Garza Celada, Eduardo Garza Garza, Eduardo Garza Páez, Balbina Consuelo Garza Páez, Eugenio Andrés Garza Páez, Eugenio Garza Garza, Camila Garza Garza, Ana Sofía Garza Garza, Celina Garza Garza, Marcela Garza Garza, Carolina Garza Villarreal, Alberto Bailleres González, María Teresa Gual de Bailleres, Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), María Magdalena Michel y Suberville, Max David Michel, Juan María Pedro David Michel, Monique Berthe Michele Madeleine David Michel, María Berta Renee Michel y Suberville, Magdalena María Guichard Michel, Rene Cristobal Guichard Michel, Miguel Graciano José Guichard Michel, Graciano Mario Juan Guichard Michel, Juan Bautista Guichard Michel, BBVA Bancomer, S.A., as Trustee under Trust No. F/3038 (controlled by María Berta Michel y Suberville), Invex, S.A. as Trustee under Trust No. F/4165 (controlled by the Michel González family), Franca Servicios, S.A. de C.V. (controlled by the Calderón Rojas family), and BBVA Bancomer, S.A. as Trustee under Trust No. F/29013-0 (controlled by the Calderón Rojas family).

(5) Includes aggregate shares beneficially owned by Cascade Investments, LLC, over which William H. Gates III has sole voting and dispositive power.

As of March 31, 2021, there were 41 holders of record of ADSs in the United States, which represented approximately 49.9% of our outstanding BD Units. Since a substantial number of ADSs are held in the name of nominees of the beneficial owners, including the nominee of The Depository Trust Company, the number of beneficial owners of ADSs is substantially greater than the number of record holders of these securities.

Related-Party Transactions

Voting Trust

The trust participants, who are our major shareholders, agreed on May 6, 1998 to deposit a majority of their shares, which we refer to as the trust assets, of FEMSA into the voting trust, and later entered into an amended agreement on August 8, 2005, following the substitution by Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero as trustee to the voting trust, which agreement was subsequently renewed on August 30, 2019. The primary purpose of the voting trust is to permit the trust assets to be voted as a block, in accordance with the instructions of the technical committee of the voting trust. The trust participants are separated into seven trust groups, and the technical committee comprises one representative appointed by each trust group. The number of B Units corresponding with each trust group (the proportional share of the shares deposited in the trust of such group) determines the number of votes that each trust representative has on the technical committee. Most matters are decided by a simple majority of the trust assets.

The trust participants agreed to certain transfer restrictions with respect to the trust assets. The trust is irrevocable, for a term that will conclude on December 31, 2030 (subject to additional ten-year renewal terms), during

which time trust assets may be transferred by trust participants to spouses and immediate family members and, subject to certain conditions, to companies that are 100% owned by trust participants, which we refer to as the permitted transferees, provided in all cases that the transferee agrees to be bound by the terms of the voting trust. In the event that a trust participant wishes to sell part of its trust assets to someone other than a permitted transferee, the other trust participants have a right of first refusal to purchase the trust assets that the trust participant wishes to sell. If none of the trust participants elects to acquire the trust assets from the selling trust participant, the technical committee will have a right to nominate (subject to the approval of technical committee members representing 75% of the trust assets, excluding trust assets that are the subject of the sale) a purchaser for such trust assets. In the event that none of the trust participants or a nominated purchaser elects to acquire trust assets, the selling trust participant will have the right to sell the trust assets to a third party on the same terms and conditions that were offered to the trust participants. Acquirors of trust assets will only be permitted to become parties to the voting trust upon the affirmative vote by the technical committee of at least 75% of the trust shares, which must include trust shares represented by at least three trust group representatives. In the event that a trust participant holding a majority of the trust assets elects to sell its trust assets, the other trust participants have “tag along” rights that will enable them to sell their trust assets to the acquiror of the selling trust participant’s trust assets.

Because of their ownership of a majority of the Series B Shares, the trust participants may be deemed to control our company. Other than as a result of their ownership of the Series B Shares, the trust participants do not have any voting rights that are different from those of other shareholders.

Interest of Management in Certain Transactions

The following is a summary of: (i) the main transactions we have entered into with entities for which members of our board of directors or management serve as a member of the board of directors or management, (ii) the main transactions our subsidiaries have entered into with entities for which members of their board of directors or management serve as members of the board of directors or management, and (iii) the main transactions our subsidiaries have entered into with related entities. Each of these transactions was entered into in the ordinary course of business, and we believe each is on terms comparable to those that could be obtained in arm’s length negotiations with unaffiliated third parties. Under our bylaws, transactions entered with related parties not in the ordinary course of business are subject to the approval of our board of directors, subject to the prior opinion of the corporate practices committee.

José Antonio Fernández Carbajal, our Executive Chairman of the Board, serves as a member of the Heineken Holding Board and the Heineken Supervisory Board. Javier Astaburuaga Sanjines, our Vice President of Corporate Development, also serves on the Heineken Supervisory Board. We made purchases of beer and raw materials in the ordinary course of business from the Heineken Group in the amount of Ps. 23,233 million in 2020, Ps. 25,215 million in 2019 and Ps. 27,999 million in 2018. We also supplied logistics and administrative services to subsidiaries of Heineken for a total of Ps. 3,181 million in 2020, Ps. 3,380 million in 2019 and Ps. 3,265 million in 2018. As of the end of December 31, 2020, 2019 and 2018, our net balance due to Heineken amounted to Ps. 761, Ps. 1,393 and Ps. 2,181 million, respectively.

We, along with certain of our subsidiaries, regularly engage in financing and insurance coverage transactions, including entering into loans and bond offerings in the local capital markets, with subsidiaries of Grupo Financiero BBVA Bancomer, a financial services holding company of which Ricardo Guajardo Touché, who is also a director of FEMSA and Coca-Cola FEMSA, is a director. We made interest expense payments and fees paid to Grupo Financiero BBVA Bancomer in respect of these transactions of Ps. 232 million, Ps. 144 million and Ps. 230 million as of December 31, 2020, 2019 and 2018, respectively. The total amount due to Grupo Financiero BBVA Bancomer as of the end of December 31, 2020, 2019 and 2018 was Ps. 1,062 million, Ps. 1,696 million and Ps. 4,093 million, respectively, and we also had a receivable balance with Grupo Financiero BBVA Bancomer of Ps. 1,092, Ps. 6,798 million, and Ps. 11,509 million, respectively, as of December 31, 2020, 2019 and 2018.

Until 2018, we maintained an insurance policy covering utility cars issued by GNP, an insurance company of which Alberto Bailleres González and Maximino Michel González, directors of FEMSA, Víctor Alberto Tiburcio Celorio, director of FEMSA and Coca-Cola FEMSA and Alejandro Bailleres Gual, alternate director of FEMSA, are directors. The aggregate amount of premiums paid under the policy was Ps. 12 million in 2018.

We, along with certain of our subsidiaries, spent Ps. 148 million, Ps. 115 million and Ps. 113 million in the ordinary course of business in 2020, 2019 and 2018, respectively, in publicity and advertisement purchased from

Televisa, a media corporation in which our directors Alberto Bailleres González and Alfonso de Angoitia Noriega and our alternate director and director of Coca-Cola FEMSA, Enrique F. Senior Hernández, serve as directors.

FEMSA Comercio, in its ordinary course of business, purchased Ps. 5,774 million, Ps. 6,194 million and Ps. 5,763 million in 2020, 2019 and 2018, respectively, in baked goods and snacks for its stores from subsidiaries of Bimbo, of which Ricardo Guajardo Touché, one of FEMSA's directors, Daniel Servitje Montull, one of Coca-Cola FEMSA's directors, and Jaime A. El Koury, one of Coca-Cola FEMSA's alternate directors, are directors. FEMSA Comercio also purchased Ps. 1,614 million, Ps. 1,606 million and Ps. 1,656 million in 2020, 2019 and 2018, respectively, in juices from subsidiaries of Jugos del Valle.

José Antonio Fernández Carbajal, Eva Maria Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Ricardo Guajardo Touché, Alfonso Garza Garza and Ricardo Saldívar Escajadillo, who are directors or alternate directors of FEMSA or Coca-Cola FEMSA, are also members of the board of directors of ITESM, also, Carlos Aldrete Ancira, Secretary of the Board of Directors of FEMSA and Coca-Cola FEMSA, is alternate secretary of the board of directors of ITESM, which is a prestigious university system with headquarters in Monterrey, Mexico that routinely receives donations from FEMSA and its subsidiaries. For the years ended December 31, 2020, 2019 and 2018 donations to ITESM amounted to Ps. 310 million, Ps. 215 million and Ps. 192 million, respectively.

José Antonio Fernández Carbajal, Alfonso Garza Garza, Federico Reyes Garcia, Javier Astaburuaga Sanjines, Miguel Eduardo Padilla Silva, John Anthony Santa Maria Otazua, Charles H. McTier, Carlos Aldrete Ancira and Daniel Alberto Rodríguez Cofré, who are directors, alternate directors or senior officers of FEMSA or Coca-Cola FEMSA, are also members of the board of directors of Fundación FEMSA, A.C., which is a social investment instrument for communities in Latin America. For the years ended December 31, 2020, 2019 and 2018, donations to Fundación FEMSA, A.C. amounted to Ps. 171 million, Ps. 195 million and Ps. 232 million, respectively.

Business Transactions between Coca-Cola FEMSA, FEMSA and The Coca-Cola Company

Coca-Cola FEMSA regularly engages in transactions with TCCC and its affiliates. Coca-Cola FEMSA purchases all of its concentrate requirements for *Coca-Cola* trademark beverages from affiliates of TCCC. Total expenses charged to Coca-Cola FEMSA by TCCC for concentrates were Ps. 32,222 million, Ps. 34,063 million and Ps. 32,379 million in 2020, 2019 and 2018, respectively. Coca-Cola FEMSA and TCCC pay and reimburse each other for marketing expenditures. TCCC also makes contributions to Coca-Cola FEMSA that Coca-Cola FEMSA generally uses for initiatives that promote volume growth of *Coca-Cola* trademark beverages, including the placement of coolers with retailers. Coca-Cola FEMSA received contributions to its marketing expenses of Ps. 1,482 million, Ps. 2,274 million and Ps. 3,542 million in 2020, 2019 and 2018, respectively.

In 2007 and 2008, Coca-Cola FEMSA sold most of its proprietary brands to TCCC. The proprietary brands are licensed back to Coca-Cola FEMSA by TCCC pursuant to its bottler agreements.

In Argentina, Coca-Cola FEMSA purchases plastic preforms, as well as returnable plastic bottles, at competitive prices from Andina Empaques S.A., a local subsidiary of Embotelladora Andina S.A., a bottler of TCCC with operations in Argentina, Chile, Brazil and Paraguay in which TCCC has a substantial interest.

Coca-Cola FEMSA purchases products from Jugos del Valle, a joint business acquired together with TCCC, in the amount of Ps. 2,437 million, Ps. 2,863 million and Ps. 2,872 million in 2020, 2019 and 2018, respectively, which is mainly related to certain juice-based beverages and dairy products that are part of Coca-Cola FEMSA's product portfolio. As of April 14, 2021, Coca-Cola FEMSA held a 28.8% interest in Jugos del Valle.

Coca-Cola FEMSA purchases products from Leão Alimentos, a business acquired together with TCCC, in the amount of Ps. 1,253 million, Ps. 1,867 million and Ps. 2,654 million in 2020, 2019 and 2018, respectively, which is mainly related to certain juice-based beverages and teas that are part of Coca-Cola FEMSA's product portfolio. As of April 14, 2021, Coca-Cola FEMSA held a 24.7% indirect interest in Leão Alimentos.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

See pages F-1 through F-185, incorporated herein by reference.

Dividend Policy

For a discussion of our dividend policy, See “Item 3. Key Information—Dividends” and “Item 10. Additional Information.”

Legal Proceedings

We are party to various legal proceedings in the ordinary course of business. Other than as disclosed in this annual report, we are not currently involved in any litigation or arbitration proceeding, including any proceeding that is pending or threatened of which we are aware, which we believe will have, or has had, a material adverse effect on our company. Other legal proceedings that are pending against or involve us and our subsidiaries are incidental to the conduct of our and their business. We believe that the ultimate resolution of such other proceedings individually or on an aggregate basis will not have a material adverse effect on our consolidated financial condition or results.

Coca-Cola FEMSA

Mexico

Waste Management Legislative Reform. On June 28, 2019, the government of the state of Oaxaca, Mexico amended the Law for the Prevention and Integral Management of Solid Waste (*Ley para la Prevención y Gestión Integral de los Residuos Sólidos*) to prohibit the use, sale and distribution of single-use PET bottles for water and all other beverages in the state of Oaxaca. As a result of this amendment, on July 30, 2019, two of Coca-Cola FEMSA’s Mexican subsidiaries filed a legal recourse against the amended law that is still pending resolution.

Brazil

Arbitration with Heineken Brazil. In July 2017, Heineken Brazil issued a notice of early termination with respect to the agreement under which Coca-Cola FEMSA distributes and sells *Heineken* beer products in Coca-Cola FEMSA’s Brazilian territories. Because the agreement is scheduled to expire in 2022, this dispute was submitted to an arbitration proceeding. On October 31, 2019, the arbitration tribunal issued an award confirming that the distribution agreement pursuant to which Coca-Cola FEMSA distributes Kaiser’s portfolio in Brazil, including *Heineken* beer, shall continue in full force and effect until and including March 19, 2022. Upon the effectiveness of Coca-Cola FEMSA’s new distribution agreement with Heineken Brazil, which is subject to various conditions, including the approval of the Brazilian antitrust authorities, Coca-Cola FEMSA intends to withdraw from this arbitration and waive any rights with respect to any awards or judgments resulting from such arbitration.

Arbitration with Unilever Brazil. In May 2018, Unilever Brazil notified Coca-Cola FEMSA of its decision to add certain charges to the selling price of AdeS products under the supply agreement with Coca-Cola FEMSA and other Brazilian bottlers. Coca-Cola FEMSA and the other Brazilian bottlers disagreed with such charges, and an arbitration proceeding was brought by Unilever Brazil against Coca-Cola FEMSA and the other Brazilian bottlers. On October 1, 2020, the arbitration tribunal issued a partial award, ruling in favor of Coca-Cola FEMSA and the other Brazilian bottlers and holding that Unilever Brazil should not add those charges to the selling price of AdeS products. The arbitration proceeding continues with respect to other matters that are still pending resolution.

Legal Proceeding against Heineken Brazil. In January 2020, Coca-Cola FEMSA’s Brazilian subsidiary, together with the Brazilian association of *Coca-Cola* bottlers and other Brazilian bottlers, filed a lawsuit against Heineken and Heineken Brazil seeking indemnification and asserting the right to distribute beer *Kirin* as part of its Heineken portfolio in Brazil. Upon the effectiveness of Coca-Cola FEMSA’s new distribution agreement with Heineken

Brazil, Coca-Cola FEMSA intends to withdraw from this legal proceeding and waive any rights with respect to any awards or judgments resulting from such legal proceeding.

Tax Proceeding against Coca-Cola FEMSA Costa Rica. In 2013, the Costa Rican National Institute of Rural Development (*Instituto Nacional de Desarrollo Rural* or the INDER) questioned Coca-Cola FEMSA's Costa Rican subsidiary's method of calculating the contribution to the INDER (excise tax) for the period from 2009 to 2012. Prior to a change in law in November 29, 2012, which specifically provided how to calculate this excise tax (by multiplying a fixed amount in Costa Rican colones by the milliliters of products sold), Coca-Cola FEMSA's Costa Rican subsidiary calculated the excise tax based on production costs. However, the INDER's interpretation is that the excise tax had to be calculated based on the sales price, including the profit margin, of the products. As a result, the INDER requested the payment of the unpaid contribution amounts for the 2009-2012 period. Coca-Cola FEMSA filed, through an administrative procedure, an appeal against such requirement, which was denied. Coca-Cola FEMSA has contested this claim through a legal proceeding, which is still pending resolution and has filed a motion for a stay of execution until the legal proceeding is finally resolved, through which Coca-Cola FEMSA offered certain guarantees in favor of the INDER.

For a description of other unsettled lawsuits with tax authorities and other parties, see Note 26.6 to our consolidated financial statements.

Significant Changes

Except as disclosed under "Corporate History and Recent Developments" in Item 4, no significant changes have occurred since the date of the annual financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

Description of Securities

We have three series of capital stock, each with no par value:

- Series B Shares ("Series B Shares");
- Series D-B Shares ("Series D-B Shares"); and
- Series D-L Shares ("Series D-L Shares").

Series B Shares have full voting rights, and Series D-B and D-L Shares have limited voting rights. The shares of our company are not separable and may be transferred only in the following forms:

- B Units, consisting of five Series B Shares; and
- BD Units, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares.

The following table sets forth information regarding our capital stock as of March 24, 2021:

Class	Number	Percentage of Capital	Percentage of Full Voting Rights
Series B Shares (no par value)	9,246,420,270	51.68 %	100.00 %
Series D-B Shares (no par value)	4,322,355,540	24.16 %	0.00 %
Series D-L Shares (no par value)	4,322,355,540	24.16 %	0.00 %
Total Shares	17,891,131,350	100.00 %	100.00 %
Units			
BD Units	2,161,177,770	60.40 %	23.47 %
B Units	1,417,048,500	39.60 %	76.63 %
Total Units	3,578,226,270	100.00 %	100.00 %

Trading Markets

Since May 11, 1998, ADSs representing BD Units have been listed on the NYSE, and the BD Units and the B Units have been listed on the Mexican Stock Exchange. Each ADS represents 10 BD Units deposited under the deposit agreement with the ADS depository. As of March 31, 2021, approximately 49.9% of BD Units traded in the form of ADSs.

The NYSE trading symbol for the ADSs is “FMX” and the Mexican Stock Exchange trading symbols are “FEMSA UBD” for the BD Units and “FEMSA UB” for the B Units.

Fluctuations in the exchange rate between the Mexican peso and the U.S. dollar have affected the U.S. dollar equivalent of the Mexican peso price of our shares on the Mexican Stock Exchange and, consequently, have also affected the market price of our ADSs.

Trading on the Mexican Stock Exchange

The Mexican Stock Exchange, located in Mexico City, is currently the principal stock exchange in Mexico. Founded in 1907, it is organized as a *sociedad anónima bursátil de capital variable*. Trading on the Mexican Stock Exchange takes place principally through automated systems and is open between the hours of 9:30 a.m. and 4:00 p.m. Eastern Time, each business day. Trades in securities listed on the Mexican Stock Exchange can also be effected off the exchange. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the BD Units that are directly or indirectly (for example, in the form of ADSs) quoted on a stock exchange (including for these purposes the NYSE) outside Mexico.

Settlement is effected three business days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the *Comisión Nacional Bancaria y de Valores* (“CNBV”). Most securities traded on the Mexican Stock Exchange, including ours, are on deposit with *S.D. Ineval Institución para el Depósito de Valores S.A. de C.V.*, which we refer to as “Ineval,” a privately owned securities depository that acts as a clearinghouse for Mexican Stock Exchange transactions.

ITEM 10. ADDITIONAL INFORMATION

Bylaws

The following is a summary of the material provisions of our bylaws and applicable Mexican law. Our bylaws were last amended on April 22, 2008. For a description of the provisions of our bylaws relating to our board of directors and executive officers, see “Item 6. Directors, Senior Management and Employees.”

Organization and Registry

We are a publicly listed company with variable capital (*sociedad anónima bursátil de capital variable*) organized in Mexico under the Mexican General Corporations Law (*Ley General de Sociedades Mercantiles*) and the Mexican Securities Market Law (*Ley del Mercado de Valores*). We were incorporated in 1936 under the name Valores Industriales, S.A., as a *sociedad anónima*, and are currently named Fomento Económico Mexicano, S.A.B. de C.V. We are registered in the Public Registry of Property and Commerce (*Registro Público de la Propiedad y del Comercio*) of Monterrey, Nuevo León.

Voting Rights and Certain Minority Rights

Each Series B Share entitles its holder to one vote at any of our ordinary or extraordinary general shareholders meetings. Our bylaws state that the board of directors must be composed of no more than 21 members, at least 25% of whom must be independent. Holders of Series B Shares are entitled to elect at least 11 members of our board of directors. Holders of Series D Shares are entitled to elect five members of our board of directors. Our bylaws also contemplate that, should a conversion of the Series D-L Shares to Series L Shares occur pursuant to the vote of our Series D-B and Series D-L shareholders at special and extraordinary shareholders meetings, the holders of Series D-L shares (who would become holders of newly issued Series L Shares) will be entitled to elect two members of the board of directors. None of our shares has cumulative voting rights, which is a right not regulated under Mexican law.

Under our bylaws, the holders of Series D Shares are entitled to vote at extraordinary shareholders meetings called to consider any of the following limited matters: (1) the transformation from one form of corporate organization to another, other than from a company with variable capital stock to a company without variable capital stock or vice versa, (2) any merger in which we are not the surviving entity or with other entities whose principal corporate purposes are different from those of our company or our subsidiaries, (3) change of our jurisdiction of incorporation, (4) dissolution and liquidation and (5) the cancellation of the registration of the Series D Shares or Series L Shares in the Mexican Stock Exchange or in any other foreign stock market where listed, except in the case of the conversion of these shares as provided for in our bylaws.

Holders of Series D Shares are also entitled to vote on the matters that they are expressly authorized to vote on by the Mexican Securities Market Law and at any extraordinary shareholders meeting called to consider any of the following matters:

- To approve a conversion of all of the outstanding Series D-B Shares and Series D-L Shares into Series B shares with full voting rights and Series L Shares with limited voting rights, respectively.
- To agree to the unbundling of their share Units.

This conversion and/or unbundling of shares would become effective two years after the date on which the shareholders agreed to such conversion and/or unbundling.

Under Mexican law, holders of shares of any series are entitled to vote as a class in a special meeting governed by the same rules that apply to extraordinary shareholders meetings on any action that would have an effect on the rights of holders of shares of such series. There are no procedures for determining whether a particular proposed shareholder action requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

The Mexican Securities Market Law, the Mexican General Corporations Law and our bylaws provide for certain minority shareholder protections. These minority protections include provisions that permit:

- holders of at least 10% of our outstanding capital stock entitled to vote, including in a limited or restricted manner, to require the chairman of the board of directors or of the Audit or Corporate Practices Committees to call a shareholders' meeting;
- holders of at least 5% of our outstanding capital stock, including limited or restricted vote, may bring an action for liabilities against our directors, the secretary of the board of directors or certain key officers (as a shareholder derivative suit, for our benefit, as opposed to the benefit of shareholders initiating the action);

- holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, at any shareholders meeting to request that resolutions with respect to any matter on which they considered they were not sufficiently informed be postponed;
- holders of 20% of our outstanding capital stock to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote, including limited or restricted vote, and file a petition for a court order to suspend the resolution temporarily within 15 days following the adjournment of the meeting at which the action was taken, provided that (1) the challenged resolution violates Mexican law or our bylaws, (2) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution and (3) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder; and
- holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, to appoint one member of our board of directors and one alternate member of our board of directors.

Shareholders Meetings

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary meetings are those called to consider certain matters specified in Article 182 and 228 BIS of the Mexican General Corporations Law, Articles 53 and 108(ii) of the Mexican Securities Market Law and in our bylaws. These matters include: amendments to our bylaws, liquidation, dissolution, merger, spin-off and transformation from one form of corporate organization to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. In addition, our bylaws require a general shareholders' extraordinary meeting to consider the cancellation of the registration of shares with the Mexican Registry of Securities ("RNV") or with other foreign stock exchanges on which our shares may be listed, the amortization of distributable earnings into capital stock, and an increase in our capital stock in terms of the Mexican Securities Market Law. General meetings called to consider all other matters, including increases or decreases affecting the variable portion of our capital stock, are ordinary meetings. An ordinary meeting must be held at least once each year within the first four months following the end of the preceding fiscal year. Holders of BD Units or B Units are entitled to attend all shareholders meetings of the Series B Shares and Series D Shares and to vote on matters that are subject to the vote of holders of the underlying shares.

The quorum for an ordinary shareholders meeting on first call is more than 50% of the Series B Shares, and action may be taken by a majority of the Series B Shares represented at the meeting. If a quorum is not available, a second or subsequent meeting may be called and held by whatever number of Series B Shares is represented at the meeting, at which meeting action may be taken by a majority of the Series B Shares that are represented at the meeting.

The quorum for an extraordinary shareholders meeting is at least 75% of the shares entitled to vote at the meeting, and action may be taken by a vote of the majority of all the outstanding shares that are entitled to vote. If a quorum is not available, a second meeting may be called, at which the quorum will be the majority of the outstanding capital stock entitled to vote, and actions will be taken by holders of the majority of all the outstanding capital stock entitled to vote.

Shareholders meetings may be called by the board of directors, the audit committee or the corporate practices committee and, under certain circumstances, a Mexican court. Additionally, holders of 10% or more of our capital stock may require the chairman of the board of directors, or the chairman of the audit or corporate practices committees to call a shareholders meeting. A notice of meeting and an agenda must be published in the electronic system of the Secretary of Economy (*Secretaría de Economía*) and in the Official State Gazette of Nuevo León (*Periódico Oficial del Estado de Nuevo León*, or the "Official State Gazette") or a newspaper of general distribution in Monterrey, Nuevo León, Mexico at least 15 days prior to the date set for the meeting. Notices must set forth the place, date and time of the meeting and the matters to be addressed and must be signed by whoever convened the meeting. Shareholders meetings will be deemed validly held and convened without a prior notice or publication only to the extent that all the shares representing our capital stock are fully represented. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice involving such shareholders meeting. To attend a meeting, shareholders must deposit their shares with our company or with Indeval or an institution for the deposit of

securities prior to the meeting as indicated in the notice. If entitled to attend a meeting, a shareholder may be represented by an attorney-in-fact.

In addition to the provisions of the Mexican General Corporations Law, the ordinary shareholders meeting shall be convened to approve any transaction that, in a fiscal year, represents 20% or more of the consolidated assets of our company as of the immediately prior quarter, whether such transaction is executed in one or several operations, to the extent that, according to the nature of such transactions, they may be deemed the same. All shareholders shall be entitled to vote on in such ordinary shareholders meeting, including those with limited or restricted voting rights.

Dividend Rights

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

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

Change in Capital

Our outstanding capital stock consists of both a fixed and a variable portion. The fixed portion of our capital stock may be increased or decreased only by an amendment of the bylaws adopted by an extraordinary shareholders meeting. The variable portion of our capital stock may be increased or decreased by resolution of an ordinary shareholders meeting. Capital increases and decreases must be recorded in our share registry and book of capital variations, if applicable.

A capital stock increase may be effected through the issuance of new shares for payment in cash or in kind, or by capitalization of indebtedness or of certain items of stockholders' equity. Treasury stock may only be sold pursuant to a public offering.

Any increase or decrease in our capital stock or any redemption or repurchase will be subject to the following limitations: (1) Series B Shares will always represent at least 51% of our outstanding capital stock and the Series D-L Shares and Series L Shares will never represent more than 25% of our outstanding capital stock; and (2) the Series D-B, Series D-L and Series L Shares will not exceed, in the aggregate, 49% of our outstanding capital stock.

Preemptive Rights

Under Mexican law, except in limited circumstances which are described below, in the event of an increase in our capital stock, a holder of record generally has the right to subscribe to shares of a series held by such holder sufficient to maintain such holder's existing proportionate holding of shares of that series. Preemptive rights must be exercised during a term fixed by the shareholders at the meeting declaring the capital increase, which term must last at least 15 days following the publication of notice of the capital increase in the Official State Gazette. As a result of applicable United States securities laws, holders of ADSs may be restricted in their ability to participate in the exercise of preemptive rights under the terms of the deposit agreement. Shares subject to a preemptive rights offering, with respect to which preemptive rights have not been exercised, may be sold by us to third parties on the same terms and conditions previously approved by the shareholders or the board of directors. Under Mexican law, preemptive rights cannot be waived in advance or be assigned, or be represented by an instrument that is negotiable separately from the corresponding shares.

Our bylaws provide that shareholders will not have preemptive rights to subscribe shares in the event of a capital stock increase or listing of treasury stock in any of the following events: (i) merger of our company; (ii) conversion of obligations (*conversion de obligaciones*) in terms of the Mexican General Credit Instruments and Credit Operations Law (*Ley General de Títulos y Operaciones de Crédito*); (iii) public offering made according to the terms of articles 53, 56 and related provisions of the Mexican Securities Market Law; and (iv) capital increase made through the payment in kind of the issued shares or through the cancellation of debt of our company.

Limitations on Share Ownership

Ownership of shares of Mexican companies by non-Mexican residents is regulated by the Foreign Investment Law and its regulations. The Foreign Investment Commission is responsible for the enforcement of the Foreign Investment Law and its regulations.

As a general rule, the Foreign Investment Law allows foreign holdings of up to 100% of the capital stock of Mexican companies, except for those companies engaged in certain specified restricted industries. The Foreign Investment Law and its regulations require that Mexican shareholders retain the power to determine the administrative control and the management of corporations in industries in which special restrictions on foreign holdings are applicable. Foreign investment in our shares is not limited under either the Foreign Investment Law or its regulations.

Management of our Company

Management of our company is entrusted to the board of directors and also to the chief executive officer, who is required to follow the strategies, policies and guidelines approved by the board of directors and the authority, obligations and duties expressly authorized in the Mexican Securities Market Law.

At least 25% of the members of the board of directors shall be independent. Independence of the members of the board of directors is determined by the shareholders meeting, subject to the CNBV's challenge of such determination. In the performance of its responsibilities, the board of directors will be supported by a corporate practices committee and an audit committee. The corporate practices committee and the audit committee consist solely of independent directors. Each committee is formed by at least three board members appointed by the shareholders or by the board of directors. The chairmen of said committees are appointed (taking into consideration their experience, capacity and professional prestige) and removed exclusively by a vote in a shareholders meeting.

Surveillance

Surveillance of our company is entrusted to the board of directors, which shall be supported in the performance of these functions by the corporate practices committee, the audit committee and our external auditor. The external auditor may be invited to attend board of directors meetings as an observer, with a right to participate but without voting rights.

Authority of the Board of Directors

The board of directors is our legal representative and is authorized to take any action in connection with our operations not expressly reserved to our shareholders. Pursuant to the Mexican Securities Market Law, the board of directors must approve, *observing at all moments their duty of care and duty of loyalty*, among other matters:

- any related-party transactions which are deemed to be outside the ordinary course of our business;
- significant asset transfers or acquisitions;
- material guarantees or collateral;
- internal policies; and
- other material transactions.

Meetings of the board of directors are validly convened and held if a majority of the members are present. Resolutions passed at these meetings will be valid if approved by a majority of members of the board of directors present at the meeting. If required, the chairman of the board of directors may cast a tie-breaking vote.

Redemption

We may redeem part of our shares for cancellation with distributable earnings pursuant to a decision of an extraordinary shareholders meeting. Only shares subscribed and fully paid for may be redeemed. Any shares intended to be redeemed shall be purchased on the Mexican Stock Exchange in accordance with the Mexican General Corporations Law and the Mexican Securities Market Law. No shares will be redeemed, if as a consequence of such redemption, the Series D and Series L Shares in the aggregate exceed the percentages permitted by our bylaws or if any such redemption will reduce our fixed capital below its minimum.

Repurchase of Shares

According to our bylaws, subject to the provisions of the Mexican Securities Market Law and under rules promulgated by the CNBV, we may repurchase our shares at any time at the then prevailing market price. The maximum amount available for repurchase of our shares must be approved at the AGM and may not exceed retained earnings. The economic and voting rights corresponding to such repurchased shares may not be exercised while our company owns the shares.

In accordance with the Mexican Securities Market Law, our subsidiaries may not purchase, directly or indirectly, shares of our capital stock or any security that represents such shares.

Forfeiture of Shares

As required by Mexican law, our bylaws provide that non-Mexican holders of BD Units, B Units or shares (1) are considered to be Mexican with respect to such shares that they acquire or hold and (2) may not invoke the protection of their own governments in respect of the investment represented by those shares. Failure to comply with our bylaws may result in a penalty of forfeiture of a shareholder's capital stock in favor of the Mexican state. In the opinion of Carlos Eduardo Aldrete Ancira, our general counsel, under this provision, a non-Mexican shareholder (including a non-Mexican holder of ADSs) is deemed to have agreed not to invoke the protection of its own government by asking such government to interpose a diplomatic claim against the Mexican state with respect to its rights as a shareholder, but is not deemed to have waived any other rights it may have, including any rights under the United States securities laws, with respect to its investment in our company. If a shareholder should invoke governmental protection in violation of this agreement, its shares could be forfeited to the Mexican state.

Duration

The bylaws provide that the duration of our company is 99 years, commencing on May 30, 1936, unless extended by a resolution of an extraordinary shareholders meeting.

Appraisal Rights

Whenever the shareholders approve a change of corporate purpose, change of jurisdiction of incorporation or the transformation from one form of corporate organization to another, any shareholder entitled to vote on such change that has voted against it, may withdraw as a shareholder of our company and have its shares redeemed by FEMSA at a price per share calculated as specified under applicable Mexican law (based on the specific book value in our balance sheet last approved by our shareholders), provided that it exercises its right within 15 days following the adjournment of the meeting at which the change was approved. Under Mexican law, the amount which a withdrawing shareholder is entitled to receive is equal to its proportionate interest in our capital stock or according to our most recent balance sheet approved by an ordinary general shareholders meeting.

Delisting of Shares

In the event of a cancellation of the registration of any of our shares with the RNV, whether by order of the CNBV or at our request with the prior consent of 95% of the holders of our outstanding capital stock, our bylaws and the new Mexican Securities Market Law require us to make a public offer to acquire these shares prior to their cancellation.

Liquidation

Upon the dissolution of our company, one or more liquidators must be appointed by an extraordinary general meeting of the shareholders to wind up its affairs. All fully paid and outstanding shares of capital stock will be entitled to participate equally in any distribution upon liquidation.

Actions Against Directors

Shareholders (including holders of Series D-B and Series D-L Shares) representing, in the aggregate, not less than 5% of our capital stock may directly bring an action against directors.

In the event of actions derived from any breach of the duty of care and the duty of loyalty, liability is exclusively in favor of our company. The Mexican Securities Market Law establishes that liability may be imposed on the members and the secretary of the board of directors, as well as to the relevant officers.

Notwithstanding, the Mexican Securities Market Law provides that the members of the board of directors will not incur, individually or jointly, liability for damages and losses caused to our company, when their acts were made in good faith, in any of the following events: (1) the directors complied with the requirements of the Mexican Securities Market Law and with our company's bylaws; (2) the decision making or voting was based on information provided by the relevant officers, the external auditor or the independent experts, whose capacity and credibility do not offer reasonable doubt; (3) the negative economic effects could not have been foreseen, based on the information available; and (4) they comply with the resolutions of the shareholders' meeting when such resolutions comply with applicable law.

Fiduciary Duties—Duty of Care

The Mexican Securities Market Law provides that the directors shall act in good faith and in our best interest and in the best interest of our subsidiaries. In order to fulfill its duty, the board of directors may:

- request information about us or our subsidiaries that is reasonably necessary to fulfill its duties;
- require our officers and certain other persons, including the external auditors and independent experts, to appear at board of directors' meetings to report or provide information to the board of directors;
- postpone board of directors' meetings for up to three days when a director has not been given sufficient notice of the meeting or in the event that a director has not been provided with the information provided to the other directors; and
- require a matter be discussed and voted upon by the full board of directors in the presence of the secretary of the board of directors.

Our directors may be liable for damages for failing to comply their duty of care if such failure causes economic damage to us or our subsidiaries and the director (1) failed to attend board of directors' or committee meetings and as a result of such failure, the board of directors was unable to take action, unless such absence is approved by the shareholders meeting, (2) failed to disclose to the board of directors or the committees material information necessary for the board of directors to reach a decision, unless legally or contractually prohibited from doing so in order to maintain confidentiality and (3) failed to comply with the duties imposed by the Mexican Securities Market Law or our bylaws.

Fiduciary Duties—Duty of Loyalty

The Mexican Securities Market Law provides that the directors and secretary of the board of directors shall keep confidential any non-public information and matters about which they have knowledge as a result of their position. Also, directors should abstain from participating, attending or voting at meetings related to matters where they have a conflict of interest.

The directors and secretary of the board of directors will be deemed to have violated the duty of loyalty, and will be liable for damages, when they obtain an economic benefit by virtue of their position. Further, the directors will fail to comply with their duty of loyalty if they:

- vote at a board of directors' meeting or take any action on a matter involving our assets where there is a conflict of interest;
- fail to disclose a conflict of interest during a board of directors' meeting;
- enter into a voting arrangement to support a particular shareholder or group of shareholders against the other shareholders;
- approve of transactions without complying with the requirements of the Mexican Securities Market Law;
- use company property in violation of the policies approved by the board of directors;
- unlawfully use material non-public information; and
- usurp a corporate opportunity for their own benefit or the benefit of third parties, without the prior approval of the board of directors.

Limited Liability of Shareholders

The liability of shareholders for our company's losses is limited to their shareholdings in our company.

Taxation

The following summary contains a description of certain U.S. federal income and Mexican federal tax consequences of the purchase, ownership and disposition of our ADSs, but it does not purport to be a description of all of the possible tax considerations that may be relevant to a decision to purchase, hold or dispose of ADSs. For purposes of this summary, the term "U.S. holder" means a holder that is a citizen or resident of the United States, a U.S. domestic corporation or a person or entity that otherwise will be subject to U.S. federal income tax on a net income basis in respect of our ADSs. In particular, this discussion does not address all Mexican or U.S. federal income tax considerations that may be relevant to a particular investor, nor does it address the special tax rules applicable to certain categories of investors, such as banks, dealers, traders who elect to mark to market, tax-exempt entities, insurance companies, certain short-term holders of ADSs or investors who hold our ADSs as part of a hedge, straddle, conversion or integrated transaction, partnerships that hold ADSs, or partners therein, nonresident aliens present in the United States for more than 182 days in a taxable year, or investors who have a "functional currency" other than the U.S. dollar. This summary deals only with U.S. holders that will hold our ADSs as capital assets and does not address the tax treatment of a U.S. holder that owns or is treated as owning 10% or more of the shares by vote or value (including ADSs) of our company.

This summary is based upon the federal tax laws of the United States and Mexico as in effect on the date of this annual report, including the provisions of the income tax treaty between the United States and Mexico which we refer to as the Tax Treaty, which are subject to change. The summary does not address any tax consequences under the laws of any state or locality of Mexico or the United States or the laws of any taxing jurisdiction other than the federal laws of Mexico and the United States. Holders of our ADSs should consult their tax advisors as to the U.S., Mexican or other tax consequences of the purchase, ownership and disposition of ADSs, including, in particular, the effect of any foreign, state or local tax laws.

Mexican Taxation

For purposes of this summary, the term “non-resident holder” means a holder that is not a resident of Mexico for tax purposes and that does not hold our ADSs in connection with the conduct of a trade or business through a permanent establishment for tax purposes in Mexico. For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her home in Mexico, or if he or she has another home outside Mexico, but his or her Center of Vital Interests (*Centro de Intereses Vitales*) (as defined in the Mexican Tax Code) is located in Mexico and, among other circumstances, when more than 50% of that person’s total income during a calendar year comes from sources within Mexico. A legal entity is a resident of Mexico if it has either its principal place of business or its place of effective management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless he or she can demonstrate that the contrary is true. If a legal entity or an individual is deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to the permanent establishment will be subject to Mexican taxes, in accordance with applicable tax laws.

Taxation of Dividends. Under Mexican income tax law, dividends, either in cash or in kind, paid with respect to our shares represented by our ADSs are not subject to Mexican withholding tax if such dividends were distributed from the net taxable profits generated before 2014. Dividends distributed from the net taxable profits account (CUFIN) generated after or during 2014 will be subject to Mexican withholding tax at a rate of 10%.

Taxation of Dispositions of ADSs. Gains from the sale or disposition of ADSs by non-resident holders will not be subject to Mexican tax, if the disposition is carried out through a stock exchange recognized under applicable Mexican tax law and the transferor is resident of a country with which Mexico has entered into a tax treaty for the avoidance of double taxation; if the transferor is not a resident of such a country, the gain will be taxable at the rate of 10% or higher, in which case the tax will be withheld by the financial intermediary.

In compliance with certain requirements, gains on the sale or other disposition of ADSs made in circumstances different from those set forth in the prior paragraph generally would be subject to Mexican tax, at the general rate of 25% of the gross income, regardless of the nationality or residence of the transferor. However, under the Tax Treaty, a holder that is eligible to claim the benefits of the Tax Treaty will be exempt from Mexican tax on gains realized on a sale or other disposition of our ADSs in a transaction that is not carried out through the Mexican Stock Exchange or other approved securities markets, so long as the holder did not own, directly or indirectly, 25% or more of our outstanding capital stock (including shares represented by our ADSs) within the 12-month period preceding such sale or other disposition. Deposits of shares in exchange for ADSs and withdrawals of shares in exchange for our ADSs will not give rise to Mexican tax.

Other Mexican Taxes. There are no Mexican inheritance, gift, succession or value added taxes applicable to the ownership, transfer, exchange or disposition of our ADSs. There are no Mexican stamp, issue, registration or similar taxes or duties payable by holders of our ADSs.

United States Taxation

Tax Considerations Relating to the ADSs

In general, for U.S. federal income tax purposes, holders of ADSs will be treated as owners of the shares represented by those ADSs.

Taxation of Dividends. The gross amount of any distributions paid with respect to our shares represented by our ADSs, to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, generally will be included in the gross income of a U.S. holder as foreign source dividend income on the day on which the dividends are received by the ADS depository and will not be eligible for the dividends received deduction allowed to corporations under the Internal Revenue Code of 1986, as amended. Because we do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, it is expected that distributions paid to U.S. holders generally will be reported as dividends.

Dividends, which will be paid in Mexican pesos, will be includible in the income of a U.S. holder in a U.S. dollar amount calculated, in general, by reference to the exchange rate in effect on the date that they are received by the ADS depository (regardless of whether such Mexican pesos are in fact converted into U.S. dollars on such date). If such

dividends are converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. U.S. holders should consult their tax advisors regarding the treatment of the foreign currency gain or loss, if any, on any Mexican pesos received that are converted into U.S. dollars on a date subsequent to the date of receipt.

The amount of Mexican tax withheld generally will give rise to a foreign tax credit or deduction for U.S. federal income tax purposes. Dividends generally will constitute “passive category income” for purposes of the foreign tax credit (or in the case of certain U.S. holders, “general category income”). The foreign tax credit rules are complex. U.S. holders should consult their own tax advisors with respect to the implications of those rules for their investments in our ADSs.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder in respect of the ADSs generally is subject to taxation at the reduced rate applicable to long-term capital gains if the dividends are “qualified dividends.” Dividends paid on the ADSs will be treated as qualified dividends if (1) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service (“IRS”) has approved for the purposes of the qualified dividend rules, or the dividends are paid with respect to ADSs that are “readily tradable on an established U.S. securities market” and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (or “PFIC,” as further explained below under “*Passive Foreign Investment Company Rules*”). The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2019 taxable year. In addition, based on our audited consolidated financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2020 taxable year.

Distributions to holders of additional shares with respect to our ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Taxation of Capital Gains. A gain or loss realized by a U.S. holder on the sale or other taxable disposition of ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the disposition and such U.S. holder’s tax basis in the ADSs (each calculated in dollars). Any such gain or loss will be a long-term capital gain or loss if the ADSs were held for more than one year on the date of such sale. Any long-term capital gain recognized by a U.S. holder that is an individual is subject to a reduced rate of federal income taxation. The deduction of capital losses is subject to limitations for U.S. federal income tax purposes. Deposits and withdrawals of shares by U.S. holders in exchange for ADSs will not result in the realization of gains or losses for U.S. federal income tax purposes.

Any gain realized by a U.S. holder on the sale or other disposition of ADSs generally will be treated as U.S. source income for U.S. foreign tax credit purposes.

Passive Foreign Investment Company Rules. Special U.S. tax rules apply to companies that are considered to be PFICs. We will be classified as a PFIC in a particular taxable year if, taking into account our proportionate share of the income and assets of our subsidiaries under applicable “look-through” rules, either

- 75 percent or more of our gross income for the taxable year is passive income; or
- the average percentage of the value of our assets that produce or are held for the production of passive income is at least 50 percent.

For this purpose, passive income generally includes dividends, interest, gains from certain commodities transactions, rents, royalties and the excess of gains over losses from the disposition of assets that produce passive income.

Although we do not believe that we are a PFIC and do not anticipate becoming a PFIC, the determination whether we are a PFIC must be made annually based on the facts and circumstances at that time, some of which may be beyond our control, such as the valuation of our assets, including goodwill and other intangible assets, at the time. Accordingly, we cannot be certain that we will not be a PFIC in the current year or in future years. If we are classified as a PFIC, and you do not make one of the elections described below, you will be subject to a special tax at ordinary income tax rates on “excess distributions,” including certain distributions by us and gain that you recognize on the sale of your ADSs. The amount of income tax on any excess distributions will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distributions were earned ratably over the period you hold your ADSs. Classification as a PFIC may also have other adverse tax consequences, including, in the case of individuals, the denial of a step-up in the basis of your ADSs at death.

You can avoid the unfavorable rules described in the preceding paragraph by electing to mark your ADSs to market, provided the ADSs are considered “marketable.” The ADSs will be marketable if they are regularly traded on certain qualifying U.S. stock exchanges, including the New York Stock Exchange, or on a foreign stock exchange that meets certain requirements. If you make this mark-to-market election, you will be required in any year in which we are a PFIC to include as ordinary income the excess of the fair market value of your ADSs at the end of your taxable year over your basis in those ADSs. If at the end of your taxable year, your basis in the ADSs exceeds their fair market value, you will be entitled to deduct the excess as an ordinary loss, but only to the extent of your net mark-to-market gains from previous years. Your adjusted tax basis in the ADSs will be adjusted to reflect any income or loss recognized under these rules. In addition, any gain you recognize upon the sale of your ADSs will be taxed as ordinary income in the year of sale and any loss will be treated as an ordinary loss to the extent of your net mark-to-market gains from previous years. Once made, the election cannot be revoked without the consent of the IRS unless the shares cease to be marketable.

If you are a U.S. Holder that owns an equity interest in a PFIC, you generally must annually file IRS Form 8621, and may be required to file other IRS forms. A failure to file one or more of these forms as required may toll the running of the statute of limitations in respect of each of your taxable years for which such form is required to be filed. As a result, the taxable years with respect to which you fail to file the form may remain open to assessment by the IRS indefinitely, until the form is filed.

You should consult your own tax advisor regarding the U.S. federal income tax considerations discussed above and the desirability of making a mark-to-market election.

United States Backup Withholding and Information Reporting. A U.S. holder of ADSs may, under certain circumstances, be subject to “information reporting” and “backup withholding” with respect to certain payments to such U.S. holder, such as dividends, interest or the proceeds of a sale or disposition of ADSs, unless such holder (1) comes within certain exempt categories, and demonstrates this fact when so required, or (2) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules does not constitute a separate tax and will be creditable against the holder’s U.S. federal income tax liability.

Specified Foreign Financial Assets. Certain U.S. holders that own “specified foreign financial assets” with an aggregate value in excess of USD 50,000 on the last day of the taxable year or USD 75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on IRS Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the ADSs, including the application of the rules to their particular circumstances.

U.S. Tax Consequences for Non-U.S. Holders

Taxation of Dividends and Capital Gains. Subject to the discussion below under “United States Backup Withholding and Information Reporting,” a holder of ADSs that is not a U.S. holder (a “non-U.S. holder”) generally will

not be subject to U.S. federal income or withholding tax on dividends received on ADSs or on any gain realized on the sale of ADSs.

United States Backup Withholding and Information Reporting. While non-U.S. holders generally are exempt from information reporting and backup withholding, a non-U.S. holder may, in certain circumstances, be required to comply with certain information and identification procedures in order to prove this exemption.

Material Contracts

We and our subsidiaries are parties to a variety of material agreements with third parties, including shareholders' agreements, supply agreements and purchase and service agreements. Set forth below are summaries of the material terms of such agreements. The actual agreements have either been filed as exhibits to, or incorporated by reference in, this annual report. See "Item 19. Exhibits."

Material Contracts Relating to Coca-Cola FEMSA

Shareholders Agreement

Coca-Cola FEMSA operates pursuant to a shareholders agreement among our company and TCCC and certain of its subsidiaries. This agreement, together with Coca-Cola FEMSA's bylaws, sets forth the basic rules pursuant to which Coca-Cola FEMSA operates.

In 2010, Coca-Cola FEMSA's main shareholders, FEMSA and TCCC, amended the shareholders agreement, and Coca-Cola FEMSA's bylaws were amended accordingly. The amendment mainly related to changes in the voting requirements for decisions on: (1) ordinary operations within an annual business plan and (2) appointment of the chief executive officer and all officers reporting to him, all of which may be taken by the board of directors by simple majority voting. Also, the amendment provided that payment of dividends, up to an amount equivalent to 20% of the preceding years' consolidated net profits, may be approved by a simple majority of the voting capital stock and any payment of dividends above 20.0% of the preceding years' consolidated net profits shall require the approval of a majority of the voting capital stock, which majority must also include a majority of Coca-Cola FEMSA Series D shares. Any decision on extraordinary matters, as they are defined in Coca-Cola FEMSA's bylaws and which include, among other things, any new business acquisition, business combinations or any change in the existing line of business shall require the approval of the majority of the members of the board of directors, with the vote of two of the members appointed by TCCC.

Under Coca-Cola FEMSA's bylaws and shareholders agreement, its Series A Shares, Series B Shares and Series D Shares are the only shares with full voting rights and, therefore, control actions by its shareholders.

The shareholders agreement also sets forth the principal shareholders' understanding as to the effect of adverse actions of TCCC under the bottler agreements. Coca-Cola FEMSA's bylaws and shareholders agreement provide that a majority of the directors appointed by the holders of its Series A Shares, upon making a reasonable, good faith determination that any action of TCCC under any bottler agreement between TCCC and Coca-Cola FEMSA or any of its subsidiaries is materially adverse to Coca-Cola FEMSA's business interests and that TCCC has failed to cure such action within 60 days of notice, may declare a "simple majority period," as defined in Coca-Cola FEMSA's bylaws, at any time within 90 days after giving notice. During the simple majority period certain decisions, namely the approval of material changes in Coca-Cola FEMSA's business plans, the introduction of a new, or termination of an existing, line of business, and related-party transactions outside the ordinary course of business, to the extent the presence and approval of at least two Coca-Cola FEMSA Series D directors would otherwise be required, can be made by a simple majority vote of its entire board of directors, without requiring the presence or approval of any Coca-Cola FEMSA Series D director. A majority of the Coca-Cola FEMSA Series A directors may terminate a simple majority period but, once having done so, cannot declare another simple majority period for one year after the termination. If a simple majority period persists for one year or more, the provisions of the shareholders agreement for resolution of irreconcilable differences may be triggered, with the consequences outlined in the following paragraph.

In addition to the rights of first refusal provided for in Coca-Cola FEMSA's bylaws regarding proposed transfers of its Series A Shares or Series D Shares, the shareholders agreement contemplates three circumstances under which one principal shareholder may purchase the interest of the other in Coca-Cola FEMSA: (1) a change in control in

a principal shareholder; (2) the existence of irreconcilable differences between the principal shareholders; or (3) the occurrence of certain specified events of default.

In the event that (1) one of the principal shareholders buys the other's interest in Coca-Cola FEMSA in any of the circumstances described above or (2) the beneficial ownership of TCCC or FEMSA is reduced below 20% of our outstanding voting stock, and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement will be terminated and Coca-Cola FEMSA's bylaws will be amended to eliminate all share transfer restrictions and all special-majority voting and quorum requirements.

The shareholders agreement also contains provisions relating to the principal shareholders' understanding as to Coca-Cola FEMSA's growth. It states that it is TCCC's intention that Coca-Cola FEMSA will be viewed as one of a small number of its "anchor" bottlers in Latin America. In particular, the parties agree that it is desirable that Coca-Cola FEMSA expands by acquiring additional bottler territories in Mexico and other Latin American countries in the event any become available through horizontal growth. In addition, TCCC has agreed, subject to a number of conditions, that if it obtains ownership of a bottler territory that fits with Coca-Cola FEMSA's operations, it will give Coca-Cola FEMSA the option to acquire such territory. TCCC has also agreed to support reasonable and sound modifications to Coca-Cola FEMSA's capital structure to support horizontal growth. TCCC's agreement as to horizontal growth expires upon either the elimination of the super-majority voting requirements described above or TCCC's election to terminate the agreement as a result of a default.

The Coca-Cola Memorandum

In connection with the acquisition of Panamco, in 2003, Coca-Cola FEMSA established certain understandings primarily relating to operational and business issues with both TCCC and our company that were memorialized in writing prior to completion of the acquisition. Although the memorandum has not been amended, Coca-Cola FEMSA continues to develop its relationship with TCCC (through, *inter alia*, acquisitions and taking on new product categories), and Coca-Cola FEMSA therefore believes that the memorandum should be interpreted in the context of subsequent events, some of which have been noted in the description below. The main terms are as follows:

- The shareholder arrangements between our company and TCCC and certain of its subsidiaries will continue in place. In 2010, FEMSA amended its shareholders agreement with TCCC. See "Item 10. Additional Information—Material Contracts—Material Contracts Relating to Coca-Cola FEMSA—Shareholders Agreement."
- We will continue to consolidate Coca-Cola FEMSA's financial results under IFRS.
- TCCC and our company will continue to discuss in good faith the possibility of implementing changes to Coca-Cola FEMSA's capital structure in the future.
- TCCC may require the establishment of a different long-term strategy for Brazil. If, after taking into account Coca-Cola FEMSA's performance in Brazil, TCCC does not consider Coca-Cola FEMSA to be part of this long-term strategic solution for Brazil, then Coca-Cola FEMSA will sell its Brazilian franchise to TCCC or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures. In light of the performance of Coca-Cola FEMSA's business in Brazil and the fact that TCCC authorized Coca-Cola FEMSA to acquire four Coca-Cola bottlers in Brazil from 2008 to 2017 and participate in the acquisition of Brazilian operations of Jugos del Valle, Leão Alimentos, Laticínios Verde Campo Ltda and the AdeS business in Brazil, Coca-Cola FEMSA believe that this provision is no longer applicable.
- Coca-Cola FEMSA would like to keep open strategic alternatives that relate to the integration of sparkling beverages and beer. TCCC, our company and Coca-Cola FEMSA would explore these alternatives on a market-by-market basis at the appropriate time.
- TCCC agreed to sell to us sufficient shares to permit us to beneficially own 51% of Coca-Cola FEMSA outstanding capital stock (assuming that we do not sell any shares and that there are no issuances of Coca-Cola FEMSA stock other than as contemplated by the acquisition). As a result of this understanding, in November 2006, we acquired, through a subsidiary, 148,000,000 of Coca-Cola FEMSA Series D shares

from certain subsidiaries of TCCC, representing 9.4% of the total outstanding voting shares and 8% of the total outstanding equity of Coca-Cola FEMSA, at a price of US\$ 2.888 per share for an aggregate amount of US\$ 427.4 million. Pursuant to our bylaws, the acquired shares were converted from Series D shares to Series A shares.

- Coca-Cola FEMSA may be entering some markets where significant infrastructure investment may be required. TCCC and our company will conduct a joint study that will outline strategies for these markets, as well as the investment levels required to execute these strategies. Subsequently, it is intended that our company and TCCC will reach an agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome for either partner.

Cooperation Framework with The Coca-Cola Company

In 2016, Coca-Cola FEMSA announced a new, comprehensive framework with TCCC. This cooperation framework seeks to maintain a mutually beneficial business relationship over the long-term, which will allow both companies to focus on continuing to drive the business forward and generating profitable growth. The cooperation framework contemplates the following main objectives:

- **Long-term guidelines to the relationship economics.** Concentrate prices for sparkling beverages in Mexico gradually increased from 2017 through July 2019.
- **Other Concentrate Price Adjustments.** Potential future concentrate price adjustments for sparkling beverages and flavored water in Mexico will take into account investment and profitability levels that are beneficial both to Coca-Cola FEMSA and TCCC.
- **Marketing and commercial strategies.** Coca-Cola FEMSA and TCCC are committed to implementing marketing and commercial strategies as well as productivity programs to maximize profitability. Coca-Cola FEMSA believes that these initiatives will partially mitigate the effects of concentrate price adjustments.

Bottler Agreements

Bottler agreements are the standard agreements that TCCC enters into with bottlers in each territory. Pursuant to Coca-Cola FEMSA's bottler agreements, Coca-Cola FEMSA is authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages in all of its territories from affiliates of TCCC and sweeteners and other raw materials from companies authorized by TCCC.

These bottler agreements also provide that Coca-Cola FEMSA will purchase its entire requirement of concentrate for *Coca-Cola* trademark beverages at prices, terms of payment and on other terms and conditions of supply as determined from time to time by TCCC at its sole discretion. Concentrate prices for *Coca-Cola* trademark beverages are determined as a percentage of the weighted average retail price in local currency, net of applicable taxes. Although the price multipliers used to calculate the cost of concentrate and the currency of payment, among other terms, are set by TCCC at its sole discretion, Coca-Cola FEMSA sets the price of products sold to customers at its discretion, subject to the applicability of price restraints imposed by authorities in certain territories. Coca-Cola FEMSA has the exclusive right to distribute *Coca-Cola* trademark beverages for sale in its territories in authorized containers of the nature approved by the bottler agreements and currently used by Coca-Cola FEMSA. These containers include various configurations of cans and returnable and non-returnable bottles made of glass, aluminum and plastic and fountain containers.

The bottler agreements include an acknowledgment by Coca-Cola FEMSA that TCCC is the sole owner of the trademarks that identify the *Coca-Cola* trademark beverages and of the formulas with which TCCC's concentrates are made. Subject to Coca-Cola FEMSA's exclusive right to distribute *Coca-Cola* trademark beverages in its territories, TCCC reserves the right to import and export *Coca-Cola* trademark beverages to and from each of Coca-Cola FEMSA's territories. Coca-Cola FEMSA's bottler agreements do not contain restrictions on TCCC's ability to set the price of concentrates and do not impose minimum marketing obligations on TCCC. The prices at which Coca-Cola FEMSA purchases concentrate under the bottler agreements may vary materially from the prices Coca-Cola FEMSA has

historically paid. However, under Coca-Cola FEMSA's bylaws and the shareholders agreement among TCCC and certain of its subsidiaries and our subsidiaries, an adverse action by TCCC under any of the bottler agreements may result in a suspension of certain voting rights of the directors appointed by TCCC. This provides Coca-Cola FEMSA with limited protection against TCCC's ability to raise concentrate prices to the extent that such increase is deemed detrimental to us pursuant to such shareholder agreement and our bylaws. See "Item 10. Additional Information—Material Contracts—Material Contracts Relating to Coca-Cola FEMSA—Shareholders Agreement."

TCCC has the ability, at its sole discretion, to reformulate any of the *Coca-Cola* trademark beverages and to discontinue any of the *Coca-Cola* trademark beverages, subject to certain limitations, so long as all *Coca-Cola* trademark beverages are not discontinued. TCCC may also introduce new beverages in Coca-Cola FEMSA's territories in which case Coca-Cola FEMSA has a right of first refusal with respect to the manufacturing, packaging, distribution and sale of such new beverages subject to the same obligations as then exist with respect to the *Coca-Cola* trademark beverages under the bottler agreements. The bottler agreements prohibit Coca-Cola FEMSA from producing, bottling or handling beverages other than *Coca-Cola* trademark beverages, or other products or packages that would imitate, infringe upon or cause confusion with the products, trade dress, containers or trademarks of TCCC, except under the authority of, or with the consent of, TCCC. The bottler agreements also prohibit Coca-Cola FEMSA from acquiring or holding an interest in a party that engages in such restricted activities. The bottler agreements impose restrictions concerning the use of certain trademarks, authorized containers, packaging and labeling of TCCC so as to conform to policies approved by TCCC. In particular, Coca-Cola FEMSA is obligated to:

- maintain plant and equipment, staff and distribution facilities capable of manufacturing, packaging and distributing the *Coca-Cola* trademark beverages in authorized containers in accordance with its bottler agreements and in sufficient quantities to satisfy fully the demand in its territories;
- undertake adequate quality control measures established by TCCC;
- develop, stimulate and satisfy fully the demand for *Coca-Cola* trademark beverages using all approved means, which includes the investment in advertising and marketing plans;
- maintain a sound financial capacity as may be reasonably necessary to assure performance by it and its subsidiaries of its obligations to TCCC; and
- submit annually to TCCC its marketing, management, promotional and advertising plans for the ensuing year.

TCCC contributed a significant portion of Coca-Cola FEMSA's total marketing expenses in Coca-Cola FEMSA's territories during 2016 and has reiterated its intention to continue providing such support as part of Coca-Cola FEMSA's cooperation framework. Although Coca-Cola FEMSA believes that TCCC will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by TCCC may vary materially from the levels historically provided. See "Item 10. Additional Information—Material Contracts—Material Contracts Relating to Coca-Cola FEMSA—Shareholders Agreement."

Coca-Cola FEMSA has separate bottler agreements with TCCC for each of the territories where it operates, on substantially the same terms and conditions. These bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement.

As of the date of this annual report, Coca-Cola FEMSA had:

- four bottler agreements in Mexico: (i) the agreement 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;
- two bottler agreements in Brazil, which are up for renewal in October 2027;

- three bottler agreements in Guatemala, one of which is up for renewal in March 2025 and two in April 2028;
- one bottler agreement in Argentina, which is up for renewal in September 2024;
- one bottler agreement in Colombia, which is up for renewal in June 2024;
- one bottler agreement in Costa Rica, which is up for renewal in September 2027;
- one bottler agreement in Nicaragua, which is up for renewal in May 2026;
- one bottler agreement in Panama, which is up for renewal in November 2024; and
- one bottler agreement in Uruguay, which is up for renewal in June 2028.

As of date of this annual report, Coca-Cola FEMSA's investee KOF Venezuela had one bottler agreement, which is up for renewal in August 2026.

The bottler agreements are subject to termination by TCCC in the event of default by Coca-Cola FEMSA. The default provisions include limitations on the change in ownership or control of Coca-Cola FEMSA and the assignment or transfer of the bottler agreements and are designed to preclude any person not acceptable to TCCC from obtaining an assignment of a bottler agreement or from acquiring Coca-Cola FEMSA independently of other rights set forth in the shareholders' agreement. These provisions may prevent changes in Coca-Cola FEMSA's principal shareholders, including mergers or acquisitions involving sales or dispositions of Coca-Cola FEMSA's capital stock, which will involve an effective change of control, without the consent of TCCC. See "Item 10. Additional Information—Material Contracts—Material Contracts Relating to Coca-Cola FEMSA—Shareholders Agreement."

Coca-Cola FEMSA has also entered into tradename license agreements with TCCC pursuant to which it is authorized to use certain trademark names of TCCC with Coca-Cola FEMSA's corporate name. These agreements have a ten-year term and are automatically renewed for ten-year terms, but are terminated if Coca-Cola FEMSA ceases to manufacture, market, sell and distribute *Coca-Cola* trademark products pursuant to the bottler agreements or if the shareholders agreement is terminated. TCCC also has the right to terminate any license agreement if Coca-Cola FEMSA uses its trademark names in a manner not authorized by the bottler agreements.

Material Contracts Relating to our Heineken Investment

Share Exchange Agreement

On January 11, 2010, FEMSA and certain of our subsidiaries entered into a share exchange agreement, which we refer to as the Share Exchange Agreement, with Heineken Holding N.V. and Heineken N.V. The Share Exchange Agreement required Heineken N.V., in consideration for 100% of the shares of EMPREX Cerveza, S.A. de C.V. (now Heineken Mexico Holding, S.A. de C.V.), which we refer to as "EMPREX Cerveza," to deliver at the closing of the Heineken transaction 86,028,019 newly issued Heineken N.V. shares to FEMSA with a commitment to deliver, pursuant to the ASDI, 29,172,504 Allotted Shares over a period of not more than five years from the date of the closing of the Heineken transaction. As of October 5, 2011, we had received the totality of the Allotted Shares.

The Share Exchange Agreement provided that, simultaneously with the closing of the transaction, Heineken Holding N.V. would swap 43,018,320 Heineken N.V. shares with FEMSA for an equal number of newly issued Heineken Holding N.V. shares. After the closing of the Heineken transaction, we owned 7.5% of Heineken N.V.'s shares. This percentage increased to 12.53% upon full delivery of the Allotted Shares and, together with our ownership of 14.94% of Heineken Holding N.V.'s shares, represented an aggregate 20% economic interest in the Heineken Group.

Under the terms of the Share Exchange Agreement, in exchange for such economic interest in the Heineken Group, FEMSA delivered 100% of the shares representing the capital stock of EMPREX Cerveza, which owned 100% of the shares of FEMSA Cerveza. As a result of the transaction, EMPREX Cerveza and FEMSA Cerveza became wholly-owned subsidiaries of Heineken.

The principal provisions of the Share Exchange Agreement are as follows:

- delivery to Heineken N.V., by FEMSA, of 100% of the outstanding share capital of EMPREX Cerveza, which together with its subsidiaries, constitutes the entire beer business and operations of FEMSA in Mexico and Brazil (including the United States and other export business);
- delivery to FEMSA by Heineken N.V. of 86,028,019 new Heineken N.V. shares;
- simultaneously with the closing of the Heineken transaction, a swap between Heineken Holding N.V. and FEMSA of 43,018,320 Heineken N.V. shares for an equal number of newly issued shares in Heineken Holding N.V.;
- the commitment by Heineken N.V. to assume indebtedness of EMPREX Cerveza and subsidiaries amounting to approximately US\$ 2.1 billion;
- the provision by FEMSA to the Heineken Group of indemnities customary in transactions of this nature concerning FEMSA and FEMSA Cerveza and its subsidiaries and their businesses;
- FEMSA's covenants to operate the EMPREX Cerveza business in the ordinary course consistent with past practice until the closing of the transaction, subject to customary exceptions, with the economic risks and benefits of the EMPREX Cerveza business transferring to Heineken as of January 1, 2010;
- the provision by Heineken N.V. and Heineken Holding N.V. to FEMSA of indemnities customary in transactions of this nature concerning the Heineken Group; and
- FEMSA's covenants, subject to certain limitations, to not engage in the production, manufacture, packaging, distribution, marketing or sale of beer and similar beverages in Latin America, the United States, Canada and the Caribbean.

In September 2017, FEMSA sold shares equivalent to 3.9% of Heineken N.V.'s capital stock and shares equivalent to 2.67% of Heineken Holding N.V.'s capital stock. This sale decreased FEMSA's economic interest in Heineken from 20.0% to 14.76%.

Corporate Governance Agreement

On April 30, 2010, FEMSA, CB Equity (as transferee of the Heineken N.V. and Heineken Holding N.V. Exchange Shares and Allotted Shares), Heineken N.V., Heineken Holding N.V. and L'Arche Green N.V. (as majority shareholder of Heineken Holding N.V.) entered into a corporate governance agreement, which we refer to as the Corporate Governance Agreement, which establishes the terms of the relationship between Heineken and FEMSA after the closing of the Heineken transaction.

The Corporate Governance Agreement covers, among other things, the following topics:

- FEMSA's representation on the Heineken Holding Board and the Heineken Supervisory Board and the creation of an Americas committee, also with FEMSA's representation;
- FEMSA's representation on the selection and appointment committee and the audit committee of the Heineken Supervisory Board;
- FEMSA's commitment to not increase its holding in Heineken Holding N.V. above 20% and to not increase its holding in the Heineken Group above a maximum 20% economic interest (subject to certain exceptions); and
- FEMSA's agreement not to transfer any shares in Heineken N.V. or Heineken Holding N.V. for a five-year period, subject to certain exceptions, including among others, (i) beginning in the third anniversary, the right to sell up to 1% of all outstanding shares of each of Heineken N.V. and Heineken Holding N.V. in

each calendar quarter, and (ii) beginning in the third anniversary, the right to dividend or distribute to its shareholders each of Heineken N.V. and Heineken Holding N.V. shares.

Under the Corporate Governance Agreement, FEMSA is entitled to nominate two representatives to the Heineken Supervisory Board, one of whom will be appointed as its vice-chairman and will also serve as a representative of FEMSA on the Heineken Supervisory Board. José Antonio Fernández Carbajal, our Executive Chairman of the Board and Javier Astaburuaga Sanjines, our Vice President of Corporate Development were appointed to the Heineken Supervisory Board by Heineken N.V.'s general meeting of shareholders. Mr. Fernández Carbajal was also approved to the Heineken Holding Board by the general meeting of shareholders of Heineken Holding N.V.

In addition, the Heineken Supervisory Board has created an Americas committee to oversee the strategic direction of the business in the American continent and assess new business opportunities in that region. The Americas committee consists of two existing members of the Heineken Supervisory Board and one FEMSA representative, who acts as the chairman. The chairman of the Americas committee is José Antonio Fernández Carbajal, our Executive Chairman of the Board.

The Corporate Governance Agreement has no fixed term, but certain provisions cease to apply if FEMSA ceases to have the right to nominate a representative to the Heineken Holding Board and the Heineken Supervisory Board. For example, in certain circumstances, FEMSA would be entitled to only one representative on the Heineken Supervisory Board, including in the event that FEMSA's economic interest in the Heineken Group were to fall below 14%, the current FEMSA control structure were to change or FEMSA were to be subject to a change of control. In the event that FEMSA's economic interest in Heineken falls below 7% or a beer producer acquires control of FEMSA, all of FEMSA's corporate governance rights would end pursuant to the Corporate Governance Agreement.

Documents on Display

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. Any filings we make electronically are available to the public over the internet at the SEC's web site at www.sec.gov and at our website at www.femsa.com. (This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL, is not and shall not be deemed to be incorporated into this annual report.)

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our business activities require the holding or issuing of derivative financial instruments that expose us to market risks related to changes in interest rates, foreign currency exchange rates, equity risk and commodity price risk.

Interest Rate Risk

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. At December 31, 2020, we had outstanding total debt of Ps. 188,665 million, of which 8% bore interest at variable interest rates and 92% bore interest at fixed interest rates. After giving effect to derivative hedging contracts, as of December 31, 2020, 92.4% of our total debt was fixed rate and 7.6% of our total debt was variable rate (the total amount of debt and of variable rate debt and fixed rate debt used in the calculation of this percentage includes the effect of cross-currency and interest rate swaps). The interest rate on our variable rate debt is determined by reference to the London Interbank Offered Rate ("LIBOR," a benchmark rate used for Eurodollar loans), the Equilibrium Interbank Interest Rate (*Tasa de Interés Interbancaria de Equilibrio*, or "TIE"), and the Treasury Certificates (*Certificados de la Tesorería*, or "CETES") rate. LIBOR is the subject of recent U.S. and international regulatory guidance and proposals for reform. These reforms and other pressures may cause LIBOR to become unavailable or to perform or be reported differently than in the past. The consequences of these developments cannot be entirely predicted but could include an increase in the cost of our floating rate debt or exposure under our interest rate derivative transactions. We do not anticipate a significant impact to our financial position given our current mix of variable and fixed-rate debt, taking into account the impact of our interest rate hedging. If any of the above-described reference rates increase, our interest payments would consequently increase.

The table below provides information about our derivative financial instruments that are sensitive to changes in interest rates and exchange rates. The table presents notional amounts and weighted average interest rates by expected contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on the reference rates on December 31, 2020, plus spreads contracted by us. Our derivative financial instruments' current payments are denominated in U.S. dollars and Mexican pesos. All of the payments in the table are presented in Mexican pesos, our reporting currency, utilizing the December 31, 2020 exchange rate of Ps. 19.8920 per U.S. dollar.

The table below also includes the estimated fair value as of December 31, 2020 of:

- short and long-term debt, based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities;
- long-term notes payable based on quoted market prices; and
- cross-currency swaps and interest rate swaps, based on quoted market prices to terminate the contracts as of December 31, 2020.

As of December 31, 2020, the fair value represents an increase in total debt of Ps. 19,469 million more than book value.

Principal by Year of Maturity

(in millions of Mexican pesos)	At December 31, (1)						2026 and Thereafter	Carrying Value at December 31, 2020	Fair Value at December 31, 2020	Carrying Value at December 31, 2019(1)
	2021	2022	2023	2024	2025					
Short-term debt:										
Fixed rate debt:										
Colombian pesos										
Bank loans	Ps. 168	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 168	Ps. 168	Ps. 769	
Interest rate	2.1 %	—	—	—	—	—	2.1 %	—	5.1 %	
Argentine pesos										
Bank loans	711	—	—	—	—	—	711	711	126	
Interest rate	44.7 %	—	—	—	—	—	44.7 %	—	63.5 %	
Chilean pesos										
Bank loans	1,027	—	—	—	—	—	1,027	1,027	977	
Interest rate	1.9 %	—	—	—	—	—	1.9 %	—	2.6 %	
U.S. dollars										
Bank loans	1,150	—	—	—	—	—	1,150	1,150	1,038	
Interest rate	2.0 %	—	—	—	—	—	2.0 %	—	2.6 %	
Uruguayan pesos										
Bank loans	498	—	—	—	—	—	498	498	63	
Interest rate	15.1 %	—	—	—	—	—	15.1 %	—	11.6 %	
Guatemalan quetzal										
Bank loans	63	—	—	—	—	—	63	63	—	
Interest rate	6.3 %	—	—	—	—	—	6.3 %	—	— %	
Variable rate debt:										
Mexican pesos										
Bank loans	360	—	—	—	—	—	360	360	100	
Interest rate	5.2 %	—	—	—	—	—	5.2 %	—	7.9 %	
Colombian pesos										
Bank loans	492	—	—	—	—	—	492	492	431	
Interest rate	3.0 %	—	—	—	—	—	3.0 %	—	4.7 %	
Argentine pesos										
Bank loans	—	—	—	—	—	—	—	—	32	
Interest rate	— %	—	—	—	—	—	— %	—	54.3 %	
Brazilian reals										
Bank loans	—	—	—	—	—	—	—	—	399	
Interest rate	— %	—	—	—	—	—	— %	—	9.4 %	
Total short-term debt	Ps. 4,469	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 4,469	Ps. 4,469	Ps. 3,935	

[Table of Contents](#)

(in millions of Mexican pesos)	2021	2022	2023	2024	2025	2026 and Thereafter	Carrying Value at December 31, 2020	Fair Value at December 31, 2020	Carrying Value at December 31, 2019(1)
Long-term debt:									
Fixed rate debt:									
Euro									
Senior unsecured notes	Ps. —	Ps. —	Ps. 24,469	Ps. —	Ps. —	Ps. —	Ps. 24,469	Ps. 25,517	Ps. 21,046
Interest rate	—	—	1.7 %	—	—	—	1.7 %	—	1.7 %
U.S. dollars									
Yankee bond	—	—	—	—	—	50,597	50,597	57,967	37,575
Interest rate	—	—	—	—	—	3.1 %	3.1 %	—	4.5 %
Bank of NY (FEMSA USD 2023)	—	—	5,975	—	—	—	5,975	6,258	5,593
Interest rate ⁽¹⁾	—	—	2.9 %	—	—	—	2.9 %	—	2.9 %
Bank of NY (FEMSA USD 2043)	—	—	—	—	—	13,805	13,805	17,486	12,943
Interest rate ⁽¹⁾	—	—	—	—	—	4.4 %	4.4 %	—	4.4 %
Bank of NY (FEMSA USD 2050)	—	—	—	—	—	49,549	49,549	55,422	—
Interest rate ⁽¹⁾	—	—	—	—	—	3.5 %	3.5 %	—	— %
Bank loans	—	—	—	2,293	—	—	2,293	2,293	2,185
Interest rate	—	—	—	3.7 %	— %	—	3.7 %	—	3.6 %
Mexican pesos									
Domestic senior notes	2,502	—	7,496	—	—	11,485	21,483	22,638	18,484
Interest rate	8.3 %	—	5.5 %	—	—	7.7 %	7.0 %	—	6.9 %
Bank loans	48	38	32	25	22	—	165	165	115
Interest rate	9.1 %	9.9 %	9.5 %	9.0 %	8.7 %	—	9.3 %	—	9.3 %
Brazilian reais									
Bank loans	59	50	28	19	1	—	157	157	434
Interest rate	5.7 %	6.0 %	6.4 %	6.6 %	6.6 %	—	6.1 %	—	7.3 %
Chilean pesos									
Bank loans	15	—	—	—	—	—	15	15	40
Interest rate	3.2 %	—	—	—	—	—	3.2 %	—	3.4 %
Uruguayan pesos									
Bank loans	770	261	—	—	—	—	1,031	1,031	1,265
Interest rate	10.3 %	12.2 %	—	—	—	—	10.8 %	—	5.8 %
Subtotal	Ps. 3,394	Ps. 349	Ps. 38,000	Ps. 2,337	Ps. 23	Ps. 125,436	Ps. 169,539	Ps. 188,949	Ps. 99,680

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

(in millions of Mexican pesos)	2021	2022	2023	2024	2025	2026 and Thereafter	Carrying Value at December 31, 2020	Fair Value at December 31, 2020	Carrying Value at December 31, 2019(1)
Variable rate debt:									
Mexican pesos									
Domestic senior notes	Ps. —	Ps. 1,459	Ps. —	Ps. —	Ps. 1,722	Ps. —	Ps. 3,181	Ps. 3,176	Ps. 1,459
Interest rate ⁽¹⁾	—	4.7 %	—	—	4.6 %	—	4.6 %	—	8.0 %
Bank Loans	238	102	54	367	6,003	3,007	9,771	9,834	9,864
Interest rate ⁽¹⁾	5.8 %	6.0 %	6.2 %	5.3 %	5.0 %	5.2 %	8.4 %	—	8.4 %
Brazilian reais									
Bank loans	43	4	—	—	—	—	47	48	242
Interest rate	8.1 %	8.1 %	—	—	—	—	8.1 %	—	7.8 %
Colombian pesos									
Bank loans	18	7	—	—	—	—	25	25	422
Interest rate	4.4 %	4.4 %	—	—	—	—	4.4 %	—	5.7 %
Chilean pesos									
Bank loans	639	657	337	—	—	—	1,633	1,633	2,349
Interest rate	5.8 %	2.0 %	2.0 %	—	—	—	3.5 %	—	4.1 %
Subtotal	Ps. 938	Ps. 2,229	Ps. 391	Ps. 367	Ps. 7,725	Ps. 3,007	Ps. 14,657	Ps. 14,716	Ps. 14,336
Total long-term debt	Ps. 4,332	Ps. 2,578	Ps. 38,391	Ps. 2,704	Ps. 7,748	Ps. 128,443	Ps. 184,196	Ps. 203,665	Ps. 114,016
Current portion of long-term debt							(4,332)	(12,269)	(12,269)
							Ps. 179,864		Ps. 101,747

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

A hypothetical, instantaneous and unfavorable change of 100 basis points in the average interest rate applicable to variable-rate liabilities held at FEMSA as of December 31, 2020 would increase our interest expense by approximately Ps. 102 million, or 1.6%, over the 12-month period of 2021, assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest and cross-currency swap agreements.

Foreign Currency Exchange Rate Risk

Our principal exchange rate risk involves changes in the value of the local currencies, of each country where we operate, relative to the U.S. dollar. In 2020, the percentage of our consolidated total revenues was denominated as follows:

Total Revenues by Currency at December 31, 2020

Region	Currency	% of Consolidated Total Revenues
Mexico and Central America	Mexican peso, Guatemalan quetzal, Panamanian balboa, Costa Rican colon, Nicaraguan córdoba and U.S. dollar	70 %
South America	Brazilian reais, Argentine peso, Colombian peso, Chilean peso, Uruguayan peso and Peru sol	28 %
United States	U.S. dollar	2 %

We estimate that a majority of our consolidated costs and expenses are denominated in Mexican pesos for Mexican subsidiaries and in the aforementioned currencies for the foreign subsidiaries, which are principally subsidiaries of Coca-Cola FEMSA. Substantially all of our costs and expenses denominated in a foreign currency, other than the functional currency of each country where we operate, are denominated in U.S. dollars. As of December 31, 2020, after giving effect to all cross-currency swaps and interest rate swaps, 33.1% of our long-term indebtedness was denominated in Mexican pesos, 45.3% was denominated in U.S. Dollars, 13.5% was denominated in euros, 4.2% was denominated in Brazilian reais, 2.2% was denominated in Chilean pesos and 0.5% was denominated in Colombian pesos, 0.8% Uruguayan pesos and 0.4% in Argentine pesos. We also have short-term indebtedness, which mostly consists of bank loans in Colombian pesos, Argentine pesos, Chilean pesos and U.S. dollars. Decreases in the value of the different currencies relative to the U.S. dollar will increase the cost of our foreign currency denominated operating costs and expenses, and the debt service obligations with respect to our foreign currency-denominated indebtedness. A depreciation of the Mexican peso relative to the U.S. dollar will also result in foreign exchange losses, as the Mexican peso value of our foreign currency-denominated long-term indebtedness is increased.

Our exposure to market risk associated with changes in foreign currency exchange rates relates primarily to U.S. dollar and euro-denominated debt obligations as shown in the interest rate risk table above. We occasionally utilize financial derivative instruments to hedge our exposure to the U.S. dollar relative to the Mexican peso and other currencies. Also, we occasionally use non-derivative financial instruments to hedge our exposure to the euro relative to the Mexican peso, regarding our net investment in Heineken.

As of December 31, 2020, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and euros. The notional amount of these forward agreements was (i) Ps. 9,042 million that expire in 2021, for which we have recorded a net fair value liability of Ps. 1,036 million; (ii) Ps. 66 million that expire in 2022, for which we have recorded a net fair value liability of Ps. 41 million; (iii) Ps. 23 million that expire in 2023, for which we have recorded a net fair value liability of Ps. 2 million; and (iv) Ps. 2 million that expire in 2024, for which we have recorded a net fair value liability less than a million. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2020, a gain of Ps. 167 million on expired forward agreements was recorded in our consolidated results.

As of December 31, 2019, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and euros. The notional amount of these forward agreements was (i) Ps. 8,447 million that expired in 2020, for which we have recorded a net fair value liability of Ps. 258 million; (ii) Ps. 215 million that expire in 2021, for which we have recorded a net fair value asset of Ps. 27 million and (iii) Ps. 52 million that expire in 2022, for which we have recorded a net fair value asset of Ps. 5 million. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the

same maturity dates originally contracted for. For the year ended December 31, 2019, a gain of Ps. 116 million on expired forward agreements was recorded in our consolidated results.

As of December 31, 2018, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and euros. The notional amount of these forward agreements was Ps. 5,808 million, for which we have recorded a net fair value asset of Ps. 68 million. The maturity date of these forward agreements was in 2019. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2018, a gain of Ps. 87 million on expired forward agreements was recorded in our consolidated results.

As of December 31, 2019, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations. The notional amount of these options was Ps. 107 million, for which we have recorded a net fair value asset of Ps. 2 million as part of accumulated other comprehensive income. The maturity date of these options is in 2020.

As of December 31, 2018, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations. The notional amount of these options was Ps. 1,734 million, for which we have recorded a net fair value asset of Ps. 24 million as part of accumulated other comprehensive income. The maturity date of these options was in 2019.

As of December 31, 2020, we have long-term debt in the amount of €1,000. We have designated a non-derivative financial liability as a hedge on the net investment in our stake hold in Heineken. We recognized a foreign exchange loss, net of tax, of Ps. 2,379 million, which is as part of the exchange differences on translation of foreign operation within the accumulated other comprehensive income. Additionally, as of December 31, 2020, we have long-term debt in the amount of \$2,500. We have designated a portion of the non-derivative financial liability as a hedge on the net investment in our stake hold in Specialized Distribution and JRD. We recognized a foreign exchange gain, net of tax, of Ps. 3,439 million, which is as part of the exchange differences on translation of foreign operation within the accumulated other comprehensive income.

As of December 31, 2019, we have long-term debt in the amount of €1,000. We have designated a non-derivative financial liability as a hedge on the net investment in our stake hold in Heineken. We recognized a foreign exchange gain, net of tax, of Ps. 991 million, which is as part of the exchange differences on translation of foreign operation within the accumulated other comprehensive income.

The following table illustrates the effects that hypothetical fluctuations in the exchange rates of the U.S. dollar and the euro relative to the Mexican peso, and the U.S. dollar relative to the Brazilian real and Colombian peso, would have on our equity and profit or loss:

Foreign Currency Risk	Change in Exchange Rate	Effect on Equity (in millions of Mexican pesos)
2020		
FEMSA(1)	+19% MXN/EUR	Ps. 327
	-19% MXN/EUR	(327)
	+21% BRL/USD	240
	-21% BRL/USD	(240)
Coca-Cola FEMSA	+19% MXN/USD	884
	-19% MXN/USD	(884)
	+21% BRL/USD	357
	-21% BRL/USD	(357)
	+9% UYU/USD	21
	-9% UYU/USD	(21)
	+16% COP/USD	142
	-16% COP/USD	(142)
	+2% ARS/USD	2
	-2% ARS/USD	(2)
2019		
FEMSA(1)	+9% MXN/EUR	Ps. 57
	-9% MXN/EUR	(57)
	+13% BRL/USD	202
	-13% BRL/USD	(202)
Coca-Cola FEMSA	+9% MXN/USD	739
	-9% MXN/USD	(739)
	+13% BRL/USD	155
	-13% BRL/USD	(155)
	+5% UYU/USD	23
	-5% UYU/USD	(23)
	+10% COP/USD	54
	-10% COP/USD	(54)
	+25% ARS/USD	88
	-25% ARS/USD	(88)
2018		
FEMSA(1)	+12 MXN/EUR	Ps. 116
	-12% MXN/EUR	(116)
	+13% MXN/USD	668
	-13% MXN/USD	(668)
Coca-Cola FEMSA	+16% BRL/USD	413
	-16% BRL/USD	(413)
	+8% UYU/USD	46
	-8% UYU/USD	(46)
	+12% COP/USD	2
	-12% COP/USD	(2)
	+27% ARS/USD	522
	-27% ARS/USD	(522)

(1) Does not include Coca-Cola FEMSA.

As of December 31, 2020, we had (i) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 4,575 million that expire in 2021, for which we have recorded a net fair value asset of Ps. 164 million; (ii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 376 million that expire in 2022, for which we have recorded a net fair value asset of Ps. 23 million;

(iii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 24,103 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 10,808 million; (iv) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 1,577 million that expire in 2024, for which we have recorded a net fair value asset of Ps. 255 million; (v) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 10,750 million that expire in 2025, for which we have recorded a net fair value liability of Ps. 2,481 million; (vi) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 6,982 million that expire in 2027, for which we have recorded a net fair value liability of Ps. 384 million; (vii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 1,519 million that expire in 2029, for which we have recorded a net fair value asset of Ps. 122 million; (viii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 3,790 million that expire in 2030, for which we have recorded a net fair value asset of Ps. 85 million; and (ix) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 8,869 million that expire in 2043, for which we have recorded a net fair value asset of Ps. 2,706 million.

As of December 31, 2019, we had (i) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 17,252 million that expired in 2020, for which we have recorded a net fair value asset of Ps. 576 million; (ii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 702 million that expire in 2021, for which we have recorded a net fair value asset of Ps. 49 million; (iii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 375 million that expire in 2022, for which we have recorded a net fair value asset of Ps. 3 million; (iv) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 23,466 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 6,528 million; (v) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 1,788 million that expire in 2024, for which we have recorded a net fair value liability of Ps. 53 million; (vi) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 772 million that expire in 2026, for which we have recorded a net fair value liability of Ps. 63 million; (vii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 6,596 million that expire in 2027, for which we have recorded a net fair value liability of Ps. 843 million; (viii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 1,371 million that expire in 2029, for which we have recorded a net fair value asset of Ps. 121 million; and (ix) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 8,869 million that expire in 2043, for which we have recorded a net fair value asset of Ps. 576 million.

As of December 31, 2018, we had (i) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 4,738 million that expired in 2019, for which we have recorded a net fair value asset of Ps. 502 million; (ii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 18,126 million that expired in 2020, for which we have recorded a net fair value asset of Ps. 637 million; (iii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 4,774 million that expire in 2021, for which we have recorded a net fair value asset of Ps. 615 million; (iv) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 396 million that expire in 2023, for which we have recorded a net fair value liability of Ps. 7 million; (v) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 23,948 million that expire in 2026, for which we have recorded a net fair value asset of Ps. 7,422 million; (vi) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 813 million that expire in 2027, for which we have recorded a net fair value liability of Ps. 154 million; and (vii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 6,889 million that expire in 2028, for which we have recorded a net fair value asset of Ps. 160 million.

Certain cross-currency swap instruments did not meet the hedging criteria for accounting purposes. For the years ended December 31, 2020, 2019 and 2018, changes in the estimated fair value were recorded in the income statement. The changes in fair value of these contracts represented a loss of Ps. 212, Ps. 289 and Ps. 128 million in 2020, 2019 and 2018, respectively.

A hypothetical, instantaneous and unfavorable 10% devaluation of the Mexican peso relative to the U.S. dollar occurring on December 31, 2020 would result in a foreign exchange gain increasing our consolidated net income by

approximately Ps. 5,785 million over the 12-month period of 2021, reflecting greater foreign exchange loss related to our U.S. dollar denominated indebtedness, net of a gain in the cash balances held by us in U.S. dollars and euros.

As of April 9, 2021, the exchange rates relative to the U.S. dollar of all the countries where we operate, as well as their devaluation/revaluation effect compared to December 31, 2020, were as follows:

Country	Currency	Exchange Rate as of April 9, 2021	(Depreciation) / Appreciation
Mexico	Mexican peso	20.1765	(1.1)%
Brazil	Brazilian reais	5.64	(8.6)%
Colombia	Colombian peso	3,634.07	(5.9)%
Argentina	Argentine peso	92.44	(9.9)%
Costa Rica	Colon	614.68	0.4 %
Guatemala	Quetzal	7.72	0.9 %
Nicaragua	Cordoba	35.01	(0.5)%
Panama	U.S. dollar	1.00	—
Euro Zone	Euro	0.84	(3.5)%
Peru	Nuevo sol	3.62	(0.1)%
Chile	Chilean peso	708.09	0.4 %
Uruguay	Uruguayan peso	44.09	(4.1)%

A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the currencies in each of the countries where we operate, relative to the U.S. dollar, occurring on December 31, 2020, would produce a reduction (or gain) in stockholders' equity as follows:

Country	Currency	Reduction in Stockholders' Equity (in millions of Mexican pesos)
Mexico	Mexican peso	5,785
Brazil	Brazilian reais	2,873
Colombia	Colombian peso	1,296
Costa Rica	Colon	448
Argentina	Argentine peso	191
Guatemala	Quetzal	95
Nicaragua	Cordoba	106
Panama	U.S. dollar	353
Peru	Nuevo sol	21
Chile	Chilean peso	1,046
Euro Zone	Euro	7,095
U.S.A.	U.S. dollar	2,974

Equity Risk

As of December 31, 2020, 2019 and 2018, we did not have any equity derivative agreements that exposed us to equity risk.

Commodity Price Risk

We entered into various derivative contracts to hedge the cost of certain raw materials that are exposed to variations of commodity price exchange rates. As of December 31, 2020, we had various derivative instruments contracts with maturity dates in 2021 and 2022, notional amounts of Ps. 3,149 million and a fair value asset of Ps. 404 million. The results of our commodity price contracts for the years ended December 31, 2020, 2019, and 2018, were gains of Ps. 129 million, Ps. 391 million and Ps. 258 million, respectively, which were recorded in the results of each year.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

ITEM 12A. DEBT SECURITIES

Please see Exhibit 2.17 to this annual report.

ITEM 12B. WARRANTS AND RIGHTS

Not applicable.

ITEM 12C. OTHER SECURITIES

Not applicable.

ITEM 12D. AMERICAN DEPOSITARY SHARES

The Bank of New York Mellon, headquartered at 225 Liberty Street, New York, New York 10286, serves as the depositary for our ADSs. Holders of our ADSs, evidenced by ADRs, are required to pay various fees to the depositary, and the depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

ADS holders are required to pay the depositary amounts in respect of expenses incurred by the depositary or its agents on behalf of ADS holders, including expenses arising from compliance with applicable law, taxes or other governmental charges, cable, telex and facsimile transmission, or the conversion of foreign currency into U.S. dollars. The depositary may decide in its sole discretion to seek payment by either billing holders or by deducting the fee from one or more cash dividends or other cash distributions.

ADS holders are also required to pay additional fees for certain services provided by the depositary, as set forth in the table below.

<u>Depositary service</u>	<u>Fee payable by ADS holders</u>
Issuance and delivery of ADSs, including in connection with share distributions, stock splits	Up to US\$ 5.00 per 100 ADSs (or portion thereof)
Distribution of dividends	Up to US\$ 0.02 per ADS
Withdrawal of shares underlying ADSs	Up to US\$ 5.00 per 100 ADSs (or portion thereof)

Please see Exhibit 2.17 to this annual report for more information.

Direct and indirect payments by the depositary

The depositary pays us an agreed amount, which includes reimbursements for certain expenses we incur in connection with the ADS program. These reimbursable expenses include legal and accounting fees, listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADS holders. For the year ended December 31, 2019, this amount was US\$ 2,376,336.40.

ITEMS 13-14. NOT APPLICABLE

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

We have evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2020. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (or the "Exchange Act") is recorded, processed,

summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management’s annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the 2013 framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

In accordance with applicable guidance provided by SEC, our management assessment and conclusions of internal control effectiveness over financial reporting as of December 31, 2020 excludes an assessment of the internal control over financial reporting of NW Synergy Holdings, LLC and Southeastern Paper Group, Inc. These acquisitions represented 2.4% and 3.9% of our total assets and net assets, respectively, as of December 31, 2020, and 2.3% of our revenues, for the year ended December 31, 2020.

The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by Mancera, S.C., a member practice of Ernst & Young Global Limited, an independent registered public accounting firm, as stated in its report included herein.

(c) Attestation Report of the Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Report of Independent Registered Public Accounting Firm

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

Opinion on internal Control over Financial Reporting

We have audited Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). In our opinion, Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries ("the Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of 1) NW Synergy Holdings LLC (NW Synergy) consolidated since May 2020, and 2) Southeaster Paper Group Inc. (South), consolidated since December 2020, which collectively constituted 2.4% and 3.9% of total and net assets, respectively, as of December 31, 2020 and 2.3% of revenues for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of NW Synergy and South.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes, and our report dated April 14, 2021, expressed an unqualified opinion thereon based on our audit and the report of the other auditor.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance 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 the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standard Board (IFRS). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance

regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

/s/ MANCERA, S.C.
Monterrey, N.L., Mexico
April 14, 2021

(d) Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our shareholders and our board of directors have designated Víctor Alberto Tiburcio Celorio, an independent director under the Mexican Securities Market Law and applicable U.S. securities laws and NYSE listing standards, as an “audit committee financial expert” within the meaning of this Item 16A. See “Item 6. Directors, Senior Management and Employees— Directors.”

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics, within the meaning of this Item 16B of Form 20-F. Our code of ethics applies to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions, our directors and other officers and employees, as well as any third party with which Coca-Cola FEMSA engages. Our code of ethics is available on our website at <https://www.femsa.com/en/press-room/documents/code-of-ethics/>. If we amend the provisions of our code of ethics that apply to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit and Non-Audit Fees

For the fiscal years ended December 31, 2020, 2019 and 2018, Mancera, S.C., a member practice of Ernst & Young Global Limited, was our auditor.

The following table summarizes the aggregate fees billed to us in 2020, 2019 and 2018 by Mancera, S.C., which is an independent registered public accounting firm, during the fiscal years ended December 31, 2020, 2019 and 2018:

	Year ended December 31,		
	2020	2019	2018
	(in millions of Mexican pesos)		
Audit fees	Ps. 149	Ps. 129	Ps. 139
Audit-related fees	23	21	10
Tax fees	19	17	24
Other fees	3	4	8
Total	Ps. 194	Ps. 171	Ps. 181

Audit fees. Audit fees in the above table represent the aggregate fees billed in connection with the audit of our annual financial statements, as well as to other limited procedures in connection with our quarterly financial information and other statutory and regulatory audit activities.

Audit-related fees. Audit-related fees in the above table are the aggregate fees billed for assurance and other services related to the performance of the audit, mainly in connection with bond issuance processes and other special audits and reviews.

Tax fees. Tax fees in the above table are fees billed for services based upon existing facts and prior transactions in order to document, compute and obtain government approval for amounts included in tax filings such as value-added tax return assistance and transfer pricing documentation.

Other fees. Other fees in the above table include mainly fees billed for due diligence services.

Audit Committee Pre-Approval Policies and Procedures

We have adopted pre-approval policies and procedures under which all audit and non-audit services provided by our external auditors must be pre-approved by the audit committee as set forth in the Audit Committee’s charter. Any service proposals submitted by external auditors need to be discussed and approved by the Audit Committee during its meetings, which take place at least four times a year. Once the proposed service is approved, we or our subsidiaries formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our Audit Committee. In addition, the members of our board of directors are briefed on matters discussed by the different committees of our board of directors.

ITEM 16D. NOT APPLICABLE

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

We did not purchase any of our equity securities in 2020. The following table presents purchases by trusts that we administer in connection with our stock incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. See “Item 6. Directors, Senior Management and Employees—EVA Stock Incentive Plan.”

Purchases of Equity Securities

Period	Total Number of BD Units Purchased	Average Price Paid per BD Units	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate U.S. dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
March 2021	2,221,136	Ps. 149.40053	—	—

ITEM 16F. NOT APPLICABLE

ITEM 16G. CORPORATE GOVERNANCE

Pursuant to Rule 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Mexican corporation with shares listed on the Mexican Stock Exchange. Our corporate governance practices are governed by our bylaws, the Mexican Securities Market Law and the regulations issued by the CNBV. We also disclose the extent of compliance with the Mexican Code of Principles and Best Corporate Governance (*Código de Principios y Mejores Prácticas de Gobierno Corporativo*), which was created by a group of Mexican business leaders and was endorsed by the Mexican Stock Exchange.

The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

NYSE Standards	Our Corporate Governance Practices
Directors independence: A majority of the board of directors must be independent.	<p>Directors independence: Pursuant to the Mexican Securities Market Law, we are required to have a board of directors with a maximum of 21 members, 25% of whom must be independent.</p> <p>The Mexican Securities Market Law sets forth, in article 26, the definition of “independence,” which differs from the one set forth in Section 303A.02 of the Listed Company Manual of the NYSE. Generally, under the Mexican Securities Market Law, a director is not independent if such director: (i) is an employee or a</p>

NYSE Standards

Executive sessions: Non-management directors must meet at regularly scheduled executive sessions without management.

Nominating/Corporate Governance Committee: A nominating/corporate governance committee composed entirely of independent directors is required.

Compensation Committee: A compensation committee composed entirely independent directors is required.

Audit Committee: Listed companies must have an audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the NYSE independence standards.

Our Corporate Governance Practices

relevant officer of the company or its subsidiaries; (ii) is an individual with significant influence over the company or its subsidiaries; (iii) is a shareholder or participant of the controlling group of the company; (iv) is a client, supplier, debtor, creditor, partner or employee of an important client, supplier, debtor or creditor of the company; or (v) is a family member of any of the aforementioned persons.

In accordance with the Mexican Securities Market Law, our shareholders are required to make a determination as to the independence of our directors at an ordinary meeting of our shareholders, though the CNBV may challenge that determination. Our board of directors is not required to make a determination as to the independence of our directors.

Executive sessions: Under our bylaws and applicable Mexican law, our non-management and independent directors are not required to meet in executive sessions. Our bylaws state that the board of directors will meet at least four times a year, following the end of each quarter, to discuss our operating results and progress in achieving strategic objectives. Our board of directors can also hold extraordinary meetings.

Nominating/Corporate Governance Committee: We are not required to have a nominating committee, and the Mexican Code of Best Corporate Practices does not provide for a nominating committee.

However, Mexican law requires us to have a Corporate Practices Committee. Our Corporate Practices Committee is composed of four members, and as required by the Mexican Securities Market Law and our bylaws, the four members are independent, and its chairman is elected at the shareholders' meeting.

Compensation Committee: We do not have a committee that exclusively oversees compensation issues. Our Corporate Practices Committee, composed entirely of independent directors, reviews and recommends management compensation programs in order to ensure that they are aligned with shareholders' interests and corporate performance.

Audit Committee: We have an Audit Committee of three members, as required by the Mexican Securities Market Law. Each member of the Audit Committee is an independent director, and its chairman is elected at the shareholders' meeting.

NYSE Standards

Equity compensation plan: Equity compensation plans require shareholder approval, subject to limited exemptions.

Code of business conduct and ethics: Corporate governance guidelines and a code of conduct and ethics are required, with disclosure of any waiver for directors or executive officers.

Our Corporate Governance Practices

Equity compensation plan: Shareholder approval is not required under Mexican law or our bylaws for the adoption and amendment of an equity compensation plan. Such plans should provide for general application to all executives. Our current equity compensation plans have been approved by our board of directors.

Code of business conduct and ethics: We have adopted a code of ethics, within the meaning of Item 16B of SEC Form 20-F. Our code of ethics applies to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, our directors and other officers and employees, as well as any third party with which Coca-Cola FEMSA engages. Our code of ethics is available on our website at <https://www.femsa.com/en/press-room/documents/code-of-ethics/>. If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

ITEM 16H. NOT APPLICABLE

ITEM 17. NOT APPLICABLE

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-185, incorporated herein by reference.

ITEM 19. EXHIBITS

- 1.1 [Bylaws \(*estatutos sociales*\) of Fomento Económico Mexicano, S.A.B. de C.V., approved on April 22, 2008, together with an English translation thereof \(incorporated by reference to Exhibit 1.1 of FEMSA's Annual Report on Form 20-F filed on June 30, 2008 \(File No. 333-08752\)\).](#)
- 1.2 [Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Emprex and FEMSA dated as of January 11, 2010 \(incorporated by reference to Exhibit 1.2 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 \(File No. 333-08752\)\).](#)
- 1.3 [First Amendment to Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Emprex and FEMSA dated as of April 26, 2010 \(incorporated by reference to Exhibit 1.3 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 \(File No. 333-08752\)\).](#)
- 1.4 [Corporate Governance Agreement, dated April 30, 2010, between Heineken Holding N.V., Heineken N.V., L'Arche Green N.V., FEMSA and CB Equity \(incorporated by reference to Exhibit 1.4 of FEMSA's Annual Report on Form 20-F filed on April 27, 2012 \(File No. 333-08752\)\).](#)
- 2.1 [Deposit Agreement, as further amended and restated as of May 11, 2007, among FEMSA, The Bank of New York Mellon \(formerly The Bank of New York\), and all owners and holders from time to time of any American Depositary Receipts, including the form of American Depositary Receipt \(incorporated by reference to FEMSA's registration statement on Form F-6 filed on April 30, 2007 \(File No. 333-142469\)\).](#)
- 2.2 Specimen certificate representing a BD Unit, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, together with an English translation (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 33-8618)).*
- 2.3 [Indenture, dated as of April 8, 2013, between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent, and Transfer Agent \(incorporated by reference to Exhibit 4.1 of FEMSA's registration statement on Form F-3 filed on April 9, 2013 \(File No. 333-187806\)\).](#)
- 2.4 [First Supplemental Indenture, dated as of May 10, 2013, between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent and Transfer Agent, and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish Paying Agent, including the form of global note therein \(incorporated by reference to Exhibit 1.4 to FEMSA's registration statement on Form 8-A filed on May 17, 2013 \(File No. 001-35934\)\).](#)
- 2.5 [Second Supplemental Indenture, dated as of March 18, 2016, between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent and Transfer Agent, and The Bank of New York Mellon SA/NY, Dublin Branch, as Irish Paying Agent, including the form of global note therein \(incorporated by reference to Exhibit 2.13 of FEMSA's Annual Report on Form 20-F filed on April 21, 2016 \(File No. 1-35934\)\).](#)
- 2.6 [Third Supplemental Indenture, dated as of January 16, 2020, between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent and Transfer Agent, including the form of global note therein \(incorporated by reference to Exhibit 4.1 of FEMSA's report on Form 6-K filed on January 16, 2020 \(File No. 001-35934\)\).](#)
- 2.7 [Indenture, dated as of February 5, 2010, among Coca-Cola FEMSA and The Bank of New York Mellon \(incorporated by reference to Exhibit 2.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 \(File No. 1-12260\)\).](#)
- 2.8 [First Supplemental Indenture, dated as of February 5, 2010 among Coca-Cola FEMSA and The Bank of New York Mellon and the Bank of New York Mellon \(Luxembourg\) S.A. \(incorporated by reference to](#)

- [Exhibit 2.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 \(File No. 1-12260\)\)](#).
- 2.9 [Second Supplemental Indenture, dated as of April 1, 2011, among Coca-Cola FEMSA, Propimex, S. de R.L. de C.V. \(formerly Propimex, S.A. de C.V.\), as Guarantor, and The Bank of New York Mellon \(incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 17, 2011 \(File No. 001-12260\)\)](#).
- 2.10 [Third Supplemental Indenture, dated as of September 6, 2013, among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V. \(formerly Propimex, S.A. de C.V.\), as existing guarantor, Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S.A. de C.V., as additional guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent \(incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 \(File No.333-187275\)\)](#).
- 2.11 [Fourth Supplemental Indenture, dated as of October 18, 2013, among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S.A. de C.V., as existing guarantors, Controladora Interamericana de Bebidas, S. de R.L. de C.V., as additional guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent \(incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Registration Statement on Form F3 filed on November 8, 2013 \(File No. 333187275\)\)](#).
- 2.12 [Fifth Supplemental Indenture, dated as of November 26, 2013, among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S.A. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent \(incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on December 5, 2013 \(File No.1-12260\)\)](#).
- 2.13 [Sixth Supplemental Indenture, dated as of January 21, 2014 among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S.A. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent \(incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on January 27, 2014 \(File No.1-12260\)\)](#).
- 2.14 [Seventh Supplemental Indenture, dated as of November 23, 2015, among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V., as successor guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent \(incorporated by reference to Exhibit 2.9 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 15, 2016 \(File No. 1-12260\)\)](#).
- 2.15 [Eighth Supplemental Indenture, dated as of January 22, 2020 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V. and Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent \(incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on January 22, 2020 \(File No. 1-12260\)\)](#).

- 2.16 [Ninth Supplemental Indenture, dated as of January 22, 2020 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V. and Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent \(incorporated by reference to Exhibit 2.11 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 17, 2020 \(File No. 1-12260\)\)](#).
- 2.17 [Description of securities registered under Section 12 of the Securities Exchange Act of 1934](#).
- 3.1 [Amended Voting Trust Agreement among certain principal shareholders of FEMSA, together with an English translation \(incorporated by reference to FEMSA's Schedule 13D as amended, filed on August 11, 2005 \(File No. 005-54705\)\)](#).
- 4.1 [Amended and Restated Shareholders' Agreement, dated as of July 6, 2002, by and among CIBSA, Emprex, The Coca-Cola Company and Inmex \(incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 \(File No. 1-12260\)\)](#).
- 4.2 [First Amendment, dated May 6, 2003, to the Amended and Restated Shareholders' Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. \(incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 \(File No. 1-12260\)\)](#).
- 4.3 [Second Amendment, dated February 1, 2010, to the Amended and Restated Shareholders' Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex and Dulux CBAI 2003 B.V. \(incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 \(File No. 1-12260\)\)](#).
- 4.4 [Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the valley of Mexico \(incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 \(File No. 1-12260\)\)](#).
- 4.5 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the valley of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 33-67380)).*
- 4.6 [Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico \(incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 \(File No. 1-12260\)\)](#).
- 4.7 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 33-67380)).*
- 4.8 Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).*
- 4.9 Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).*

- 4.10 Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).*
- 4.11 Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).*
- 4.12 Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).*
- 4.13 Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).*
- 4.14 Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).*
- 4.15 [Bottler Agreement and Side Letter, dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico \(English translation\) \(incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 \(File No. 1-12260\)\).](#)
- 4.16 [Bottler Agreement and Side Letter, dated June 1, 2005, between Panamco Bajío, S.A. de C.V., and The Coca-Cola Company with respect to operations in Bajío, Mexico \(English translation\) \(incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 \(File No. 1-12260\)\).](#)
- 4.17 Coca-Cola Tradename License Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to FEMSA's Registration Statement on Form F-4 filed on April 9, 1998 (File No. 33-8618)).*
- 4.18 [Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administración de Marcas, S.A. de C.V., as proprietor, and The Coca-Cola Export Corporation Mexico branch, as licensee \(incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 \(File No. 1-12290\)\).](#)
- 4.19 [Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo, S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee \(incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 \(File No. 1-12290\)\).](#)
- 4.20 [Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajío, S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee \(incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 \(File No. 1-12290\)\).](#)
- 4.21 Supply Agreement, dated April 3, 1998, between ALPLA Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).*

[Table of Contents](#)

- 4.22 Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA and FEMSA Logística, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).*
- 4.23 [Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajío, S.A. de C.V. \(with English translation\) \(incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 \(File No. 1-12290\)\)](#).
- 4.24 [Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo, S.A. de C.V. \(with English translation\) \(incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 \(File No. 1-12290\)\)](#).
- 4.25 [Memorandum of Understanding, dated as of March 11, 2003, by and among Panamco, as seller, and The Coca-Cola Company, as buyer \(incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 \(File No. 1-12290\)\)](#).
- 4.26 [The Coca-Cola Company Memorandum to Steve Heyer from Jose Antonio Fernández, dated December 22, 2002 \(incorporated by reference to Exhibit 10.1 to FEMSA's Registration Statement on Amendment No. 1 to the Form F-3 filed on September 20, 2004 \(File No. 333-117795\)\)](#).
- 8.1 [Significant Subsidiaries](#).
- 12.1 [CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 28, 2020](#).
- 12.2 [CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 28, 2020](#).
- 13.1 [Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 28, 2020](#).
- 15.1 [Consent letter of Mancera, S.C., a member practice of Ernst & Young Global](#).
- 15.2 [Consent letter of Deloitte Accountants B.V.](#)
101. INS XBRL Instance Document.
101. SCH XBRL Taxonomy Extension Schema Document.
101. CAL XBRL Taxonomy Extension Calculation Linkbase Document.
101. LAB XBRL Taxonomy Extension Label Linkbase Document.
101. PRE XBRL Taxonomy Extension Presentation Linkbase Document.
101. DEF XBRL Taxonomy Extension Definition Document.

* This was a paper filing, and is not available on the SEC Website.

Omitted from the exhibits filed with this annual report are certain instruments and agreements with respect to our long-term debt, none of which authorizes the issuance of securities in a total amount that exceeds 10% of our total assets. We hereby agree to furnish to the SEC copies of any such omitted instruments or agreements as the SEC requests.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 14, 2021

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

By: /s/ Eugenio Garza y Garza

Eugenio Garza y Garza

Director of Finance and Corporate Development

**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MÉXICO
INDEX TO FINANCIAL STATEMENTS**

Audited consolidated financial statements of Fomento Económico Mexicano, S.A.B. de C.V.

Report of Independent Registered Public Accounting Firm	F-1
Consolidated statements of financial position as of December 31, 2020 and 2019	F-5
Consolidated income statements for the years ended December 31, 2020, 2019 and 2018	F-6
Consolidated statements of comprehensive income for the years ended December 31, 2020, 2019 and 2018	F-7
Consolidated statements of changes in equity for the years ended December 31, 2020, 2019 and 2018	F-8
Consolidated statements of cash flows for the years ended December 31, 2020, 2019 and 2018	F-10
Notes to the audited consolidated financial statements	F-12

Audited consolidated financial statements of Heineken N.V.

Report of Independent Registered Public Accounting Firm – Deloitte Accountants B.V.	F-122
Consolidated income statements for the years ended December 31, 2020, 2019 and 2018	F-126
Consolidated statements of comprehensive income for the years ended December 31, 2020, 2019 and 2018	F-127
Consolidated statements of financial position as of December 31, 2020 and 2019	F-128
Consolidated statements of cash flows for the years ended December 31, 2020, 2019 and 2018	F-129
Consolidated statements of changes in equity for the years ended December 31, 2020, 2019 and 2018	F-130
Notes to the audited consolidated financial statements	F-132

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries (“the Company”) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, based on our audits and the report of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We did not audit the consolidated financial statements of Heineken N.V. (a corporation in which the Company has an 8.63% interest at December 31, 2020 and 2019) which is majority owned by Heineken Holding N.V. (a corporation in which the Company has a 12.26% interest at December 31, 2020 and 2019) (collectively “Heineken”). In the consolidated financial statements, the Company’s investment in Heineken includes its share of the net assets of Ps. 48,471 (€ 1,977) and 50,341 (€ 2,383) million at December 31, 2020 and 2019, respectively, and its equity in the net (loss) income of Heineken of Ps. (842), (€ (30)), Ps. 6,885, (€ 319) and 6,320 (€ 281) million for the years ended December 31, 2020, 2019 and 2018, respectively, which are exclusive of the impact of goodwill and other adjustments recorded by the Company. The financial statements of Heineken were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included above for Heineken, is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated April 14, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance 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 the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Impairment testing of distribution rights, trademarks and goodwill

Description of the Matter

At December 31, 2020, the Company has distribution rights, trademarks and goodwill with an aggregate carrying value of approximately \$ 138,116 million. As explained in Note 13 to the consolidated financial statements, distribution rights, trademarks 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, trademarks and goodwill impairment test was complex and highly judgmental due to the significant estimation required to determine the fair value of the CGUs. In particular, the fair value estimates were 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 We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's distribution rights, trade marks and goodwill impairment review processes, including controls over management's review of the significant assumptions described above, that address the risks of material misstatement relating to the 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 mainly on the projected compound annual growth rates and weighted average cost of capital.. We also involved one of our valuation specialists to assist in the evaluation of the significant assumptions and methodology used by the Company.

Furthermore, we evaluated the adequacy of the related disclosures made in the consolidated financial statements.

Recoverability of deferred tax assets

Description of the 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 \$8,422 million and recoverable tax credits of approximately \$2,595 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 income; these projections are sensitive because they can be affected by variabilities in management's projections and future market and economic conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls that address the risks of material misstatement relating to the realizability of deferred tax assets, including controls over management's projections of future taxable income, analysis of the scheduled 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 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 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 valuation specialists in performing these procedures.

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

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

Business combinations and purchase price allocations

Description of the Matter

As described in Note 4 to the consolidated financial statements, the Company finalized the final purchase price allocation of business acquisitions completed during 2019 and recognized preliminary purchase price allocations of business acquisitions completed during 2020.

Auditing management's assessment and evaluation of its purchase price allocations involved complex auditor judgment because management's assessment and evaluation required it to recognize and determine the fair value of tangible and intangible assets acquired, including

goodwill, as well as liabilities assumed; understand the consideration transferred, including contingent consideration; and to determine the measurement of non-controlling interests. Determining fair values is sensitive to management's assumptions and expectations relating to prospective financial information and interest rates, among other inputs, in the valuation models employed in measuring fair value.

*How We Addressed
the Matter in Our
Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls that address the risks of material misstatement relating to the Company's processes of accounting for business acquisitions, management's review of the accounting applied, measurement of consideration transferred, including contingent consideration, testing of controls related to determination of the fair value of assets acquired, including goodwill, and liabilities assumed; as well as controls related to key assumptions used by management in their valuation models, including but not limited to development of prospective financial information, and key interest rates; and we also evaluated any specific risks related to these business acquisitions as a result of COVID-19 pandemic. In addition, we assessed the competency and qualifications of external valuation specialists engaged by management to assist in their processes.

We involved our valuation specialists to assist us in evaluating the Company's use of valuations models, testing the significant assumptions used in the models (focusing on many items, including but not limited to the projected compound annual growth rates, and in the review of projected earnings), including the completeness and accuracy of the underlying data. We tested management's estimates and projections by comparing them to actual results and historical company and industry and economic trends.

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

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

/s/ MANCERA, S.C.
We have served as the Company's auditor since 2008
Mexico City, Mexico
April 14, 2021

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

Consolidated Statements of Financial Position

As of December 31, 2020 and 2019.

In millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	Note	2020(1)	2020	2019
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	5	\$ 5,410	Ps. 107,624	Ps. 65,562
Investments	6	33	662	12,366
Trade accounts receivables, net	7	1,420	28,249	29,633
Inventories	8	2,214	44,034	41,023
Recoverable taxes	25	860	17,100	18,761
Other current financial assets	9	34	681	1,146
Other current assets	9	147	2,919	4,088
Total current assets		10,118	201,269	172,579
NON CURRENT ASSETS				
Equity accounted investees	10	4,940	98,270	97,470
Property, plant and equipment, net	11	5,686	113,106	114,513
Right-of-use assets, net	12	2,752	54,747	52,684
Intangible assets, net	13	7,817	155,501	146,562
Deferred tax assets	25	1,108	22,043	20,521
Other non-current financial assets	14	1,628	32,386	22,680
Other non-current assets	14	379	7,526	10,532
Total non-current assets		24,310	483,579	464,962
TOTAL ASSETS		\$ 34,428	Ps. 684,848	Ps. 637,541
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Bank loans and notes payable	19	\$ 225	Ps. 4,469	Ps. 3,935
Current portion of non-current debt	19	218	4,332	12,269
Current portion of lease liabilities	12	340	6,772	7,387
Interest payable		104	2,069	895
Trade payable		2,665	53,018	57,178
Accounts payable		1,114	22,150	19,498
Taxes payable		632	12,578	11,717
Other current financial liabilities	26	655	13,025	23,655
Total current liabilities		5,953	118,413	136,534
NON-CURRENT LIABILITIES				
Bank loans and notes payable	19	9,042	179,864	101,747
Lease liabilities	12	2,591	51,536	47,292
Post-employment benefits	17	365	7,253	6,347
Deferred tax liabilities	25	303	6,033	6,946
Other non-current financial liabilities	26	252	5,022	2,481
Provisions and other non-current liabilities	26	480	9,540	10,443
Total non-current liabilities		13,033	259,248	175,256
TOTAL LIABILITIES		18,986	377,661	311,790
EQUITY				
Controlling interest:				
Capital stock		168	3,348	3,348
Additional paid-in capital		895	17,808	18,162
Retained earnings		10,931	217,430	229,794
Other comprehensive income		(43)	(843)	685
Total controlling interest		11,951	237,743	251,989
Non-controlling interest	22	3,491	69,444	73,762
TOTAL EQUITY		15,442	307,187	325,751
TOTAL LIABILITIES AND EQUITY		\$ 34,428	Ps. 684,848	Ps. 637,541

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

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

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

Consolidated Income Statements

For the years ended December 31, 2020, 2019 and 2018.

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

	Note	2020(1)	2020	2019	2018(2)
Net sales	28	\$ 24,654	Ps. 490,425	Ps. 504,059	Ps. 468,894
Other operating revenues		128	2,541	2,652	850
Total revenues		24,782	492,966	506,711	469,744
Cost of goods sold		15,248	303,313	315,230	294,574
Gross profit		9,534	189,653	191,481	175,170
Administrative expenses		1,156	22,988	19,930	17,313
Selling expenses		6,204	123,405	121,871	114,573
Other income	20	168	3,343	1,013	673
Other expenses	20	622	12,381	4,905	2,947
Interest expense	19	881	17,516	14,133	9,825
Interest income		106	2,100	3,168	2,832
Foreign exchange (loss) gain, net		19	385	(2,467)	(248)
Monetary position gain, net		19	384	260	216
Market value loss on financial instruments		13	264	320	355
Income before income taxes from continuing operations and share in the profit of equity accounted investees		970	19,311	32,296	33,630
Income taxes	25	745	14,819	10,476	10,169
Share in the (loss) profit of equity accounted investees, net of tax	10	(37)	(736)	6,228	6,252
Net income from continuing operations		188	3,756	28,048	29,713
Net income from discontinued operations	4	—	—	—	3,366
CONSOLIDATED NET INCOME		188	3,756	28,048	33,079
Controlling interest from continuing operations		(98)	(1,930)	20,699	22,560
Controlling interest from discontinued operations		—	—	—	1,430
Non-controlling interest from continuing operations		286	5,686	7,349	7,153
Non-controlling interest from discontinued operations		—	—	—	1,936
CONSOLIDATED NET INCOME		\$ 188	Ps. 3,756	Ps. 28,048	Ps. 33,079
Basic (loss) earnings per share from continuing operations					
Per series "B" share	24	\$ 0.05	Ps. 1.03	Ps. 1.13	Ps. 2.04
Per series "D" share	24	0.07	1.29	1.41	2.55
Basic earnings per share from discontinued operations					
Per series "B" share	24	—	—	0.07	0.08
Per series "D" share	24	—	—	0.09	0.10
Diluted (loss) earnings per share from continuing operations					
Per series "B" share	24	0.05	1.03	1.13	2.04
Per series "D" share	24	0.07	1.29	1.41	2.55
Diluted earnings per share from discontinued operations					
Per series "B" share	24	—	—	0.07	0.08
Per series "D" share	24	—	—	0.09	0.10

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

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

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

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020, 2019 and 2018.

In millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	Note	2020(1)	2020	2019	2018
CONSOLIDATED NET INCOME		\$ 188	Ps. 3,756	Ps. 28,048	Ps. 33,079
Items that will be reclassified to consolidated net income in subsequent periods, net of tax:					
Valuation of the effective portion of derivative financial instruments	21	83	1,654	(980)	(592)
Income on hedge of net investments in foreign operations	19	53	1,060	991	724
Exchange differences on the translation of foreign operations and equity accounted investees		25	489	(12,556)	(13,174)
Share of other comprehensive income (loss) of equity accounted investees	10	(299)	(5,948)	1,058	(360)
Total items that will be reclassified		(138)	(2,745)	(11,487)	(13,402)
Items that will not be reclassified to consolidated net income in subsequent periods, net of tax:					
Loss due to changes in the fair value in equity financial instruments		(201)	(3,991)	—	(1,039)
Share of other comprehensive income (loss) of equity accounted investees		(6)	(111)	(389)	597
Remeasurements of the net defined benefit liability		(24)	(474)	(1,090)	551
Total items that will not be reclassified		(231)	(4,576)	(1,479)	109
Other items of comprehensive (loss), net of tax		(369)	(7,321)	(12,966)	(13,293)
Consolidated comprehensive (loss) income, net of tax		\$ (181)	Ps. (3,565)	Ps. 15,082	Ps. 19,786
Controlling interest comprehensive income		(176)	(3,458)	12,331	14,776
Reattribution to non-controlling interest of other comprehensive income by acquisition of YZA		—	—	3	—
Reattribution to non-controlling interest of other comprehensive income by acquisition of Socofar		—	—	(49)	—
Controlling interest comprehensive (loss) income		\$ (176)	Ps. (3,458)	Ps. 12,285	Ps. 14,776
Non-controlling interest comprehensive income		(5)	(107)	2,751	5,010
Reattribution from controlling interest of other comprehensive income by acquisition of YZA		—	—	(3)	—
Reattribution from controlling interest of other comprehensive income by acquisition of Socofar		—	—	49	—
Non-controlling interest comprehensive (loss) income		(5)	(107)	2,797	5,010
Consolidated comprehensive (loss) income, net of tax		\$ (181)	Ps. (3,565)	Ps. 15,082	Ps. 19,786
Out of which:					
Controlling comprehensive (loss) income from continuing operations, net of tax		\$ (176)	Ps. (3,458)	Ps. 12,285	Ps. 4,540
Controlling comprehensive income from discontinued operations, net of tax		—	—	—	4,804
Non-controlling comprehensive (loss) income from continuing operations, net of tax		(5)	(107)	2,797	10,236
Non-controlling comprehensive income from discontinued operations, net of tax		—	—	—	206

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

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

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

Consolidated Statements of Changes in Equity

For the years ended December 31, 2020, 2019 and 2018.

In millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	Notes	Capital Stock	Additional paid-in capital	Retained earnings	Fair value in equity financial instrument	Valuation of the effective portion of derivative financial instrument	Exchange differences on the translation of foreign operations and equity accounted investees	Remeasurements of the net defined benefit liability	Total controlling interest	Non-controlling interest	Total equity
Balances as of January 1, 2018		Ps. 3,348	Ps. 26,808	Ps. 201,868	Ps. —	Ps. 2,618	Ps. 18,207	Ps. (2,558)	Ps. 250,291	Ps. 86,621	Ps. 336,912
Accounting standard adoption effects (IFRS 9), net of tax		—	—	(229)	—	—	—	—	(229)	(150)	(379)
Adoption of IAS 29 for Argentina		—	—	1,269	—	—	—	—	1,269	1,418	2,687
Adjusted balance at January 1, 2018		3,348	26,808	202,908	—	2,618	18,207	(2,558)	251,331	87,889	339,220
Consolidated net income		—	—	23,990	—	—	—	—	23,990	9,089	33,079
Other comprehensive income (loss), net		—	—	—	(491)	(727)	(8,988)	992	(9,214)	(4,079)	(13,293)
Total other comprehensive income (loss)		—	—	23,990	(491)	(727)	(8,988)	992	14,776	5,010	19,786
Dividends declared and paid		—	—	—	—	—	—	—	—	—	—
Issuance of share-based compensation plans	22,23	—	—	(9,220)	—	—	—	—	(9,220)	(3,713)	(12,933)
Contribution from non-controlling interest	18	—	42	—	—	—	—	—	42	31	73
Derecognition upon disposal of non-controlling interest in Philippines	22	—	—	—	—	—	—	—	—	412	412
Other movements in equity accounted investees, net	4	—	—	—	—	—	—	—	—	(11,140)	(11,140)
	10	—	—	124	—	—	—	—	124	—	124
Balances as of December 31, 2018		Ps. 3,348	Ps. 26,850	Ps. 217,802	Ps. (491)	Ps. 1,891	Ps. 9,219	Ps. (1,566)	Ps. 257,053	Ps. 78,489	Ps. 335,542
Balances as of January 1, 2019		3,348	26,850	217,802	(491)	1,891	9,219	(1,566)	257,053	78,489	335,542
Accounting standard adoption effects (IFRIC 23), net of tax		—	—	(93)	—	—	—	—	(93)	(69)	(162)
Adjusted balance at January 1, 2019		3,348	26,850	217,709	(491)	1,891	9,219	(1,566)	256,960	78,420	335,380
Consolidated net income		—	—	20,699	—	—	—	—	20,699	7,349	28,048
Other comprehensive income (loss), net		—	—	—	—	(562)	(6,647)	(1,205)	(8,414)	(4,552)	(12,966)
Total other comprehensive income (loss)		—	—	20,699	—	(562)	(6,647)	(1,205)	12,285	2,797	15,082
Dividends declared and paid		—	—	—	—	—	—	—	—	—	—
Issuance of share-based compensation plans	22,23	—	—	(9,692)	—	—	—	—	(9,692)	(3,945)	(13,637)
Other acquisitions and remeasurements	18	—	33	—	—	—	—	—	33	(12)	21
Other acquisition of non-controlling interest		—	—	—	—	—	—	—	—	32	32
Other movements in equity accounted investees, net of tax	1,22	—	(8,721)	—	—	32	17	(3)	(8,675)	(3,530)	(12,205)
	10	—	—	1,078	—	—	—	—	1,078	—	1,078
Balances as of December 31, 2019		Ps. 3,348	Ps. 18,162	Ps. 229,794	Ps. (491)	Ps. 1,361	Ps. 2,589	Ps. (2,774)	Ps. 251,989	Ps. 73,762	Ps. 325,751

[Table of Contents](#)

	Notes	Capital Stock	Additional paid-in capital	Retained earnings	Fair value in equity financial instrument	Valuation of the effective portion of derivative financial instrument	Exchange differences on the translation of foreign operations and equity accounted investees	Remeasurements of the net defined benefit liability	Total controlling interest	Non-controlling interest	Total equity
Balances as of January 1, 2020		<u>Ps. 3,348</u>	<u>Ps. 18,162</u>	<u>Ps. 229,794</u>	<u>Ps. (491)</u>	<u>Ps. 1,361</u>	<u>Ps. 2,589</u>	<u>Ps. (2,774)</u>	<u>Ps. 251,989</u>	<u>Ps. 73,762</u>	<u>Ps. 325,751</u>
Consolidated net income		—	—	(1,930)	—	—	—	(1,930)	—	5,686	3,756
Other comprehensive income (loss), net		—	—	—	(3,991)	1,306	1,673	(416)	(1,428)	(5,681)	(7,109)
Sale of Joint Venture		—	—	—	—	—	(100)	—	(100)	(112)	(212)
Total other comprehensive income (loss)		—	—	(1,930)	(3,991)	1,306	1,573	(416)	(3,458)	(107)	(3,565)
Dividends declared and paid	22, 23	—	—	(10,360)	—	—	—	—	(10,360)	(5,524)	(15,884)
Issuance of share-based compensation plans	18	—	(275)	—	—	—	—	—	(275)	(64)	(339)
Acquisition of Synergy	4	—	(79)	—	—	—	—	—	(79)	1,377	1,298
Other movements in equity accounted investees, net of tax	10	—	—	(74)	—	—	—	—	(74)	—	(74)
Balances as of December 31, 2020		<u>Ps. 3,348</u>	<u>Ps. 17,808</u>	<u>Ps. 217,430</u>	<u>Ps. (4,482)</u>	<u>Ps. 2,667</u>	<u>Ps. 4,162</u>	<u>Ps. (3,190)</u>	<u>Ps. 237,743</u>	<u>Ps. 69,444</u>	<u>Ps. 307,187</u>

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

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2020, 2019 and 2018.

In millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	2020(1)		2020		2019		2018(2)
OPERATING ACTIVITIES							
Income before income taxes from discontinued operations	\$ —	Ps.	—	Ps.	—	Ps.	1,308
Income before income taxes from continuing operations	\$ 934	Ps.	18,575	Ps.	38,524	Ps.	39,882
Non-cash items adjustments:							
Operating (income) expenses	(78)		(1,544)		(1,279)		1,687
Depreciation	1,257		25,006		23,361		14,698
Amortization	153		3,043		2,449		2,539
Gain on sale of long-lived assets	(7)		(130)		68		(174)
Disposal of long-lived assets	65		1,290		861		518
Impairment of long-lived assets	256		5,102		1,018		432
Share of the profit of equity accounted investees, net of taxes	37		736		(6,228)		(6,252)
Interest income	(106)		(2,100)		(3,168)		(2,832)
Interest expense	881		17,516		14,133		9,825
Foreign exchange loss (gain), net	(19)		(385)		2,467		248
Monetary position (gain), net	(19)		(384)		(260)		(216)
Market value loss on financial instruments	13		264		320		355
Net cash flow from operating activities before changes in operating accounts	3,367		66,989		72,266		60,710
Trade accounts receivable and other current assets	128		2,551		(2,818)		(2,426)
Other current financial assets	2		31		(268)		379
Inventories	(12)		(247)		(5,635)		(3,809)
Derivative financial instruments	6		124		41		(23)
Trade accounts payable and other accounts	(93)		(1,847)		10,230		4,906
Other non-current liabilities	45		901		345		752
Other current financial liabilities	51		1,015		158		(544)
Employee benefits paid	(49)		(981)		(790)		(412)
Net cash generated from operations	3,445		68,536		73,529		59,533
Income taxes paid	(772)		(15,363)		(11,891)		(12,603)
Net cash generated by operating activities from discontinued operations	—		—		—		654
Net cash generated by operating activities from continuing operations	2,673		53,173		61,638		46,930

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2020, 2019 and 2018.

In millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	2020(1)	2020	2019	2018(2)
INVESTING ACTIVITIES				
Proceeds from the sale of subsidiary, net of cash disposed	—	—	—	7,649
Acquisition by Coca-Cola FEMSA, net of cash acquired (see Note 4)	—	—	—	(5,692)
Acquisition of Synergy and other businesses, net of cash acquired (see Note 4)	(1,171)	(23,284)	—	—
Other acquisitions, net of cash acquired (see Note 4)	(7)	(137)	(7,136)	(321)
Equity accounted investees	(105)	(2,095)	(2,516)	(98)
Other equity investments	(284)	(5,644)	(14,419)	—
Disposal (purchase) of investments	711	14,149	29,381	(40,487)
Interest received	106	2,106	3,253	2,736
Derivative financial instruments	(10)	(191)	(203)	99
Dividends received from equity accounted investees	210	4,180	3,026	2,927
Property, plant and equipment acquisitions	(938)	(18,660)	(22,926)	(21,584)
Proceeds from disposal of property, plant and equipment	23	461	655	467
Acquisition of intangible assets	(75)	(1,482)	(2,197)	(1,793)
Investment in other assets	(54)	(1,082)	(1,179)	(1,182)
Collections of other assets	26	526	415	166
Investment in other financial assets	(11)	(214)	(285)	(65)
Net cash (used in) generated by investing activities from discontinued operations	—	—	—	(962)
Net cash (used in) generated by investing activities from continuing operations	(1,579)	(31,367)	(14,131)	(57,178)
FINANCING ACTIVITIES				
Proceeds from borrowings	6,504	129,371	18,280	16,155
Payments of bank loans	(3,181)	(63,278)	(26,301)	(17,182)
Interest paid	(483)	(9,615)	(6,503)	(6,799)
Derivative financial instruments	54	1,078	(690)	(2,288)
Dividends paid	(798)	(15,868)	(13,629)	(12,933)
Acquisition of non-controlling interest	(588)	(11,692)	(728)	—
Interest paid derived from leases	(230)	(4,568)	(4,498)	—
Payments of leases	(264)	(5,242)	(4,350)	—
Other financing activities	(31)	(611)	(15)	36
Financing from Vonpar's acquisition	—	—	—	—
Net cash used in financing activities from discontinued operations	—	—	—	(37)
Net cash (used) generated by financing activities from continuing operations	983	19,575	(38,434)	(23,011)
Increase (decrease) in cash and cash equivalents from continuing operations	2,077	41,381	9,073	(33,259)
Increase in cash and cash equivalents from discontinued operations	—	—	—	963
Cash and cash equivalents at the beginning of the period	3,296	65,562	62,047	96,944
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies	37	681	(5,558)	(2,601)
Cash and cash equivalents at the end of the period	<u>\$ 5,410</u>	<u>Ps. 107,624</u>	<u>Ps. 65,562</u>	<u>Ps. 62,047</u>

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

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

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

Note 1. Company Business

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

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

Business	% Ownership		Activities
	2020	2019	
Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (“Coca-Cola FEMSA”)	47.2% (56.0% of the voting shares)	47.2% (63.0% of the voting shares)	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil, Argentina and Uruguay (see Note 4). As of December 31, 2020, The Coca-Cola Company (“TCCC”) indirectly owns 27.8% of Coca-Cola FEMSA’s capital stock. In addition, shares representing 25% of Coca-Cola FEMSA’s capital stock are traded on the Bolsa Mexicana de Valores (Mexican Stock Exchange “BMV”) and on the New York Stock Exchange, Inc. (“NYSE”) in the form of American Depositary Shares (“ADS”).
FEMSA Comercio – Proximity Division	100%	100%	Small-box retail chain format operations in Mexico, Colombia, Peru, United States, Chile and Brazil, mainly under the trade name “OXXO.”
FEMSA Comercio – Fuel Division	100%	100%	Retail service stations for fuels, motor oils, lubricants and car care products under the trade name “OXXO Gas” with operations in Mexico.
FEMSA Comercio – Health Division	100%	Various	Drugstores operations in Chile, Colombia and Ecuador, mainly under the trademark “Cruz Verde”, “Fybica” and “Sana Sana”; and in Mexico under various brands such as “YZA,” “La Moderna” and “Farmacon.”
Heineken investment	14.8%	14.8%	Heineken N.V. and Heineken Holding N.V. shares, which represents an aggregate of 14.8% economic interest in both entities (“Heineken Group”).
Other businesses	Various (3)	100%	Companies engaged in the production and distribution of coolers, commercial refrigeration equipment, plastic cases, food processing, preservation and weighing equipment; logistic transportation and maintenance services to FEMSA’s subsidiaries and to third parties; as well as a specialized distribution platform for cleaning products and consumables.

- (1) The Company controls Coca-Cola FEMSA’s relevant activities. On January 31, 2019, Coca-Cola FEMSA, S.A.B. de C.V. Extraordinary General Shareholders’ Meeting approved the following: (i) an eight-for-one stock split (the “Stock Split”) of each series of shares of the Company; (ii) the issuance of Series B ordinary shares with full voting rights; and (iii) the creation of units, comprised of 3 Series B shares and 5 Series L shares, to be listed for trading on the Mexican Stock Exchange and in the form of American depository shares on the New York Stock Exchange.
- (2) The former shareholders of Farmacias YZA had a 18.6% stake in Cadena Comercial de Farmacias, S.A.P.I. de C.V., a subsidiary of FEMSA that holds all pharmacy business in Mexico (which we refer to as “CCF”). On November 13, 2019, FEMSA completed the acquisition of the remaining interest in Farmacias YZA. In 2018, FEMSA had 60% interest on Grupo Socofar (“Socofar”). As of December 13, 2019, FEMSA recognized the remaining 40% interest in Grupo Socofar (“Socofar”) following the exercise of a put right by the minority partner to sell its non - controlling interest in Socofar.
- (3) On May 15, 2020, the Company completed the acquisition of the specialized distribution business of cleaning products and consumables in the United States, through the controlling interest of NW Synergy, which includes WAXIE and North American Corporation (“North American”). Additionally, on December 31, 2020, the Company completed the acquisition of Southeastern Paper Group (“SEPG”), increasing its specialized distribution footprint in the United States. See Note 4.1.

Note 2. Basis of Preparation

2.1 Statement of compliance

The consolidated financial statements of the Company as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Company's consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer Eduardo Padilla Silva and the Chief Corporate Financial Officer Eugenio Garza y Garza on February 24, 2021. These consolidated financial statements and notes were then approved by the Company's Board of Directors on February 26, 2021 and by the Shareholder meeting on March 24, 2021. The accompanying consolidated financial statements were approved for issuance in the Company's annual report on form 20-F by the Company's Chief Executive Officer and Chief Corporate Financial Officer on April 14, 2021 and subsequent events have been considered through that date (see Note 30).

2.2 Basis of measurement and presentation

COVID-19, an infectious disease caused by a new virus, was declared a world-wide pandemic by the WHO on 11 March 2020. The measures to slow the spread of COVID-19 have had a significant impact on the global economy.

The COVID-19 pandemic has also caused and continues to cause significant volatility in the financial markets, undermining investors' confidence in the growth of countries and businesses. Major stock markets have halted operations on several occasions as persistent market turmoil intensifies and new information becomes available. Currencies in many of the countries where we operate, including the Mexican peso, have suffered a significant depreciation against the U.S. dollar as compared to December 31, 2019, which has increased the cost of some of our raw materials, and therefore negatively affected our financial results. In addition, the long-term economic effects of the COVID-19 pandemic may include lower or negative growth rates in the markets where we operate and reduced demand for our products or a shift to lower margin products. The COVID-19 pandemic has also increased the interest rates for short-term loans, and these market conditions, if persisting for an extended duration, could affect our costs of financing. Furthermore, the duration of the COVID-19 pandemic is uncertain, and we cannot predict whether the virus will continue spreading in the territories where we operate or when or if the pandemic will subside.

During the COVID-19 pandemic, governments have implemented several preventive measures such as social distancing and the temporary closure of certain points of sale considered as non-essential. As such measures were relaxed, most businesses were able to reopen and this allowed us to recover the accounts receivable. Given that the impact in this item was not material, the Company did not implement any relevant change to our models to estimate the receivables' provisions.

In regard to the above, the following are considerations that support our going concern basis of accounting:

- Consideration of the entity's business model and related risks.
- Whether the entity has sufficient cash and/or headroom in its credit facilities to support any downturn whilst noting that the evolving nature of the COVID-19 pandemic means that uncertainties will remain, and it may not be able to reasonably estimate the future impact.
- Actions the entity has taken to mitigate the risk that the going concern assumption is not appropriate such as activities to preserve liquidity.
- Any challenges of the underlying data and assumptions used to make the going concern assessment.

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

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

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

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

2.2.1 Presentation of consolidated income statement

The Company's consolidated income statement classifies its related costs and expenses by function accordingly within the industry practices in which the Company operates.

2.2.2 Presentation of consolidated statements of cash flows

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

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

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position, as of December 31, 2020 the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2020 were converted into U.S. dollars at closing exchange rate of 19.8920 Mexican pesos per U.S. dollar as published by the Federal Reserve Bank of New York as of December 31, 2020. This arithmetic conversion should not be construed as representation that amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate.

As explained in Note 2.1 above, as of April 9, 2021 the exchange rate was Ps. 20.1620 per U.S. dollar, a depreciation of 1% since December 31, 2020.

2.3 Critical accounting judgments and estimates

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

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

Judgments

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

2.3.1 Key sources of estimation uncertainty

The following are the assumptions and other sources of estimation uncertainty as of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the subsequent financial period. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes would be included in the assumptions when they occur.

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

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

have been allocated. Impairment losses are recognized in current earnings for the excess of the carrying amount of the asset or CGU over its value-in-use in the period the related impairment is determined.

The Company assesses at each reporting date whether there is an indication that a long-lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows expected to be generated from the use of the asset or CGU are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available.

If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Our forecasts assume our defensive profile and a recovery in the economic activity in the countries where we operate starting in 2021 and therefore, an improvement in sales volume. We expect the effects from the pandemic to be temporary and we estimate our industry will continue growing in the near term. Likewise, we will continue with the analyses of utilization levels of our assets, the recoverability of the accounts receivable, profitability of the business, etc. to identify any indications of impairment.

The key assumptions used to determine the recoverable amount for the Company's CGUs, including a sensitivity analysis, are further explained in Notes 3.20 and 13.

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

Property, plant and equipment, including returnable bottles which are expected to provide benefits over a period of more than one year, as well as intangible assets with definite useful lives are depreciated/amortized over their estimated useful lives. The Company bases its estimates on the experience of its technical personnel as well as its experience in the industry for similar assets, see Notes 3.15, 3.18, 11 and 13.

2.3.1.3 Post-employment and other non-current employee benefits

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

2.3.1.4 Income taxes

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

2.3.1.5 Tax, labor and legal contingencies and provisions

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

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a tax authority will accept an uncertain tax

treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2.3.1.6 Valuation of financial instruments

The Company measures all derivative financial instruments at fair value.

The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient reliable and verifiable data, recognized in the financial sector. The Company bases its forward price curves upon market price quotations. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 21.

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

2.3.1.7 Business combinations

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

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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes* and IAS 19, *Employee Benefits*, respectively;
- Liabilities or equity instruments related to share-based compensation arrangements of the acquiree or share-based compensation arrangements of the Company entered into to replace share-based compensation arrangements of the acquiree are measured in accordance with IFRS 2, *Share-based Payment* at the acquisition date, see Note 3.27;
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- Indemnifiable assets are recognized at the acquisition date on the same basis as the indemnified liability subject to any contractual limitations.

For each acquisition, management’s judgment must be exercised to determine the fair value of the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, applying estimates or judgments in techniques used, especially in forecasting CGU’s cash flows, in the computation of weighted average cost of capital (“WACC”) and estimation of inflation during the identification of intangible assets with indefinite lives, mainly, goodwill, distribution and trademark rights, and estimation of useful life during the identification of intangible assets with definite lives, mainly, customer relationships.

2.3.1.8 Equity accounted investees

If the Company holds, directly or indirectly, 20 per cent or more of the voting power of the investee, it is presumed that it has significant influence, unless it can be clearly demonstrated that this is not the case. If the Company holds, directly or indirectly, less than 20 per cent of the voting power of the investee, it is presumed that the Company does not have

significant influence, unless such influence can be clearly demonstrated. Decisions regarding the propriety of utilizing the equity method of accounting for a less than 20 per cent-owned corporate investee requires a careful evaluation of voting rights and their impact on the Company's ability to exercise significant influence. Management considers the existence of the following circumstances which may indicate that the Company is in a position to exercise significant influence over a less than 20 per cent-owned corporate investee:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the Company and the investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

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

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

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

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

- a) Whether all the parties or a group of the parties, control the arrangement, considering definition of joint control, as described in Note 3.14; and
- b) Whether decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties.

2.3.1.9 *Venezuela exchange rates and deconsolidation*

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

2.3.1.10 Leases

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

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

2.4 Application of recently issued accounting standards

The Company has applied the following amendments to IFRS during 2020. None of the amendments had a significant impact on the company's financial statements:

2.4.1 Modifications to the Conceptual Framework

The Conceptual Framework for Financial Information ("Conceptual Framework") was issued on March 2018 replacing the previous version of the Conceptual Framework issued in 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. As long as the Company's accounting policy is in line with these modifications, the Company did not have any effect on its consolidated financial statements.

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

The IASB issued an amendment to IFRS 3 in October 2018 that revises the definition of a business. The modified definition issued in October 2018 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. As long as the Company's accounting policy is aligned with these modifications, the Company did not have any effect on its consolidated financial statements.

2.4.3 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, companies had difficulty using the above definition in making judgments 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.

- a. Previous definition:

Omissions of information or inaccuracies are material, or have relative importance if they can, individually or in whole, influence in the economic decisions taken by the users of the information on the base of the financial statements.

b. New definition:

Information is material if its omission, inaccuracy or concealment can reasonably be expected to influence the decisions that the principal users of the financial information take on the basis of the financial statements.

The definition of “material” in the IAS 8 is replaced by a reference to the IAS 1. In addition, to ensure consistency, the IASB has modified the rest of the affected standards.

The Company did not have significant effects on its consolidated financial statements.

2.4.4 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 require assessing:

- whether a forecast transaction (or component thereof) is highly probable.
- when to reclassify the amount in the cash flow hedge reserve to profit and loss.
- 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 Company did not have any effect on its consolidated financial statements.

2.4.5 Amendments to IFRS 16 COVID-19 Related Rent Concessions

The amendment allows an optional practical expedient that simplifies how tenants account for rental concessions, arising as a direct consequence for the COVID-19 pandemic.

The practical expedient can only be applied if:

- the new consideration is substantially equal to or lesser than the original consideration;
- the decrease in the lease payments refers to rental payments that occur before June 30, 2021; and
- no other substantive changes to the lease terms have been made.

Those lessees who apply this practical expedient must disclose:

- The fact that the practical expedient has been applied to all eligible rental concessions and, if applicable to some selected ones; the nature of the contracts to which they have applied it; and
- the amount recognized in results for the reporting period that arises from the application of the practical expedient.

This amendment does not provide a practical expedient for lessors. Lessors are required to continue evaluating whether the rental concessions are lease modifications and justify them accordingly.

Note 3. Significant Accounting Policies

3.1 Basis of consolidation

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

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

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

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

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

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

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

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

3.1.1 Acquisitions of non-controlling interests

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

3.2 Business combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- For entities operating in hyperinflationary economic environments, the inflation effects of the origin country are recognized pursuant 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 entities operating in non-hyperinflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month if the exchange rate does not fluctuate significantly.

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

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

Country or Zone	Functional / Recording Currency	Exchange Rates of Local Currencies Translated to Mexican Pesos (1)				
		Average Exchange Rate for			Exchange Rate as of	
		2020	2019	2018	December 31, 2020	December 31, 2019
Guatemala	Quetzal	2.78	2.50	2.56	2.56	2.45
Costa Rica	Colon	0.04	0.03	0.03	0.03	0.03
Panama	U.S. dollar	21.49	19.26	19.24	19.95	18.85
Colombia	Colombian peso	0.01	0.01	0.01	0.01	0.01
Nicaragua	Cordoba	0.63	0.58	0.62	0.57	0.56
Argentina	Argentine peso	0.31	0.41	0.73	0.24	0.31
Brazil	Reais	4.18	4.89	5.29	3.84	4.68
Chile	Chilean peso	0.03	0.03	0.03	0.03	0.03
Euro Zone	Euro (€)	24.48	21.56	22.71	24.52	21.12
Peru	Nuevo Sol	6.15	5.77	5.85	5.51	5.68
Ecuador	U.S. dollar	21.49	19.26	19.24	19.95	18.85
Philippines	Philippine peso	—	—	0.37	—	—
United States	U.S. dollar	21.49	—	—	19.95	—
Uruguay	Uruguayan peso	0.51	0.55	0.63	0.47	0.51

(1) Exchange rates published by the Central Bank of each country where the Company operates.

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

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

- Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, net, intangible assets, net including related costs and expenses when such assets are consumed or depreciated;
- Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, net income, retained earnings and items of other comprehensive income by the necessary amount to maintain the purchasing power

equivalent in the currency of the subsidiary on the dates such capital was contributed, or income was generated up to the date the consolidated financial statements are presented; and

- Including the monetary position gain or loss in consolidated net income.

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

As of December 31, 2020, 2019, and 2018, the operations of the Company are classified as follows:

Country	Cumulative Inflation 2018- 2020	Type of Economy	Cumulative Inflation 2017- 2019	Type of Economy	Cumulative Inflation 2016- 2018	Type of Economy
Mexico	11.2 %	Non-hyperinflationary	13.2 %	Non-hyperinflationary	15.7 %	Non-hyperinflationary
Guatemala	10.9 %	Non-hyperinflationary	11.8 %	Non-hyperinflationary	12.2 %	Non-hyperinflationary
Costa Rica	4.5 %	Non-hyperinflationary	5.8 %	Non-hyperinflationary	5.7 %	Non-hyperinflationary
Panama	(1.5)%	Non-hyperinflationary	0.5 %	Non-hyperinflationary	2.1 %	Non-hyperinflationary
Colombia	8.8 %	Non-hyperinflationary	11.0 %	Non-hyperinflationary	13.4 %	Non-hyperinflationary
Nicaragua	13.5 %	Non-hyperinflationary	15.6 %	Non-hyperinflationary	13.1 %	Non-hyperinflationary
Argentina (a)	209.2 %	Hyperinflationary	179.4 %	Hyperinflationary	158.4 %	Hyperinflationary
Brazil	13.1 %	Non-hyperinflationary	11.1 %	Non-hyperinflationary	25.0 %	Non-hyperinflationary
Philippines	—	—	—	Non-hyperinflationary	11.9 %	Non-hyperinflationary
Euro Zone	2.4 %	Non-hyperinflationary	3.6 %	Non-hyperinflationary	2.7 %	Non-hyperinflationary
Chile	8.8 %	Non-hyperinflationary	8.3 %	Non-hyperinflationary	9.7 %	Non-hyperinflationary
Peru	6.2 %	Non-hyperinflationary	5.2 %	Non-hyperinflationary	9.3 %	Non-hyperinflationary
Ecuador	(0.7)%	Non-hyperinflationary	0.3 %	Non-hyperinflationary	30.3 %	Non-hyperinflationary
United States	3.7 %	Non-hyperinflationary	—	—	—	—
Uruguay	28.5 %	Non-hyperinflationary	22.0 %	Non-hyperinflationary	25.3	Non-hyperinflationary

a) Argentina

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.
- Recognizing the monetary position gain or loss in consolidated net income.

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

3.5 Cash and cash equivalents and restricted cash

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

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

3.6 Investments

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

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

3.7 Financial assets

Financial assets are classified within the following business models depending on management's objective: (i) "held to maturity to recover cash flows," (ii) "held to maturity and to sell financial assets" and (iii) "others or held for trading," including derivatives assigned in hedging instruments with efficient hedge, as appropriate. The classification depends on the nature and purpose of holding the financial assets and is determined at the time of initial recognition.

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

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

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

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

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

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

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

3.7.1 Financial assets at amortized cost

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

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

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

3.7.2 Effective interest rate method (“ERR”)

The effective interest rate method consists of calculating the amortized cost of loans and accounts receivables and other financial assets (measured at amortized cost) and 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 on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

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

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

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

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

3.7.4 Financial assets at fair value through profit or loss (FVTPL)

Financial assets designated as FVTPL include financial assets held for trading and financial assets designated at initial recognition as FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the short-term. Derivatives, including embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined in IFRS 9. Financial assets designated a FVTPL are recorded in the balance sheet with changes in fair value presented as financial expense (net negative changes in fair value) or financial income (net positive changes in fair value) in profit or loss, including any dividend income.

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

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

- Contingent events that would change the amount or timing of cash flows;
- Terms that can adjust the contractual coupon rate, including variable interest rate characteristics;

- Payment and extension features; and
- Characteristics that limit the Company's right to obtain cash flows from certain assets.

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

3.7.6 Impairment of financial assets

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

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

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

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

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

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

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

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

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

- Information indicating that there was a measurable decrease in the expected cash flows of a group of financial assets.

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

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

3.7.7 Derecognition

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

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

3.7.8 Offsetting of financial instruments

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

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

3.8 Other financial assets

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

3.9 Derivative financial instruments

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

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

3.9.1 Hedge accounting

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

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

3.9.2 Cash flow hedges

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

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

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

3.9.2.1 Fair value hedges

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

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

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

3.9.2.2 Hedge of net investment in a foreign business

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

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

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

3.10 Fair value measurement

The Company measures financial instruments, such as derivatives, and certain non-financial assets, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Notes 14 and 19.

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

- the principal market for the asset or liability; or
- 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 — Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

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

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

3.11 Inventories and cost of goods sold

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

Inventories represent the acquisition or production cost that is incurred when purchasing or producing a product and are based on the weighted average cost formula. The operating segments of the Company use inventory costing

methodologies to value their inventories, such as the weighted average cost method in Coca-Cola FEMSA, retail method (a method to estimate the average cost) in FEMSA Comercio – Proximity, FEMSA Comercio – Health Division; and acquisition method in FEMSA Comercio – Fuel Division, except for the distribution centers which are valued with the average cost method.

Cost of goods sold includes expenses related to the purchase of raw materials used in the production process, as well as labor costs (wages and other benefits), depreciation of production facilities, equipment and other costs, including fuel, electricity, equipment maintenance and inspection; expenses related to the purchase of goods and services used in the sale process of the Company's products and expenses related to the purchase of gasoline, diesel and all engine lubricants used in the sale process of the Company.

Management is required to make judgments regarding write-downs to determine the net realizable value of the inventory. These write-downs consider factors such as age and condition of goods as recent market data to assess the estimated future demand for goods. To date the COVID-19 pandemic has not had a material impact on the Company's assessment of the net realizable value of the inventory, with inventory turns remaining similar since the commencement of the pandemic.

3.12 Loans and receivables

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

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

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

3.13 Other current assets

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

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

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

Coca-Cola FEMSA has agreements with customers for the right to sell and promote Coca-Cola FEMSA's products over a certain period. The majority of these agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract, with amortization presented as a reduction of net sales. During the years ended December 31, 2020, 2019 and 2018, such amortization aggregated to Ps. 213, Ps. 273 and Ps. 277, respectively.

3.14 Equity accounted investees

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

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

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

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

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

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

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

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

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

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

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method. As of December 31, 2019 and 2018 the Company does not have an interest in joint operations.

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

The Company reclassifies the proportion to the interest disposed of in joint ventures investment interest reduction. During the years ended December 31, 2020, 2019 and 2018 the Company did not have a significant disposal or partial disposal in joint arrangements.

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

3.15 Property, plant and equipment

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

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

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

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

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

	Years
Buildings	25-50
Machinery and equipment	10-20
Distribution equipment	7-15
Refrigeration equipment	5-7
Returnable bottles	1.5-3
Leasehold improvements	The shorter of lease term or 15 years
Information technology equipment	3-5
Other equipment	3-10

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

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

Returnable and non-returnable bottles:

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

- Non-returnable bottles are recorded in the consolidated income statement at the time of the sale of the product.

- Returnable bottles 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 over their estimated useful lives of the bottles.

There are two types of returnable bottles:

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

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

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

3.16 Leases

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

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

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

As a lessee

Initial recognition

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

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

liability is the rate related to the cost of financing for the Company from the consolidated perspective (“*Ultimate Parent Company*”).

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

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

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

Subsequent measurement

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

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

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

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

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

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

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

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

As a lessor

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the underlying asset. All other leases are classified as operating leases. The Company considers certain relevant indicators, amongst others, to determine if substantially all the risks and rewards are transferred, such as:

- Whether the lease is for the major part of the economic life of the asset, or
- Whether the present value of the minimum future lease payments amount to substantially all of the fair value of the underlying asset.

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

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

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

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

3.17 Borrowing costs

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

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

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

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

3.18 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance and represent payments whose benefits will be received in future years. Intangible assets acquired separately are measured at 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:

- Customer relationships intangible assets acquired in a business combination, recognized on acquisition and recorded at fair value. Subsequent to initial recognition, customer relationships intangible assets are stated at cost less accumulated amortization and any impairment losses. Amortization is charged to the income statement on a straight line basis over the estimated useful economic lives which range from 10 to 20 years.
- Information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over their expected useful lives, with a range in useful lives from 3 to 10 years. Expenditures that do not fulfill the requirements for capitalization are expensed as incurred.
- Long-term alcohol licenses are amortized using the straight-line method over their estimated useful lives, which range between 12 and 15 years, and are presented as part of intangible assets with finite useful lives.

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

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

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

As of December 31, 2020, and in regards to a joint restructure with TCCC for the bottling agreements, Coca-Cola FEMSA had four bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) one agreement for the Bajío 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, 2020, and in regards to a joint restructure with TCCC for the bottling agreements, Coca-Cola FEMSA had two bottler agreements in Brazil which are up for renewal in October 2027; and three bottler agreements in Guatemala, which are going to be renewed in March 2025 and April 2028 under two contracts rather than the original three contracts.

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

As of December 31, 2020, Coca-Cola FEMSA's Venezuela investee 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 Coca-Cola FEMSA from selling Coca-Cola trademark beverages in the affected territory and would have an adverse effect on the Company's business, financial conditions and results from operations.

3.19 Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuous operational 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. In addition, the sale is considered highly probable if the following conditions are met:

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

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

Discontinued operations are results of operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the company's operations and cash flows, that either has been disposed of, or is classified as held for sale, and:

- Represents either a separate major line of business or geographical area of operations;
- Are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively for the purpose of reselling it.

Discontinued operations are excluded from the continuing operations and are also presented as a single line item as earnings (loss) after income taxes of discontinued operations in the income statement. For further information, please see Note 4 regarding the Company's disposal of Philippines. In addition, the information included elsewhere in this report, includes only continuing operations unless otherwise noted.

3.20 Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest CGUs for which a reasonable and consistent allocation basis can be identified.

For the purpose of impairment testing goodwill acquired in a business combination, from the acquisition date, is allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

For goodwill and other indefinite lived intangible assets, the Company tests for impairment on an annual basis and whenever certain circumstances indicate that the carrying amount of 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 a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted, as discussed in Note 2.3.1.1.

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

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

For the years ended December 31, 2020, 2019 and 2018, the Company recognized impairment losses of Ps. 5,451, Ps. 1,018 and 432, respectively (see Note 20).

3.21 Financial liabilities and equity instruments

3.21.1 Classification as debt or equity

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

3.21.2 Equity instruments

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

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

3.21.3 Financial liabilities

Initial recognition and measurement

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

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

The Company's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments, see Note 3.9.

Subsequent measurement

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

3.21.4 Loans and borrowings

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. The effective interest method amortization is included in interest expense in the consolidated income statements, see Note 19.

3.21.5 Derecognition

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

3.22 Provisions

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

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

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

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

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

3.23 Post-employment and other long-term employee benefits

Post-employment and other long-term employee benefits, which are considered to be monetary items, include obligations for pension and retirement plans, seniority premiums and postretirement medical services.

In Mexico, the economic benefits from employee benefits and retirement pensions are granted to employees with 10 years of service and minimum age of 60. In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal

minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. For qualifying employees, the Company also provides certain post-employment healthcare benefits such as the medical-surgical services, pharmaceuticals and hospital.

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

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

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

- a) When it can no longer withdraw the offer of those benefits; or
- b) When it recognizes costs for a restructuring that is within the scope of IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*," and involves the payment of termination benefits.

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

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

3.24 Revenue recognition

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

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

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

- Recognise revenue when (or as) the entity satisfies a performance obligation in exchange for committed goods and services.

All of the above conditions are typically met at the point in time that goods are delivered to the customer at the customers' facilities. Net sales reflect units delivered at list prices reduced by promotional allowances and discounts.

The benefits granted from suppliers to the Company as discounts and incentives are recognized as benefits in the cost of goods sold, because the Company does not have a separate performance obligation.

The Company generates revenues for the following activities:

Sale of goods

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

Rendering of services

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

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

Financial products

It includes interest income generated on accounts receivables recorded when the following conditions are met:

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

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

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

Rewards programs

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

Variable allowances granted to customers

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

Contracts costs

The incremental costs to obtain a contract with a customer are recognized as an asset (capitalized) if the Company expect to recover those costs. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Company recognizes those costs as an expense in the income statement when the revenue associated with those costs is recognized for a period equal to or less than a year. Any other costs that are related to the fulfillment of a contract with a customer and not within the scope of another IFRS standard (e.g. IAS 2 inventories), is recorded as an asset if they meet the following criteria:

- The costs relate directly to a contract or with a contract that the Company expects to identify specifically;
- The costs generate or improve the resources of the Company that will be applied to satisfy, or continue satisfying performance obligations in the future; and
- The costs are expected to be recovered.

The asset recognized is amortized progressively in the same manner as the goods and services are transferred to the customer. Accordingly, the asset is recognized in the income statement through its amortization in the same period of time in which the related revenue is recognized. For the years ended December 31, 2020, 2019 and 2018, contract costs were not significant.

3.25 Administrative and selling expenses

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

Selling expenses include:

- Distribution: labor costs, outbound freight costs, warehousing costs of finished products, write off of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2020, 2019 and 2018, these distribution costs amounted to Ps. 24,190, Ps. 25,068 and Ps. 23,421, respectively;
- Sales: labor costs and sales commissions paid to sales personnel; and
- Marketing: promotional expenses and advertising costs.

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

3.26 Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are charged to consolidated income statements as they are incurred, except when they relate to items that are recognized in other

comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

3.26.1 Current income taxes

Income taxes are recognized in the results of the period of the year in which they are incurred, however, in the case of inflationary effects, penalties and surcharges derived from income taxes from previous years, they are recognized within the line of other expenses and other products in accordance with IAS 37 before the section of income taxes in the consolidated income statement of the Company since Management considers that the aforementioned restatements, penalties and surcharges are not an integral part of the income taxes of the year (see Note 25.2).

3.26.2 Deferred income taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, including tax loss carryforwards and certain tax credits, to the extent that it is probable that future taxable profits and, reversal of existing taxable temporary differences and future tax planning strategies that will create taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from initial recognition of goodwill (no recognition of deferred tax liabilities) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes, the Company recognizes in connection with the acquisition accounting a deferred tax asset for the tax effect of the excess of the tax basis over the related carrying value.

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

In Mexico, the income tax rate is 30%, for 2020, 2019 and 2018, and it is expected to remain at 30% for the following years.

3.27 Share-based payments arrangements

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

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

3.28 Earnings per share

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

3.29 Issuance of subsidiary common shares

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

Note 4. Mergers, Acquisitions and Disposals

4.1 Mergers and acquisitions

The Company has consummated certain mergers and acquisitions during 2020, 2019 and 2018; which were recorded using the acquisition method of accounting. The results of the acquired operations have been included in the consolidated financial statements since the date on which the Company obtained control of the business, as disclosed below. Therefore, the consolidated income statements and the consolidated statements of financial position in the year of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2020, 2019 and 2018 show the cash outflow and inflow for the merged and acquired operations net of the cash acquired related to those mergers and acquisitions.

During 2020, the Company completed acquisition through the controlling interest in NW Synergy Holdings LLC of 89.5%, which amounted to Ps. 20,233 fully paid in cash. This acquisition, was primarily related to the following: on May 15, 2020, the Company completed the acquisitions of WAXIE and North American, a new platform within the Jan-San, packaging and specialized distribution industry in the United States, operating a network of 26 distribution centers across the country and serving more than 27,000 customers in various industries such as building service contractors, education, government, retail and hospitality, which is included in the Company's results since May 2020.

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

	2020
Total current assets (including cash acquired of Ps. 138)	Ps. 2,162
Customer relationships and trademark	10,698
Other non-current assets	1,954
Total assets	14,814
Total liabilities	(3,523)
Net assets acquired	11,291
Goodwill	10,241
Non-controlling interest ⁽¹⁾	(1,299)
Total consideration transferred in cash	20,233
Cash acquired	138
Net cash paid	Ps. 20,095

(1) Non-controlling interests were measured using the net asset value method.

The Company expects to recover the amounts recorded as goodwill through its strategy of creating a national distribution platform in the US, building on FEMSA's capabilities by leveraging its expertise in the organization and management of supply chains and distribution systems in adjacent businesses. Additionally, this goodwill is deductible for US tax purposes in a period of 15 years.

The income statement information of this acquisition for the period from the acquisition date through to December 31, 2020 is as follows:

Income Statement	2020
Total revenues	Ps. 11,275
Income before income taxes	525
Net income	Ps. 498

4.1.1 Other acquisitions

During 2020, the Company completed the acquisition of 100% of Southeastern Paper Group, Inc., which amounted to Ps. 2,984 fully paid in cash. This acquisition, was primarily related to the following: on December 31, 2020, the Company completed the acquisition of SEPG, increasing its specialized distribution footprint in the United States.

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

The 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, 2019, primarily related to the following: (1) the acquisition of 100% of the Ecuadorian company Corporación Grupo FYBECA S.A. ("GPF") which is included in the Company's results since May, 2019; and (2) the acquisition of 100% of Brazilian company AGV Group ("AGV") which is included in the Company's results as of January, 2020.

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

	2019
Total current assets (including cash acquired of Ps. 389)	Ps. 4,058
Total non-current assets	6,761
Total assets	10,819
Total liabilities	(8,178)
Net assets acquired	2,641
Goodwill ⁽¹⁾	5,219
Non-controlling interest ⁽²⁾	(53)
Total consideration transferred	7,807
Amount to be paid	147
Cash acquired	389
Net cash paid	7,271

(1) As a result of the purchase price allocation which was finalized in 2020, additional fair value adjustments from those recognized in 2019 have been recognized as follows: an increase in total net assets of Ps. 1,460 (from which Ps. 908 are customer relationships and Ps. 389 trademark rights), a decrease in goodwill of Ps. 1,323 and an additional consideration transferred during 2020 of Ps. 137.

(2) Non-controlling interests were measured using the net asset value method.

During 2019, FEMSA Comercio has been allocated goodwill in the acquisitions in FEMSA Comercio- Health Division in Ecuador and Colombia. FEMSA Comercio expects to recover the amount recorded through synergies related to the adoption of the Company's economic current value proposition, the ability to apply the successful operational processes and expansion planning designed for each unit.

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

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

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

4.1.2 Acquisitions of Coca-Cola FEMSA

Coca-Cola FEMSA completed the following acquisitions during 2018: (1) acquisition of 100% of the Alimentos y Bebidas del Atlántico, S.A. ("ABASA") in Guatemala, included in the Company results since May, 2018; (2) acquisition of 100% of Comercializadora y Distribuidora Los Volcanes, S.A. ("Los Volcanes") in Guatemala included in the Company' consolidated results beginning on May, 2018; and (3) acquisition of 100% of Montevideo Refrescos, S.R.L. ("MONRESA") in Uruguay which is included in the consolidated financial results beginning on July 2018.

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

	2018
Total current assets (including cash acquired of Ps. 860)	Ps. 1,864
Total non-current assets	4,031
Distribution rights	1,715
Total assets	7,610
Total liabilities	(3,961)
Net assets acquired	3,649
Goodwill ⁽¹⁾	2,903
Total consideration transferred	6,552
Cash acquired	(860)
Net cash paid	Ps. 5,692

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

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

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

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

Unaudited Pro Forma Financial Data

The following unaudited consolidated pro forma financial data represent the Company's historical financial information, adjusted to give effect to (i) the acquisitions of Waxie and North American as if these acquisitions have occurred on January 1, 2020; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired company.

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

	For the year ended December 31, 2020
Total revenues	Ps. 508,367
Income before income taxes and share of the profit of equity accounted investees	20,019
Net income	4,464
Basic net controlling interest income per share Series "B"	Ps. (0.06)
Basic net controlling interest income per share Series "D"	(0.08)

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisitions of GPF and AGV as if these acquisitions has occurred on January 1, 2019; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired company.

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

		For the year ended December 31, 2019
Total revenues	Ps.	516,496
Income before income taxes and share of the profit of equity accounted investees		33,823
Net income		29,516
Basic net controlling interest income per share Series “B”	Ps.	1.11
Basic net controlling interest income per share Series “D”		1.38

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

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

		For the year ended December 31, 2018
Total revenues	Ps.	473,420
Income before income taxes and share of the profit of equity accounted investees		34,266
Net income		33,521
Basic net controlling interest income per share Series “B”	Ps.	1.22
Basic net controlling interest income per share Series “D”		1.52

4.2. Disposals

4.2.1 Specialty’s

Specialty’s was a Café & Bakery business based on California, Washington and Illinois. The COVID-19 pandemic started to expand across The United States in the last weeks of March 2020, which triggered an economic crisis. In this context of uncertainty and adverse environment, the Company had financial and economic setbacks with significant impacts in sales, as well as its profitability due to the government’s contingency plans for the disease which included mobility restrictions. Therefore, on May 15, 2020, the Company announced its decision to close Specialty’s operations. Such decision was approved by the Company’s board on the date previously specified. Consequently, on May 26, 2020, the Company’s board approved the filing for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code, which was filed on May 27, 2020. As a result of filing under Chapter 7, the Company lost control over this subsidiary and consequently it was deconsolidated. The case is being handled in the California Northern Bankruptcy Court.

The effects in FEMSA’s consolidated income statement in other income and expenses due to Specialty’s closing are the following:

		2020
Impairment of long-lived assets	Ps.	2,021

4.2.2 Discontinued operations (Coca-Cola FEMSA Philippines)

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

Income statement of discontinued operations

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

	2018	
Total revenues	Ps.	24,167
Cost of goods sold		17,360
Gross profit		6,807
Operating expenses		5,750
Other expenses, net		7
Financial income, net		(185)
Foreign exchange gain, net		(73)
Income before income taxes		1,308
Income taxes		466
Net income for discontinued operations	Ps.	842
Less: non-controlling interest in discontinued operations		391
Controlling interest in discontinued operations	Ps.	451
Accumulated currency translation effect for the subsidiary disposal		(811)
Gain from sale		3,335
Net income for subsidiary disposal – controlling interest		2,975
Net income from discontinued operations	Ps.	3,366

Note 5. Cash and Cash Equivalents

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

	December 31, 2020		December 31, 2019	
Cash and bank balances	Ps.	43,990	Ps.	31,905
Cash equivalents (see Note 3.5)		63,634		33,657
	Ps.	107,624	Ps.	65,562

Note 6. Investments

As of December 31, 2020 and 2019, current investments with maturity greater than three months but less than twelve months period are carried at amortized cost, and their carrying value is similar to their fair value. The following is a detail of such investments:

	2020		2019	
<i>Fixed rate</i>				
Corporate debt securities				
Acquisition cost	Ps.	658	Ps.	1,048
Accrued interest		4		4
Total fixed rate		662		1,052
<i>Variable rate</i>				
Corporate debt securities				
Acquisition cost		—		11,307
Accrued interest		—		7
Total variable rate		—		11,314
Total investments	Ps.	662	Ps.	12,366

Note 7. Trade Accounts Receivable, Net

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Trade accounts receivable	Ps. 26,309	Ps. 26,942
The Coca-Cola Company (see Note 15)	509	802
Loans to employees	118	115
Heineken Group (see Note 15)	1,167	749
Others	2,608	3,214
Allowance for expected credit losses	(2,462)	(2,189)
	Ps. 28,249	Ps. 29,633

7.1 Trade receivables

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

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

Because less than 8% of the trade accounts receivables is unrecoverable, the Company does not have customers classified as "high risk," which would be eligible to have special management conditions for the credit risk. As of December 31, 2020, the main customers of the Company represent, in aggregate form, the expected loss on 13%.

In 2020, during the COVID-19 pandemic, governments implemented several preventive measures such as social distancing and the temporary closure of certain points of sale considered as non-essential. As such measures were relaxed, most businesses were able to reopen and this allowed us to recover the accounts receivable. Given that the impact in this item was not material, the Company did not implement any relevant change to our models to estimate the receivables' provisions.

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

The parameters used within the model are:

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

Aging of accounts receivable (days current or outstanding)

	December 31, 2020	December 31, 2019
Current	Ps. 24,556	Ps. 24,696
0-30 days	2,024	3,278
31-60 days	836	1,345
61-90 days	317	668
91-120 days	438	244
120+ days	2,540	1,591
Total	Ps. 30,711	Ps. 31,822

7.2 Changes in the allowance for expected credit losses

	2020	2019	2018
Balance at the beginning of the period	Ps. 2,189	Ps. 2,114	Ps. 1,375
Effect of adoption of IFRS 9	—	—	468
Adjusted balance at the beginning of the period	2,189	2,114	1,843
Allowance for the period	591	709	348
Additions (write-offs) of uncollectible accounts ⁽¹⁾	(613)	(269)	(402)
Addition from business combinations	273	—	1
Effects of changes in foreign exchange rates	22	(365)	324
Balance at the end of the period	Ps. 2,462	Ps. 2,189	Ps. 2,114

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

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

7.3 Payments from The Coca-Cola Company

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Coca-Cola FEMSA's refrigeration equipment and returnable bottles investment program. Contributions received by Coca-Cola FEMSA for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the carrying amount of refrigeration equipment and returnable bottles items. For the years ended December 31, 2020, 2019 and 2018 contributions due were Ps. 1,482, Ps. 2,274 and Ps. 3,542, respectively.

Note 8. Inventories

	December 31, 2020	December 31, 2019
Finished products	Ps. 36,603	Ps. 32,853
Raw materials	4,756	5,331
Spare parts	1,118	1,198
Work in process	114	113
Inventories in transit	1,443	1,528
	Ps. 44,034	Ps. 41,023

For the years ended 2020, 2019 and 2018, the Company recognized write-downs of its inventories for Ps. 2,046, Ps. 2,992 and Ps. 2,006 to net realizable value, respectively.

For the years ended 2020, 2019 and 2018, changes in inventories are comprised of the following and included in the consolidated income statement under the cost of goods sold caption:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Changes in inventories of finished goods and work in progress	Ps. 209,410	Ps. 221,540	Ps. 204,688
Raw materials and consumables used	79,896	84,502	79,825
Total	<u>Ps. 289,306</u>	<u>Ps. 306,042</u>	<u>Ps. 284,513</u>

Note 9. Other Current Assets and Other Current Financial Assets

9.1 Other current assets

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Prepaid expenses	Ps. 2,424	Ps. 2,201
Recoverable taxes	5	268
Agreements with customers	115	294
Licenses	261	575
Assets classified as held for sale	30	197
Other	84	553
	<u>Ps. 2,919</u>	<u>Ps. 4,088</u>

As of December 31, 2020 and 2019, Company's prepaid expenses are as follows:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Advances for inventories	Ps. 1,651	Ps. 1,359
Advertising and promotional expenses paid in advance	93	89
Advances to service suppliers	30	60
Prepaid leases	93	239
Prepaid insurance	181	129
Others	376	325
	<u>Ps. 2,424</u>	<u>Ps. 2,201</u>

For the years ended December 31, 2020, 2019 and 2018, Company's advertising and promotional expenses amounted to Ps. 7,471, Ps. 8,840 and Ps. 7,695, respectively.

9.2 Other current financial assets

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Restricted cash	Ps. 77	Ps. 92
Derivative financial instruments (see Note 21)	573	1,008
Note receivables ⁽¹⁾	31	46
	<u>Ps. 681</u>	<u>Ps. 1,146</u>

(1) The carrying value approximates its fair value as of December 31, 2020 and 2019.

The Company has pledged part of its cash in order to fulfill the collateral requirements for the accounts payable in different currencies. As of December 31, 2020 and 2019, the restricted cash pledged was held in:

	December 31, 2020	December 31, 2019
U.S. Dollars	Ps. 74	Ps. 89
Chilean pesos	3	3
	<u>Ps. 77</u>	<u>Ps. 92</u>

The restricted cash in U.S. Dollars corresponds to operations in Brazil and consists of current deposits as requirements to guarantee the notes payable.

Note 10. Equity Accounted Investees

As of December 31, 2020 and 2019, Company's equity accounted investees are as follows:

Investee	Principal Activity	Place of Incorporation	Ownership Percentage		Carrying Value	
			December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Heineken ^{(1) (2)}	Beverages	The Netherlands	14.8 %	14.8 %	Ps. 87,291	Ps. 83,789
Coca-Cola FEMSA:						
Joint ventures:						
Compañía Panameña de Bebidas, S.A.P.I. de C.V.	Beverages	Mexico	-	50.0 %	—	486
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	50.0 %	50.0 %	181	172
Fountain Agua Mineral, L.T.D.A.	Beverages	Brazil	50.0 %	50.0 %	720	851
Associates:						
Promotora Industrial Azucarera, S.A. de C.V. ("PIASA")	Sugar production	Mexico	36.4 %	36.4 %	3,335	3,274
Industria Envasadora de Querétaro, S.A. de C.V. ("IEQSA")	Canned bottling	Mexico	26.5 %	26.5 %	192	194
Industria Mexicana de Reciclaje, S.A. de C.V. ("IMER")	Recycling	Mexico	35.0 %	35.0 %	121	121
Jugos del Valle, S.A.P.I. de C.V.	Beverages	Mexico	28.8 %	28.8 %	1,945	1,929
Leao Alimentos e Bebidas, L.T.D.A.	Beverages	Brazil	24.7 %	24.7 %	446	1,931
Other investments in Coca-Cola FEMSA's companies	Various	Various	Various	Various	683	793
FEMSA Comercio:						
Raizen Conveniências ⁽⁴⁾	Proximity	Brazil	50.0 %	—	2,763	3,410
Other investments ^{(1) (3)}	Various	Various	Various	Various	593	520
					<u>Ps. 98,270</u>	<u>Ps. 97,470</u>

(1) Associate.

(2) As of December 31, 2020 and 2019 comprised of 8.63% of Heineken, N.V. and 12.26% of Heineken Holding, N.V., which represents an economic interest of 14.76% in Heineken Group. The Company has significant influence, mainly, due to the fact that it participates in the Board of Directors of Heineken Holding, N.V. and the Supervisory Board of Heineken N.V.; and for the material transactions between the Company and Heineken Group.

(3) Joint ventures.

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

During 2020 Coca-Cola FEMSA made capital contributions to Jugos del Valle, S.A.P.I. de C.V. and to Compañía Panameña de Bebidas, S.A.P.I. de C.V. for the amounts of Ps. 23 and Ps. 1,302, respectively. There were no changes in

the ownership percentage as a result of capital contributions made by the other shareholders. During 2019 Coca-Cola FEMSA made capital contributions to Jugos del Valle, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 204 and Ps. 111, respectively, and there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders.

During 2020 the Company recognized impairments on its investment in Compañía Panameña de Bebidas, S.A.P.I. de C.V. and Leao Alimentos y Bebidas LTDA. for the amounts of Ps. 1,463 and Ps. 1,038, respectively. During 2019 the Company recognized an impairment on its investment in Compañía Panameña de Bebidas, S.A.P.I. de C.V. for the amount of Ps. 948, which was included in the other expenses line.

On September 30, 2020, Coca-Cola FEMSA that its joint venture with The Coca-Cola Company (Compañía Panameña de Bebidas, S.A..P.I. de C.V.) successfully sold 100% of its stock interest in Estrella Azul, a dairy products company in Panama. As part of the transaction, Coca-Cola FEMSA agreed with the buyer to receive payments in the future if the business of Estrella Azul achieves certain volume and EBITDA targets during the 2022-2027 period. Coca-Cola FEMSA estimated the amount of the payments to be received based on the forecasts of the business and calculated their net present value. As of December 31, 2020, the financial asset recognized in the consolidated statement of financial position has a total value of Ps. 8. This transaction is presented in the other expenses line of the consolidated financial statements as Coca-Cola FEMSA concluded did not achieve the requirements to be considered as a discontinued operation under IFRS 5.

During 2020, Coca-Cola FEMSA received dividends from Industria Envasadora de Querétaro, S.A. de C.V. for the amount of Ps. 16 and during 2019, Coca-Cola FEMSA received dividends from Promotora Mexicana de Embotelladores, S.A. de C.V. for the amount of Ps. 1.

On April 30, 2010, the Company acquired an economic interest of 20% of Heineken Group. Heineken's main activities are the production, distribution and marketing of beer worldwide. On September 18, 2017, the Company concluded the sale of a portion of its investment, representing 5.2% combined economic interest, consisting of 22,485,000 Heineken N.V. shares and 7,700,000 Heineken Holding N.V. shares at the price of €. 84.50 and €. 78.00 per share, respectively. The Company recognized an equity (loss) income of Ps. (434), Ps. 6,428 and Ps. 6,478 net of taxes based on its economic interest in Heineken Group for the years ended December 31, 2020, 2019 and 2018, respectively. The economic interest as of December 31, 2020 and 2019 was 14.8%. The Company's share of the net (loss) income attributable to equity holders of Heineken Group exclusive of amortization of adjustments amounted to Ps. (842) (€. (30) million), Ps. 6,885 (€.319 million) and Ps. 6,320 (€.281 million), for the years ended December 31, 2020, 2019 and 2018, respectively. Summarized financial information in respect of the associate Heineken Group accounted for under the equity method is set out below.

Amounts in millions	December 31, 2020		December 31, 2019	
	Peso	Euro	Peso	Euro
Total current assets	Ps. 221,182	€. 9,020	Ps. 177,829	€. 8,419
Total non-current assets	824,210	33,612	804,443	38,085
Total current liabilities	266,497	10,868	259,952	12,307
Total non-current liabilities	425,984	17,372	356,671	16,886
Total equity	352,911	14,392	365,648	17,311
Equity attributable to equity holders ⁽¹⁾	328,393	13,392	341,062	16,147
Total revenue and other income	Ps. 479,996	€. 19,771	Ps. 511,125	€. 24,064
Total cost and expenses	461,108	18,993	433,959	20,431
Net (loss) income	Ps. (2,136)	€. (88)	Ps. 50,424	€. 2,374
Net (loss) income attributable to equity holders	(4,953)	(204)	46,006	2,166
Other comprehensive (loss) income	(48,944)	(2,016)	3,951	186
Total comprehensive (loss) income	Ps. (51,080)	€. (2,104)	Ps. 54,375	€. 2,560
Total comprehensive (loss) income attributable to equity holders	(51,639)	(2,127)	49,447	2,328

(1) Following the IFRS Interpretations Committee agenda decision in January 2019 regarding tax deposits (relating to taxes other than income tax), Heineken Group changed its accounting policy with regards to payments relating to contingent liabilities.

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

Amounts in millions	December 31, 2020		December 31, 2019	
	Peso	Euro	Peso	Euro
Equity attributable to equity holders of Heineken ⁽¹⁾	Ps. 328,393	€. 13,392	Ps. 341,062	€. 16,147
Economic ownership percentage	14.76 %	14.76 %	14.76 %	14.76 %
Investment in Heineken investment exclusive of goodwill and other adjustments	Ps. 48,471	€. 1,977	Ps. 50,341	€. 2,383
Effects of fair value determined by purchase price allocation	17,226	702	14,839	703
Goodwill	21,594	881	18,609	881
Heineken investment	Ps. 87,291	€. 3,560	Ps. 83,789	€. 3,967

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

As of December 31, 2020 and 2019, the fair value of the Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 14.8% of its outstanding shares amounted to Ps. 176,718 (€7,255 million) and Ps. 164,504 (€7,769 million) based on quoted market prices of those dates. As of April 9, 2021, fair value amounted to € 7,347 million.

During the years ended December 31, 2020, 2019 and 2018, the Company received dividends distributions from Heineken Group, amounting to Ps. 2,322, Ps. 3,031 and Ps. 2,872, respectively.

For the years ended December 31, 2020, 2019 and 2018 the equity (loss) earnings recognized for associates of Coca-Cola FEMSA was Ps. (124), Ps. 84 and Ps. 44, respectively.

For the years ended December 31, 2020, 2019 and 2018 the equity (loss) earnings recognized for joint ventures of Coca-Cola FEMSA was Ps. (157), Ps. (215) and Ps. (270), respectively.

For the year ended December 31, 2020, 2019 and 2018, the Company's share of other comprehensive income from equity investees, net of taxes are as follows:

	2020	2019	2018
Items that may be reclassified to consolidated net income:			
Valuation of the effective portion of derivative financial instruments	Ps. (14)	Ps. —	Ps. (355)
Exchange differences on translating foreign operations	(5,934)	1,058	(5)
Total	Ps. (5,948)	Ps. 1,058	Ps. (360)
Items that may not be reclassified to consolidated net income in subsequent periods:			
Remeasurements of the net defined benefit liability	Ps. (111)	Ps. (389)	Ps. 597

Note 11. Property, Plant and Equipment, Net

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Cost as of January 1, 2018	Ps. 13,589	Ps. 25,972	Ps. 80,302	Ps. 17,465	Ps. 21,532	Ps. 7,390	Ps. 19,666	Ps. 1,028	Ps. 186,944
Additions	334	877	6,926	644	2,888	6,482	3,322	111	21,584
Additions from business acquisitions	25	451	4,128	537	393	290	2	41	5,867
Transfer of completed projects in progress	526	567	2,193	1,711	3	(4,927)	(93)	20	—
Transfer (to)/from assets classified as held for sale	—	—	(127)	—	—	—	—	—	(127)
Disposals	(93)	(152)	(4,623)	(614)	(312)	(633)	(748)	(21)	(7,196)
Philippines disposal	(4,654)	(2,371)	(11,621)	(2,415)	(10,116)	(489)	(236)	—	(31,902)
Effects of changes in foreign exchange rates	(401)	(1,079)	(3,526)	(759)	(251)	(330)	(354)	(293)	(6,993)
Changes in value on the recognition of inflation effects	242	816	2,552	465	612	66	—	9	4,762
Cost as of December 31, 2018	<u>Ps. 9,568</u>	<u>Ps. 25,081</u>	<u>Ps. 76,204</u>	<u>Ps. 17,034</u>	<u>Ps. 14,749</u>	<u>Ps. 7,849</u>	<u>Ps. 21,559</u>	<u>Ps. 895</u>	<u>Ps. 172,939</u>

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Cost as of January 1, 2019	Ps. 9,568	Ps. 25,081	Ps. 76,204	Ps. 17,034	Ps. 14,749	Ps. 7,849	Ps. 21,559	Ps. 895	Ps. 172,939
Additions	309	1,134	6,826	636	2,581	8,421	2,907	112	22,926
Additions from business acquisitions	146	806	686	—	—	—	466	—	2,104
Changes in the fair value of past acquisitions	142	227	50	(13)	—	—	7	(8)	405
Transfer of completed projects in progress	(253)	581	3,694	1,396	359	(6,284)	496	11	—
Transfer (to)/from assets classified as held for sale	—	—	(410)	—	—	—	—	(49)	(459)
Disposals	(15)	(254)	(3,195)	(1,032)	(1,056)	(33)	(170)	(38)	(5,793)
Effects of changes in foreign exchange rates	(329)	(1,147)	(2,463)	(961)	(833)	(370)	26	(130)	(6,207)
Effects on the recognition of inflation effects	114	366	1,254	241	352	18	—	—	2,345
Cost as of December 31, 2019	<u>Ps. 9,682</u>	<u>Ps. 26,794</u>	<u>Ps. 82,646</u>	<u>Ps. 17,301</u>	<u>Ps. 16,152</u>	<u>Ps. 9,601</u>	<u>Ps. 25,291</u>	<u>Ps. 793</u>	<u>Ps. 188,260</u>

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Cost as of January 1, 2020	Ps. 9,682	Ps. 26,794	Ps. 82,646	Ps. 17,301	Ps. 16,152	Ps. 9,601	Ps. 25,291	Ps. 793	Ps. 188,260
Additions	241	616	5,277	137	2,613	6,979	2,611	185	18,659
Additions from business acquisitions	158	—	200	—	—	3	46	81	488
Changes in the fair value of past acquisitions	—	—	59	—	—	—	—	—	59
Transfer of completed projects in progress	4	809	3,471	1,192	57	(5,644)	110	1	—
Transfer (to)/from assets classified as held for sale	—	—	449	—	—	—	—	—	449
Disposals	(13)	(122)	(3,358)	(1,073)	(561)	(12)	(808)	(58)	(6,005)
Specialty's disposal	—	—	(775)	—	—	(24)	(1,036)	—	(1,835)
Effects of changes in foreign exchange rates	(238)	(1,135)	(2,233)	(797)	(629)	(339)	310	(97)	(5,158)
Effects on the recognition of inflation effects	88	293	990	189	291	(30)	3	—	1,824
Cost as of December 31, 2020	<u>Ps. 9,922</u>	<u>Ps. 27,255</u>	<u>Ps. 86,726</u>	<u>Ps. 16,949</u>	<u>Ps. 17,923</u>	<u>Ps. 10,534</u>	<u>Ps. 26,527</u>	<u>Ps. 905</u>	<u>Ps. 196,741</u>

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, 2018	Ps. —	Ps. (6,051)	Ps. (34,308)	Ps. (8,996)	Ps. (13,423)	Ps. —	Ps. (6,956)	Ps. (498)	Ps. (70,232)
Depreciation for the year	—	(786)	(7,437)	(1,752)	(2,827)	—	(1,763)	(133)	(14,698)
Transfer to/(from) assets classified as held for sale	—	—	78	—	—	—	—	—	78
Disposals	—	69	4,970	579	204	—	571	—	6,393
Philippines disposal	—	700	6,125	2,083	7,225	—	77	—	16,210
Effects of changes in foreign exchange rates	—	112	404	250	631	—	141	143	1,681
Changes in value on the recognition of inflation effects	—	(223)	(2,692)	(338)	(516)	—	—	—	(3,769)
Accumulated Depreciation as of December 31, 2018	<u>Ps. —</u>	<u>Ps. (6,179)</u>	<u>Ps. (32,860)</u>	<u>Ps. (8,174)</u>	<u>Ps. (8,706)</u>	<u>Ps. —</u>	<u>Ps. (7,930)</u>	<u>Ps. (488)</u>	<u>Ps. (64,337)</u>

[Table of Contents](#)

			Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Accumulated Depreciation	Land	Buildings	Equipment	Equipment	Returnable Bottles	Progress	Improvements	Other	Total
Accumulated Depreciation as of January 1, 2019	Ps. —	Ps. (6,179)	Ps. (32,860)	Ps. (8,174)	Ps. (8,706)	Ps. —	Ps. (7,930)	Ps. (488)	Ps. (64,337)
Depreciation for the year	—	(937)	(7,862)	(1,862)	(2,734)	—	(1,985)	(88)	(15,468)
Transfer to/(from) assets classified as held for sale	—	—	262	—	—	—	—	—	262
Disposals	—	46	1,967	966	1,079	—	115	31	4,204
Effects of changes in foreign exchange rates	—	264	1,249	583	572	—	64	63	2,795
Changes in value on the recognition of inflation effects	—	(92)	(629)	(164)	(302)	—	(2)	(14)	(1,203)
Accumulated Depreciation as of December 31, 2019	<u>Ps. —</u>	<u>Ps. (6,898)</u>	<u>Ps. (37,873)</u>	<u>Ps. (8,651)</u>	<u>Ps. (10,091)</u>	<u>Ps. —</u>	<u>Ps. (9,738)</u>	<u>Ps. (496)</u>	<u>Ps. (73,747)</u>
			Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Accumulated Depreciation	Land	Buildings	Equipment	Equipment	Bottles	Progress	Improvements	Other	Total
Accumulated Depreciation as of January 1, 2020	Ps. —	Ps. (6,898)	Ps. (37,873)	Ps. (8,651)	Ps. (10,091)	Ps. —	Ps. (9,738)	Ps. (496)	Ps. (73,747)
Depreciation for the year	—	(828)	(8,390)	(1,832)	(2,779)	—	(2,404)	(145)	(16,378)
Transfer to/(from) assets classified as held for sale	—	—	(282)	—	—	—	0	—	(282)
Disposals	—	38	2,707	989	536	—	492	38	4,800
Specialty's disposal	—	—	625	—	—	—	649	—	1,274
Effects of changes in foreign exchange rates	—	127	698	464	432	—	(123)	170	1,768
Changes in value on the recognition of inflation effects	—	(82)	(595)	(132)	(250)	—	(6)	(5)	(1,070)
Accumulated Depreciation as of December 31, 2020	<u>Ps. —</u>	<u>Ps. (7,643)</u>	<u>Ps. (43,110)</u>	<u>Ps. (9,162)</u>	<u>Ps. (12,152)</u>	<u>Ps. —</u>	<u>Ps. (11,130)</u>	<u>Ps. (438)</u>	<u>Ps. (83,635)</u>
Carrying Amount	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
As of December 31, 2018	Ps. 9,568	Ps. 18,902	Ps. 43,344	Ps. 8,860	Ps. 6,043	Ps. 7,849	Ps. 13,629	Ps. 407	Ps. 108,602
As of December 31, 2019	Ps. 9,682	Ps. 19,896	Ps. 44,773	Ps. 8,650	Ps. 6,061	Ps. 9,601	Ps. 15,553	Ps. 297	Ps. 114,513
As of December 31, 2020	<u>Ps. 9,922</u>	<u>Ps. 19,612</u>	<u>Ps. 43,616</u>	<u>Ps. 7,787</u>	<u>Ps. 5,771</u>	<u>Ps. 10,534</u>	<u>Ps. 15,397</u>	<u>Ps. 467</u>	<u>Ps. 113,106</u>

For the years ended December 31, 2020, 2019 and 2018, the Company did not recognize any capitalization of borrowing costs.

Note 12. Leases

During 2020, the activity in the consolidated right-of-use assets reported in our financial statements was as follows:

	Land and buildings	Other ⁽¹⁾	Total
Cost as of January 1, 2020	Ps. 51,926	758	52,684
Additions	6,478	1,504	7,982
Additions from business combinations	1,414	351	1,765
Disposals ⁽²⁾	(2,190)	(114)	(2,304)
Remeasurements	3,749	84	3,833
Depreciation	(8,138)	(491)	(8,629)
Effects of changes in foreign exchange rates and restatement effects associated with hyperinflationary economies	(475)	(109)	(584)
Right-of-use assets, net as of December 31, 2020	<u>Ps. 52,764</u>	<u>1,983</u>	<u>54,747</u>

(1) Other assets mainly include transportation equipment and servers.

(2) Includes Specialty's disposal for an amount of Ps. 690.

As of December 31, 2020, the lease liabilities are integrated as follows:

	December 31, 2020
Maturity analysis – contractual undiscounted cash flows	
Less than one Year	Ps. 11,511
One to five years	36,172
Five to ten years	27,088
More than ten years	13,823
Total undiscounted lease liabilities at December 31	<u>88,594</u>
Lease liabilities included in the statement of financial position at December 31	<u>58,308</u>
Current	6,772
Non-Current	Ps. 51,536

As December 31, 2020, the weighted average incremental borrowing rate was 9.49%.

The interest expense for leases reported in the income statement for the year ended December 31, 2020 was Ps. 5,075.

The expense relating to short-term leases and leases of low-value assets for the year ended December 31, 2020 was Ps. 508.

For the year ended December 31, 2020, the amounts recognized in the consolidated statement of cash flows related to leases is Ps. 9,810.

As of December 31, 2020, the accumulated amount of concessions, decreases or cancellations for rent, which arose as a direct consequence of COVID-19 were not material. The Company applied the practical expedient to all decreases that met the criteria of the amendment to IFRS 16 effective as of June 1, 2020.

During 2019, the activity in the consolidated right-of-use assets reported in our financial statements was as follows:

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

(1) Other assets mainly include transportation equipment and servers.

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

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

As December 31, 2019, the weighted average incremental borrowing rate was 10.18%.

The interest expense for leases reported in the income statement for the year ended December 31, 2019 was Ps. 4,774.

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

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

12.1 Land and buildings leases

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

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

Variable lease payments based on sales

Some leases of retail stores contain variable lease payments that are based on sales that the Company makes at the store. Variable rental payments were not significant for the year ended December 31, 2020.

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

Extension options

Some leases of office buildings, cellars and retail stores contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by FEMSA and not by the lessor, in other words, the lessee has the unilateral right to exercise the extension option. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. FEMSA reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. Except for some business units, FEMSA consider that the “reasonably certain” criteria is met when a new lease contract is signed by both, the Company and the lessor, which usually occurs within a short period of the expiration of the current lease term. Extension options on leases do not represent a significant impact on the right-of-use assets at December 31, 2020.

12.2 Other leases

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

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

Note 13. Intangible Assets

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

[Table of Contents](#)

	Rights to Produce and Distribute Coca-Cola Trademark Products		Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Assets
Cost as of January 1, 2019	Ps.	87,617	Ps. 40,530	Ps. 6,699	Ps. 1,977	Ps. 136,823	Ps. 8,707	Ps. 777	Ps. 1,768	Ps. 3,273	Ps. 14,525	Ps. 151,348
Additions		—	—	—	164	164	824	334	191	685	2,034	2,198
Acquisitions from business combinations (see Note 4)		—	6,542	469	—	7,011	759	—	—	12	771	7,782
Changes in fair value of past acquisitions		(2,887)	2,903	—	153	169	(6)	—	—	(185)	(191)	(22)
Transfer of completed development systems		—	—	—	—	—	412	(413)	—	1	—	—
Disposals		—	—	(48)	—	(48)	(580)	—	(130)	—	(710)	(758)
Effect of movements in exchange rates		(3,475)	(2,069)	(520)	(134)	(6,198)	(553)	(23)	—	(337)	(913)	(7,111)
Changes in value on the recognition of inflation effects		—	—	—	—	—	—	—	—	(6)	(6)	(6)
Cost as of December 31, 2019	Ps.	81,255	Ps. 47,906	Ps. 6,600	Ps. 2,160	Ps. 137,921	Ps. 9,563	Ps. 675	Ps. 1,829	Ps. 3,443	Ps. 15,510	Ps. 153,431

	Rights to Produce and Distribute Coca-Cola Trademark Products		Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other (1)	Total Amortized Intangible Assets	Total Intangible Assets
Cost as of January 1, 2020	Ps.	81,255	Ps. 47,906	Ps. 6,600	Ps. 2,160	Ps. 137,921	Ps. 9,563	Ps. 675	Ps. 1,829	Ps. 3,443	Ps. 15,510	Ps. 153,431
Additions		1	—	—	—	1	771	202	111	398	1,482	1,483
Acquisitions from business combinations (see Note 4)		—	12,080	2,101	—	14,181	26	—	—	8,597	8,623	22,804
Changes in fair value of past acquisitions		—	(1,323)	347	(361)	(1,337)	—	—	—	1,268	1,268	(69)
Transfer of completed development systems		—	—	—	—	—	397	(399)	—	2	—	—
Disposals		—	(183)	(116)	(305)	(604)	(164)	(6)	(43)	(373)	(586)	(1,190)
Specialty's disposal		—	(1,194)	(215)	(11)	(1,420)	—	—	—	(5)	(5)	(1,426)
Effect of movements in exchange rates		(4,607)	(4,466)	(70)	(59)	(9,202)	276	(40)	—	(1,614)	(1,378)	(10,580)
Changes in value on the recognition of inflation effects		—	—	—	—	—	—	—	—	38	38	38
Cost as of December 31, 2020	Ps.	76,649	Ps. 52,820	Ps. 8,647	Ps. 1,424	Ps. 139,540	Ps. 10,869	Ps. 432	Ps. 1,897	Ps. 11,754	Ps. 24,952	Ps. 164,492

(1) Includes customer relationships related to the acquisition through the controlling interest in NW Synergy Holdings LLC disclosed in Note 4.

[Table of Contents](#)

	Rights to Produce and Distribute Coca-Cola		Other Indefinite Lived		Total Unamortized	Technology Costs and	Systems in	Total Amortized		Total Intangible	
Amortization and Impairment Losses	Trademark Products	Goodwill	Trademark Rights	Intangible Assets	Intangible Assets	Management Systems	Development	Alcohol Licenses	Other	Intangible Assets	Assets
Amortization as of January 1, 2018	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. (3,262)	Ps. —	Ps. (457)	Ps. (855)	Ps. (4,574)	Ps. (4,574)
Amortization expense	—	—	—	—	—	(1,453)	—	(87)	(373)	(1,913)	(1,913)
Disposals	—	—	—	—	—	93	—	—	98	191	191
Philippines disposal	—	—	—	—	—	—	—	—	375	375	375
Effect of movements in exchange rates	—	—	—	—	—	236	—	—	(1)	235	235
Changes in value on the recognition of inflation effects	—	—	—	—	—	(51)	—	—	(1)	(52)	(52)
Amortization as of December 31, 2018	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. (4,437)	Ps. —	Ps. (544)	Ps. (757)	Ps. (5,738)	Ps. (5,738)
Amortization as of January 1, 2019	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. (4,437)	Ps. —	Ps. (544)	Ps. (757)	Ps. (5,738)	Ps. (5,738)
Amortization expense	—	—	—	—	—	(1,351)	—	(123)	(337)	(1,811)	(1,811)
Disposals	—	—	—	—	—	445	—	30	—	475	475
Philippines disposal	—	—	—	—	—	—	—	—	—	—	—
Effect of movements in exchange rates	—	—	—	—	—	165	—	—	68	233	233
Changes in value on the recognition of inflation effects	—	—	—	—	—	(29)	—	—	1	(28)	(28)
Amortization as of December 31, 2019	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. (5,207)	Ps. —	Ps. (637)	Ps. (1,025)	Ps. (6,869)	Ps. (6,869)
Amortization as of January 1, 2020	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. (5,207)	Ps. —	Ps. (637)	Ps. (1,025)	Ps. (6,869)	Ps. (6,869)
Amortization expense	—	—	—	—	—	(1,536)	—	(97)	(832)	(2,465)	(2,465)
Disposals	—	—	—	—	—	129	—	—	50	179	179
Effect of movements in exchange rates	—	—	—	—	—	142	—	—	51	193	193
Changes in value on the recognition of inflation effects	—	—	—	—	—	(29)	—	—	—	(29)	(29)
Amortization as of December 31, 2020	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. (6,501)	Ps. —	Ps. (734)	Ps. (1,756)	Ps. (8,991)	Ps. (8,991)

Carrying Amount	Rights to Produce and Distribute Coca-Cola	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Asset
As of December 31, 2018	Ps. 87,617	Ps. 40,530	Ps. 6,699	Ps. 1,977	Ps. 136,823	Ps. 4,270	Ps. 777	Ps. 1,224	Ps. 2,516	Ps. 8,787	Ps. 145,610
As of December 31, 2019	Ps. 81,255	Ps. 47,906	Ps. 6,600	Ps. 2,160	Ps. 137,921	Ps. 4,356	Ps. 675	Ps. 1,192	Ps. 2,418	Ps. 8,641	Ps. 146,562
As of December 31, 2020	Ps. 76,649	Ps. 52,820	Ps. 8,647	Ps. 1,424	Ps. 139,540	Ps. 4,368	Ps. 432	Ps. 1,163	Ps. 9,998	Ps. 15,961	Ps. 155,501

For the years ended December 31, 2020, 2019 and 2018, the Company did not recognize any capitalization of borrowing costs.

For the years ended 2020, 2019 and 2018, allocation for amortization expense is as follows:

	2020	2019	2018
Cost of goods sold	Ps. 288	Ps. 317	Ps. 399
Administrative expenses	1,412	953	858
Selling expenses	765	542	656
	Ps. 2,465	Ps. 1,812	Ps. 1,913

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

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

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

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

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

	December 31, 2020	December 31, 2019
Mexico	Ps. 56,352	Ps. 56,352
Guatemala	1,755	1,679
Nicaragua	433	420
Costa Rica	1,425	1,442
Panama	1,200	1,131
Colombia	4,414	4,367
Brazil	31,741	38,765
Argentina	312	306
Uruguay	2,450	2,626
Total	Ps. 100,082	Ps. 107,088

Goodwill and distribution rights are tested for impairments annually. The recoverable amounts are based on value in use calculations. The value in use of a CGU is determined based on the discounted cash flows method generated from the continuing use of the CGU.

The foregoing forecasts reflect the outcomes that Coca-Cola FEMSA consider most likely to occur based on the current situation of each of the CGUs including the macroeconomic situation in each CGU including the potential continue

impacts of the COVID-19 pandemic which has heightened the inherent uncertainty in such estimations, the foregoing forecasts could differ from the results obtained over time.

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

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

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

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

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

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

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

The key assumptions by CGU for impairment test as of December 31, 2020 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2021-2030	Expected Volume Growth Rates 2021-2030
Mexico	7.4 %	5.3 %	3.9 %	2.0 %
Colombia	11.0 %	7.3 %	2.8 %	4.1 %
Costa Rica	15.3 %	10.8 %	2.7 %	4.3 %
Guatemala	10.6 %	8.3 %	3.1 %	6.8 %
Nicaragua	20.6 %	13.9 %	3.7 %	7.1 %
Panama	8.8 %	6.8 %	1.5 %	7.9 %
Argentina	26.3 %	20.4 %	30.1 %	3.9 %
Brazil	9.1 %	6.0 %	3.0 %	2.4 %
Uruguay	9.9 %	7.1 %	7.8 %	2.0 %

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

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

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

Sensitivity to Changes in Assumptions

At December 31, 2020, Coca-Cola FEMSA performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and an additional sensitivity to the volume of 100 basis points and concluded that no impairment would be recorded.

CGU	Change in WACC		Change in Volume Growth CAGR (1)		Effect on Valuation
Mexico	+0.4	%	-1.0	%	Passes by 4.8x
Colombia	+0.4	%	-1.0	%	Passes by 1x
Costa Rica	+1.1	%	-1.0	%	Passes by 2.1x
Guatemala	+0.6	%	-1.0	%	Passes by 29.7x
Nicaragua	+1.7	%	-1.0	%	Passes by 1.1x
Panama	+0.3	%	-1.0	%	Passes by 6.9x
Argentina	+3.0	%	-1.0	%	Passes by 6.7x
Brazil	+0.6	%	-1.0	%	Passes by 1.8x
Uruguay	+0.4	%	-1.0	%	Passes by 2x

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

FEMSA Comercio – Proximity Division, FEMSA Comercio – Health Division and FEMSA Comercio – Fuel Division Impairment Test for Cash-Generating Units Containing Goodwill

For the purpose of impairment testing, goodwill is allocated and monitored on an individual country basis by operating segment. The Company has integrated its cash generating units as follows: (i) FEMSA Comercio – Proximity Division is integrated as Mexico, and (ii) FEMSA Comercio – Health Division are integrated as Mexico, Chile, Colombia and Ecuador for each of them and (iii) FEMSA Comercio – Fuel Division includes only Mexico.

As of December 31, 2020 in FEMSA Comercio – Health Division there is a significant carrying amount of goodwill allocated in Chile and Colombia as a cash generating unit (South America) with a total carrying amount of Ps. 6,681.

The recoverable amounts are based on value in use. The value in use of CGUs is determined based on the method of discounted cash flows. The key assumptions used in projecting cash flows are: sales, expected annual long-term inflation, and the weighted average cost of capital ("WACC") used to discount the projected cash flows. The cash flow forecasts could differ from the results obtained over time; however, the Company prepares its estimates based on the current situation of each of the CGUs or group of CGUs.

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

The estimated discount rates to perform the IAS 36 “*Impairment of assets*,” impairment test for each CGU or group of CGUs consider market participants’ assumptions. Market participants were selected taking into consideration the size, operations and characteristics of the businesses that are similar to those of FEMSA Comercio –Health Division.

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

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

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

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

The key assumptions by CGU for impairment test as of December 31, 2020 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2021-2030	Expected Volume Growth Rates 2021-2030
South America (FEMSA Comercio – Health Division)	8.3 %	5.8 %	2.8 %	0.2 %

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

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

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

Sensitivity to Changes in Assumptions

At December 31, 2020, the Company performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and a sensitivity analysis of sales that would be affected considering a

contraction in economic conditions as a result of lower purchasing power of customers, which based on management estimation considered to be reasonably possible an effect of 100 basis points in the sale’s compound annual growth rate (“CAGR”), concluding that no impairment would be recognized.

CGU	Change in WACC		Change in Sales Growth CAGR (1)		Effect on Valuation
FEMSA Comercio – Health Division (South America)	+0.2	%	-0.5	%	Passes by 1.34x

(1) Compound Annual Growth Rate (“CAGR”).

Other Businesses Impairment Test for Cash-Generating Units Containing Goodwill and trademark rights.

For the purpose of impairment testing, goodwill and trademark rights are allocated and monitored on an individual country basis, which is considered to be a CGU. The Company has integrated its cash generating units as a specialized distribution platform for cleaning products and consumables, located in United States.

As of December 31, 2020 in specialized distribution there is a significant carrying amount of goodwill and trademark rights as a cash generating unit with a total carrying amount of Ps. 10,169. Goodwill and trademark rights are tested for impairments annually.

The recoverable amounts are based on value in use. The value in use of CGUs is determined based on the method of discounted cash flows. The key assumptions used in projecting cash flows are: sales, expected annual long-term inflation, and the weighted average cost of capital (“WACC”) used to discount the projected cash flows. The cash flow forecasts could differ from the results obtained over time; however, the Company prepares its estimates based on the current situation of each of the CGUs or group of CGUs.

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

The estimated discount rates to perform the IAS 36 “*Impairment of assets*,” impairment test for each CGU or group of CGUs consider market participants’ assumptions. Market participants were selected taking into consideration the size, operations and characteristics of the businesses that are similar to those of specialized distribution.

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

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

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

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

The key assumptions by CGU for impairment test as of December 31, 2020 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2021-2025	Expected Volume Growth Rates 2021-2025
United States (Specialized Distribution)	8.2 %	6.0 %	2.0 %	1.7 %

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

Sensitivity to Changes in Assumptions

At December 31, 2020, the Company performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and a sensitivity analysis of sales that would be affected considering a contraction in economic conditions as a result of lower purchasing power of customers, which based on management estimation considered to be reasonably possible an effect of 100 basis points in the sale’s compound annual growth rate (“CAGR”), concluding that no impairment would be recognized.

CGU	Change in Sales Growth CAGR ⁽¹⁾	Effect on Valuation
United States (Specialized Distribution)	-0.5 %	Passes by 1.25x

(1) Compound Annual Growth Rate (“CAGR”).

Note 14. Other Assets and Other Financial Assets

14.1 Other non-current assets

	December 31, 2020	December 31, 2019
Agreement with customers	Ps. 731	Ps. 953
Long-term prepaid advertising expenses	333	341
Guarantee deposits ⁽¹⁾	2,009	2,407
Prepaid bonuses	239	226
Advances to acquire property, plant and equipment	184	203
Recoverable taxes	1,701	2,111
Indemnifiable assets from business combinations	1,609	2,948
Others	720	1,343
	Ps. 7,526	Ps. 10,532

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

14.2 Other non-current financial assets

	December 31, 2020	December 31, 2019
Non-current accounts receivable	Ps. 983	Ps. 938
Derivative financial instruments (see Note 21)	14,283	8,260
Others	334	172
Other investments in equity instruments ⁽¹⁾	16,786	13,310
	Ps. 32,386	Ps. 22,680

- (1) Corresponds to the acquisition of a minority stake in Jetro Restaurant Depot as of November 8, 2019. On October 9, 2020, the Company acquired an additional minority stake in Jetro. Refer to Note 3.7.3.

As of December 31, 2020 and 2019, the fair value of non-current accounts receivable amounted to Ps. 699 and Ps. 724, respectively. The fair value is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for receivable of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy.

Note 15. Balances and Transactions with Related Parties and Affiliated Companies

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

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

	December 31, 2020	December 31, 2019
Balances		
Due from The Coca-Cola Company (see Note 7) ^{(1) (8)}	Ps. 509	Ps. 802
Balance with BBVA Bancomer, S.A. de C.V. ⁽²⁾	1,092	6,798
Balance with Grupo Scotiabank Inverlat, S.A. ⁽³⁾	2,016	510
Due from Heineken Group ^{(1) (3) (7)}	2,512	2,915
Other receivables ^{(1) (4)}	746	390
Due to The Coca-Cola Company ^{(5) (6) (8)}	Ps. 3,513	Ps. 4,417
Due to BBVA Bancomer, S.A. de C.V. ⁽⁵⁾	1,062	1,696
Due to Heineken Group ^{(6) (7)}	3,273	4,308
Due to Grupo Financiero Scotiabank Inverlat, S.A. ⁽⁵⁾	105	104
Other payables ⁽⁶⁾	2,060	2,003

- (1) Presented within accounts receivable.
(2) Presented within cash and cash equivalents.
(3) Presented within other financial assets.
(4) Presented within other current financial assets.
(5) Recorded within bank loans and notes payable.
(6) Recorded within accounts payable.
(7) Associates.
(8) Non-controlling interest.

Balances due from related parties are considered to be recoverable. Accordingly, for the years ended December 31, 2020, 2019 and 2018, there was no expense resulting from uncollectible balances due from related parties.

Transactions	2020	2019	2018
Income:			
Services to Heineken Group ⁽¹⁾	Ps. 3,181	Ps. 3,380	Ps. 3,265
Logistic services to Grupo Industrial Saltillo, S.A. de C.V. ⁽³⁾	—	—	255
Logistic services to Jugos del Valle ⁽¹⁾	532	553	369
Interest revenues from BBVA Bancomer, S.A. de C.V. ⁽³⁾	1,825	1,456	1,469
Interest revenues from Grupo Financiero Scotiabank Inverlat, S.A. ⁽³⁾	295	447	—
Other revenues from related parties	764	404	242
Expenses:			
Purchase of concentrate from The Coca-Cola Company ⁽²⁾	Ps. 32,222	Ps. 34,063	Ps. 32,379
Purchases of beer from Heineken Group ^{(1) (5)}	23,233	25,215	27,999
Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. ⁽³⁾	5,774	6,194	5,763
Advertisement expense paid to The Coca-Cola Company ^{(2) (4)}	865	1,756	2,193
Purchase of juices from Jugos del Valle, S.A.P.I. de C.V. ⁽¹⁾	4,055	4,477	4,537
Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V. ⁽¹⁾	2,123	2,728	2,604
Interest expense and fees paid to BBVA Bancomer, S.A. de C.V. ⁽³⁾	232	144	230
Purchase of sugar from Beta San Miguel ⁽³⁾	1,023	655	651
Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V. ⁽³⁾	—	—	739
Purchase of canned products from IEQSA ⁽¹⁾	226	682	596
Purchases to AdeS Alimentos y Bebidas ⁽¹⁾	338	497	592
Purchase of inventories to Leao Alimentos e Bebidas, L.T.D.A. ⁽¹⁾	1,253	1,867	2,654
Purchases of Material with Ecolab, Inc ⁽³⁾	340	—	—
Advertising paid to Grupo Televisa, S.A.B. ⁽³⁾	148	115	113
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. ⁽³⁾	7	—	12
Donations to Fundación FEMSA, A.C. ⁽³⁾	171	195	232
Donations to Difusión y Fomento Cultural, A.C. ⁽³⁾	55	61	63
Donations to ITESM ⁽³⁾	310	215	192
Other expenses with related parties	619	319	423

- (1) Associates.
(2) Non-controlling interest.
(3) Members of the board of directors in FEMSA participate in the board of directors of this entity.
(4) Net of the contributions from The Coca-Cola Company of Ps. 1,482, Ps. 2,274 and Ps. 3,542, for the years ended in 2020, 2019 and 2018, respectively.
(5) Favorable resolution of Arbitration in Brazil on October 31, 2019, the arbitration tribunal in charge of the arbitration proceeding between Coca-Cola FEMSA and Cervejarias Kaiser Brasil, S.A., a subsidiary of Heineken, N.V. (“Kaiser”), issued an award confirming that the distribution agreement pursuant to which Coca-Cola FEMSA distribute Kaiser’s portfolio in the country, including Heineken beer, shall continue in full force and effect through March 19, 2022.

Commitments with related parties

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

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

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

	2020	2019	2018
Short-term employee benefits paid	Ps. 2,112	Ps. 2,163	Ps. 1,885
Postemployment benefits	45	48	37
Termination benefits	373	411	88
Share based payments	575	610	401

Note 16. Balances and Transactions in Foreign Currencies

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different than the functional currency of the Company. For the three years ended on December 31, 2020, 2019 and 2018, the assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

Balances	Assets		Liabilities	
	Short-Term	Long-Term	Short-Term	Long-Term
As of December 31, 2020				
U.S. dollars	Ps. 69,612	Ps. 1,143	Ps. 5,590	Ps. 122,000
Euros	479	—	458	24,521
Other currencies	46	1,349	21	—
Total	Ps. 70,137	Ps. 2,492	Ps. 6,069	Ps. 146,521
As of December 31, 2019				
U.S. dollars	Ps. 58,151	Ps. 452	Ps. 5,597	Ps. 57,075
Euros	877	—	363	21,122
Other currencies	620	1,593	58	1
Total	Ps. 59,648	Ps. 2,045	Ps. 6,018	Ps. 78,198

Transactions	Revenues	Other Operating Revenues	Purchases of Raw Materials	Interest Expense	Consulting Fees	Asset Acquisitions	Other
For the year ended							
December 31, 2020							
U.S. dollars	Ps. 4,213	Ps. 1,478	Ps. 16,398	Ps. 13,660	Ps. 480	Ps. 79	Ps. 2,413
Euros	—	—	35	—	20	—	1
Other currencies	125	52	3	532	3	—	103
Total	Ps. 4,338	Ps. 1,530	Ps. 16,436	Ps. 14,192	Ps. 503	Ps. 79	Ps. 2,517
For the year ended							
December 31, 2019							
U.S. dollars	Ps. 5,487	Ps. 5,612	Ps. 17,941	Ps. 2,183	Ps. 718	Ps. 3,388	Ps. 4,348
Euros	—	—	538	397	33	5	2
Other currencies	1	982	—	—	2	—	132
Total	Ps. 5,488	Ps. 6,594	Ps. 18,479	Ps. 2,580	Ps. 753	Ps. 3,393	Ps. 4,482
For the year ended							
December 31, 2018							
U.S. dollars	Ps. 7,228	Ps. 130	Ps. 21,460	Ps. 2,309	Ps. 752	Ps. 2,166	Ps. 2,676
Euros	—	—	63	434	20	—	1
Other currencies	—	9	—	—	2	—	—
Total	Ps. 7,228	Ps. 139	Ps. 21,523	Ps. 2,743	Ps. 774	Ps. 2,166	Ps. 2,677

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

	December 31,		April 9,
	2020	2019	2021
U.S. dollar	19.9487	18.8452	20.1765
Euro	24.5213	21.1223	23.8326

Note 17. Employee Benefits

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

17.1 Assumptions

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

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

Mexico	December 31, 2020	December 31, 2019	December 31, 2018
Financial:			
Discount rate used to calculate the defined benefit obligation	7.20 %	7.50 %	9.40 %
Salary increase	4.50 %	4.50 %	4.60 %
Future pension increases	3.50 %	3.50 %	3.60 %
Healthcare cost increase rate	5.10 %	5.10 %	5.10 %
Biometric:			
Mortality ⁽¹⁾	EMSSA 2009	EMSSA 2009	EMSSA 2009
Disability ⁽²⁾	IMSS-97	IMSS-97	IMSS-97
Normal retirement age	60 years	60 years	60 years
Employee turnover table ⁽³⁾	BMAR 2007	BMAR 2007	BMAR 2007

Measurement date December:

- (1) EMSSA. Mexican Experience of social security.
- (2) IMSS. Mexican Experience of Instituto Mexicano del Seguro Social.
- (3) BMAR. Actuary experience.

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

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

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

	Pension and Retirement Plans	Seniority Premiums	Post-Retirement Medical Services	Total
2021	Ps. 702	Ps. 198	Ps. 26	Ps. 926
2022	335	168	28	531
2023	384	168	29	581
2024	398	170	31	599
2025	496	176	33	705
2026 to 2030	3,118	791	199	4,108

17.2 Balances of the liabilities for employee benefits

	December 31, 2020	December 31, 2019
Pension and Retirement Plans:		
Defined benefit obligation	Ps. 7,679	Ps. 7,193
Pension plan funds at fair value	(2,788)	(2,678)
Net defined benefit liability	<u>Ps. 4,891</u>	<u>Ps. 4,515</u>
Seniority Premiums:		
Defined benefit obligation	Ps. 1,763	Ps. 1,237
Seniority premium plan funds at fair value	(137)	(127)
Net defined benefit liability	<u>Ps. 1,626</u>	<u>Ps. 1,110</u>
Postretirement Medical Services:		
Defined benefit obligation	Ps. 812	Ps. 797
Medical services funds at fair value	(76)	(75)
Net defined benefit liability	<u>Ps. 736</u>	<u>Ps. 722</u>
Total Employee Benefits	<u>Ps. 7,253</u>	<u>Ps. 6,347</u>

17.3 Trust assets

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

	December 31, 2020	December 31, 2019
Fixed return:		
Traded securities	27 %	9 %
Bank instruments	9 %	23 %
Federal government instruments of the respective countries	29 %	33 %
Variable return:		
Publicly traded shares	35 %	35 %
	<u>100 %</u>	<u>100 %</u>

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

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

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

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

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

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

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

	December 31, 2020	December 31, 2019
Debt:		
El Puerto de Liverpool, S.A.B. de C.V.	Ps. 30	Ps. 30
Grupo Industrial Bimbo, S.A.B. de C. V.	5	31
BBVA Bancomer, S.A de C.V.	10	20
Grupo Financiero Banorte, S.A.B. de C.V.	—	8
Grupo Financiero Scotiabank Inverlat, S.A. de C.V.	10	10
Equity:		
CEMEX, S.A.B. de C.V.	8	12
Grupo Financiero Banorte, S.A.B. de C.V.	8	1
Alfa, S.A.B. de C.V.	3	6
El Puerto de Liverpool, S.A.B. de C.V.	—	2
Grupo Aeroportuario del Sureste, S.A.B. de C.V.	2	—
Others	4	3

For the years ended December 31, 2020 and 2019, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during the following fiscal year. There are no restrictions placed on the trustee's ability to sell those securities. As of December 31, 2020 and 2019, the plan assets did not include securities of the Company in portfolio funds.

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

	Income Statement				AOCI (1)
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or Curtailment	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability
December 31, 2020					
Pension and retirement plans	Ps. 372	Ps. 73	Ps. —	Ps. 305	Ps. 2,024
Seniority premiums	239	—	—	91	483
Postretirement medical services	44	—	—	54	342
Total	<u>Ps. 656</u>	<u>Ps. 73</u>	<u>Ps. —</u>	<u>Ps. 450</u>	<u>Ps. 2,849</u>
December 31, 2019					
Pension and retirement plans	Ps. 279	Ps. (45)	Ps. 2	Ps. 290	Ps. 1,608
Seniority premiums	139	161	—	57	162
Postretirement medical services	15	—	—	32	396
Total	<u>Ps. 433</u>	<u>Ps. 116</u>	<u>Ps. 2</u>	<u>Ps. 379</u>	<u>Ps. 2,166</u>
December 31, 2018					
Pension and retirement plans	Ps. 318	Ps. —	Ps. (5)	Ps. 304	Ps. 668
Seniority premiums	125	—	(8)	49	(63)
Postretirement medical services	25	—	(1)	34	41
Total	<u>Ps. 468</u>	<u>Ps. —</u>	<u>Ps. (14)</u>	<u>Ps. 387</u>	<u>Ps. 646</u>

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

For the years ended December 31, 2020, 2019 and 2018, labor costs of Ps. 728, Ps. 433 and Ps. 468 have been included in the consolidated income statements in costs of goods sold, administrative expenses and selling expenses.

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

	December 31, 2020	December 31, 2019	December 31, 2018
Amount accumulated in other comprehensive income as of the beginning of the period, net of tax	Ps. 1,624	Ps. 475	Ps. 892
Actuarial (gains) arising from exchange rates	(6)	(30)	(21)
Remeasurements during the year, net of tax	312	100	221
Actuarial losses and (gains) arising from changes in financial assumptions	139	1,071	(617)
Actuarial losses and (gains) arising from changes in demographic assumptions	27	—	—
Effect on settlement	3	8	—
Amount accumulated in other comprehensive income as of the end of the period, net of tax	Ps. 2,099	Ps. 1,624	Ps. 475

Remeasurements of the net defined benefit liability include the following:

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

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

	December 31, 2020	December 31, 2019	December 31, 2018
Pension and Retirement Plans:			
Initial balance	Ps. 7,193	Ps. 6,189	Ps. 7,370
Current service cost	372	279	318
Past service (credit) cost	73	(45)	—
Interest expense	506	530	484
Settlement / Curtailment	—	2	(5)
Remeasurements of the net defined benefit obligation	326	859	(740)
Foreign exchange loss (gain)	37	(69)	(86)
Benefits paid	(828)	(582)	(450)
(Derecognition) acquisitions	—	30	(702)
Ending balance	Ps. 7,679	Ps. 7,193	Ps. 6,189
Seniority Premiums:			
Initial balance	Ps. 1,237	Ps. 772	Ps. 783
Current service cost	239	139	125
Past service cost	—	161	—
Interest expense	101	68	57
Settlement	13	—	(8)
Remeasurements of the net defined benefit obligation	309	230	(115)
Benefits paid	(136)	(133)	(77)
Acquisitions	—	—	7
Ending balance	Ps. 1,763	Ps. 1,237	Ps. 772
Postretirement Medical Services:			
Initial balance	Ps. 797	Ps. 418	Ps. 524
Current service cost	44	15	25
Interest expense	61	38	39
Curtailment / Settlement	—	—	(1)
Remeasurements of the net defined benefit obligation	(59)	356	(143)
Benefits paid	(31)	(30)	(26)
Ending balance	Ps. 812	Ps. 797	Ps. 418

17.6 Changes in the balance of plan assets

	December 31, 2020	December 31, 2019	December 31, 2018
Total Plan Assets:			
Initial balance	Ps. 2,880	Ps. 2,680	Ps. 3,304
Actual return on trust assets	113	174	47
Foreign exchange loss (gain)	3	2	(1)
Life annuities	5	24	35
Benefits paid	—	—	(1)
(Derecognition) acquisitions	—	—	(704)
Ending balance	Ps. 3,001	Ps. 2,880	Ps. 2,680

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

17.7 Variation in assumptions

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

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

The following table presents the amount of defined benefit plan expense and OCI impact in absolute terms of a variation of 1% in the assumptions on the net defined benefit liability associated with the Company's defined benefit plans. The sensitivity of this 1% on the significant actuarial assumptions is based on a projected long-term discount rates for Mexico and a yield curve projection of long-term Mexican government bonds - CETES:

+1%:	Income Statement			OCI ⁽¹⁾
	Current Service Cost	Gain or Loss on Settlement or Curtailment	Effect of Net Interest on the Net Defined Benefit Liability (Asset)	Remeasurements of the Net Defined Benefit Liability (Asset)
Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability				
Pension and retirement plans	Ps. 400	Ps. —	Ps. 237	Ps. 1,784
Seniority premiums	223	—	80	432
Postretirement medical services	40	—	47	290
Total	Ps. 663	Ps. —	Ps. 364	Ps. 2,506
Expected salary increase				
Pension and retirement plans	Ps. 466	Ps. —	Ps. 339	Ps. 1,984
Seniority premiums	241	—	93	514
Seniority premiums	44	—	54	342
Total	Ps. 751	Ps. —	Ps. 486	Ps. 2,840
Assumed rate of increase in healthcare costs				
Postretirement medical services	Ps. 52	Ps. —	Ps. 64	Ps. 375

-1%:

Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability	Current Service Cost	Gain or Loss on Settlement or Curtailment	Effect of Net Interest on the Net Defined Benefit Liability (Asset)	Remeasurements of the Net Defined Benefit Liability (Asset)
Pension and retirement plans	Ps. 458	Ps. —	Ps. 366	Ps. 2,025
Seniority premiums	257	—	99	521
Postretirement medical services	50	—	62	364
Total	Ps. 765	Ps. —	Ps. 527	Ps. 2,910
Expected salary increase				
Pension and retirement plans	Ps. 396	Ps. —	Ps. 265	Ps. 1,820
Seniority premiums	235	—	90	432
Total	Ps. 631	Ps. —	Ps. 355	Ps. 2,252
Assumed rate of increase in healthcare costs				
Postretirement medical services	Ps. 38	Ps. —	Ps. 45	Ps. 276

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

17.8 Employee benefits expense

For the years ended December 31, 2020, 2019 and 2018, employee benefits expenses recognized in the consolidated income statements as cost of goods sold, administrative and selling expenses are as follows:

	2020	2019	2018
Wages and salaries	Ps. 68,312	Ps. 64,776	Ps. 58,745
Social security costs	11,595	11,494	10,486
Employee profit sharing	1,112	1,205	1,294
Post-employment benefits	1,002	795	842
Share-based payments	575	200	405
Termination benefits	201	169	132
Total	Ps. 82,797	Ps. 78,639	Ps. 71,904

Note 18. Bonus Programs

18.1 Quantitative and qualitative objectives

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

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

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

18.2 Share-based payment bonus plan

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

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

The Company contributes the individual employee’s special bonus (after taxes) in cash to the Administrative Trust (which is controlled and consolidated by FEMSA), who then uses the funds to purchase FEMSA or Coca-Cola FEMSA shares (as instructed by the Administrative Trust’s Technical Committee), which are then allocated to such employee. The Administrative Trust tracks the individual employees’ account balance. FEMSA created the Administrative Trust with the objective of conducting the purchase of FEMSA and Coca-Cola FEMSA shares by each of its subsidiaries with eligible executives participating in the stock incentive plan. The Administrative Trust’s objectives are to acquire FEMSA shares or shares of Coca-Cola FEMSA and to manage the shares granted to the individual employees based on instructions set forth by the Technical Committee. Once the shares are acquired following the Technical Committee’s instructions, the Administrative Trust assigns to each participant their respective rights. As the trust is controlled and therefore consolidated by FEMSA, shares purchased in the market and held within the Administrative Trust are presented as treasury stock (as it relates to FEMSA’s shares) or as a reduction of the noncontrolling interest (as it relates to Coca-Cola FEMSA’s shares) in the consolidated statement of changes in equity, on the line issuance (purchase) of shares associated with share-based payment plans. Should an employee leave prior to their shares vesting, such employee would lose the rights to such shares, which would then remain within the Administrative Trust and be able to be reallocated to other eligible employees as determined by the Company. The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. For the years ended December 31, 2020, 2019 and 2018, the compensation expense recorded in the consolidated income statement amounted to Ps. 575, Ps. 610 and Ps. 401, respectively.

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

As of December 31, 2020 and 2019, the number of shares held by the trust associated with the Company’s share-based payment plans are as follows:

	Number of Shares			
	FEMSA UBD		KOF UBL	
	2020	2019	2020	2019
Beginning balance	2,249,665	2,278,460	752,847	697,226
Shares acquired by the administrative trust to employees	2,445,983	1,441,838	985,535	456,077
Shares released from administrative trust to employees upon vesting	(1,280,748)	(1,470,633)	(378,224)	(400,456)
Ending balance	3,414,900	2,249,665	1,360,158	752,847

The fair value of the shares held by the trust as of the end of December 31, 2020 and 2019 was Ps. 638 and Ps. 488, respectively, based on quoted market prices of those dates.

Note 19. Bank Loans and Notes Payable

(in millions of Mexican pesos)	At December 31, (1)					2026 and Thereafter	Carrying Value at December 31, 2020	Fair Value at December 31, 2020	Carrying Value at December 31, 2019(1)
	2021	2022	2023	2024	2025				
Short-term debt:									
Fixed rate debt:									
Colombian pesos									
Bank loans	Ps. 168	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 168	Ps. 168	Ps. 769
Interest rate	2.1 %	—	—	—	—	—	2.1 %	—	5.1 %
Argentine pesos									
Bank loans	711	—	—	—	—	—	711	711	126
Interest rate	44.7 %	—	—	—	—	—	44.7 %	—	63.5 %
Chilean pesos									
Bank loans	1,027	—	—	—	—	—	1,027	1,027	977
Interest rate	1.9 %	—	—	—	—	—	1.9 %	—	2.6 %
U.S. dollars									
Bank loans	1,150	—	—	—	—	—	1,150	1,150	1,038
Interest rate	2.0 %	—	—	—	—	—	2.0 %	—	2.6 %
Uruguayan pesos									
Bank loans	498	—	—	—	—	—	498	498	63
Interest rate	15.1 %	—	—	—	—	—	15.1 %	—	11.6 %
Guatemalan quetzal									
Bank loans	63	—	—	—	—	—	63	63	—
Interest rate	6.3 %	—	—	—	—	—	6.3 %	—	—
Variable rate debt:									
Mexican pesos									
Bank loans	360	—	—	—	—	—	360	360	100
Interest rate	5.2 %	—	—	—	—	—	5.2 %	—	7.9 %
Colombian pesos									
Bank loans	492	—	—	—	—	—	492	492	431
Interest rate	3.0 %	—	—	—	—	—	3.0 %	—	4.7 %
Argentine pesos									
Bank loans	—	—	—	—	—	—	—	—	32
Interest rate	—	—	—	—	—	—	—	—	54.3 %
Brazilian reals									
Bank loans	—	—	—	—	—	—	—	—	399
Interest rate	—	—	—	—	—	—	—	—	9.4 %
Total short-term debt	<u>Ps. 4,469</u>	<u>Ps. —</u>	<u>Ps. —</u>	<u>Ps. —</u>	<u>Ps. —</u>	<u>Ps. —</u>	<u>Ps. 4,469</u>	<u>Ps. 4,469</u>	<u>Ps. 3,935</u>

At December 31, ⁽¹⁾									
(in millions of Mexican pesos)	2021	2022	2023	2024	2025	2026 and Thereafter	Carrying Value at December 31, 2020	Fair Value at December 31, 2020	Carrying Value at December 31, 2019(1)
Long-term debt:									
Fixed rate debt:									
Euro									
Senior unsecured notes	Ps. —	Ps. —	Ps. 24,469	Ps. —	Ps. —	Ps. —	Ps. 24,469	Ps. 25,517	Ps. 21,046
Interest rate	—	—	1.7 %	—	—	—	1.7 %	—	1.7 %
U.S. dollars									
Yankee bond	—	—	—	—	—	50,597	50,597	57,967	37,575
Interest rate	—	—	—	—	—	3.1 %	3.1 %	—	4.5 %
Bank of NY (FEMSA USD 2023)	—	—	5,975	—	—	—	5,975	6,258	5,593
Interest rate ⁽¹⁾	—	—	2.9 %	—	—	—	2.9 %	—	2.9 %
Bank of NY (FEMSA USD 2043)	—	—	—	—	—	13,805	13,805	17,486	12,943
Interest rate ⁽¹⁾	—	—	—	—	—	4.4 %	4.4 %	—	4.4 %
Bank of NY (FEMSA USD 2050)	—	—	—	—	—	49,549	49,549	55,422	—
Interest rate ⁽¹⁾	—	—	—	—	—	3.5 %	3.5 %	—	—
Bank loans	—	—	—	2,293	—	—	2,293	2,293	2,185
Interest rate	—	—	—	3.7 %	—	—	3.7 %	—	3.6
Mexican pesos									
Domestic senior notes	2,502	—	7,496	—	—	11,485	21,483	22,638	18,484
Interest rate	8.3 %	—	5.5 %	—	—	7.7 %	7.0 %	—	6.9 %
Bank loans	48	38	32	25	22	—	165	165	115
Interest rate	9.1 %	9.9 %	9.5 %	9.0 %	8.7 %	—	9.3 %	—	9.3 %
Brazilian reais									
Bank loans	59	50	28	19	1	—	157	157	434
Interest rate	5.7 %	6.0 %	6.4 %	6.6 %	6.6 %	—	6.1 %	—	7.3 %
Chilean pesos									
Bank loans	15	—	—	—	—	—	15	15	40
Interest rate	3.2 %	—	—	—	—	—	3.2 %	—	3.4 %
Uruguayan pesos									
Bank loans	770	261	—	—	—	—	1,031	1,031	1,265
Interest rate	10.3 %	12.2 %	—	—	—	—	10.8 %	—	5.8 %
Subtotal	Ps. 3,394	Ps. 349	Ps. 38,000	Ps. 2,337	Ps. 23	Ps. 125,436	Ps. 169,539	Ps. 188,949	Ps. 99,680

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

At December 31, ⁽¹⁾									
(in millions of Mexican pesos)	2021	2022	2023	2024	2025	2026 and Thereafter	Carrying Value at December 31, 2020	Fair Value at December 31, 2020	Carrying Value at December 31, 2019(1)
Variable rate debt:									
Mexican pesos									
Domestic senior notes	—	1,459	—	—	1,722	—	3,181	3,176	1,459
Interest rate ⁽¹⁾	—	4.7 %	—	—	4.6 %	—	4.6 %	—	8.0 %
Bank Loans	238	102	54	367	6,003	3,007	9,771	9,834	9,864
Interest rate ⁽¹⁾	5.8 %	6.0 %	6.2 %	5.3 %	5.0 %	5.2 %	8.4 %	—	8.4 %
Brazilian reais									
Bank loans	43	4	—	—	—	—	47	48	242
Interest rate	8.1 %	8.1 %	—	—	—	—	8.1 %	—	7.8 %
Colombian pesos									
Bank loans	18	7	—	—	—	—	25	25	422
Interest rate	4.4 %	4.4 %	—	—	—	—	4.4 %	—	5.7 %
Chilean pesos									
Bank loans	639	657	337	—	—	—	1,633	1,633	2,349
Interest rate	5.8 %	2.0 %	2.0 %	—	—	—	3.5 %	—	4.1 %
Subtotal	Ps. 938	Ps. 2,229	Ps. 391	Ps. 367	Ps. 7,725	Ps. 3,007	Ps. 14,657	Ps. 14,716	Ps. 14,336
Total long-term debt	Ps. 4,332	Ps. 2,578	Ps. 38,391	Ps. 2,704	Ps. 7,748	Ps. 128,443	Ps. 184,196	Ps. 203,665	Ps. 114,016
Current portion of long-term debt							(4,332)		(12,269)
							Ps. 179,864		Ps. 101,747

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

Hedging Derivative Financial Instruments						2026 and	Total	Total
	2021	2022	2023	2024	2025	Thereafter	2020	2019
⁽¹⁾	(notional amounts in millions of Mexican pesos)							
Cross currency swaps:								
U.S. dollars to Mexican pesos								
Fixed to variable ⁽³⁾	Ps. —	Ps. —	Ps. 11,403	Ps. —	Ps. —	9,575	Ps. 20,979	Ps. 11,403
Interest pay rate	—	—	5.7 %	—	—	9.5 %	7.5 %	8.8 %
Interest receive rate	—	—	4.0 %	—	—	3.9 %	4.0 %	4.0 %
Fixed to fixed	—	—	6,853	—	10,000	6,982	23,835	18,982
Interest pay rate	—	—	7.8 %	—	8.2 %	8.2 %	8.1 %	9.0 %
Interest receive rate	—	—	3.2 %	—	3.5 %	3.3 %	3.3 %	3.9 %
Fixed to fixed ⁽²⁾	—	—	—	—	—	—	—	—
Interest pay rate	—	—	—	—	—	8.8 %	8.8 %	9.4 %
Interest receive rate	—	—	—	—	—	4.2 %	4.2 %	4.4 %
U.S. dollars to Brazilian reais								
Fixed to fixed	—	—	—	—	—	—	—	4,365
Interest pay rate	—	—	—	—	—	—	—	8.3 %
Interest receive rate	—	—	—	—	—	—	—	2.9 %
Variable to fixed	—	—	—	—	—	—	—	9,046
Interest pay rate	—	—	—	—	—	—	—	9.5 %
Interest receive rate	—	—	—	—	—	—	—	3.9 %
Chilean pesos								
Variable to fixed	—	—	—	—	—	—	—	163
Interest pay rate	—	—	—	—	—	—	—	6.9 %
Interest receive rate	—	—	—	—	—	—	—	4.7 %
Colombian pesos								
Fixed to fixed	—	—	—	—	—	404	404	—
Interest pay rate	—	—	—	—	—	5.0 %	5.0 %	—
Interest receive rate	—	—	—	—	—	2.4 %	2.4 %	—
Interest rate swaps:								
Mexican pesos								
Variable to fixed rate:	449	458	1,515	2,294	—	—	4,716	4,353
Interest pay rate	7.6 %	6.6 %	5.8 %	3.6 %	—	—	5.0 %	4.9 %
Interest receive rate	1.0 %	4.0 %	1.8 %	3.7 %	—	—	2.9 %	3.9 %
Variable to fixed rate ⁽³⁾ :	—	—	—	—	—	—	—	—
Interest pay rate	—	—	7.2 %	—	—	—	7.2 %	7.2 %
Interest receive rate	—	—	5.7 %	—	—	—	5.7 %	8.8 %

- (1) All interest rates shown in this table are weighted average contractual annual rates.
 (2) Cross Currency swaps which covers U.S. dollars to Mexican pesos with a notional of Ps.8,869, that have a starting date in 2023; receiving a fixed rate of 4.4% and pay a variable rate of 9.4%.
 (3) Interest rate swaps with a notional amount of Ps. 11,403 that receive a variable rate of 5.7% and pay a fixed rate of 7.2%; joined with a cross currency swap, which covers U.S. dollars to Mexican pesos, that receives a fixed rate of 4.0% and pay a variable rate of 5.7%.

For the years ended December 31, 2020, 2019 and 2018, the interest expense is comprised as follows:

	2020	2019	2018
Interest on debts and borrowings	Ps. 10,788	Ps. 6,434	Ps. 6,760
Capitalized interest	—	—	(5)
Finance charges for employee benefits	456	382	373
Derivative instruments	1,428	2,300	2,649
Finance operating charges	(231)	243	48
Finance charges payable for leases	5,075	4,774	—
	Ps. 17,516	Ps. 14,133	Ps. 9,825

In March 14, 2016, the Company issued long-term debt on the Irish Stock Exchange (“ISE”) in the amount of €. 1,000 million, which was made up of senior notes with a maturity of 7 years, a fixed interest rate of 1.75% and a spread of 155 basis points over the relevant benchmark mid-swap, for a total yield of 1.824%. The Company has designated this non-derivative financial liability as a hedge on the net investment in Heineken. For the year ended December 31, 2020, a foreign exchange gain, net of tax, has been recognized as part of the exchange differences on translation of foreign operations within the cumulative other comprehensive income of Ps. 2,379.

On January 16, 2020, the Company issued US \$1,500 million 3.500% Senior Unsecured Notes at an annual rate of 130 basis points over the relevant benchmark. In addition, on February 12, 2020, the Company placed a re-tap to its US-denominated SEC-registered Senior Unsecured Notes due 2050 and issued US \$300 million 3.500% at an annual rate of 137.5 basis points over the relevant benchmark, raising the total outstanding balance to US \$1,800 million with an implied yield to maturity of 3.577%. In June 2020, the Company issued US \$700 million 3.500% Senior Unsecured Notes due 2050 with an implicit weighted performance of 3.358%. The Company has designated a portion of these non-derivative financial liabilities as a hedge on the net investment. For the year ended December 31, 2020, a foreign exchange gain, net of tax, has been recognized as part of the income on hedge of net investments in foreign operations within the cumulative other comprehensive income of Ps. 3,439.

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

Coca-Cola FEMSA has the following bonds:

- a) registered with the Mexican stock exchange:
- i) Ps. 2,500 (nominal amount) with a maturity date in 2021 and fixed interest rate of 8.27%; ii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46%; iii) Ps. 1,500 (nominal amount) with a maturity date 2022 and floating interest rate of TIEE + 0.25%; iv) Ps. 1,727 (nominal amount) with a maturity date 2025 and floating interest rate of TIEE + 0.08%; v) Ps. 8,500 (nominal amount) with a maturity date 2027 and fixed interest rate of 7.87%; and vi) Ps. 3,000 (nominal amount) with a maturity date 2028 and fixed interest rate of 7.35%.
- b) registered with the SEC:
- i) Senior notes of US \$1,250 with interest at a fixed rate of 2.75% and maturity date on January 22, 2030; ii) Senior notes of US \$600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043, and iii) Senior notes of US \$ 705 with interest at a fixed rate of 1.85% and maturity date on September 1, 2032.

The mentioned bonds are guaranteed by Coca-Cola FEMSA subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de

C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R.L. de C.V. (“Guarantors”).

During 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.

During 2020, Coca-Cola FEMSA obtained (and paid off) bank loans to build liquidity in light of the recent COVID-19 pandemic: in Mexico for an amount of Ps. 15,650 at a weighted interest rate of 6.04%, in Argentina and Colombia for an amount of Ps. 1,184. Similarly, on January 22, 2020 Coca-Cola FEMSA prepaid senior notes during the same year in Mexico of US. \$ 900, and on February 18, 2020, Coca-Cola FEMSA paid the total balance of its senior notes in of US. \$ 500.

In addition, Coca-Cola FEMSA celebrated bank loans in Argentine and Uruguayan peso with some banks for Ps. 711 and Ps. 759, respectively.

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

19.1 Reconciliation of liabilities arising from financing activities

	Carrying Value at January 1, 2020	Cash Flows	Non-cash effects				Carrying Value at December 31, 2020
			Acquisition	New leases	Foreign Exchange Income (Loss)	Others (1)	
Bank loans	Ps. 20,807	Ps. (1,286)	Ps. —	Ps. —	Ps. 221	Ps. (312)	Ps. 19,430
Notes payable	97,144	67,380	—	—	4,813	(101)	169,235
Total liabilities from financing activities	117,951	66,093	—	—	5,034	(413)	188,664
Financial leases	54,679	(9,810)	1,765	7,982	(584)	4,276	58,308
Total financing activities	Ps. 172,630	Ps. 56,283	Ps. 1,765	Ps. 7,982	Ps. 4,450	Ps. 3,863	Ps. 246,972

(1) Includes mainly remeasurements of leases, and amortization of transaction costs.

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

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

Note 20. Other Income and Expenses

	2020	2019	2018
Gain on sale of other assets	Ps. —	Ps. —	Ps. 344
Gain on sale of long-lived assets	130	—	174
Sale of waste material	20	21	13
Insurance rebates	35	—	10
Foreign exchange gain	112	26	123
Other investment in shares ⁽⁵⁾	2,011	—	—
Recycling of cumulative gain on sale of joint venture	212	—	—
Recoveries of prior years ⁽¹⁾	594	896	—
Others	229	70	9
Other income	Ps. 3,343	Ps. 1,013	Ps. 673
Contingencies associated with prior acquisitions or disposals	Ps. —	Ps. 149	Ps. 138
Loss on sale of property, plant and equipment	—	67	—
Recoveries of prior years	—	44	116
Impairment of long-lived assets ⁽²⁾	5,102	1,018	432
Loss in write-off of intangible assets	375	—	—
Disposal of long-lived assets ⁽³⁾	915	861	518
Contingencies	804	589	518
Severance payments ⁽⁴⁾	465	1,207	264
Donations	605	489	528
Legal fees and other expenses from past acquisitions	—	17	149
Effect of taxes paid on previous years ⁽⁶⁾	3,253	—	—
Other	862	464	284
Other expenses	Ps. 12,381	Ps. 4,905	Ps. 2,947

- (1) Following a favorable decision from Brazilian tax authorities received during 2020 and 2019, Coca-Cola FEMSA has been entitled to reclaim indirect tax payments made in prior years in Brazil, resulting in the recognition of a tax credit and a positive effect in the operating revenues and other income captions of the condensed consolidated income statements. See Note 25.1.1.
- (2) Includes impairment loss related to Compañía Panameña de Bebidas, S.A.P.I. de C.V., for an amount of Ps. 1,463 and Ps. 948 million in 2020 and 2019, respectively. Additionally, includes impairment loss related to Leao Alimentos e Bebidas, L.T.D.A., for an amount of Ps. 1,038 million in 2020. (see Note 10). Also, includes impairment loss related to Specialty's, and Doña Tota in 2020 for an amount of Ps. 2,021 and Ps. 576, respectively. The impairment losses in 2020 were mainly driven by mobility restrictions that impacted customer behavior and the economic crisis generated by COVID-19 pandemic.
- (3) Charges related to fixed assets retirement from ordinary operations and other long-lived assets.
- (4) During 2019, the Company incurred restructuring costs related to some of their operations as part of an efficiency program.
- (5) During 2020, the Company received a dividend income related to its investment in Jetro Restaurant Depot.
- (6) Interest and penalties associated to taxes paid from previous years.

Note 21. Financial Instruments

Fair Value of Financial Instruments

The Company's financial assets and liabilities that are measured at fair value are based on level 2 applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The

following table summarizes the Company's financial assets and liabilities measured at fair value, as of December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Level 1	Level 2	Level 1	Level 2
Financial instrument (current asset)	488	85	91	917
Financial instrument (non-current asset)	3,002	31,069	2,880	21,570
Financial instrument (current liability)	83	1,045	47	801
Financial instrument (non-current liability)	—	3,743	—	1,672

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, 2020 and 2019, which is considered to be level 1 in the fair value hierarchy.

	2020	2019
Carrying value	Ps. 188,665	Ps. 117,951
Fair value	208,134	124,038

21.2 Interest rate swaps

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

At December 31, 2020, the Company has the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2020	Fair Value Asset December 31, 2020
2021	Ps. 449	Ps. (6)	Ps. —
2022	458	(16)	—
2023	12,918	(492)	—
2024	2,294	(126)	—

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

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

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

21.3 Forward agreements to purchase foreign currency

The Company has entered into forward agreements to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies. Foreign exchange forward contracts measured at fair value are

designated hedging instruments in cash flow hedges of forecast inflows in euros and forecast purchases of raw materials in U.S. dollars. These forecast transactions are highly probable.

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

At December 31, 2020, the Company had the following outstanding forward agreements to purchase foreign currency:

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Liability December 31, 2020</u>	<u>Fair Value Asset December 31, 2020</u>
2021	Ps. 9,042	Ps. (1,040)	Ps. 4
2022	66	(41)	—
2023	23	(2)	—
2024	2	—	—

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

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Liability December 31, 2019</u>	<u>Fair Value Asset December 31, 2019</u>
2020	Ps. 8,447	Ps. (292)	Ps. 34
2021	215	—	27
2022	52	—	5

21.4 Options to purchase foreign currency

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

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

At December 31, 2019, the Company paid a net premium of Ps. 43 million for the following outstanding collar options to purchase foreign currency:

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Liability December 31, 2019</u>	<u>Fair Value Asset December 31, 2019</u>
2020	Ps. 107	Ps. —	Ps. 2

21.5 Cross-currency swaps

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

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

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

At December 31, 2020, the Company had the following outstanding cross – currency swap agreements:

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Liability December 31, 2020</u>	<u>Fair Value Asset December 31, 2020</u>
2021	Ps. 4,575	Ps. (5)	Ps. 169
2022	376	—	23
2023	24,103	—	10,808
2024	1,577	(9)	264
2025	10,750	(2,481)	—
2027	6,982	(464)	80
2029	1,519	—	122
2030	3,790	(107)	192
2043	8,869	—	2,706

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

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

21.6 Commodity price contracts

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

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

At December 31, 2020, Coca-Cola FEMSA had the following sugar price contracts:

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Liability December 31, 2020</u>	<u>Fair Value Asset December 31, 2020</u>
2021	Ps. 1,260	Ps. (18)	Ps. 275
2022	366	—	70

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

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

At December 31, 2020, Coca-Cola FEMSA had the following aluminum price contracts:

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Asset December 31, 2020</u>
2021	Ps. 695	Ps. 125
2022	99	17

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

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Liability December 31, 2019</u>
2020	Ps. 394	Ps. 4

At December 31, 2020, Coca-Cola FEMSA had the following PX+MEG (resine) contracts:

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Liability December 31, 2020</u>
2021	Ps. 729	Ps. (65)

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

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Liability December 31, 2019</u>
2020	Ps. 320	Ps. (28)

21.7 Treasury Lock contracts

The Company has contracted a number of treasury locks to reduce its exposure to interest rate fluctuations associated with its USD debt. These treasury locks, are designated 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:

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Liability December 31, 2020</u>	<u>Fair Value Asset December 31, 2020</u>
2020	Ps. 10,365	Ps. —	Ps. 102

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

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

21.9 Disposal of Estrella Azul

On September 30, 2020, Coca-Cola FEMSA announced that its joint venture with The Coca-Cola Company (Compañía Panameña de Bebidas, S.A.P.I. de C.V.) successfully sold 100% of its stock interest in Estrella Azul, a dairy products company in Panama. As part of the transaction, the company agreed with the buyer that we could receive payments in the future if the business of Estrella Azul achieves certain volume and EBITDA targets during the 2022-2027 period. The Company estimated the amount of the payments to be received based on the forecasts of the business (level 3 inputs) and calculated their net present value. As of December 31, 2020, the financial asset recognized in the consolidated statement of financial position has a total value of Ps. 8.

21.10 Net effects of expired contracts that met hedging criteria

	Impact in Consolidated Income Statement	2020	2019	2018
Cross currency swaps ⁽¹⁾	Interest expense	Ps. (109)	Ps. 199	Ps. 157
Cross currency swaps ⁽¹⁾	Foreign exchange	1,212	480	642
Interest rate swaps	Interest expense	(163)	515	—
Forward agreements to purchase foreign currency	Foreign exchange	(167)	(116)	(87)
Commodity price contracts	Cost of goods sold	(129)	(391)	(258)
Options to purchase foreign currency	Cost of goods sold	8	(63)	(8)
Forward agreements to purchase foreign currency	Cost of goods sold	839	(163)	240
Treasury locks	Interest expense	153	—	—

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

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

Derivative	Impact in Consolidated Income Statement	2020	2019	2018
Forward agreements to purchase foreign currency	Market value gain (loss) on financial statements	Ps. —	Ps. 4	Ps. (12)
Cross currency swaps	Market value (loss) on financial statements	(212)	(293)	(116)

21.12 Net effect of expired contracts that did not meet the criteria for hedge accounting purposes

Type of Derivatives	Impact in Consolidated Income Statement	2020	2019	2018
Cross-currency swaps	Market value loss on financial instruments	Ps. (212)	Ps. (293)	Ps. (186)
Embedded derivatives	Market value gain on financial instruments	—	4	—

21.13 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; and
- Changes in the periodicity of covered.

21.13.1 Market risk

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

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

- Forward agreements to purchase foreign currency in order to reduce its exposure to the risk of exchange rate fluctuations.
- Cross-currency swaps in order to reduce its exposure to the risk of exchange rate fluctuations.
- Commodity price contracts in order to reduce its exposure to the risk of fluctuation in the costs of certain raw materials.

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

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

Foreign Currency Risk	Change in Exchange Rate	Effect on Equity
2020		
FEMSA ⁽¹⁾	+19% MXN/EUR	Ps. 327
	-19% MXN/EUR	(327)
	+21% BRL/USD	240
	-21% BRL/USD	(240)
Coca-Cola FEMSA	+19% MXN/USD	884
	-19% MXN/USD	(884)
	+21% BRL/USD	357
	-21% BRL/USD	(357)
	+9% UYU/USD	21
	-9% UYU/USD	(21)
	+16% COP/USD	142
	-16% COP/USD	(142)
	+2% ARS/USD	2
	-2% ARS/USD	(2)
2019		
FEMSA ⁽¹⁾	+9% MXN/EUR	Ps. 57
	-9% MXN/EUR	(57)
	+13% BRL/USD	202
	-13% BRL/USD	(202)
Coca-Cola FEMSA	+9% MXN/USD	739
	-9% MXN/USD	(739)
	+13% BRL/USD	155
	-13% BRL/USD	(155)
	+5% UYU/USD	23
	-5% UYU/USD	(23)
	+10% COP/USD	54
	-10% COP/USD	(54)
	+25% ARS/USD	88
	-25% ARS/USD	(88)
2018		
FEMSA ⁽¹⁾	+12 MXN/EUR	Ps. 116
	-12% MXN/EUR	(116)
Coca-Cola FEMSA	+13% MXN/USD	668
	-13% MXN/USD	(668)
	+16% BRL/USD	413
	-16% BRL/USD	(413)
	+8% UYU/USD	46
	-8% UYU/USD	(46)
	+12% COP/USD	2
	-12% COP/USD	(2)
	+27% ARS/USD	522
	-27% ARS/USD	(522)

(1) Does not include Coca-Cola FEMSA.

Cross Currency Swaps ^{(1) (2)}	Change in Exchange Rate	Effect on Equity	Effect on Profit or Loss
2020			
FEMSA ⁽³⁾	+13% CLP/USD	Ps. —	Ps. 717
	-13% CLP/USD	—	(717)
	+19% MXN/USD	—	6,381
	-19% MXN/USD	—	(6,381)
	+16% COP/USD	—	426
	-16% COP/USD	—	(426)
	+19% MXN/BRL	—	238
	-19% MXN/BRL	—	(238)
Coca-Cola FEMSA	+19% MXN/USD	5,507	—
	-19% MXN/USD	(5,507)	—
	+21% BRL/USD	2,161	—
	-21% BRL/USD	(2,161)	—
2019			
FEMSA ⁽³⁾	+11% CLP/USD	Ps. —	Ps. 546
	-11% CLP/USD	—	(546)
	+9% MXN/USD	—	1,805
	-9% MXN/USD	—	(1,805)
	+10% COP/USD	—	286
	-10% COP/USD	—	(286)
	+13% MXN/BRL	—	177
	-13% MXN/BRL	—	(177)
Coca-Cola FEMSA	+9% MXN/USD	2,315	—
	-9% MXN/USD	(2,315)	—
	+13% BRL/USD	645	—
	-13% BRL/USD	(645)	—
2018			
FEMSA ⁽³⁾	+10% CLP/USD	Ps. —	Ps. 368
	-10% CLP/USD	—	(368)
	+13% MXN/USD	—	2,706
	-13% MXN/USD	—	(2,706)
	+12% COP/USD	—	283
	-12% COP/USD	—	(283)
	+15% MXN/BRL	—	27
	-15% MXN/BRL	—	(27)
Coca-Cola FEMSA	+13% MXN/USD	3,130	—
	-13% MXN/USD	(3,130)	—
	+16% BRL/USD	9,068	—
	-16% BRL/USD	(9,068)	—

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

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

(3) Does not include Coca-Cola FEMSA.

Net Cash in Foreign Currency ⁽¹⁾	Change in Exchange Rate		Effect on Profit or Loss
2020			
FEMSA ⁽²⁾	+18% EUR/ +19 % USD	Ps.	8,827
	-18% EUR/ -19 % USD		(8,827)
Coca-Cola FEMSA	+18% USD		5,755
	-18% USD		(5,755)
2019			
FEMSA ⁽²⁾	+9% EUR/ +9 % USD	Ps.	3,833
	-9% EUR/ -9 % USD		(3,833)
Coca-Cola FEMSA	+8% USD		940
	-8% USD		(940)
2018			
FEMSA ⁽²⁾	+12% EUR/ +13 % USD	Ps.	8,596
	-12% EUR/ -13 % USD		(8,596)
Coca-Cola FEMSA	+13% USD		1,868
	-13% USD		(1,868)

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

(2) Does not include Coca-Cola FEMSA.

Commodity Price Contracts ⁽¹⁾	Change in U.S.\$ Rate		Effect on Equity
2020			
Coca-Cola FEMSA	Sugar - 32 %	Ps.	(515)
	Aluminum - 16 %	Ps.	(289)
2019			
Coca-Cola FEMSA	Sugar - 24 %	Ps.	(255)
	Aluminum - 15 %	Ps.	(1,164)
2018			
Coca-Cola FEMSA	Sugar - 30 %	Ps.	(341)
	Aluminum - 22 %	Ps.	(55)

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

21.13.2 Interest rate risk

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

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

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

Interest Rate Swap ⁽¹⁾	Change in Bps.	Effect on Equity	
2020			
FEMSA ⁽²⁾	(100 Bps.)	Ps.	(354)
2019			
FEMSA ⁽²⁾	(100 Bps.)	Ps.	(432)
Coca-Cola FEMSA	(100 Bps.)		(37)
2018			
FEMSA ⁽²⁾	(100 Bps.)	Ps.	(359)
Coca-Cola FEMSA	(100 Bps.)		(1,976)

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

Interest Effect of Unhedged Portion Bank Loans	2020	2019	2018
Change in interest rate	+100 Bps.	+100 Bps.	+100 Bps.
Effect on profit loss	Ps. (110)	Ps. (50)	Ps. (145)

21.13.3 Liquidity risk

Each of the Company's sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2020 and 2019, 50.2% and 64.3%, respectively of the Company's outstanding consolidated total indebtedness was at the level of its sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA. Currently, the Company's management expects to continue financing its operations and capital requirements when it is considering domestic funding at the level of its sub-holding companies, otherwise; it is generally more convenient that its foreign operations would be financed directly through the Company because of more favourable terms of its financing market conditions. Nonetheless, sub-holdings companies may decide to incur indebtedness in the future to finance their own operations and capital requirements of the Company's subsidiaries or significant acquisitions, investments or capital expenditures. As a holding company, the Company depends on dividends and other distributions from its subsidiaries to service the Company's indebtedness.

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

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

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

As part of the Company's financing policy, management expects to continue financing its liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which the Company operates, it may not be beneficial practicable to remit cash generated in local operations to fund cash requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, management may decide, or be required, to fund cash requirements in these countries through local

borrowings rather than remitting funds from another country. In the future the Company's management may finance its working capital and capital expenditure needs with short-term or other borrowings.

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

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

The Company presents the maturity dates associated with its long-term financial liabilities as of December 31, 2020, see Note 19. The Company generally makes payments associated with its long-term financial liabilities with cash generated from its operations.

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected net cash outflows from derivative financial liabilities that are in place as of December 31, 2020. 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, 2020.

	2021	2022	2023	2024	2025	2026 and thereafter
Non-derivative financial liabilities:						
Notes and bonds	Ps. 5,646	Ps. 4,981	Ps. 45,553	Ps. 2,746	Ps. 4,306	Ps. 191,771
Loans from Banks	6,605	1,310	558	2,825	3,772	5,640
IFRS 16 lease obligation	89	53	38	31	24	—
Derivative financial liabilities	1,621	1,472	(3,700)	1,185	2,546	(10,457)

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

21.13.4 Credit risk

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

The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in cash. The Company's maximum exposure to credit risk for the components of the statement of financial position at December 31, 2020 and 2019 is the carrying amounts, see Note 7.

The Company manages the credit risk related to its derivative portfolio by only entering into transactions with reputable and credit-worthy counterparties as well as by maintaining in some cases a Credit Support Annex ("CSA") that establishes margin requirements, which could change upon changes to the credit ratings given to the Company by

independent rating agencies. As of December 31, 2020, 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.

21.14 Cash flows hedges

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; and
- Changes in the period hedges.

As of December 31, 2020, the Company's financial instruments used to hedge its exposure to foreign exchange rates and interest rates as follows:

	Maturity		
	1-6 months	6-12 months	More than 12
Foreign exchange currency risk			
Foreign exchange currency forward contracts			
Net exposure	2,887	1,892	2
Average exchange rate MXN/USD	23.26	23.46	20.01
Net exposure	910	601	43
Average exchange rate BRL/USD	5.33	5.20	4.53
Net exposure	511	212	—
Average exchange rate COP/USD	3,750	3,740	—
Net exposure	96	—	—
Average exchange rate ARS/USD	92.97	—	—
Net exposure	225	58	—
Average exchange rate URY/USD	45.92	45.69	—
Foreign exchange currency swap contracts			
Net exposure	—	—	44,107
Average exchange rate MXN/USD	—	—	14.70
Net exposure	58	—	9,652
Average exchange rate BRL/USD	5.15	—	4.00
Net exposure	—	71	981
Average exchange rate BRL/MXN	—	0.26	0.26
Net exposure	404	709	1,688
Average exchange rate COP/USD	3,454	2,992	3,296
Net exposure	—	3,333	1,519
Average exchange rate CLP/USD	—	696.02	677.00
Interest rate risk			
Interest rate swaps			
Net exposure	—	—	11,403
Interest rate average MXN	—	—	7.17 %
Net exposure	—	—	4,716
Interest rate average CLP	—	—	4.95 %
Commodities risk			
Aluminum	325	370	99
Average price (USD/Ton)	1,654	1,720	1,740
Sugar	869	391	365
Average price (USD cent/Lb)	12.13	11.87	12.17
PX+MEG	364	364	—
Average price (USD /Ton)	730	730	—

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

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

As of December 31, 2020 and 2019, the Company does not have any cash flows hedge exposures.

As of December 31, 2020, a reconciliation per category of equity components and an analysis of OCI components, net of tax; generated by the cash flow hedges were as follows:

	Hedging reserve	Costs of hedging reserve
	Ps.	Ps.
Balances at beginning of the period	431	—
Cash flows hedges		
Fair value changes:		
Foreign exchange currency risk – Purchase of stock	82	—
Foreign exchange currency risk – Other stock	(626)	—
Interest rate risk	2,991	—
The amounts included in non-financial costs:		
Taxes due to changes in reserves during the period	12	—
Balances at the end of the period	<u>Ps. 2,890</u>	<u>Ps. —</u>

Impact of hedging on equity

Set out below is the reconciliation of each component of equity and the analysis of other comprehensive income:

	Foreign exchange forward contracts	Foreign currency option	Cross-currency swaps	Interest rate swaps	Treasury Lock contracts	Commodity price contracts	Total holders of the parent	Non-controlling interest	Total
	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.
As at January 1, 2019	53	17	1,296	351	—	(136)	1,065	(120)	945
Financial instruments – purchases	(244)	2	78	—	102	29	(33)	(71)	(104)
Change in fair value of financial instruments recognized in OCI	—	—	(77)	(416)	—	3	(490)	(1,101)	(1,591)
Amount reclassified from OCI to profit or loss	(68)	(26)	451	36	—	198	591	631	1,222
Foreign currency revaluation of the net foreign operations	—	—	(176)	—	—	—	(176)	(93)	(269)
Effects of changes in foreign exchange rates	—	—	30	9	—	3	42	22	64
Tax effect	103	7	—	—	(31)	(74)	(465)	195	(270)
As at December 31, 2019	Ps. (156)	Ps. —	Ps. 1,602	Ps. (20)	Ps. 71	Ps. 23	Ps. 534	Ps. (537)	Ps. (3)
Financial instruments – purchases	(840)	2	(2,145)	—	—	351	(2,632)	(170)	(2,803)
Change in fair value of financial instruments recognized in OCI	(483)	—	6,922	(762)	—	9	5,686	1,425	7,387
Amount reclassified from OCI to profit or loss	277	(2)	2,461	129	(102)	(37)	2,726	943	3,670
Foreign currency revaluation of the net foreign operations	—	—	(3,588)	—	—	—	(3,588)	(1,893)	(3,588)
Effects of changes in foreign exchange rates	7	—	92	14	—	(8)	105	55	(1,846)
Tax effect	163	—	—	—	31	(108)	(977)	(106)	(1,246)
As at December 31, 2020	Ps. (1,032)	Ps. —	Ps. 5,344	Ps. (639)	Ps. —	Ps. 230	Ps. 1,854	Ps. (283)	Ps. 1,571

Note 22. Non-Controlling Interest in Consolidated Subsidiaries

An analysis of FEMSA's non-controlling interest in its consolidated subsidiaries as of December 31, 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
Coca-Cola FEMSA	Ps. 66,800	Ps. 72,649
Other	2,644	1,113
	<u>Ps. 69,444</u>	<u>Ps. 73,762</u>

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

	2020	2019	2018
Balance at beginning of the period	Ps. 73,762	Ps. 78,489	Ps. 86,621
Net income of non-controlling interest	5,686	7,349	9,089
Other comprehensive income (loss):	(5,793)	(4,552)	(4,080)
Exchange differences on translation of foreign operation	(5,958)	(3,833)	(4,016)
Remeasurements of the net defined benefits liability	(169)	(271)	155
Valuation of the effective portion of derivative financial instruments	334	(448)	(219)
Dividends	(5,524)	(3,945)	(3,713)
Share based payment	(64)	(12)	31
Acquisition of Socofar non-controlling interest	—	(3,530)	—
Acquisition of Synergy non-controlling interest (see Note 4.1)	1,298	—	—
Other acquisitions and remeasurements	79	32	413
(Derecognition) from non-controlling interest	—	—	(11,140)
Accounting standard adoption effects ("IFRIC 23 and IFRS 9")	—	(69)	(150)
Adoption of IAS 29 for Argentina	—	—	1,418
Balance at end of the period	<u>Ps. 69,444</u>	<u>Ps. 73,762</u>	<u>Ps. 78,489</u>

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

	December 31, 2020	December 31, 2019
Exchange differences on translation foreign operation	Ps. (6,657)	Ps. (699)
Remeasurements of the net defined benefits liability	(559)	(390)
Valuation of the effective portion of derivative financial instruments	(277)	(611)
Accumulated other comprehensive income	<u>Ps. (7,493)</u>	<u>Ps. (1,700)</u>

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

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

	December 31, 2020	December 31, 2019
Total current assets	Ps. 72,440	Ps. 56,796
Total non-current assets	190,626	201,043
Total current liabilities	42,845	51,010
Total non-current liabilities	97,764	77,144
Total revenue	Ps. 183,615	Ps. 194,471
Consolidated net (loss) income for continuing operations	10,368	12,630
Consolidated comprehensive income for continuing operations	Ps. 3,050	Ps. 5,489
Net cash flow generated from operating activities for continuing operations	35,147	31,289
Net cash flow used in investing activities for continuing operations	(10,508)	(10,744)
Net cash flow used in financing activities for continuing operations	417	(22,794)

22.1 Options embedded from past acquisitions

FEMSA Comercio – Health Division entered into option transactions regarding the remaining 40% non-controlling interest not held by FEMSA Comercio – Health Division.

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

The former controlling shareholders of Open Market retain a put for their remaining 20% non-controlling interest that can be exercised (i) at any time after the acquisition date upon the occurrence of certain events and (ii) annually from January through April, after the third anniversary of the acquisition date. In any event, the Company through one of its subsidiaries can call the remaining 20% non-controlling interest annually from January through April, after the fifth anniversary of the acquisition date. Both options would be exercisable at the then fair value of the interest and shall remain indefinitely.

Note 23. Equity

23.1 Equity accounts

The capital stock of FEMSA is comprised of 2,161,177,770 BD units and 1,417,048,500 B units. As of December 31, 2020 and 2019, the common stock of FEMSA was comprised of 17,891,131,350 common shares, without par value and with no foreign ownership restrictions. Fixed capital stock amounts to Ps. 300 (nominal value) and the variable capital may not exceed 10 times the minimum fixed capital stock amount.

The characteristics of the common shares are as follows:

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

The Series “D” shares are comprised as follows:

- Subseries “D-L” shares may represent up to 25% of the series “D” shares;
- Subseries “D-B” shares may comprise the remainder of outstanding series “D” shares; and

- The non-cumulative premium dividend to be paid to series “D” shareholders will be 125% of any dividend paid to series “B” shareholders.

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

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

As of December 31, 2020 and 2019, FEMSA’s capital stock is comprised as follows:

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

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve equals 20% of common stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company, except as a stock dividend. As of December 31, 2020 and 2019, this reserve amounted to Ps. 596.

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

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. A new Income Tax Law (“LISR”) went into effect on January 1, 2014; such law no longer includes the tax consolidation regime which allowed calculating the CUFIN on a consolidated basis; therefore, beginning in 2014, distributed dividends must be taken from the individual CUFIN balance of FEMSA, which can be increased with the subsidiary companies’ individual CUFINES through the transfers of dividends. The sum of the individual CUFIN balances of FEMSA and its subsidiaries as of December 31, 2020 amounted to Ps. 237,627. Dividends distributed to its stockholders who are individuals and foreign residents must withhold 10% for LISR purposes, which will be paid in Mexico. The foregoing will not be applicable when distributed dividends arise from the accumulated CUFIN balances as of December 31, 2013.

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

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

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

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

At an ordinary shareholders' meeting of FEMSA held on March 20, 2020, the shareholders approved a dividend of Ps. 10,360 that was paid 50% on August 20, 2020 and other 50% on November 5, 2020; and a reserve for share repurchase of a maximum of Ps. 17,000. As of December 31, 2020, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 18.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 17, 2020, the shareholders approved a dividend of Ps. 10,210 that was paid 50% on May 5, 2020 and other 50% on November 3, 2020. The corresponding payment to the non-controlling interest was Ps. 5,389.

For the years ended December 31, 2020, 2019 and 2018 the dividends declared and paid by the Company and Coca-Cola FEMSA were as follows:

	2020	2019	2018
FEMSA	Ps. 10,360	Ps. 9,692	Ps. 9,220
Coca-Cola FEMSA (100% of dividend)	10,210	7,437	7,038

For the years ended December 31, 2020 and 2019 the dividends declared and paid per share by the Company are as follows:

Series of Shares	2020	2019	2018
"B"	Ps. 0.51667	Ps. 0.48333	Ps. 0.45980
"D"	0.64583	0.60417	0.57480

23.2 Capital management

The Company manages its capital to ensure that its subsidiaries will be able to continue as going concerns while maximizing the return to shareholders through the optimization of its debt and equity balance in order to obtain the lowest cost of capital available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2020 and 2019.

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

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

Note 24. Earnings per Share

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

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

	2020		2019		2018	
	Per Series "B" Shares	Per Series "D" Shares	Per Series "B" Shares	Per Series "D" Shares	Per Series "B" Shares	Per Series "D" Shares
(in millions of shares)						
Weighted average number of shares for basic earnings per share	9,243.59	8,633.38	9,244.16	8,635.65	9,243.81	8,634.26
Effect of dilution associated with non-vested shares for share based payment plans	2.83	11.33	2.26	9.06	2.61	10.45
Weighted average number of shares adjusted for the effect of dilution (Shares outstanding)	9,246.42	8,644.71	9,246.42	8,644.71	9,246.42	8,644.71
Dividend rights per series (see Note 23.1)	100 %	125 %	100 %	125 %	100 %	125 %
Weighted average number of shares further adjusted to reflect dividend rights	9,246.42	10,805.89	9,246.42	10,805.89	9,246.42	10,805.89
Basic earnings per share from continuing operations	(0.10)	(0.12)	1.03	1.29	1.13	1.41
Basic earnings per share from discontinued operations	—	—	—	—	0.07	0.09
Diluted earnings per share from continuing operations	(0.10)	(0.12)	1.03	1.29	1.13	1.41
Diluted earnings per share from discontinued operations	—	—	—	—	0.07	0.09
Allocation of earnings, weighted	46.11 %	53.89 %	46.11 %	53.89 %	46.11 %	53.89 %
Net controlling interest income allocated from continuing operations	Ps. (890)	Ps. (1,040)	Ps. 9,545	Ps. 11,154	Ps. 10,403	Ps. 12,157
Net controlling interest income allocated from discontinued operations	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 660	Ps. 770

Note 25. Taxes

25.1 Recoverable taxes

Recoverable taxes are mainly the result of higher provisional payments of income tax during 2020 in comparison to current year provision, which will be compensated in future years. The operations in Guatemala, Panama, Nicaragua and Colombia 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.

25.1.1 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 recovery of the taxes paid becomes virtually certain. During 2020 and 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, 2020 and 2019 the amount of recoverable taxes in Brazil including PIS and COFINS is Ps. 2,523 and Ps. 4,223.

25.2 Tax Reforms

Chile

In 2020 Corporate Income Tax rate in Chile remains 27%. The Chilean tax authority included an instant depreciation regime of 50% for acquisition of new assets acquired between January 1st, 2019 and December 31st, 2021, with the possibility to apply accelerated depreciation to the 50% residual basis.

Mexico

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

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

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

The most relevant changes are: (i) Taxpayers has been limited to a net interest deduction equal to 30% of the entity's Adjusted Taxable Income (ATI). ATI is 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 is subject to an annual increase based on the inflation of the previous year; (iii) The excise tax of 25% on energized beverages is applicable whenever the beverages include a mixture of caffeine with any other stimulating effects substances; (iv) Federal Fiscal Code (FFC) was modified to attribute joint liability to partners, shareholders, directors, managers or any other responsible of the management of the business; (v) added a disclosure obligation of certain reportable transactions to tax authorities; and (vi) increased the tax authorities' discretion to limit tax benefits or attributes in situations where authorities understand there is a lack of business reason and no economic benefit obtained, other than the tax benefit.

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

Colombia

On January 1, 2019, a new tax reform became effective in Colombia. This reform reduced the income tax rate from 33.0% for 2019 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% for 2018 to 1.5% for 2019 and 2020, and to 0.0% for 2021. In addition, the thin capitalization ratio was adjusted from 3:1 to 2:1, and was modified to apply only to transactions between related parties. Commencing on January 1, 2019, value-added tax, which was applied only to the first sale in the supply chain prior to December 31, 2018, began to be applied and transferred throughout the entire supply chain, which in our case results in charging value-added tax on the sales price of our finished goods (applicable to our Colombian subsidiary located in the free trade zone). For companies located in free trade zones, the value-added tax is charged on the cost of imported raw materials of national and foreign origin, which we are able to credit against the value-added tax on the sales price of our products. The municipality sales tax is 50.0% deductible against payable income tax for 2019 and will be 100.0% deductible in 2020. Finally, the value-added tax paid on acquired fixed assets will be credited against income tax or the minimum assumed income tax. Additionally, this tax reform increased the tax rate on dividends paid to foreign individuals and non-resident entities from 5.0% to 7.5%. The tax reform also imposed a tax rate of 7.5% on dividends paid to Colombian companies. This tax is charged only on the first distribution of dividends from one Colombian corporate entity to another, and a credit resulting from the tax withholding is carried forward until a Colombian company makes a distribution to a shareholder that is an individual residing in Colombia or a non-resident individual or entity.

In October 2019, the Colombian courts declared the tax reform that became effective on January 1, 2019 unconstitutional. On December 27, 2019, the Colombian government enacted a new tax reform, which became effective on January 1, 2020. In general, the reform maintained the provisions introduced on the previous tax reform and included

some additional changes, as follows: (i) the minimum assumed income tax rate (renta presuntiva sobre el patrimonio) was reduced from 1.5% to 0.5% for 2020 and reduced to 0.0% for the year 2021 and beyond; (ii) the tax rate on dividends paid to Colombian resident individuals was reduced from 15.0% to 10.0%; (iii) the tax rate on dividends paid to foreign individuals and non-resident entities was increased from 7.5% to 10.0%; (iv) the possibility to deduct 100% of the municipality sales tax against payable income tax was postponed to 2022; and (v) taxpayers were granted more flexibility to credit or recover the value-added tax of imported goods from free trade zones.

Costa Rica

On July 1, 2019, a tax reform became effective in Costa Rica. This reform allowed tax credits on sales taxes to be recorded on goods, administrative services and general expenses. The value-added tax rate of 13.0% on services provided within Costa Rica now applies to both domestic and foreign service providers. Capital gains taxes are now imposed at a rate of 15.0% on sales of assets located in Costa Rica. New income tax withholding rates are now imposed on salaries and other employee benefits at the rates of 25.0% and 20.0%, depending on the salary bracket. Finally, a new thin capitalization rule provides that interest expenses paid to entities other than members of the Costa Rican financial system that exceed 20.0% of a company's EBITDA are not deductible for income tax purposes.

Panama

Until November 17, 2019, Panama imposed an excise tax of 5.0% on carbonated beverages and imported non-carbonated beverages and a 10.0% selective consumption tax on syrups, powders and concentrate used to produce sugary drinks. On November 18, 2019, Panama replaced such excise tax with an excise tax of 7.0% on carbonated beverages with more than 7.5 grams of sugar or any caloric sweetener per 100 ml, and a 10.0% tax on syrups, powders and concentrate used to produce sugary drinks. As of January 1, 2020, Panama imposes an excise tax of 5.0% on non-carbonated beverages with more than 7.5 grams of sugar or any caloric sweetener per 100 ml, whether imported or produced locally. Beverages derived from dairy products, grains or cereals, nectars, fruit juices and vegetables with natural fruit concentrates are exempt from this tax.

Nicaragua

On March 1, 2019, a tax reform became effective in Nicaragua, increasing the excise tax for all beverages (except for water) from 9.0% to 11.0%; to 13.0% on January 1, 2020; and to 15.0% starting on January 1, 2021. Besides, starting on March 1, 2019, the minimum alternative income tax increased from 1.0% to 3.0%.

Uruguay

On December 29, 2020, the Uruguayan government issued an executive decree reforming the determination of the excise tax credit of \$1.15 per sold liter on returnable bottles. Starting on January 1, 2021 to June 30, 2021, the tax credit must be determined considering the relation between the purchases of returnable bottles of Uruguayan origin with the total purchases of returnable bottles, using the figures of the last three years. For the second half of 2021, it is expected that the government will issue another decree with the corresponding provisions to apply the tax credit.

Brazil

The Brazilian federal production tax rates and federal sales tax rates increased in 2017 and 2018 and remained flat in 2019 and 2020. In early 2017, the Supreme Court decided that the value-added tax would not be used as the basis for calculating the federal sales tax, resulting in a reduction of the federal sales tax. The Brazilian tax authorities have appealed the Supreme Court's decision and such appeal is in process. However, our Brazilian subsidiaries commenced legal proceedings to ascertain their ability to calculate federal sales tax without using the value-added tax as a basis, in accordance with the Supreme Court's ruling, and obtained a final favorable resolution in 2019. In 2020, the federal production and sales taxes together resulted in an average of 15.9% tax over net sales.

In recent years, the excise tax rate on concentrate in Brazil has undergone recurrent temporary fluctuations. The excise tax rate was reduced from 20.0% to 4.0% from September 1, 2018 to December 31, 2018, was increased from 4.0% to 12.0% from January 1, 2019 to June 30, 2019, was reduced to 8.0% from July 1, 2019 to September 30, 2019 and was increased to 10.0% from October 1, 2019 to December 31, 2019. The excise tax rate was reduced to 4.0% from January

1, 2020 to May 31, 2020, was increased to 8.0% from June 1, 2020 to November 30, 2020 and was reduced again to 4.0% on December 1, 2020 till January 31, 2021 and it was increased to 8% from February 1, 2021 onward.

Argentina

Beginning on January 1, 2021, taxpayers may adjust inflationary effects for income tax purposes in one sole year instead of through a period of six years.

On December 23, 2019, Argentina enacted a new tax reform that became effective as of January 1, 2020. This reform maintained the income tax at a rate of 30.0% and the withholding tax on dividends paid to non-resident stockholders and resident individuals at a rate of 7.0% for two more years.

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. The tax reform decreased the sales tax rate in the province of Buenos Aires from 1.75% to 1.5% in 2018.

However, the reform increased the sales tax rate in the City of Buenos Aires from 1.0% to 2.0% in 2018, and scheduled a reduction to 1.5% in 2019, to 1.0% in 2020, to 0.5% in 2021 and to 0.0% in 2022. Nonetheless, the Argentine government issued an executive decree with an order to maintain the sales taxes rate in the City of Buenos Aires at a rate of 1.5% through 2020, without ruling on whether the scheduled reductions for 2021 and 2022 will occur. On December 11, 2020, Argentine government signed a new commitment to suspend the reduction of sales taxes rate until December 31, 2021. The rate for both Buenos Aires City and Buenos Aires province will remain at 1.5%.

25.3 Income Tax

The major components of income tax expense for the years ended December 31, 2020, 2019 and 2018 are:

	2020	2019	2018
Current tax expense	Ps. 18,690	Ps. 11,652	Ps. 10,480
Deferred tax expense (income):			
Origination and reversal of temporary differences	(5,824)	127	491
Utilization (recognition) of tax losses, net	1,994	(1,201)	(927)
Change in the statutory rate	(41)	(102)	125
Total deferred tax income expense	(3,871)	(1,176)	(311)
Total income taxes	Ps. 14,819	Ps. 10,476	Ps. 10,169

On May 29, 2020, the Company reached an agreement with the Mexican tax authority (the Servicio de Administración Tributaria), to resolve interpretative differences over taxes paid outside of Mexico, without judicial action. Under the agreed terms, the Company recognized the tax position as a liability in the statement of financial position and recognized a provision in the income statement of approximately Ps. 8,754 million during the second quarter of 2020. From this amount Ps. 5,500 million were recorded and presented as current tax expense, and Ps. 3,253 million as penalties, from which Ps. 868 million correspond to inflationary effects. The total liability was fully paid during the second and third quarter of 2020.

Recognized in Consolidated Statement of Other Comprehensive Income (“OCI”)

Income tax related to items charged or recognized directly in OCI during the period:	2020	2019	2018
Unrealized gain (loss) on cash flow hedges	Ps. 871	Ps. (391)	Ps. (293)
Exchange differences on translation of foreign operations	4,758	(1,667)	(2,647)
Remeasurements of the net defined benefit liability	(208)	(371)	287
Share of the other comprehensive income of equity accounted investees	(2,597)	288	989
Total income tax benefit recognized in OCI	Ps. 2,824	Ps. (2,141)	Ps. (1,664)

A reconciliation between tax expense and income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method multiplied by the Mexican domestic tax rate for the years ended December 31, 2020, 2019 and 2018 is as follows:

	2020	2019	2018
Mexican statutory income tax rate	30.0 %	30.0 %	30.0 %
Difference between book and tax inflationary values and translation effects	(5.1)%	(2.2)%	(4.0)%
Annual inflation tax adjustment	3.0 %	0.2 %	(1.2)%
Difference between statutory income tax rates	1.0 %	0.9 %	1.8 %
Non-deductible expenses	3.8 %	4.5 %	3.2 %
Taxable (non-taxable) income	2.9 %	(1.0)%	(0.5)%
Effect of changes in Argentina tax law	0.1 %	(0.3)%	(0.9)%
Others	(1.9)%	(0.7)%	0.9 %
Impairments ⁽¹⁾	4.6 %	0.9 %	0.4 %
Adjustments for previous tax years ⁽²⁾	30.3 %	— %	— %
Income tax credit	(8.3)%	— %	— %
Tax Loss ⁽³⁾	16.3 %	0.1 %	0.5 %
Consolidated Effective income tax rate ⁽⁴⁾	76.7 %	32.4 %	30.2 %

(1) Includes the impairments of Specialty's and Estrella Azul explained in Note 13 and 10, respectively.

(2) Related to an agreement with the Mexican tax authority, to resolve interpretative differences over foreign (non-Mexican) dividends received before 2020.

(3) Includes the adjustments in tax losses recognized during 2020 in Coca-Cola FEMSA.

(4) The effective income tax rate without the extraordinary effects occurred during 2020 is 33.8%.

Deferred Income Tax Related to:

	Consolidated Statement of Financial Position as of		Consolidated Statement of Income		
	December 31, 2020	December 31, 2019	2020	2019	2018
Allowance for doubtful accounts	Ps. (501)	Ps. (437)	Ps. (25)	Ps. (43)	Ps. 93
Inventories	(757)	76	60	(6)	(27)
Other current assets	122	256	(163)	182	(31)
Property, plant and equipment, net	(4,999)	(4,068)	(708)	(320)	(851)
Investments in equity accounted investees	(9,321)	(5,482)	(15)	7	40
Other assets	(681)	137	(729)	59	(82)
Finite useful lived intangible assets	(181)	(111)	129	(345)	627
Indefinite lived intangible assets	9,316	10,788	(261)	1,220	758
Post-employment and other long-term employee benefits	(1,124)	(1,067)	(37)	(2)	(148)
Derivative financial instruments	(121)	(9)	(114)	(31)	(63)
Provisions	1,135	(1,216)	142	1,359	1,122
Temporary non-deductible provision	(4,907)	(3,183)	(1,893)	(1,797)	(293)
Employee profit sharing payable	(371)	(430)	64	8	(27)
Tax loss carryforwards	(8,422)	(10,309)	1,994	(1,201)	(927)
Tax credits to recover ⁽²⁾	(2,595)	(1,855)	(1,629)	(122)	(109)
Other comprehensive income ⁽¹⁾	32	(596)	86	29	(54)
Exchange differences on translation of foreign operations in OCI	7,697	3,959	—	—	—
Other liabilities	717	533	(440)	(3)	(324)
Right of use from leases, net	(1,049)	(561)	(532)	(577)	—
Deferred tax income			Ps. (4,071)	Ps. (1,583)	Ps. (296)
Deferred tax income net recorded in share of the profit of equity accounted investees			200	407	(15)
Deferred tax income, net			Ps. (3,871)	Ps. (1,176)	Ps. (311)
Deferred income taxes, net	(16,010)	(13,575)			
Deferred tax asset	(22,043)	(20,521)			
Deferred tax liability	Ps. 6,033	Ps. 6,946			

- (1) Deferred tax related to derivative financial instruments and remeasurements of the net defined benefit liability.
(2) Corresponds to income tax credits arising from dividends received from foreign subsidiaries to be recovered within the next ten years accordingly to the Mexican Income Tax law as well as effects of the exchange of foreign currencies with a related and non-related parties.

Deferred tax related to Accumulated Other Comprehensive Income (“AOCI”)

Income tax related to items charged or recognized directly in AOCI as of the year:	2020	2019
Unrealized loss on derivative financial instruments	Ps. 795	Ps. (36)
Remeasurements of the net defined benefit liability	(762)	(560)
Total deferred tax loss related to AOCI	Ps. 33	Ps. (596)

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

	2020	2019	2018
Balance at the beginning of the period	Ps. (13,575)	Ps. (10,657)	Ps. (9,720)
Deferred tax provision for the period	(3,871)	(1,176)	(311)
Deferred tax income net recorded in share of the profit of equity accounted investees	(404)	(406)	165
Acquisition of subsidiaries	—	(382)	(316)
Effects in equity:			
Unrealized (gain) on cash flow hedges	865	(391)	(445)
Exchange differences on translation of foreign operations	2,215	(2,121)	(1,762)
Remeasurements of the net defined benefit liability	(256)	(204)	543
Retained earnings of equity accounted investees	(32)	384	54
Cash flow hedges in foreign investments	(1,020)	425	310
Restatement effect of the period and beginning balances associated with hyperinflationary economies	68	953	438
Disposal of subsidiaries	—	—	387
Balance at the end of the period	Ps. (16,010)	Ps. (13,575)	Ps. (10,657)

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

Tax Loss Carryforwards

The subsidiaries in Mexico, Colombia, Uruguay, Argentina 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 a deferred tax asset has been recorded and their corresponding years of expiration are as follows:

Year	Tax Loss Carryforwards
2021	Ps. 35
2022	50
2023	26
2024	69
2025	872
2026	1,884
2027	52
2028	2,683
2029	3,535
2030 and thereafter	2,303
No expiration (Brazil and Colombia)	15,109
	Ps. 26,618

Considering all available evidence, including forecasts, business plans and strategic measures, the Company has decided to make an adjustment in its deferred income tax asset as of December 31, 2020 for an amount of Ps 3,847.

The Company recorded certain goodwill balances due to acquisitions that are deductible for Brazilian income tax reporting purposes. The deduction of such goodwill amortization has resulted in the creation of NOLs in Brazil which have no expiration, but their usage is limited to 30% of Brazilian taxable income in any given year. As of December 31, 2020, the Company believes that it is more likely than not that it will ultimately recover such NOLs through the reversal of temporary differences and future taxable income. Accordingly the related deferred tax assets have been fully recognized.

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

	2020	2019
Balance at beginning of the period	Ps. 32,536	Ps. 29,941
Derecognized	(8,521)	(377)
Additions	7,538	7,194
Usage of tax losses	(2,444)	(2,947)
Translation effect of beginning balances	(2,491)	(1,275)
Balance at end of the period	Ps. 26,618	Ps. 32,536

There were no withholding taxes associated with the payment of dividends in 2020, 2019 or 2018 by the Company to its shareholders.

The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of December 31, 2020, 2019 and 2018, the temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized aggregate to Ps. 41,280, Ps. 49,255 and Ps. 45,305, respectively.

Note 26. Other Liabilities, Provisions, Contingencies and Commitments

26.1 Other current financial liabilities

	December 31, 2020	December 31, 2019
Sundry creditors	Ps. 11,895	Ps. 11,509
Derivative financial instruments (see Note 21)	1,127	848
Other notes payable ⁽¹⁾	—	11,294
Others	3	4
Total	Ps. 13,025	Ps. 23,655

(1) Related to Socofar's put option exercised on December 13, 2019.

26.2 Provisions and other non-current liabilities

	December 31, 2020	December 31, 2019
Contingencies	Ps. 6,303	Ps. 8,854
Payable taxes	651	710
Others	2,586	879
Total	Ps. 9,540	Ps. 10,443

26.3 Other non-current financial liabilities

	December 31, 2020	December 31, 2019
Derivative financial instruments (see Note 21)	Ps. 3,743	Ps. 1,672
Security deposits	1,279	809
Total	Ps. 5,022	Ps. 2,481

26.4 Provisions recorded in the consolidated statement of financial position

The Company has various loss contingencies and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. Most of these contingencies are the result of the Company's business acquisitions. The following table presents the nature and amount of the contingencies recorded as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Indirect taxes	Ps. 3,153	Ps. 5,062
Labor	1,857	2,455
Legal	1,293	1,337
Total ⁽¹⁾	Ps. 6,303	Ps. 8,854

(1) As it is customary in Brazil, the Company is required to guarantee tax, legal and labor contingencies by guarantee deposits. See Note 14.

26.5 Changes in the balance of provisions recorded

26.5.1 Indirect taxes

	December 31, 2020	December 31, 2019	December 31, 2018
Balance at beginning of the period	Ps. 5,062	Ps. 5,421	Ps. 6,836
Penalties and other charges	—	1	123
New contingencies	489	486	178
Contingencies added in business combination	—	—	104
Cancellation and expiration	(153)	(247)	106
Payments	(218)	(174)	(112)
Reversal of indemnifiable items ⁽¹⁾	(1,177)	—	—
Effects of changes in foreign exchange rates	(850)	(425)	(951)
Effects due to derecognition of Philippines	—	—	(863)
Balance at end of the period	Ps. 3,153	Ps. 5,062	Ps. 5,421

(1) This amount includes Ps. 899 of certain tax contingencies that expired and are payable to the former shareholders of Spaipa (acquired in 2013).

26.5.2 Labor

	December 31, 2020	December 31, 2019	December 31, 2018
Balance at beginning of the period	Ps. 2,455	Ps. 2,601	Ps. 2,723
Penalties and other charges	233	293	310
New contingencies	249	521	330
Contingencies added in business combination	—	44	289
Cancellation and expiration	(61)	(283)	(133)
Payments	(592)	(500)	(193)
Effects of changes in foreign exchange rates	(427)	(221)	(725)
Balance at end of the period	Ps. 1,857	Ps. 2,455	Ps. 2,601

26.5.3 Legal

	December 31, 2020	December 31, 2019	December 31, 2018
Balance at beginning of the period	Ps. 1,337	Ps. 1,906	Ps. 3,296
Penalties and other charges	8	94	86
New contingencies	362	213	72
Contingencies added in business combination	—	77	67
Cancellation and expiration	(141)	(542)	(146)
Payments	(111)	(318)	(251)
Effects of changes in foreign exchange rates	(162)	(93)	(335)
Effects due to derecognition of Philippines	—	—	(883)
Balance at end of the period	Ps. 1,293	Ps. 1,337	Ps. 1,906

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

26.6 Unsettled lawsuits

The Company has entered into several proceedings with its labor unions, tax authorities and other parties that primarily involve Coca-Cola FEMSA and its subsidiaries. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. The aggregate amount being claimed against the Company resulting from such proceedings as of December 31, 2020 is Ps. 86,855. Such contingencies were classified by internal legal counsel as less than probable but more than remote of being settled against the Company. However, the Company believes that the ultimate resolution of such several proceedings will not have a material effect on its consolidated financial position or result of operations.

Included in this amount Coca-Cola FEMSA has tax contingencies, most of which are related to its Brazilian operations, with loss expectations assessed by management and supported by the analysis of legal counsel considered as “possible.” The main “possible” contingencies of Brazilian operations amount to approximately Ps. 48,403. This refers to various tax disputes related primarily to: (i) Ps. 8,899 of credits for ICMS (“VAT”); (ii) Ps. 29,280 related to tax credits of “IPI” over raw materials acquired from Free Trade Zone Manaus; (iii) claims of Ps. 4,878 related to compensation of federal taxes not approved by the IRS (Tax authorities); (iv) Ps. 2,677 related to the amortization of goodwill generated in acquisition operations; and (v) Ps. 2,667 relating to liability over the operations of a third party, former distributor, in the period from 2001 to 2003. Coca-Cola FEMSA is defending its position in these matters and final decision is pending in court.

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

26.7 Collateralized contingencies

As is customary in Brazil, Coca-Cola FEMSA has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 7,342, Ps. 10,471 and Ps. 7,739 as of December 31, 2020, 2019 and 2018, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies, see Note 14. Also, as disclosed in Note 9.2, there is some restricted cash in Brazil related to current deposits in order to fulfill the collateral requirements for accounts payable.

26.8 Commitments

The Company has firm commitments for the purchase of property, plant and equipment of Ps. 432 and Ps. 556 as of December 31, 2020 and 2019, respectively.

Note 27. Information by Segment

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

In 2018, FEMSA made a change to the disclosure related to the businesses segments formerly named as FEMSA Comercio's "Retail Division" by removing those operations that are not directly related to Proximity store business, including restaurant and discount retail units, from this segment. The business segment is now named the FEMSA Comercio – "Proximity Division" and only includes Proximity and Proximity-related operations, most of which operate today under the OXXO brand across markets. The removed operations are included in "Other."

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

a) By Business Unit:

2020	Coca-Cola		FEMSA	FEMSA	FEMSA Comercio –		Heineken	Consolidation	
	Ps.	FEMSA	Comercio –	Comercio –	FEMSA Comercio –	Investment	Other (1)	Adjustments	Consolidated
		Ps.	Proximity	Health	Fuel Division			Ps.	Ps.
Total revenues	183,615	181,277	65,172	34,292	—	49,414	(20,804)	492,966	
Intercompany revenue	5,016	451	—	9	—	15,328	(20,804)	—	
Gross profit	82,811	74,296	19,575	4,300	—	13,823	(5,152)	189,653	
Administrative expenses	—	—	—	—	—	—	—	22,988	
Selling expenses	—	—	—	—	—	—	—	123,405	
Other income	—	—	—	—	—	—	—	3,343	
Other expenses	—	—	—	—	—	—	—	12,381	
Interest expense	7,894	5,932	1,540	1,099	—	4,773	(3,722)	17,516	
Interest income	1,048	388	162	40	61	4,123	(3,722)	2,100	
Other net finance loss (3)	—	—	—	—	—	—	—	505	
Income before income taxes and share of the profit of equity accounted investees	16,077	6,409	753	(224)	48	(4,237)	485	19,311	
Income taxes	5,428	(280)	243	(29)	12	9,445	—	14,819	
Share of the profit of equity accounted investees, net of tax	(281)	(18)	—	—	(434)	(3)	—	(736)	
Net income from continuing operations	—	—	—	—	—	—	—	3,756	
Consolidated net income	—	—	—	—	—	—	—	3,756	
Depreciation and amortization (2)	10,608	10,574	3,543	865	—	2,562	(103)	28,049	
Non-cash items other than depreciation and amortization	1,494	739	28	22	—	138	—	2,421	
Investments in equity accounted investees	7,623	3,102	—	—	87,291	254	—	98,270	
Total assets	263,066	121,200	60,107	15,878	92,444	191,207	(59,054)	684,848	
Total liabilities	140,609	104,141	46,038	14,257	4,011	127,426	(58,821)	377,661	
Investments in fixed assets (4)	10,354	6,907	1,694	549	—	1,533	(144)	20,893	

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

(2) Includes bottle breakage.

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

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

[Table of Contents](#)

2019	Coca-Cola FEMSA	FEMSA Comercio – Proximity Division	FEMSA Comercio – Health Division	FEMSA Comercio – Fuel Division	Heineken Investment	Other (1)	Consolidation Adjustments	Consolidated
	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.
Total revenues	194,471	184,810	58,922	47,852	—	41,788	(21,132)	506,711
Intercompany revenue	5,688	325	—	11	—	15,108	(21,132)	—
Gross profit	87,507	75,099	17,645	4,775	—	11,551	(5,096)	191,481
Administrative expenses	—	—	—	—	—	—	—	19,930
Selling expenses	—	—	—	—	—	—	—	121,871
Other income	—	—	—	—	—	—	—	1,013
Other expenses	—	—	—	—	—	—	—	4,905
Interest expense	6,904	5,733	1,226	1,175	1	2,303	(3,209)	14,133
Interest income	1,230	338	10	114	23	4,563	(3,110)	3,168
Other net finance income (3)	—	—	—	—	—	—	—	(2,527)
Income before income taxes and share of the profit of equity accounted investees	18,409	11,458	1,487	124	10	449	359	32,296
Income taxes	5,648	923	556	49	(491)	3,791	—	10,476
Share of the profit of equity accounted investees, net of tax	(131)	9	—	—	6,428	(78)	—	6,228
Net income from continuing operations	—	—	—	—	—	—	—	28,048
Consolidated net income	—	—	—	—	—	—	—	28,048
Depreciation and amortization (2)	10,642	9,604	3,112	855	—	1,708	(112)	25,809
Non-cash items other than depreciation and amortization	1,083	529	23	105	—	755	—	2,495
Investments in equity accounted investees	9,751	3,719	—	—	83,789	211	—	97,470
Total assets	257,841	117,229	54,366	17,701	86,639	158,746	(54,981)	637,541
Total liabilities	128,154	98,468	53,468	16,754	3,151	66,812	(55,017)	311,790
Investments in fixed assets (4)	11,465	10,374	1,529	706	—	1,685	(180)	25,579

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

(2) Includes bottle breakage.

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

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

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

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

(2) Includes bottle breakage.

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

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

b) By Geographic Area:

The Company aggregates geographic areas into the following for the purposes of its consolidated financial statements: (i) Mexico and Central America division (comprising the following countries: Mexico, Guatemala, Nicaragua, Costa Rica and Panama), (ii) United States, (iii) the South America division (comprising the following countries: Brazil,

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

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

	2020	2019
Mexico and Central America ⁽¹⁾	Ps. 234,679	Ps. 230,889
United States ⁽²⁾	37,105	13,310
South America ⁽³⁾	124,470	136,480
Europe	87,326	84,283
Consolidated	Ps. 483,580	Ps. 464,962

(1) Domestic (Mexico only) non-current assets were Ps. 226,497 and Ps. 223,605, as of December 31, 2020, and December 31, 2019, respectively.

(2) On May 15, 2020, the Company completed the acquisition of WAXIE Sanitary Supply ("WAXIE") and North American Corporation ("North American") to form a new platform within the Jan-San, Packaging and Specialized distribution industry in the United States. The platform will bring together two market leaders in this field: WAXIE and North American, with FEMSA acquiring a majority controlling interest of 89% in the combined company.

(3) South America non-current assets includes Brazil, Argentina, Colombia, Chile, Uruguay and Ecuador. Brazilian non-current assets were Ps. 66,050 and Ps. 79,710, as of December 31, 2020 and December 31, 2019, respectively. Colombia non-current assets were Ps. 15,653 and Ps. 16,463, as of December 31, 2020 and December 31, 2019, respectively. Argentina non-current assets were Ps. 3,905 and Ps. 4,043, as of December 31, 2020 and December 31, 2019, respectively. Chile non-current assets were Ps. 30,953 and Ps. 28,424, as of December 31, 2020 and December 31, 2019, respectively. Uruguay non-current assets were Ps. 4,537 and Ps. 4,781, as of December 31, 2020 and December 31, 2019, respectively. Ecuador non-current assets were Ps. 3,372 and Ps. 3,064, as of December 31, 2020 and December 31, 2019, respectively.

Note 28. Revenues

28.1 Nature of goods sold and services

The information sets below described the core activities of the business units from which the Company generates its revenues. According to the standard, the performance obligation for the Company's business units are satisfied at a point

in time that the control of good and services are totally transferred to the customers. For detail information about business segments, see Note 27.

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

28.2 Disaggregation of revenue

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

	Coca-Cola FEMSA			FEMSA Comercio – Proximity Division			FEMSA Comercio – Health Division			FEMSA Comercio – Fuel Division			Other Segments			Total		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
By geographic areas:																		
Mexico and Central America (1)	Ps.106,783	Ps. 109,249	Ps. 100,162	Ps.179,218	Ps. 182,864	Ps. 166,040	Ps. 9,716	Ps. 8,170	Ps. 7,898	Ps.34,292	Ps.47,852	Ps. 46,936	Ps.27,403	Ps.32,217	Ps.31,918	Ps.357,412	Ps. 380,352	Ps.352,954
United States (2)	—	—	—	15	—	—	—	—	—	—	—	—	12,250	—	—	12,265	—	—
South America (3)	76,832	85,223	82,180	2,044	1,946	1,418	55,456	50,752	43,841	—	—	—	9,761	9,552	10,350	144,093	147,473	137,789
Venezuela	—	—	—	—	—	—	—	—	—	—	—	—	—	18	25	—	18	25
Total revenues	183,615	194,472	182,342	181,277	184,810	167,458	65,172	58,922	51,739	34,292	47,852	46,936	49,414	41,787	42,293	513,770	527,843	490,768
Consolidation adjustments	5,016	5,688	5,160	451	325	290	—	—	—	9	11	—	15,328	15,108	15,574	20,804	21,132	21,024
Consolidated revenues	178,599	188,784	177,182	180,826	184,485	167,168	65,172	58,922	51,739	34,283	47,841	46,936	34,086	26,679	26,719	492,966	506,711	469,744
By products and/or services																		
Products sold in the point-of-sale	Ps.183,615	Ps. 194,472	Ps. 182,342	Ps.181,277	Ps. 184,810	Ps. 167,458	Ps.65,172	Ps. 58,922	Ps.51,739	Ps.34,292	Ps.47,852	Ps.46,936	Ps.23,254	Ps.13,198	Ps.13,240	Ps.487,610	Ps.499,254	Ps.461,715
Services revenues	—	—	—	—	—	—	—	—	—	—	—	—	26,160	28,589	29,053	26,160	28,589	29,053
Consolidation adjustments	5,016	5,688	5,160	451	325	290	—	—	—	9	11	—	15,328	15,108	15,574	20,804	21,132	21,024
Consolidated revenues	178,599	188,784	177,182	180,826	184,485	167,168	65,172	58,922	51,739	34,283	47,841	46,936	34,086	26,679	26,719	492,966	506,711	469,744

- (1) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 320,694, Ps. 346,659 and Ps. 319,792 and during the years ended December 31, 2020, 2019 and 2018, respectively.
- (2) On May 15, 2020, the Company completed the acquisition of WAXIE Sanitary Supply (“WAXIE”) and North American Corporation (“North American”) to form a new platform within the Jan-San, Packaging and Specialized distribution industry in the United States. The platform will bring together two market leaders in this field: WAXIE And North American, with FEMSA acquiring a majority controlling interest of 89% in the combined company.
- (3) South America includes Brazil, Argentina, Colombia, Chile, Uruguay and Ecuador. South America revenues include Brazilian revenues of Ps. 62,758, Ps. 67,076 and Ps. 63,601 during the years ended December 31, 2020, 2019 and 2018, respectively. South America revenues include Colombia revenues of Ps. 14,800, Ps. 16,440 and Ps. 19,245 during the years ended December 31, 2020, 2019 and 2018, respectively. South America revenues include Argentina revenues of Ps. 5,531, Ps. 6,857 and Ps. 9,237 during the years ended December 31, 2020, 2019 and 2018, respectively. South America revenues include Chile revenues of Ps. 47,208, Ps. 45,276 and Ps. 44,576 during the years ended December 31, 2020, 2019 and 2018, respectively. South America revenues include Uruguay revenues of Ps. 3,124, Ps. 3,421 and Ps. 1,925 during the years ended December 31, 2020 and 2018, respectively. South America revenues include Ecuador revenues of Ps. 9,467 and Ps.6,539 during the years ended December 31, 2020 and 2019, respectively.

28.3 Contract balances

As of December 31, 2020, no significant cost was incurred to obtain or accomplish a contract that might be capitalized as assets. No significant contracts have been entered into for which the Company has not performed all the obligations as well as additional costs associated to them.

28.4 Transaction price assigned to remaining performance obligations

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

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

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

Classification of Liabilities as Current or Non-current - Amendments to IAS 1

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued amendments to IAS 16, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and

condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendments. The amendments are not expected to have a material impact on the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach.” The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

I - Subsidiary as a first-time adopter - amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment will also be applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

Fees in the ‘10 per cent’ test for derecognition of financial liabilities – amendments to IFRS 9 Financial Instruments

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendments to IFRS 9. The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments. The amendments are not expected to have a material impact on the Company.

Note 30. Subsequent Events

In February 2021, Coca-Cola FEMSA entered into a new distribution agreement with Heineken Brazil that is intended to replace its previous distribution agreement with Heineken Brazil. The effectiveness of this distribution agreement is subject to various conditions, including the approval of the Brazilian antitrust authorities. Pursuant to the new distribution agreement, Coca-Cola FEMSA will continue to sell and distribute *Kaiser*, *Bavaria* and *Sol* beer brands in Brazil and will add to the premium brand *Eisenbahn* and other premium international brands to its portfolio. Coca-Cola FEMSA will also cease to sell and distribute *Heineken* and *Amstel* beer brands upon the effectiveness of the new distribution agreement. Moreover, Coca-Cola FEMSA will have the right to produce and distribute alcoholic beverages and other beers in Brazil based on a certain proportion of Heineken's portfolio in Brazil. The agreement has a five-year term and may be automatically renewed for an additional five-year term subject to certain conditions. Upon the effectiveness of the new distribution agreement with Heineken Brazil, which is subject to various conditions, including the approval of the Brazilian antitrust authorities, Coca-Cola FEMSA intends to withdraw from the arbitration and other legal proceedings against Heineken Brazil and waive any rights with respect to any awards or judgements resulting from such arbitration and legal proceedings.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders, the Supervisory Board, and the Executive Board of Heineken N.V.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Heineken N.V. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated income statements and consolidated statements of comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2020 and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Adoption of New Accounting Standard

As discussed in Note 4 to the financial statements, effective January 1, 2019, the Company adopted IFRS 16 - Leases, using the modified retrospective method.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenues from contracts with customers — Refer to Note 6.1 and 7.3 to the financial statements

Critical Audit Matter Description

HEINEKEN provides a wide variety of discounts depending on the nature of the customer. The Company also provides discounts with contractually agreed conditions for volume and promotional rebates. Conditional discounts are recognized based on target realization as specified in Note 6.1 to the financial statements. The target realization requires

management to estimate target realization based on the expected or actual volume and adjust the discount accruals at balance sheet date.

Given the estimate made by management to assess target realization for conditional discounts under IFRS 15 *Revenue From Contracts with Customers* and the inherent presumed fraud risk related to year end adjustments of revenues and discount accruals, performing audit procedures to evaluate management's estimate of target realization based on expected and actual volumes and the resulting adjustments at balance sheet date, required a higher degree of auditor judgement and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's assessment of target realization and the related year end discount accrual included the following, amongst others:

- We obtained an understanding of management's process for the recognition of discount accruals at the reporting date based on expected or actual volume data under IFRS 15 *Revenue From Contracts with Customers*.
- We evaluated forecasting accuracy and management's ability to appropriately estimate the year end discount accrual by comparing the prior year amount accrued to the amount subsequently settled.
- We tested the amount of the year end discount accrual through a combination of:
 - Developing an expectation for the amount based on the historical and current sales information recorded as a percentage of sales and comparing our expectation to the amount recorded by management.
 - Selecting a sample of customers based on current sales information and recalculating the discount accrual by and using the terms of the agreement, accumulated experience, and historical and current sales information.
 - Evaluating subsequent settlement of the year end discount accruals.
 - Obtaining confirmations from customers to confirm sales data, contractual agreements and/or outstanding receivables net of discounts payable.

Impairment testing of intangible assets and property, plant and equipment — Refer to Notes 8.1, 8.2 and 8.3 to the financial statements

Critical Audit Matter Description

Intangible assets (including goodwill) and property, plant and equipment amounted to EUR 27,318 million at December 31, 2020 and represented 64 per cent of the consolidated total assets. For purposes of impairment testing, goodwill is allocated and monitored on a (groups of) Cash Generating Unit ('CGU') basis. Other intangibles and property, plant and equipment, are grouped to the smallest Cash Generating Units ('CGUs'). For goodwill, management is required to assess the recoverable amount of the respective CGUs (of groups of CGUs). Recoverable amounts of other non-current assets are assessed upon the existence of a triggering event. Following the impact of COVID-19 on HEINEKEN's markets and businesses, HEINEKEN has assessed all CGUs for an indication of an impairment, prepared multiple recovery scenarios for the impairment trigger tests (e.g. if and when the CGUs can return to pre-COVID-19 sales volumes) and performed impairment tests based on the single most likely scenario, accordingly.

The estimated sales volumes, revenues and discount rates used in management's trigger and impairment tests involved a higher degree of uncertainty due to the current market circumstances. Further details on the accounting and disclosure requirements under IAS 36 Impairment of Assets are included in Notes 8.1, 8.2 and 8.3 to the financial statements. These notes also explain the total impairment recorded in 2020, for a total amount of EUR 963 million due to the impact of COVID-19 in some developing economies and in the on-trade business (like cafés, bars and restaurants) in some developed economies.

Given the significant judgement made by management to estimate recoverable amounts in the current economic climate, procedures to evaluate the reasonableness of estimated sales volumes, revenues and discount rates used in management's trigger and impairment tests of intangible assets and property, plant and equipment required a high degree of auditor judgement, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the projected cash flows and discount rates used by management included the following, among others:

- We obtained an understanding of management's process over the impairment trigger tests and the impairment tests.
- We evaluated management's ability to accurately forecast by comparing actual results to management's historical forecasts.
- We evaluated sensitivities in management's projections that could cause a substantial change to the impairments recorded, and or cause headroom to change in an impairment.
- We evaluated projected cash flows and reviewed management's scenario-analyses by:
 - Comparing the projections (and scenarios) to historical forecasts and information included in Heineken's internal communications to the management and the Executive Board.
 - Challenging and comparing the estimated sales volumes and revenues to, for example, external economic outlook data, external market data on the beer market and expected inflation rates.
- With the assistance of our fair value specialists, we evaluated the reasonableness of discount rates, including testing the source information underlying the determination of the discount rates, testing the mathematical accuracy of the calculation, and developing a range of independent estimates and comparing those to the discount rates selected by management.

Management judgement related to the provisions for uncertain tax positions and recoverability of deferred tax assets — Refer to Notes 9.3 and 12 to the financial statements

Critical Audit Matter Description

HEINEKEN operates across several tax jurisdictions and is subject to periodic challenges by local tax authorities during the normal course of business. In those cases where the amount of tax payable or recoverable is uncertain, management establishes provisions based on its judgement of the probable amount of the tax liability. Deferred tax assets are only recognized to the extent that it is probable that future taxable income will be available, against which unused tax losses can be utilized. This assessment is performed annually and based on budgets and business plans for the coming years, including planned commercial initiatives and the impact of COVID-19.

The accounting for uncertain tax positions and deferred tax assets, as detailed in Notes 9.3 and 12 to the financial statements, inherently requires management to apply judgement in quantifying appropriate provisions (including assessing probable outcomes) for uncertain tax positions, and in determining the recoverability of deferred tax assets. Given the significant judgement applied by management, performing procedures to evaluate the reasonableness of probable outcomes for uncertain tax positions and the recoverability of deferred tax assets based on budgets and business plans, required a higher degree of auditor judgement and a need to involve our own in-country tax specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures to address management's judgement's related to the provisions for uncertain tax positions and recoverability of deferred tax assets included the following, amongst others:

- We obtained an understanding of management's tax process related to the valuation uncertain tax positions and the recoverability of deferred tax assets.
- We involved our own in-country tax specialists to assess tax risks, tax carry forward facilities, legislative developments and the status of ongoing local tax authority audits.
- We challenged management's judgement applied in quantifying provisions for tax uncertainties and assessing probable outcomes based on correspondence with tax authorities, case law and opinions from management's tax expert.
- We evaluated management's ability to forecast taxable income by comparing prior forecasts on future taxable income with the actual income for the year.
- We evaluated management's recoverability assessment including the likelihood of generating sufficient future taxable income based on budgets, business plans and tax losses carry forward facilities in the various tax jurisdictions (including expiry dates).

/s/ Deloitte Accountants B.V.

Amsterdam, the Netherlands
February 9, 2021

We have served as the Company's auditor since 2015.

Consolidated Income Statement

For the year ended 31 December

In millions of €	Note	2020	2019	2018
Revenue	6.1	23,770	28,521	26,811
Excise tax expense	6.1	(4,055)	(4,552)	(4,322)
Net revenue	6.1	19,715	23,969	22,489
Other income	6.2	56	95	75
Raw materials, consumables and services	6.3	(12,450)	(14,592)	(14,001)
Personnel expenses	6.4	(3,669)	(3,880)	(3,749)
Amortisation, depreciation and impairments	6.6/8.1	(2,874)	(1,959)	(1,693)
Total other expenses		(18,993)	(20,431)	(19,443)
Operating profit		778	3,633	3,121
Interest income	11.1	50	75	71
Interest expenses	11.1	(497)	(529)	(492)
Other net finance expenses	11.1	(143)	(59)	(64)
Net finance expenses		(590)	(513)	(485)
Share of profit/(loss) of associates and joint ventures	10.3	(31)	164	210
Profit before income tax		157	3,284	2,846
Income tax expense	12.1	(245)	(910)	(741)
Profit/(Loss)		(88)	2,374	2,105
Attributable to:				
Shareholders of the Company (net profit/(loss))		(204)	2,166	1,913
Non-controlling interests		116	208	192
Profit/(Loss)		(88)	2,374	2,105
Weighted average number of shares – basic	6.7	575,625,598	573,643,551	570,146,069
Weighted average number of shares – diluted	6.7	575,625,598	574,217,111	570,663,632
Basic earnings per share (€)	6.7	(0.36)	3.78	3.36
Diluted earnings per share (€)	6.7	(0.36)	3.77	3.35

Consolidated Statement of Comprehensive Income**For the year ended 31 December**

In millions of €

	Note	2020	2019	2018
Profit/(Loss)		(88)	2,374	2,105
Other comprehensive income/(loss), net of tax:				
Items that will not be reclassified to profit or loss:				
Remeasurement of post-retirement obligations	12.3	62	(210)	221
Net change in fair value through OCI investments	12.3	(98)	9	11
Items that may be subsequently reclassified to profit or loss:				
Currency translation differences	12.3	(2,114)	369	(106)
Change in fair value of net investment hedges	12.3	76	(43)	(3)
Change in fair value of cash flow hedges	12.3	45	64	(67)
Cash flow hedges reclassified to profit or loss	12.3	4	21	(77)
Net change in fair value through OCI investments	12.3	(1)	1	—
Cost of hedging	12.3	(6)	(5)	6
Share of other comprehensive income of associates/joint ventures	12.3	16	(20)	(36)
Other comprehensive income/(loss), net of tax	12.3	(2,016)	186	(51)
Total comprehensive income/(loss)		(2,104)	2,560	2,054
Attributable to:				
Shareholders of the Company		(2,127)	2,328	1,858
Non-controlling interests		23	232	196
Total comprehensive income/(loss)		(2,104)	2,560	2,054

Consolidated Statement of Financial Position

As at 31 December				In millions of €			
In millions of €	Note	2020	2019	In millions of €	Note	2020	2019
Intangible assets	8.2	15,767	17,769	Shareholders' equity	11.4	13,392	16,147
Property, plant and equipment	8.3	11,551	13,269	Non-controlling interests	11.4	1,000	1,164
Investments in associates and joint ventures	10.3	4,437	4,868	Total equity		14,392	17,311
Loans and advances to customers	8.4	194	277	Borrowings	11.3	14,616	13,366
Deferred tax assets	12.2	779	647	Post-retirement obligations	9.1	938	1,189
Other non-current assets	8.5	884	1,255	Provisions	9.2	688	756
Total non-current assets		33,612	38,085	Deferred tax liabilities	12.2	999	1,422
Inventories	7.1	1,958	2,213	Other non-current liabilities	11.6	131	153
Trade and other receivables	7.2	2,807	4,123	Total non-current liabilities		17,372	16,886
Current tax assets		154	123	Borrowings	11.2/11.3	3,580	3,686
Derivative assets	11.6	77	28	Trade and other payables	7.3	6,107	7,520
Cash and cash equivalents	11.2	4,000	1,821	Returnable packaging deposits	7.4	454	565
Assets classified as held for sale	10.2	24	111	Provisions	9.2	416	184
Total current assets		9,020	8,419	Current tax liabilities		259	283
Total assets		42,632	46,504	Derivative liabilities	11.6	52	69
				Total current liabilities		10,868	12,307
				Total equity and liabilities		42,632	46,504

Consolidated Statement of Cash Flows

For the year ended 31 December

In millions of €	Note	2020	2019	2018
Operating activities				
Profit/(Loss)		(88)	2,374	2,105
Adjustments for:				
Amortisation, depreciation and impairments	6.6	2,874	1,959	1,693
Net interest expenses	11.1	447	454	421
Other income	6.2	(56)	(95)	(75)
Share of (profit)/loss of associates and joint ventures and dividend income on fair value through OCI investments		21	(173)	(228)
Income tax expenses	12.1	245	910	741
Other non-cash items		231	240	201
Cash flow from operations before changes in working capital and provisions		3,674	5,669	4,858
Change in inventories		(18)	(257)	(129)
Change in trade and other receivables		1,124	(245)	(66)
Change in trade and other payables and returnable packaging deposits		(759)	510	908
Total change in working capital		347	8	713
Change in provisions and post-retirement obligations		211	(121)	(31)
Cash flow from operations		4,232	5,556	5,540
Interest paid		(481)	(528)	(555)
Interest received		45	52	118
Dividends received		89	181	109
Income taxes paid		(749)	(924)	(824)
Cash flow related to interest, dividend and income tax		(1,096)	(1,219)	(1,152)
Cash flow from operating activities		3,136	4,337	4,388
Investing activities				
Proceeds from sale of property, plant and equipment and intangible assets		150	177	111
Purchase of property, plant and equipment		(1,501)	(1,915)	(1,888)
Purchase of intangible assets		(139)	(186)	(167)
Loans issued to customers and other investments		(177)	(249)	(239)
Repayment on loans to customers and other investments		44	64	41
Acquisition of subsidiaries, net of cash acquired		(26)	(183)	(70)
Acquisition of/additions to associates, joint ventures and other investments		(9)	(2,875)	(159)
Disposal of subsidiaries, net of cash disposed of		(29)	244	15
Disposal of associates, joint ventures and other investments		249	50	1
Cash flow (used in)/from investing activities		(1,438)	(4,873)	(2,355)
Financing activities				
Proceeds from borrowings		6,037	2,288	1,694
Repayment of borrowings		(3,714)	(2,150)	(1,545)
Payment of lease commitments		(281)	(259)	—
Dividends paid		(811)	(1,223)	(1,090)
Purchase own shares and shares issued		11	428	(20)
Acquisition of non-controlling interests		(4)	(103)	(2)
Other		—	3	(4)
Cash flow (used in)/from financing activities		1,238	(1,016)	(967)
Net cash flow		2,936	(1,552)	1,066
Cash and cash equivalents as at 1 January		687	2,248	1,177
Effect of movements in exchange rates		(104)	(9)	5
Cash and cash equivalents as at 31 December	11.2	3,519	687	2,248

Consolidated Statement of Changes in Equity

In millions of €	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Cost of hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Shareholders of the Company	Non-controlling interests	Total equity
Balance as at 31 December 2017		922	2,701	(3,143)	112	—	331	962	(410)	12,004	13,479	1,201	14,680
Changes in accounting policy*		—	—	(2)	—	3	—	—	—	(3)	(2)	—	(2)
Balance as at 1 January 2018*		922	2,701	(3,145)	112	3	331	962	(410)	12,001	13,477	1,201	14,678
Profit		—	—	—	—	—	—	214	—	1,699	1,913	192	2,105
Other comprehensive income	12.3	—	—	(143)	(150)	6	11	—	—	221	(55)	4	(51)
Total comprehensive income		—	—	(143)	(150)	6	11	214	—	1,920	1,858	196	2,054
Transfer to retained earnings		—	—	—	—	—	—	(80)	—	80	—	—	—
Dividends to shareholders		—	—	—	—	—	—	—	—	(866)	(866)	(212)	(1,078)
Purchase/reissuance own/non-controlling shares	11.4	—	—	—	—	—	—	—	(38)	—	(38)	20	(18)
Own shares delivered		—	—	—	—	—	—	—	33	(33)	—	—	—
Share-based payments		—	—	—	—	—	—	—	—	26	26	—	26
Acquisition of non-controlling interests		—	—	—	—	—	—	—	—	26	26	(30)	(4)
Changes in consolidation		—	—	—	—	—	—	—	—	42	42	8	50
Balance as at 31 December 2018		922	2,701	(3,288)	(38)	9	342	1,096	(415)	13,196	14,525	1,183	15,708
Balance as at 31 December 2018		922	2,701	(3,288)	(38)	9	342	1,096	(415)	13,196	14,525	1,183	15,708
Changes in accounting policy**		—	—	—	—	—	—	—	—	3	3	—	3
Balance as at 1 January 2019**		922	2,701	(3,288)	(38)	9	342	1,096	(415)	13,199	14,528	1,183	15,711
Profit		—	—	—	—	—	—	172	—	1,994	2,166	208	2,374
Other comprehensive income	12.3	—	—	287	85	(5)	10	—	—	(215)	162	24	186
Total comprehensive income		—	—	287	85	(5)	10	172	—	1,779	2,328	232	2,560
Realised hedge results from non-financial assets		—	—	—	(66)	—	—	—	—	—	(66)	—	(66)
Transfer to retained earnings		—	—	3	—	—	(39)	(153)	—	189	—	—	—
Dividends to shareholders		—	—	—	—	—	—	—	—	(949)	(949)	(272)	(1,221)
Purchase/reissuance own/non-controlling shares	11.4	—	—	—	—	—	—	—	320	98	418	11	429
Own shares delivered		—	—	—	—	—	—	—	32	(32)	—	—	—
Share-based payments		—	—	—	—	—	—	—	—	14	14	—	14
Acquisition of non-controlling interests		—	—	—	—	—	—	—	—	(126)	(126)	5	(121)
Changes in consolidation		—	—	—	—	—	—	—	—	—	—	5	5
Balance as at 31 December 2019		922	2,701	(2,998)	(19)	4	313	1,115	(63)	14,172	16,147	1,164	17,311

[Table of Contents](#)

In millions of €	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Cost of hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Shareholders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2020		922	2,701	(2,998)	(19)	4	313	1,115	(63)	14,172	16,147	1,164	17,311
Profit/(Loss)		—	—	—	—	—	—	86	—	(290)	(204)	116	(88)
Other comprehensive income/(loss)	12.3	—	—	(1,929)	49	(6)	(99)	—	—	62	(1,923)	(93)	(2,016)
Total comprehensive income/(loss)		—	—	(1,929)	49	(6)	(99)	86	—	(228)	(2,127)	23	(2,104)
Realised hedge results from non-financial assets		—	—	—	(2)	—	—	—	—	—	(2)	—	(2)
Transfer to retained earnings		—	—	(13)	—	—	(160)	(30)	—	203	—	—	—
Dividends to shareholders		—	—	—	—	—	—	—	—	(597)	(597)	(228)	(825)
Purchase/reissuance own/non-controlling shares	11.4	—	—	—	—	—	—	—	(5)	—	(5)	20	15
Own shares delivered		—	—	—	—	—	—	—	43	(43)	—	—	—
Share-based payments		—	—	—	—	—	—	—	—	(25)	(25)	—	(25)
Acquisition of non-controlling interests		—	—	—	—	—	—	—	—	—	—	—	—
Changes in consolidation		—	—	—	—	—	—	—	—	1	1	21	22
Balance as at 31 December 2020		922	2,701	(4,940)	28	(2)	54	1,171	(25)	13,483	13,392	1,000	14,392

* Restated for IFRS 9.

** Restated for IFRS 16.

Notes to the Consolidated Financial Statements

1. Reporting entity

Heineken N.V. (the 'Company') is a public company domiciled in the Netherlands, with its head office in Amsterdam. The consolidated financial statements of the Company as at 31 December 2020 comprise the Company, its subsidiaries (together referred to as 'HEINEKEN') and HEINEKEN's interests in joint ventures and associates. The Company is registered in the Trade Register of Amsterdam No. 33011433.

HEINEKEN is primarily involved in the brewing and selling of beer and cider. Led by the Heineken® brand, HEINEKEN has a portfolio of more than 300 international, regional, local and specialty beers and ciders.

2. Basis of preparation

The consolidated financial statements are:

- Prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) effective year-end 2020 have been adopted by the EU. Consequently, the accounting policies applied by the Company also comply fully with IFRS as issued by the IASB.
- Prepared by the Executive Board of the Company and authorised for issue on 9 February 2021 and will be submitted for adoption to the Annual General Meeting of Shareholders on 22 April 2021.
- Prepared on the historical cost basis unless otherwise indicated.
- Presented in euro, which is the Company's functional currency.
- Rounded to the nearest million unless stated otherwise.

3. Significant events in the period and accounting estimates and judgements

(a) Impact of COVID-19 on the financial statements

Since the end of the last annual reporting period, the COVID-19 outbreak has evolved into a pandemic that has far reaching impact on HEINEKEN's people and business. Containment measures such as restrictions of movement for populations and outlet closures, sometimes combined with the mandatory lockdown of production facilities, presented key challenges to the execution of HEINEKEN's strategy, and materially affected performance. The reported net loss for the year ending 31 December 2020 was €88 million (2019: €2,374 million, profit, 2018: €2,105 million, profit). The impact from lower volume, adverse product and channel mix and incremental expenses driven by the pandemic, including credit losses and impairments on property, plant and equipment and intangible assets, was partially offset through continued cost mitigation.

Since 31 December 2019, many currencies have devalued significantly versus the euro. Primarily the devaluation of the Mexican Peso and Brazilian Real impacted the euro value of HEINEKEN's fixed assets and equity. Currency translations also had a negative impact on HEINEKEN's consolidated statement of comprehensive income.

In various countries, HEINEKEN received government support that included, for example, compensation for personnel expenses and delayed payments for value-added tax. As at 31 December 2020, government support measures resulted in a reduction of operating expenses of €53 million and deferred tax payments of €98 million, which had a cumulative positive impact on cash flow of €151 million.

During its financial reporting process, HEINEKEN assessed the impact of COVID-19 on its financial estimates and judgements. The impact of COVID-19 on financial estimates and judgements is mainly reflected in impairment of

financial and non-financial assets, and other financial instrument disclosures (including credit management). All significant estimates and judgements are disclosed in the notes to the consolidated financial statements (if applicable). Notes containing the most significant estimates and judgements are referred to in note 3(b).

(b) Significant accounting estimates and judgements

In preparing these consolidated financial statements, management is required to make estimates and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

The application of accounting policies requires judgements that impact the amounts recognised. Additionally, amounts recognised are based on factors that are by default associated with uncertainty. Therefore actual results may differ from estimates.

The following notes contain the most significant estimates and judgements:

<u>Particular area involving significant estimates and judgements</u>	<u>Note</u>
Significant judgement	
Judgement on acting as principal versus agent with respect to excise tax expense	6.1 Operating segments
Judgement used in the determination of the lease term and assumptions used in the determination of the incremental borrowing rate	8.3 Property, plant and equipment and 11.3 Borrowings
Assessment of the recoverability of past tax losses	12.2 Deferred tax assets and liabilities
Significant estimates	
Assumptions used in impairment testing	8.1 Impairment testing of Intangible assets and Property, plant and equipment
Assumptions for discount rates, future pension increases and life expectancy to calculate the defined benefit obligation	9.1 Post-retirement obligations
Estimating the likelihood and timing of potential cash flows relating to claims and litigation	9.2 Provisions and 9.3 Contingencies

The uncertainty around the depth and duration of the COVID-19 pandemic specifically impacted the assumptions used for impairment testing. Refer to Note 8.1.

4. Changes in accounting policies

(a) Changed accounting policies in 2019

The following accounting policy change was adopted in 2019 and are reflected in the consolidated financial statements:

IFRS 16 Leases

HEINEKEN implemented IFRS 16 'Leases' as at 1 January 2019, replacing existing guidance on leases, including IAS 17. The adoption of IFRS 16 changed the accounting for leases as under the new standard all operating lease contracts are recognised on HEINEKEN's statement of financial position ('balance sheet') by recognising a right of use (ROU) asset and a lease liability, except for short-term and low value leases. Lease expenses previously recorded in the income statement are replaced by depreciation and interest expenses for all lease contracts in scope of the standard. Refer to Notes 8.2 Property, plant and equipment and 11.3 Borrowings for the accounting policy on leases.

HEINEKEN implemented IFRS 16 as at 1 January 2019 by applying the modified retrospective method, meaning that the 2018 comparative numbers are not restated. HEINEKEN has around 30,000 operating leases mainly relating to stores, pubs, offices, warehouses, cars and (forklift) trucks.

In some countries, HEINEKEN is operating both as a lessee (referred to as head lease contracts) and a lessor (referred to as sublease contracts) for pubs. HEINEKEN analysed the sublease contracts and concluded that under the new standard these contracts are treated as a finance lease, where under the previous standard these same leases were treated as an operating lease.

In the transition to IFRS 16 HEINEKEN applied the following transition expedients:

- Use the option to grandfather the lease classification for existing contracts
- Use the transition option for leases with a remaining contract period of less than one year, meaning that these leases will not be recorded on balance and the payments will be expensed in the income statement on a straight-line basis
- Measure the ROU asset based on the lease liability recognised

As a result of implementing IFRS 16, HEINEKEN recognised €1,034 million of ROU assets, €252 million of lease receivables and €1,252 million of lease liabilities as at 1 January 2019. A net amount of €31 million of lease prepayments, lease accruals and onerous lease provisions were included in ROU assets as at 1 January 2019. An amount of €3 million was recorded in retained earnings. The ROU assets are included in Property, plant and equipment. The lease receivables are included under Other non-current assets and Trade and other receivables. The lease liabilities are included under current and non-current Borrowings. As at 1 January 2019, deferred tax assets of €291 million related to lease liabilities, and deferred tax liabilities of €291 million related to ROU assets and lease receivables were recognised. These deferred tax positions are offset and reported on a net basis in the statement of financial position.

When measuring the lease liability, HEINEKEN discounted the lease payments using the incremental borrowing rate as at 1 January 2019. The weighted average incremental borrowing rate applied is 4.3%.

During 2019, HEINEKEN reported €238 million depreciation and impairment of ROU assets and €55 million interest costs on lease liabilities. In 2018, operating lease expenses were reported under Raw materials, consumables and services and Personnel expenses. No material impact on tax expenses.

As a result of the treatment of subleases as a finance lease, revenue during 2019 decreased with approximately €54 million compared to 2018. The decrease in revenue is fully offset by a decrease in expenses on the head leases and primarily impacts The Netherlands and Belgium.

The lease payments are reported under 'Interest paid' (2019: €55 million) and 'Payment of lease commitments' (2019: €259 million) in the cash flow statement. In 2018, all lease payments were included in the cash flow from operations.

As at 31 December 2018, HEINEKEN reported total off-balance sheet commitments for leases of €2,013 million. The difference between the opening balance sheet impact as at 1 January 2019 and the off-balance sheet commitments is primarily due to discounting of future lease payments and low value and short-term lease commitments, which are not included in the lease liability. Refer to the table below for the reconciliation:

In millions of €	
Operating lease commitments disclosed at 31 December 2018	2,013
Impact of discounting using the incremental borrowing rate as at 1 January 2019	(615)
Short-term leases not recognised as a liability	(36)
Low value leases not recognised as a liability	(116)
Other reconciling items	6
Lease liability recognised as at 1 January 2019	1,252

(b) Changed accounting policies in 2020

No new standards and amendments to existing standards, effective in 2020, had a significant impact on HEINEKEN's consolidated financial statements.

(c) Upcoming changes in accounting policies for 2021

No new standards and amendments to existing standards, effective in 2021, will have a significant impact on HEINEKEN 's consolidated financial statements.

5. General accounting policies

General

The accounting policies described in these consolidated financial statements have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements are prepared as a consolidation of the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by HEINEKEN. HEINEKEN controls an entity when it has power over the investee, is exposed or has the right to variable returns from its involvement with that entity and has the ability to affect those returns through its power over the entity. Control is generally obtained by ownership of more than 50% of the voting rights.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by HEINEKEN.

On consolidation, intra-HEINEKEN balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-HEINEKEN transactions, are eliminated. Unrealised gains arising from transactions with associates and JVs (refer to Note 10.3) are eliminated against the investment to the extent of HEINEKEN's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of HEINEKEN entities using the exchange rates at transaction date. Receivables, payables and other monetary assets and liabilities denominated in foreign currencies are re-translated to the functional currency using the exchange rates at the balance sheet date. Resulting foreign currency differences are recognised in the income statement, except for foreign currency differences arising on re-translation of Fair Value through Other Comprehensive Income (FVOCI) investments and financial liabilities designated as a hedge of a net investment, which are recognised in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured at cost are translated into the functional currency at the exchange rate at transaction date.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, and of intercompany loans with a permanent nature (quasi-equity) are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates approximating to the exchange rates ruling at the dates of the transactions, except for foreign operations in hyperinflationary economies. In 2020 HEINEKEN did not have any significant foreign operations in hyperinflationary economies.

Foreign currency differences are recognised in other comprehensive income and are presented within equity in the translation reserve. However, if the operation is not a wholly owned subsidiary, the relevant proportionate share of the

translation difference is allocated to the non-controlling interests. The cumulative amount in the translation reserve is (either fully or partly) reclassified to the income statement upon disposal (either fully or partly) or liquidation.

Exchange rates of key currencies

The following exchange rates, for the most important countries in which HEINEKEN has operations, were used while preparing these consolidated financial statements:

In €	Year-end 2020	Year-end 2019	%	Average 2020	Average 2019	%
Brazilian Real (BRL)	0.1569	0.2215	(29.2)	0.1698	0.2265	(25.0)
Great Britain Pound (GBP)	1.1123	1.1754	(5.4)	1.1244	1.1396	(1.3)
Mexican Peso (MXN)	0.0410	0.0476	(13.9)	0.0408	0.0464	(12.1)
Nigerian Naira (NGN)	0.0020	0.0024	(16.7)	0.0023	0.0025	(8.0)
Polish Zloty (PLN)	0.2167	0.2348	(7.7)	0.2250	0.2327	(3.3)
Russian Ruble (RUB)	0.0109	0.0143	(23.8)	0.0121	0.0138	(12.3)
Singapore Dollar (SGD)	0.6166	0.6618	(6.8)	0.6354	0.6548	(3.0)
United States Dollar (USD)	0.8149	0.8902	(8.5)	0.8758	0.8932	(1.9)
Vietnamese Dong in 1,000 (VND)	0.0351	0.0385	(8.8)	0.0377	0.0384	(1.8)

In €	Year-end 2019	Year-end 2018	%	Average 2019	Average 2018	%
Brazilian Real (BRL)	0.2215	0.2250	(1.6)	0.2265	0.2322	(2.5)
Great Britain Pound (GBP)	1.1754	1.1179	5.1	1.1396	1.1303	0.8
Mexican Peso (MXN)	0.0476	0.0446	6.7	0.0464	0.0440	5.5
Nigerian Naira (NGN)	0.0024	0.0024	—	0.0025	0.0024	4.2
Polish Zloty (PLN)	0.2348	0.2327	0.9	0.2327	0.2347	(0.9)
Russian Ruble (RUB)	0.0143	0.0125	14.4	0.0138	0.0135	2.2
Singapore Dollar (SGD)	0.6618	0.6414	3.2	0.6548	0.6279	4.3
United States Dollar (USD)	0.8902	0.8734	1.9	0.8932	0.8466	5.5
Vietnamese Dong in 1,000 (VND)	0.0385	0.0376	2.4	0.0384	0.0368	4.3

(c) Cash flow statement

The cash flow statement is prepared using the indirect method. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to shareholders are included in financing activities. Dividends received are classified as operating activities, as well as interest paid.

(d) Offsetting financial instruments

If HEINEKEN has a legal right to offset financial assets with financial liabilities and if HEINEKEN intends either to settle on a net basis or to realise the asset and settle the liability simultaneously, financial assets and liabilities are presented in the statement of financial position as a net amount.

6. Operating activities

6.1 Operating segments

HEINEKEN distinguishes five reportable segments: Europe, Americas, Africa, Middle East & Eastern Europe, Asia Pacific and Head Office & Other/eliminations. Information about these reportable segments are provided in the table below:

In millions of €	Note	Europe			Americas			Africa, Middle East & Eastern Europe			Asia Pacific			Head Office & Other/Eliminations			Consolidated		
		2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Net revenue (beia)		8,631	10,629	10,348	6,319	7,429	6,781	2,782	3,370	3,051	2,707	3,205	2,919	(716)	(740)	(628)	19,724	23,894	22,471
Third-party revenue ²		10,462	12,601	12,351	6,452	7,656	6,928	3,400	4,106	3,724	3,443	4,106	3,701	13	52	107	23,770	28,521	26,811
Interregional revenue		697	758	702	27	32	27	—	—	—	5	2	3	(729)	(792)	(732)	—	—	—
Revenue		11,159	13,359	13,053	6,479	7,688	6,955	3,400	4,106	3,724	3,448	4,108	3,704	(716)	(740)	(625)	23,770	28,521	26,811
Excise tax expense ³		(2,528)	(2,728)	(2,687)	(160)	(181)	(174)	(626)	(737)	(673)	(741)	(906)	(785)	—	—	(3)	(4,055)	(4,552)	(4,322)
Net revenue ¹		8,631	10,631	10,366	6,319	7,507	6,781	2,774	3,369	3,051	2,707	3,202	2,919	(716)	(740)	(628)	19,715	23,969	22,489
Other income	6.2	47	12	28	5	9	19	3	1	2	1	73	4	—	22	—	56	95	75
Operating profit		(7)	1,286	1,279	540	1,176	949	119	369	211	425	934	779	(299)	(132)	(97)	778	3,633	3,121
Net finance expenses	11.1																(590)	(513)	(485)
Share of profit/(loss) of associates and joint ventures	10.3	(4)	17	15	31	67	124	17	40	37	(51)	44	38	(24)	(4)	(4)	(31)	164	210
Income tax expense	12.1																(245)	(910)	(741)
Profit/(Loss)																	(88)	2,374	2,105
Attributable to:																			
Shareholders of the Company (net profit/(loss))																	(204)	2,166	1,913
Non-controlling interests																	116	208	192
Operating profit reconciliation																			
Operating profit/(loss)		(7)	1,286	1,279	540	1,176	949	119	369	211	425	934	779	(299)	(132)	(97)	778	3,633	3,121
Eia		454	150	173	505	28	169	145	39	200	442	151	164	97	18	(19)	1,018	387	687
Operating profit (beia) ¹		447	1,436	1,452	1,045	1,204	1,118	264	408	411	867	1,085	943	(202)	(114)	(116)	2,421	4,020	3,808

1 Note that this is a subtotal.

2 Includes other revenue of €261 million in 2020 (2019: €356 million, 2018: €389 million).

3 Next to the €4,055 million of excise tax expense included in revenue (2019: €4,552 million, 2018: €4,322 million), €1,613 million of excise tax expense is collected on behalf of third parties and excluded from revenue (2019: €1,813 million, 2018: €1,568 million)

In millions of €	Note	Europe			Americas			Africa, Middle East & Eastern Europe			Asia Pacific			Head Office & Other/Eliminations			Consolidated		
		2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Current segment assets		2,291	2,918	2,816	1,766	2,286	2,425	1,155	1,451	1,356	1,215	1,239	1,487	2,370	394	1,359	8,797	8,288	9,443
Non-current segment assets		11,815	12,417	11,449	7,243	9,149	8,055	2,162	2,543	2,299	6,312	7,586	7,368	848	875	894	28,380	32,570	30,065
Investments in associates and joint ventures		282	305	296	838	864	909	221	237	213	3,095	3,452	590	1	10	13	4,437	4,868	2,021
Total segment assets		14,388	15,640	14,561	9,847	12,299	11,389	3,538	4,231	3,868	10,622	12,277	9,445	3,219	1,279	2,266	41,614	45,726	41,529
Unallocated assets																	1,018	778	622
Total assets																	42,632	46,504	42,151
Segment liabilities		3,792	4,441	4,765	2,176	2,760	2,564	1,366	1,590	1,386	951	1,127	1,093	2,333	2,664	1,116	10,618	12,582	10,924
Unallocated liabilities																	17,622	16,611	15,519
Total equity																	14,392	17,311	15,708
Total equity and liabilities																	42,632	46,504	42,151
Purchase of owned property, plant and equipment	8.3	498	706	590	334	617	546	298	426	434	100	263	253	20	17	13	1,250	2,029	1,836
Acquisition of goodwill	8.2	9	33	10	—	13	(23)	—	23	29	2	—	7	—	—	—	11	69	23
Purchases of intangible assets	8.2	70	85	47	23	43	31	12	17	8	9	9	9	25	32	72	139	186	167
Depreciation of owned property, plant and equipment	8.1/8.3	(195)	—	—	(135)	—	—	(68)	(9)	(133)	(65)	(43)	—	—	—	—	(463)	(52)	(133)
Amortisation of intangible assets	8.2	(77)	(76)	(56)	(99)	(117)	(131)	(8)	(9)	(8)	(153)	(160)	(159)	(52)	(37)	(30)	(389)	(399)	(384)
(Impairment) and reversal of impairment of intangible assets	8.1/8.2	(1)	—	—	(225)	—	—	(26)	(8)	(21)	(200)	(12)	—	(14)	—	—	(466)	(20)	(21)

Reconciliation of segment profit or loss

The table below presents the reconciliation of operating profit before exceptional items and amortisation of acquisition-related intangibles (operating profit beia) to profit before income tax.

In millions of €	2020	2019	2018
Operating profit (beia)	2,421	4,020	3,808
Amortisation of acquisition-related intangible assets included in operating profit	(273)	(309)	(311)
Exceptional items included in operating profit	(1,370)	(78)	(376)
Share of profit/(loss) of associates and joint ventures	(31)	164	210
Net finance expenses	(590)	(513)	(485)
Profit before income tax	157	3,284	2,846

The 2020 exceptional items and amortisation of acquisition-related intangibles in operating profit amounts to €1,643 million (2019: €387 million, 2018: €687 million). This amount consists of:

- €273 million (2019: €309 million, 2018: €311 million) of amortisation of acquisition-related intangibles recorded in operating profit.
- €1,370 million (2019: €78 million, 2018: €376 million) of exceptional items recorded in operating profit. This includes nil exceptional items on revenue (2019: €78 million exceptional benefit on revenue, mainly relating to tax credits in Brazil, 2018: nil), and €8 million exceptional excise tax expenses (2019: €2 million, 2018: €18 million exceptional excise tax benefit), €331 million of restructuring expenses, largely associated with the EverGreen programme (2019: €91 million, 2018: €122 million), €963 million of impairments (net of reversal) mainly in Papua New Guinea, Lagunitas, Jamaica and various UK Pubs (2019: €85 million, 2018: €183 million mainly in the DRC), €35 million net loss on disposals (2019: €57 million gain on disposals, mainly related to the sale of operating entities in China and Hong Kong, 2018: €4 million net gain on disposals) and €33 million of other net exceptional expenses (2019: €35 million, 2018: €93 million).

HEINEKEN has not introduced new exceptional items related to COVID-19 or classified COVID-19 as an exceptional item as such. Although COVID-19 is an exceptional situation, it is not considered an incident as it is unfolding over time, with an impact on many different financial statement line items. Therefore, any effect of COVID-19 is not considered as an exceptional item, unless the effect relates to the exceptional items as mentioned in the accounting policy sections below.

Accounting estimates and judgements

Due to the complexity and variety in tax legislations, significant judgement is applied in the assessment of whether excise tax expenses are borne by HEINEKEN or collected on behalf of third parties.

HEINEKEN makes estimates when determining discount accruals in revenue at year-end, specifically for conditional discounts. Refer to Note 7.3 for more explanation on how discount accruals are estimated.

Accounting policies

Segment reporting

Operating segments are reported in a consistent manner with the internal reporting provided to the Executive Board, which is considered to be HEINEKEN's chief operating decision-maker. An operating segment is a component of HEINEKEN that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of HEINEKEN's other components. All operating segments' operating results are reviewed regularly by the Executive Board to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

The first four reportable segments as presented in the segmentation tables are HEINEKEN's business regions. These business regions are each managed separately by a Regional President, who reports to the Executive Board, and is

directly accountable for the functioning of the segment's assets, liabilities and results. The Head Office operating segment falls directly under the responsibility of the Executive Board. The Executive Board reviews the performance of the segments based on internal management reports on a monthly basis.

Segment results, assets and liabilities that are reported to the Executive Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated result items comprise net finance expenses and income tax expenses. Unallocated assets mainly comprise deferred tax assets.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

Performance is measured based on operating profit (beia), as included in the internal management reports that are reviewed by the Executive Board. Beia stands for 'before exceptional items and amortisation of acquisition-related intangibles'. Exceptional items are defined as items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period. Exceptional items include, amongst others, impairments of goodwill and fixed assets (and reversal of impairments), gains and losses from acquisitions and disposals, redundancy costs following a restructuring, past service costs and curtailments, the tax impact on exceptional items and tax rate changes (the one-off impact on deferred tax positions).

Operating profit (beia) and net revenue (beia) are used to measure performance as management believes that these metrics are the most relevant in evaluating the results of the segments. The presentation of these metrics may not be comparable to similarly titled metrics reported by other companies due to differences in the ways the measures are calculated.

HEINEKEN has multiple distribution models to deliver goods to end customers. There is no reliance on major clients. Deliveries to end consumers are country dependent and include deliveries via own wholesalers and pubs, direct to customers and via third-party distribution. As such, distribution models are country-specific and diverse across HEINEKEN. In addition, these various distribution models are not centrally managed or monitored. Consequently, the Executive Board does not allocate resources or assess performance based on business type information. Accordingly, no segment information on business type is provided.

Inter-segment transfers or transactions are determined on an arm's length basis. As net finance expenses and income tax expenses are monitored on a consolidated level (and not on an individual regional basis) and Regional Presidents are not accountable for that, net finance expenses and income tax expenses are not provided for the reportable segments.

Revenue

The majority of HEINEKEN's revenue is generated by the sale and delivery of products to customers. The product portfolio of HEINEKEN mainly consists of beer, soft drinks and cider. Products are mostly own-produced finished goods from HEINEKEN's brewing activities, but also contain purchased goods for resale from HEINEKEN's wholesale activities. HEINEKEN's customer group can be split between on-trade customers like cafés, bars and restaurants and off-trade customers like retailers and wholesalers. Due to HEINEKEN's global footprint, its revenue is exposed to strategic and financial risks that differ per region.

Revenue is recognised when control over products has transferred and HEINEKEN fulfilled its performance obligation to the customer. For the majority of the sales, control is transferred either at delivery of the products or upon pickup by the customer from HEINEKEN's premises.

Revenue recognised is based on the price specified in the contract, net of returns, discounts, sales taxes and excise taxes collected on behalf of third parties.

Other revenues include rental income from pubs and bars, royalties, income from wholesale activities, pub management services and technical services to third parties. Royalties are sales-based and recognised in profit or loss (consolidated income statement) on an accrual basis in accordance with the relevant agreement. Rental income, income from wholesale activities, pub management services and technical services are recognised in profit or loss when the services have been delivered.

Discounts

HEINEKEN uses different types of discounts depending on the nature of the customer. Some discounts are unconditional, like cash discounts, early payment discounts and temporary promotional discounts. Unconditional discounts are recognised at the same moment of the related sales transaction.

HEINEKEN also provides conditional discounts to customers. These contractually agreed conditions include volume and promotional rebates. Conditional discounts are recognised based on estimated target realisation. The estimation is based on accumulated experience supported by historical and current sales information. A discount accrual is recognised at each reporting date for discounts payable to customers based on their expected or actual volume up to that date.

Other discounts include listing and shelving visibility fees charged by the customer whereby the payments to customers are closely related to the volumes sold. HEINEKEN assesses the substance of contracts with customers to determine the classification of payments to customers as either discounts or marketing expenses.

Discounts are accounted for as a reduction of revenue. Only when these payments to customers relate to a distinct service, the amount is classified as operating expense.

Excise tax expense

Local tax authorities impose multiple taxes, duties and fees. These include excise on sale or production of alcoholic beverages, environmental taxes on the use of certain raw materials or packaging materials, or the energy consumption in the production process. Excise duties are common in the beverage industry, but levied differently amongst the countries HEINEKEN operates in. HEINEKEN performs a country by country analysis to assess whether the excise duty are sales-related or effectively a production tax. In most countries excise duties are effectively a production tax as excise duties become payable when goods are moved from bonded warehouses and are not based on the sales value. In these countries, increases in excise duties are not always (fully) passed on to customers and HEINEKEN cannot, or can only partly, reclaim the excise duty in the case products are eventually not sold to customers. Excise tax is borne by HEINEKEN for these countries and shown as expenses. Only for those countries where excise is levied at the moment of the sales transaction and excise is based on the sales value, the excise duties are collected on behalf of a tax authority and consequently deducted from revenue. Due to the complexity and variety in tax legislations, significant judgement is applied in the assessment whether taxes are borne by HEINEKEN or collected on behalf of a third party.

To provide transparency on the impact of the accounting for excise, HEINEKEN presents the excise tax expense on a separate line below revenue in the consolidated income statement. A subtotal called 'Net revenue' is therefore included in the Income Statement. This 'Net revenue' subtotal is 'revenue' as defined in IFRS 15 (after discounts) minus the excise tax expense for those countries where the excise is borne by HEINEKEN.

6.2 Other income

Other income includes the gain on sale from transactions that do not arise from contracts with customers, and are therefore presented separately from revenue.

In millions of €	2020	2019	2018
Gain on sale of property, plant and equipment	35	20	31
Gain on sale of intangible assets	20	—	2
Gain on sale of subsidiaries, joint ventures and associates	1	75	42
	56	95	75

In 2019, other income mainly related to the gain on sale of HEINEKEN's operating entities in China and Hong Kong.

Accounting policies

Other income is recognised in profit or loss when control over the sold asset is transferred to the buyer. The amount recognised as other income equals the proceeds obtained from the buyer minus the carrying value of the sold asset.

6.3 Raw materials, consumables and services

In millions of €	2020	2019	2018
Raw materials	1,811	2,068	1,897
Non-returnable packaging	3,691	4,058	3,624
Goods for resale	920	1,501	1,533
Inventory movements	17	(75)	(43)
Marketing and selling expenses	2,044	2,632	2,494
Transport expenses	1,080	1,325	1,266
Energy and water	476	572	529
Repair and maintenance	474	519	527
Other expenses	1,937	1,992	2,174
	12,450	14,592	14,001

Other expenses in raw materials, consumables and services mainly include consulting expenses of €187 million (2019: €219 million, 2018: €192 million), telecom and office automation of €271 million (2019: €272 million, 2018: €239 million), warehousing expenses of €179 million (2019: €195 million, 2018: €187 million), travel expenses of €63 million (2019: €150 million, 2018: €158 million), other taxes of €109 million (2019: €75 million, 2018: €56 million), short-term lease expenses of €58 million (2019: €73 million) and low value lease expenses of €33 million (2019: €39 million). As a result of the implementation of IFRS 16 in 2019, other expenses include expenses for short-term leases and low value leases in 2020 and 2019, compared to €375 million reported in 2018 for operating lease expenses.

Accounting policies

Expenses are recognised based on accrual accounting. This means that expenses are recognised when the product is received or the service is provided regardless of when cash outflow takes place.

6.4 Personnel expenses

The average number of full-time equivalent (FTE) employees, excluding contractors, in 2020 was 84,394 (2019: 85,853 FTE, 2018: 85,610 FTE), divided per region as follows:

In millions of €	2020	2019	2018
Europe	28,566	29,045	28,345
Americas	32,601	32,694	33,081
Africa, Middle East & Eastern Europe	14,142	14,375	13,974
Asia Pacific	9,085	9,739	10,210
	84,394	85,853	85,610

The decrease in Asia Pacific is mainly due to the full year impact on FTEs related to the 2019 disposal of HEINEKEN's operating entities in China and Hong Kong. In Europe, the decrease is due to a hiring freeze implemented in the current year.

A total of 4,218 FTEs are based in the Netherlands (2019: 4,120 FTE, 2018: 4,027 FTE). The increase in FTEs based in the Netherlands during 2020 is due to the conversion of temporary roles into permanent roles.

As a result of the COVID-19 pandemic, HEINEKEN received government grants related to personnel expenses in various countries amounting to €49 million, including furlough arrangements for 1,573 FTEs.

HEINEKEN employees receive compensations such as salaries and wages, pensions (refer to Note 9.1) and share-based payments (refer to Note 6.5). Other personnel expenses include expenses for contractors of €128 million (2019: €183 million, 2018: €168 million) and restructuring costs of €343 million (2019: €84 million, 2018: €111 million). The

increase in the restructuring expenses of €259 million is related to the productivity programme part of EverGreen. Refer to Note 9.2 for the restructuring provisions.

In millions of €	Note	2020	2019	2018
Wages and salaries		2,228	2,536	2,444
Compulsory social security contributions		367	386	386
Contributions to defined contribution plans		51	58	51
Expenses related to defined benefit plans	9.1	104	78	105
Expenses related to other long-term employee benefits		7	12	(9)
Equity-settled share-based payment plan	6.5	(1)	31	48
Other personnel expenses		913	779	724
		3,669	3,880	3,749

Accounting policies

Personnel expenses

Personnel expenses are recognised when the related service is provided. For more details on accounting policies related to post-retirements obligations and share-based payments refer to Note 9.1 and 6.5 respectively.

Government grants

Governments grants relating to certain deferred costs or costs yet to be incurred are capitalised and released to profit or loss in the respective periods in which the costs are recognised.

6.5 Share-based payments

HEINEKEN has the following share-based compensation plans: Long-term incentive plan, Extraordinary share plan and Matching share plan (as part of the Short-term incentive plan of the Executive Board).

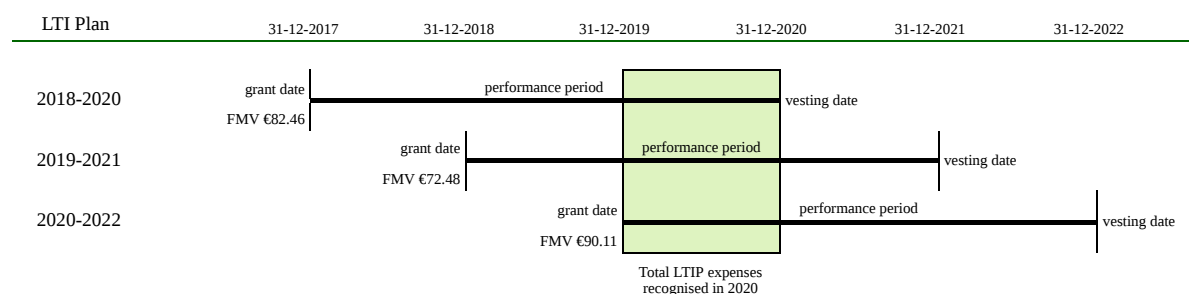
Long-term incentive plan (LTIP)

HEINEKEN has a performance-based Long-term incentive plan (LTIP) for the Executive Board and senior management. Under this LTIP, share rights are conditionally awarded to participants on an annual basis. The vesting of these rights is subject to the performance of Heineken N.V. on specific internal performance conditions and continued service over a three calendar year period by the employee. The share rights are not dividend-bearing during the performance period.

The performance conditions for LTIP are organic net revenue growth, organic operating profit beia growth, earnings per share beia growth and free operating cash flow. The performance conditions are equally weighted.

At target performance, 100% of the awarded share rights vest. At threshold performance, 50% of the awarded share rights vest and at maximum performance, 200% of the awarded share rights vest.

The grant date, fair market value (FMV) at grant date, service period and vesting date for the LTIP are visualised below:



The number of outstanding share rights and the movement over the year under the LTIP of the Executive Board and senior management are as follows:

	Number of share rights 2020	Number of share rights 2019
Outstanding as at 1 January	1,746,018	2,047,880
Granted during the year	457,906	531,949
Forfeited during the year	(104,002)	(157,276)
Vested previous year	(764,496)	(617,012)
Performance adjustment	(483,737)	(59,523)
Outstanding as at 31 December	851,689	1,746,018
Share price as at 31 December	91.22	94.92

In response to the impact of the COVID-19 pandemic on HEINEKEN's business, the LTI awards made under the 2018-2020 LTIP for the Executive Board will not vest. The cancellation of the 2018-2020 LTIP did not result in any settlements nor was it replaced with an alternative plan.

Other share-based compensation plans

Under the Extraordinary share plans for senior management, in 2020 24,100 shares were granted and 1,500 (gross) shares vested. These extraordinary grants only have a service condition and vest between one and five years. The expenses relating to these additional grants are recognised in profit or loss during the vesting period. In 2020, expenses amounted to €1 million (2019: €0.2 million).

Matching shares granted to the Executive Board are disclosed in Note 13.3.

Personnel expenses

The total share-based compensation income that is recognised in 2020 amounts to €1 million (2019: €31 million share-based compensation expense, 2018: €48 million share-based compensation expense).

In millions of €	Note	2020	2019	2018
Share rights granted in 2016				17
Share rights granted in 2017		—	13	18
Share rights granted in 2018		(21)	8	13
Share rights granted in 2019		4	10	—
Share rights granted in 2020		16	—	—
Total expense recognised in personnel expenses	6.4	(1)	31	48

Accounting estimates

The grant date fair value is calculated by adjusting the share price at grant date for estimated foregone dividends during the performance period, as the participants are not entitled to receive dividends during that period. The foregone dividends are estimated by applying HEINEKEN's dividend policy on the latest forecasts of net profit (beia).

At each balance sheet date, HEINEKEN uses its latest forecasts to calculate the expected realisation on the performance targets per plan. The number of shares are adjusted to the new target realisation and HEINEKEN increases/decreases the total plan cost. The cumulative effect is recorded in the profit or loss, with a corresponding adjustment to equity.

Expenses related to employees that voluntarily leave HEINEKEN are reversed as they will not receive any shares from the LTIP. The expense calculation includes the estimated future forfeiture. HEINEKEN uses historical information to estimate this forfeiture rate.

Accounting policies

HEINEKEN's share-based compensation plans are equity-settled share rights granted to the Executive Board and senior management.

The grant date fair value is calculated by deducting expected foregone dividends from the grant date during the performance period share price. The costs of the share plans are adjusted for expected performance and forfeiture and spread evenly over the service period.

Share-based compensation expenses are recorded in the profit or loss, with a corresponding adjustment to equity.

6.6 Amortisation, depreciation and impairments

In millions of €	Note	2020	2019	2018
Property, plant and equipment	8.3	1,981	1,540	1,288
Intangible assets	8.2	855	419	405
Other		38	—	
		2,874	1,959	1,693

Refer to Note 8.1 for the impairment losses.

Property, plant and equipment includes depreciation and impairment of ROU assets of €280 million (2019: €238 million, 2018: nil).

Accounting policies

Refer to note 8.2 for the accounting policy on impairments and amortisation, and to note 8.3 for the policy on depreciation.

6.7 Earnings per share

The calculation of earnings per share (EPS) for the period ended 31 December 2020 is based on the profit attributable to the shareholders of the Company (net profit/(loss)) and the weighted average number of shares outstanding (basic and diluted) during the year ended 31 December 2020.

In € per share (basic or diluted) for the period ended 31 December	2020	2019	2018
Basic earnings per share	(0.36)	3.78	3.36
Diluted earnings per share	(0.36)	3.77	3.35

Refer to the table below for the information used in the calculation of the basic and diluted earnings per share.

Weighted average number of shares – basic and diluted

	2020	2019	2018
Total number of shares issued	576,002,613	576,002,613	576,002,613
Effect of own shares held	(377,015)	(2,359,062)	(5,856,544)
Weighted average number of basic shares outstanding for the year	575,625,598	573,643,551	570,146,069
Dilutive effect of share-based payment plan obligations	—	573,560	517,563
Weighted average number of diluted shares outstanding for the year	575,625,598	574,217,111	570,663,632

For the calculation of weighted average number of diluted shares outstanding, the shares related to the employee incentive programme (196,007 shares) are excluded in 2020 as these have an anti-dilutive impact due to the reported net loss.

Accounting policies

HEINEKEN presents basic and diluted earnings per share (EPS) data for its shares. Basic EPS is calculated by dividing the profit or loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the year, adjusted for the weighted average number of own shares held in the year. Diluted EPS is determined by dividing the profit or loss attributable to shareholders by the weighted average number of shares outstanding, adjusted for the weighted average number of own shares held in the year and for the effects of all dilutive potential shares which comprise share rights granted to employees and the Executive Board. The effects of anti-dilutive potential ordinary shares are ignored in calculating Diluted EPS.

7. Working capital

7.1 Inventories

Inventories include raw and packaging materials, work in progress, spare parts, goods for resale and finished products.

In millions of €	2020	2019
Raw materials	321	403
Work in progress	228	252
Finished products	460	488
Goods for resale	331	339
Non-returnable packaging	241	283
Other inventories and spare parts	377	448
	1,958	2,213

During 2020, inventories were written down by €20 million to net realisable value (2019: €7 million, 2018: €25 million).

Accounting policies

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average cost, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

7.2 Trade and other receivables

Trade and other receivables arise during the course of ordinary activities, for example from the sale of inventory, from proceeds for contract brewing or from royalty fees.

In millions of €	2020	2019
Trade receivables	1,768	2,913
Other receivables	636	813
Trade receivables due from associates and joint ventures	20	12
Prepayments	383	385
	2,807	4,123

Trade and other receivables contain a net impairment loss of €141 million (2019: €65 million, 2018: €38 million) from contracts with customers, which is included in expenses for raw materials, consumables and services. The increase in impairment losses compared to last year is primarily due to the impact of the COVID-19 pandemic.

The ageing of trade and other receivables (excluding prepayments) as at 31 December 2020 is as follows:

In millions of €	2020	Past due			
	Total	Not past due	0-30 days	31-120 days	> 120 days
Gross	2,928	1,872	245	262	549
Allowance	(504)	(79)	(19)	(76)	(330)
	2,424	1,793	226	186	219

In millions of €	2019	Past due			
	Total	Not past due	0-30 days	31-120 days	> 120 days
Gross	4,172	2,814	455	313	590
Allowance	(434)	(44)	(10)	(57)	(323)
	3,738	2,770	445	256	267

The movement in allowance for credit losses for trade and other receivables during the year is as follows:

In millions of €	2020	2019
Balance as at 1 January	434	437
Changes in consolidation	—	1
Transfers	10	—
Addition to allowance	143	69
Allowance used	(58)	(73)
Allowance released	(2)	(4)
Effect of movements in exchange rates	(23)	4
Balance as at 31 December	504	434

Accounting estimates

HEINEKEN determines on each reporting date the impairment of trade and other receivables using a model (e.g. flow rate method) which estimates the lifetime expected credit losses that will be incurred on these receivables. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Due to the uncertainty relating to the depth and duration of the COVID-19 pandemic and its related impact on HEINEKEN's customers, more judgement is required in the calculation of expected credit losses compared to the prior year. As part of these assessments, HEINEKEN has incorporated all reasonable and supportable information available such as whether there has been a breach or deterioration of payments terms, a request for extended payment terms or a request for waived payment terms. For more information on HEINEKEN's credit risk exposure refer to Note 11.5.

Accounting policies

Trade and other receivables are held by HEINEKEN in order to collect the related cash flows. These receivables are measured at fair value and subsequently at amortised cost minus any impairment losses. Trade and other receivables are derecognised by HEINEKEN when substantially all risks and rewards are transferred or if HEINEKEN does not retain control over the receivables.

7.3 Trade and other payables

In the ordinary course of business, payable positions arise towards suppliers of goods and services, as well as to other parties. Refer to the table below for the different types of trade and other payables.

In millions of €	2020	2019
Trade payables	3,663	4,720
Accruals	1,232	1,386
Taxation and social security contributions	845	1,009
Interest	187	147
Dividends	13	12
Other payables	167	246
	6,107	7,520

As a result of the COVID-19 pandemic, in some countries HEINEKEN was allowed a short-term postponement of payments of certain indirect taxes, such as value-added taxes. As at 31 December 2020, an amount of €98 million of delayed indirect tax payments is included in trade and other payables.

Accounting estimates

HEINEKEN makes estimates in the determination of discount accruals. When discounts are provided to customers, these reduce the transaction price and consequently the revenue. The conditional discounts in revenue (refer to Note 6.1) are estimated based on accumulated experience supported by historical and current sales information. Expected sales volumes are determined taking into account (historical) sales patterns and other relevant information. A discount accrual is recognised for expected volume and year-end discounts payable to customers in relation to sales made until the end of the reporting period.

Accounting policies

Trade and other payables are initially measured at fair value and subsequently at amortised cost. Trade payables are derecognised when the contractual obligation is either discharged, cancelled or expired.

7.4 Returnable packaging materials

HEINEKEN uses returnable packaging materials such as glass bottles, crates and kegs in selling the finished products to the customer.

Returnable packaging materials

The majority of returnable packaging materials is classified as property, plant and equipment. The category 'Other fixed assets' in property, plant and equipment (refer to Note 8.3) includes €824 million (2019: €922 million) of returnable packaging materials.

Returnable packaging deposit liability

In certain markets, HEINEKEN has the legal or constructive obligation to take back the materials from the market. A deposit value is generally charged upon sale of the finished product, which is reimbursed when the empty returnable packaging material is returned.

In millions of €	2020	2019
Returnable packaging deposits	454	565

Accounting estimates

The main accounting estimate relating to returnable packaging materials is determining the returnable packaging materials in the market and the expected return thereof. This is based on circulation times and losses of returnable packaging materials in the market.

Accounting policies

Returnable packaging materials

Returnable packaging materials may be classified as property, plant and equipment or inventory. The classification mainly depends on whether ownership is transferred and if HEINEKEN has the legal or constructive obligation to buy back the materials.

Refer to Note 8.3 for the general accounting policy on property, plant and equipment. Specifically for returnable packaging materials, the estimated useful life depends on the loss of the materials in the market as well as on HEINEKEN's sites.

Returnable packaging deposit liability

HEINEKEN recognises a deposit liability when a legal or constructive obligation exists to reimburse the customer for returnable packaging materials that are returned. The returnable packaging deposit liability is based on the estimated returnable packaging materials in the market, the expected return thereof and the deposit value.

8. Non-current assets

8.1 Impairment testing of Intangible assets and Property, plant and equipment

(a) Introduction

The results of impairment testing for non-financial non-current assets is covered both in Note 8.2 Intangible assets and Note 8.3 Property, plant and equipment. Note 8.2 covers the impairment testing of goodwill and intangible assets with an indefinite useful life. Note 8.3 covers the impairment testing for property, plant and equipment (P,P&E) and intangible assets with a finite useful life.

(b) Impact of the COVID-19 pandemic on impairment testing

Due to the uncertainty of the depth and duration of the COVID-19 pandemic, including the resurgence of the virus, limitations on operations and adverse effects on disposable income, projecting future cash flows for cash generating units (CGUs) for 2020 involves a higher degree of judgement compared to previous years. HEINEKEN therefore prepared multiple recovery scenario's for the impairment trigger testing with regard to the short-term impact (e.g. short-term impact on sales volumes and revenue) and the longer term impact of COVID-19 (e.g. the recovery of sales volumes to pre-COVID-19 levels).

In the event of an impairment indicator, the final forecasts used for impairment testing were prepared for a single most likely scenario. These forecasts were prepared under the assumption of a full recovery to the 2019 sales volumes over a two-year planning horizon. The forecasts took into account the continuation of the current wave and its containment measures into 2021, but no additional waves beyond 2021.

(c) Summary of impairments on Intangible assets and Property, plant and equipment

During the year, impairment losses of €963 million were recorded, of which €39 million relates to goodwill (2019: €6 million), €427 million to intangible assets with a finite useful life (2019: €14 million) and €497 million to P,P&E (2019: €52 million). The impairment charges mainly relate to the CGUs Papua New Guinea (€246 million), Lagunitas (€230 million), Jamaica (€100 million) and various (individual) pub impairments in the UK amounting to €191 million. Additionally, various smaller impairments have been recorded.

The drivers of the impairment losses in 2020 are mainly due to the impact of the COVID-19 pandemic on developing economies and on the on-trade business (like cafés, bars and restaurants) in some developed economies. For more details refer to Note 8.3.

The impairments have been charged to the line 'Amortisation, depreciation and impairments' in the Income Statement.

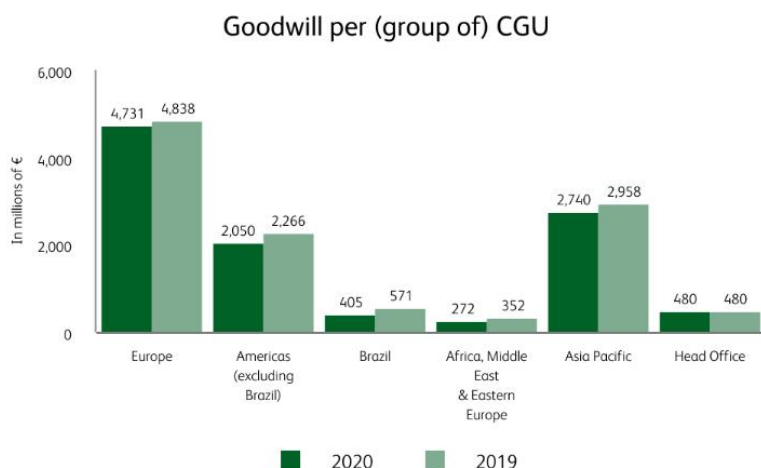
8.2 Intangible assets

Intangible assets within HEINEKEN are mainly goodwill, brands and customer-related intangibles such as customer lists. The majority of intangible assets have been recognised by HEINEKEN as part of acquisitions. Refer to the table below for the historical cost per asset class and the movements during the year including amortisation.

In millions of €	Note	2020						2019					
		Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total
Cost													
Balance as at 1 January		11,898	4,979	2,300	1,064	1,037	21,278	11,621	4,775	2,204	1,010	931	20,541
Changes in consolidation and other transfers		11	13	(14)	(17)	(1)	(8)	62	71	21	5	12	171
Purchased/internally developed		—	—	1	3	135	139	—	—	4	6	176	186
Transfer (to)/from assets classified as held for sale	10.2	—	(3)	—	—	—	(3)	(5)	—	—	—	—	(5)
Disposals		—	—	(1)	(1)	(38)	(40)	—	—	—	(3)	(73)	(76)
Effect of movements in exchange rates		(760)	(437)	(235)	(103)	(52)	(1,587)	220	133	71	46	(9)	461
Balance as at 31 December		11,149	4,552	2,051	946	1,081	19,779	11,898	4,979	2,300	1,064	1,037	21,278
Amortisation and impairment losses													
Balance as at 1 January		(433)	(1,026)	(1,169)	(328)	(553)	(3,509)	(427)	(865)	(992)	(269)	(529)	(3,082)
Changes in consolidation and other transfers		—	—	7	8	—	15	—	—	—	—	—	—
Amortisation charge for the year	6.6	—	(124)	(113)	(40)	(112)	(389)	—	(134)	(135)	(43)	(87)	(399)
Impairment losses	6.6	(39)	(369)	(38)	(3)	(17)	(466)	(6)	—	(6)	(6)	(2)	(20)
Transfer (to)/from assets classified as held for sale	10.2	—	—	—	—	—	—	—	—	—	—	—	—
Disposals		—	—	—	—	34	34	—	—	—	—	57	57
Effect of movements in exchange rates		1	110	131	31	30	303	—	(27)	(36)	(10)	8	(65)
Balance as at 31 December		(471)	(1,409)	(1,182)	(332)	(618)	(4,012)	(433)	(1,026)	(1,169)	(328)	(553)	(3,509)
Carrying amount													
As at 1 January		11,465	3,953	1,131	736	484	17,769	11,194	3,910	1,212	741	402	17,459
As at 31 December		10,678	3,143	869	614	463	15,767	11,465	3,953	1,131	736	484	17,769

Goodwill impairment testing

For the purpose of impairment testing, goodwill in respect of Europe, Americas (excluding Brazil) and Asia Pacific is allocated and monitored on a regional basis. For Brazil and subsidiaries within Africa, Middle East & Eastern Europe and Head Office, goodwill is allocated and monitored on an individual country basis. The total amount of goodwill of €10,678 million (2019: €11,465 million) is allocated to each (group of) CGU as follows:



The decrease in goodwill of €787 million compared to 2019, mainly relates to movement in exchange rates of €759 million and impairment losses of €39 million recognised in the current year.

The carrying amount of a CGU is compared to the recoverable amount of the CGU. The recoverable amounts of the (group of) CGUs are based on the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU) calculations. CGUs for which the recoverable amount is based on a VIU model represent more than 99% of goodwill. VIU is determined by discounting the future cash flows generated from the continuing use of the CGU using a pre-tax discount rate.

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

- Cash flows are projected based on actual operating results and the three-year business plan. Cash flows for a further seven-year period (except for Europe, where a further two-year period is applied) are extrapolated using an expected annual per country volume growth rate, which are based on external sources. Management believes that this period reflects the long-term development of the local beer business and is based on past experiences.
- Management believes that this period reflects the long-term development of the local beer business and is based on past experiences.
- The beer price growth per year, after the forecast period, is assumed to be a country specific expected annual long-term inflation, which is based on external sources.
- Cash flows after the first 10-year period (Europe five-year) are extrapolated using a perpetual growth rate equal to the expected 10-year compounded average inflation, in order to calculate the terminal recoverable amount.
- A per CGU-specific pre-tax weighted average cost of capital (WACC) was applied in determining the recoverable amount of the units.

The values assigned to the key assumptions used for the value in use calculations are as follows:

In %	Pre-tax WACC	Expected annual long-term inflation applied for years 2024-2030	Expected volume growth rates applied for years 2024-2030
Europe	6.6	1.9	1.4
Americas (excluding Brazil)	9.7	2.9	3.8
Brazil	12.9	3.1	0.3
Africa, Middle East & Eastern Europe	12.8 - 25.0	4.9 - 9.4	2.2 - 8.6
Asia Pacific	11.7	3.3	3.8
Head Office	6.5	1.9	1.4

CGUs for which the recoverable amount is based on a FVLCD model, represent less than 1% of goodwill.

Impairment losses

The annual goodwill impairment test did not result in an impairment loss for the current year (2019: €6 million). The impairment test required as a result of the identification of impairment indicators, however resulted in an impairment on goodwill of €39 million and €427 million (2019: €14 million) for intangible assets other than goodwill, which was charged to profit or loss (refer to Note 8.3).

Sensitivity to changes in assumptions

The outcome of a sensitivity analysis of a 100 basis points adverse change in key assumptions (i.e. lower growth rates or higher discount rates respectively) did not result in a materially different outcome for the impairment test and the headroom for no CGUs would have been reduced to nil.

Brands, customer-related and contract-based intangibles

The main brands capitalised are the brands acquired in various acquisitions. The main customer-related and contract-based intangibles relate to customer relationships (constituted either by way of a contractual agreement or by way of non-contractual relations) and re-acquired rights.

Accounting estimates and judgements

The cash flow projections used in the value in use calculations for goodwill impairment testing contain various judgements and estimations as described in the key assumptions for the VIU calculations.

For intangible assets, other than goodwill, estimates are required to determine the (remaining) useful lives. Useful lives are determined based on the market position (for brands), estimated remaining useful life of the customer relationships or the period of the contractual arrangements, or estimates on technological and commercial developments (for software/development expenditure).

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life. HEINEKEN believes that straight-line depreciation most closely reflects the expected pattern of consumption of the future economic benefits embodied in the intangible asset.

Accounting policies

Goodwill

Goodwill represents the difference between the fair value of the net assets acquired and the transaction price of the acquisition. Goodwill arising on the acquisition of associates and joint ventures is included in the carrying amount of the associates and joint ventures.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to individual or groups of CGUs for the purpose of impairment testing and is tested annually for impairment. Negative goodwill is recognised directly in profit or loss as other income. An impairment loss in respect of goodwill cannot be reversed.

Brands, customer-related and contract-based intangibles

Brands, customer-related and contract-based intangibles acquired as part of a business combination are recognised at fair value. Otherwise these acquired intangibles are recognised at cost and amortised over the estimated useful life of the individual brand, respectively over the remaining useful life of the customer relationships or the period of the contractual arrangements.

Strategic brands are well-known international/local brands with a strong market position and an established brand name.

Software, research and development and other intangible assets

Purchased software is measured at cost less accumulated amortisation. Expenditure on internally developed software is capitalised when the expenditure qualifies as development activities, otherwise it is recognised in profit or loss when incurred.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge, is recognised in profit or loss when incurred.

Amortisation

Amortisation is calculated over the cost of the asset less its residual value. Intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives from the date they are available for use. The estimated useful lives are as follows:

- Strategic brands 40 - 50 years
- Other brands 15 - 25 years
- Customer-related and contract-based intangibles 5 - 30 years
- Re-acquired rights 3 - 12 years
- Software 3 - 7 years
- Capitalised development costs 3 years

The amortisation method, useful lives and residual values are reassessed annually. Changes in useful lives or residual value are recognised prospectively.

De-recognition of intangible assets

Intangible assets are derecognised when disposed or sold. Gains on sale of intangible assets are presented in profit or loss as other income (refer to Note 6.2); losses on sale are included in amortisation. Goodwill is derecognised when the related CGU is sold.

Impairment of non-financial assets

At each reporting date HEINEKEN reviews the carrying amounts of its non-financial assets (except for inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use. The CGU for other non-financial assets is often the operating company on country level. The recoverable amount of an asset or CGU is the higher of an asset's FVLCD and VIU. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset or CGU.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are first allocated to goodwill and intangible assets with an indefinite useful life. A remaining impairment loss is then allocated to the other assets in the unit on a pro rata basis. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

8.3 Property, plant and equipment

P,P&E are fixed assets that are owned by HEINEKEN, as well as right of use (ROU) assets under a lease agreement. Owned and ROU assets are held for use in HEINEKEN's operating activities. Refer to the table below for the split between owned assets and ROU assets as per balance sheet date:

In millions of €	2020	2019
Property, plant and equipment - owned assets	10,606	12,230
Right of use assets	945	1,039
Property, plant and equipment	11,551	13,269

Owned assets

The table below details the historical cost per asset class and the movements during the year for owned assets.

In millions of €	Note	2020				2019					
		Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost											
Balance as at 1 January		7,418	9,638	5,778	1,077	23,911	6,978	8,872	5,344	998	22,192
Changes in consolidation and other transfers		25	97	9	3	134	25	23	8	3	59
Purchases		37	35	295	883	1,250	62	91	411	1,465	2,029
Transfer of completed projects under construction		217	613	331	(1,161)	—	328	737	327	(1,392)	—
Transfer (to)/from assets classified as held for sale		(62)	(21)	(2)	—	(85)	(23)	—	(1)	—	(24)
Disposals		(46)	(131)	(269)	(4)	(450)	(133)	(194)	(385)	(13)	(725)
Effect of movements in exchange rates		(547)	(776)	(443)	(129)	(1,895)	181	109	74	16	380
Balance as at 31 December		7,042	9,455	5,699	669	22,865	7,418	9,638	5,778	1,077	23,911
Depreciation and impairment losses											
Balance as at 1 January		(2,367)	(5,464)	(3,850)	—	(11,681)	(2,178)	(5,116)	(3,539)	—	(10,833)
Changes in consolidation and other transfers		(32)	(101)	(2)	—	(135)	—	—	—	—	—
Depreciation charge for the year	6.6	(166)	(443)	(629)	—	(1,238)	(177)	(440)	(633)	—	(1,250)
Impairment losses	6.6	(224)	(110)	(60)	(69)	(463)	(15)	(27)	(10)	—	(52)
Transfer to/(from) assets classified as held for sale		40	11	2	—	53	8	—	—	—	8
Disposals		30	128	260	—	418	25	190	378	—	593
Effect of movements in exchange rates		133	374	280	—	787	(30)	(71)	(46)	—	(147)
Balance as at 31 December		(2,586)	(5,605)	(3,999)	(69)	(12,259)	(2,367)	(5,464)	(3,850)	—	(11,681)
Carrying amount											
As at 1 January		5,051	4,174	1,928	1,077	12,230	4,800	3,756	1,805	998	11,359
As at 31 December		4,456	3,850	1,700	600	10,606	5,051	4,174	1,928	1,077	12,230

Land and buildings include the breweries and offices of HEINEKEN as well as stores, pubs and bars. The plant and machinery asset class contains all the assets needed in HEINEKEN's brewing, packaging and filling activities. Other fixed assets mainly consist of returnable packaging materials, commercial fixed assets and furniture, fixtures and fittings. Refer to Note 7.4 for further information on returnable packaging materials that are included in this category.

Impairment losses

Given the impact of COVID-19 on HEINEKEN's markets and businesses, HEINEKEN assessed its CGUs for an indication of an impairment. Following the assessment, CGUs with a total fixed asset base (including goodwill and before impairment) of €4.3 billion were tested for asset impairment (2019: €0.4 billion). As a result, CGUs with a total fixed asset base of €2.5 billion (2019: €0.1 billion) were found to be partially impaired.

Following the impairment tests, impairments of €463 million on owned P,P&E (2019: €52 million), €34 million of ROU assets, €427 million on intangible assets with a finite useful life and €39 million on goodwill were recorded in 2020. The impairment charges mainly relate to the CGUs Papua New Guinea (€246 million), Lagunitas (€230 million), Jamaica (€100 million, net of reversal) and various (individual) pub impairments in the UK totalling €191 million. Additionally, various smaller impairments were recorded.

Impairments are recorded on the line 'Amortisation, depreciation and impairments' in the Income Statement. Refer to the table below for the impairment loss recorded per segment:

In millions of €	Total impairment loss	Lagunitas	Jamaica	Papua New Guinea	Various UK pubs	Various smaller impairments
Americas	391	230	100	—	—	61
AMEE	96	—	—	—	—	96
APAC	269	—	—	246	—	23
Europe	194	—	—	—	191	3
Head Office	13	—	—	—	—	13
Total	963	230	100	246	191	196

For a split per asset class, refer to the movement schedules in Note 8.2 and 8.3.

The determination of the recoverable amount of the assets of Lagunitas, Papua New Guinea and Jamaica is based on a VIU valuation, which is based on a management forecast extrapolated to a 10-year cash flow forecast for Papua New Guinea and Jamaica and a five-year cash flow forecast for Lagunitas. Cash flows after the first 10-year period (Lagunitas five-year) are extrapolated using a perpetual growth rate equal to the expected 10-year compounded average inflation, in order to calculate the terminal recoverable amount. The key assumptions used to determine the cash flows are based on market expectations and management's best estimates.

See the table below for the key assumptions:

In %	Papua New Guinea		Lagunitas		Jamaica	
	2021 - 2025	2026 - 2030	2021-2023	2024-2025	2021-2024	2025-2030
Pre-tax WACC (in local currency)	17.7	17.7	6.7	6.7	17.7	17.7
Expected annual long-term inflation	4.0	4.0	1.9	1.9	4.7	4.7
Expected volume growth	7.9	4.6	0.1	2.0	3.7	0.0

Right of use (ROU) assets

HEINEKEN leases stores, pubs, offices, warehouses, cars, (forklift) trucks and other equipment in the ordinary course of business. HEINEKEN has around 35,000 leases with a wide range of different terms and conditions, depending on local regulations and practice. Many leases contain extension and termination options, which are included in the lease term if HEINEKEN is reasonably certain to exercise an extension option and reasonably certain not to exercise a termination option. Refer to the table below for the carrying amount of ROU assets per asset class per balance sheet date:

In millions of €	2020	2019
Land and buildings	672	807
Equipment	273	232
Carrying amount ROU assets as at 31 December	945	1,039

During 2020, €329 million was added to the ROU assets as a result of entering into new lease contracts and the remeasurement of existing leases (2019: €271 million). The depreciation and impairments of ROU assets for the financial year ending 31 December is as follows:

In millions of €	2020	2019
Land and buildings	185	158
Equipment	95	80
Depreciation and impairments for ROU assets	280	238

Accounting estimates and judgements

Estimates are required to determine the (remaining) useful lives of fixed assets. Useful lives are determined based on an asset's age, the frequency of its use, repair and maintenance policy, technology changes in production and expected restructuring.

HEINEKEN estimates the expected residual value per asset item. The residual value is the higher of the expected sales price (based on recent market transactions of similar sold items) and its material scrap value.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of items of P,P&E. HEINEKEN believes that straight-line depreciation most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Significant judgement is required to determine the lease term. The assessment of whether HEINEKEN is reasonably certain to exercise such options impacts the lease term, which as a result could affect the amount of lease liabilities and ROU assets recognised.

Accounting policies

Owned assets

A fixed asset is recognised when it is probable that future economic benefits associated with the P,P&E item will flow to HEINEKEN and when the cost of the P,P&E can be reliably measured. The majority of the P,P&E of HEINEKEN are owned assets, rather than leased assets.

P,P&E are recognised at historical cost less accumulated depreciation and impairment losses. Historical cost includes all costs directly attributable to the purchase of an asset. The cost of self-constructed assets includes all directly attributable costs to make the asset ready for its intended use. Spare parts that meet the definition of P,P&E are capitalised and accounted for accordingly. If spare parts do not meet the recognition criteria of P,P&E, they are either carried in inventory or consumed and recorded in profit or loss.

Subsequent costs are capitalised only when it is probable that the expenses will lead to future economic benefits and can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

For the contractual commitments on ordered P,P&E refer to Note 13.2.

Depreciation and impairments

Depreciation is calculated using the straight-line method, based on the estimated useful life of the asset class. The estimated useful lives of the main asset classes are as follows:

- Buildings 30 - 40 years
- Plant and equipment 10 - 30 years
- Other fixed assets 3 - 10 years

Land and assets under construction are not depreciated. When assets under construction are ready for its intended use, they are transferred to the relevant category and depreciation starts. All other P,P&E items are depreciated over their estimated useful live to the asset's residual value.

The depreciation method, residual value and useful lives are reassessed annually. Changes in useful lives or residual value are recognised prospectively.

HEINEKEN reviews whether indicators for impairment exist on CGU level. When an indicator of impairment exists, assets are tested for impairment. Impairment losses on assets, other than goodwill, recognised in prior periods are assessed at each reporting date for any indication of a reversal.

De-recognition of Property, plant and equipment

P,P&E is derecognised when it is scrapped or sold. Gains on sale of P,P&E are presented in profit or loss as other income (refer to Note 6.2); losses on sale are included in depreciation.

Right of use (ROU) assets

Definition of a lease

A contract is or contains a lease if it provides the right to control the use of an identified asset for a period of time in exchange for an amount payable to the lessor. The right to control the use of the identified asset exists when having the right to obtain substantially all of the economic benefits from use of that asset and when having the right to direct the use of that asset.

HEINEKEN as a lessee

At the start date of the lease, HEINEKEN (lessee) recognises a right of use (ROU) asset and a lease liability on the balance sheet. The ROU asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. For measurement of the lease liability, refer to Note 11.3.

HEINEKEN applies the following practical expedients for the recognition of leases:

- The short-term lease exemption, meaning that leases with a duration of less than a year are expensed in the income statement on a straight-line basis.
- The low value lease exemption, meaning that leased assets with an individual value of €5 thousand or less if bought new, are expensed in the income statement on a straight-line basis.

HEINEKEN as a lessor

A lease is classified as a finance lease when it transfers substantially all the risks and rewards relating to ownership of the underlying asset to the lessee. For contracts where HEINEKEN acts as an intermediate lessor, the subleases are classified with reference to the ROU asset.

Lease related notes

For lease liabilities, refer to Note 11.3 Borrowings. For short-term and low value leases, refer to other expenses in Note 6.3 Raw materials, consumables and services. For the lease receivables, refer to other receivables in Note 8.5 Other non-current assets and other receivables in Note 7.2 Trade and other receivables. For the contractual maturities of lease liabilities, refer to Note 11.5 Credit, liquidity and market risk.

8.4 Loans and advances to customers

Loans and advances to customers are inherent to HEINEKEN's business model. Loans to customers are repaid in cash on fixed dates while the settlement of advances to customers are linked to the sales volume of the customer. Loans and advances to customers are usually backed by collateral such as properties.

In millions of €	2020	2019
Loans to customers	53	55
Advances to customers	141	222
Loans and advances to customers	194	277

The movement in allowance for impairment losses for loans and advances to customers during the year is as follows:

In millions of €	2020	2019
Balance as at 1 January	79	135
Transfers	(10)	—
Addition to allowance	30	7
Allowance used	2	(56)
Allowance released	(7)	(3)
Effect of movements in exchange rates	(4)	2
Other	—	(6)
Balance as at 31 December	90	79

Accounting estimates

HEINEKEN determines on each reporting date the impairment of loans and advances to customers using an expected credit loss model which estimates the credit losses over 12 months. If a significant increase in credit risk occurs (e.g. more than 30 days overdue, change in credit rating, payment delays in other receivables from the customer), credit losses over the lifetime of the asset are incurred. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Due to the uncertainty relating to the depth and duration of the COVID-19 pandemic and its related impact on HEINEKEN's customers, more judgement is required for the calculation of expected credit losses compared to previous years. For more information on HEINEKEN's credit risk exposure refer to Note 11.5.

Accounting policies

Loans and advances to customers are initially measured at fair value and subsequently at amortised cost minus any impairment losses.

8.5 Other non-current assets

Other non-current assets mainly consist of Fair Value through Other Comprehensive Income (FVOCI) investments, prepayments and other receivables with a duration longer than 12 months.

In millions of €	Note	2020	2019
Fair value through OCI investments		117	408
Non-current derivatives	11.6	21	2
Loans to joint ventures and associates		30	38
Long-term prepayments		375	439
Other receivables		341	368
Other non-current assets		884	1,255

The FVOCI investments primarily consist of equity securities. HEINEKEN designates these investments as FVOCI as these are not held for trading purposes. As at 31 December 2019, the main FVOCI equity investment was €241 million in the Saigon Alcohol Beer and Beverages Corporation ('SABECO', Vietnam), of which the majority was sold during 2020.

The other receivables include lease receivables of €160 million (2019: €167 million). Including the short-term portion of lease receivables, the average outstanding term of the lease receivables is 5.3 years (2019: 4.6 years). The remainder of other receivables mainly originate from the acquisition of the beer operations of FEMSA and represent a receivable on the Brazilian authorities on which interest is calculated in accordance with Brazilian legislation. Collection of this receivable is expected to be beyond a period of five years. A part of the aforementioned receivables qualify for indemnification towards FEMSA and is provided for.

Sensitivity analysis – equity securities

An increase or decrease of 1% in the share price of the equity securities at the reporting date would not have a material impact.

Accounting estimates

HEINEKEN determines on each reporting date the impairment of other receivables using an expected credit loss model, which estimates the credit losses over 12 months. Only in case a significant increase in credit risk occurs (e.g. more than 30 days overdue, change in credit rating, payment delays in other receivables from the customer) the credit losses over the lifetime of the asset are incurred. Individually significant other receivables are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. For more information on HEINEKEN's credit risk exposure refer to Note 11.5.

Accounting policies

Fair value through OCI investments

HEINEKEN's investments in equity securities are classified as FVOCI. These investments are interests in entities where HEINEKEN has less than significant influence. This is generally the case by ownership of less than 20% of the voting rights. Upon the sale of these equity securities the accumulated fair value and currency translation changes are transferred to retained earnings.

FVOCI investments are measured at fair value (refer to Note 13.1). The fair value changes are recognised in OCI and presented within equity in the fair value reserve. Dividend income is recognised in profit or loss.

Non-current derivatives

Refer to the accounting policies on derivative financial instruments in Note 11.6.

Other

The remaining non-current assets as presented in the previous table are initially measured at fair value and subsequently at amortised cost minus any impairment losses.

9. Provisions and contingent liabilities

9.1 Post-retirement obligations

HEINEKEN makes contributions to pension plans that provide pension benefits to (former) employees upon retirement, both via defined benefit as well as defined contribution plans. Other long-term employee benefits include long-term bonus plans, termination benefits, medical plans and jubilee benefits. Refer to note 6.4 for the contribution to defined contribution plans. This note relates to HEINEKEN's defined benefit pension plans. Refer to the table below for the present value of the defined benefit plans as at 31 December.

In millions of €	2020	2019
Present value of unfunded defined benefit obligations	203	307
Present value of funded defined benefit obligations	9,387	9,210
Total present value of defined benefit obligations	9,590	9,517
Fair value of defined benefit plan assets	(8,757)	(8,451)
Present value of net obligations	833	1,066
Asset ceiling items	48	53
Defined benefit plans included under non-current assets	5	7
Recognised liability for defined benefit obligations	886	1,126
Other long-term employee benefits	52	63
	938	1,189

The vast majority of benefit payments are from pension funds that are held in trusts (or equivalent), however, there is a small portion where HEINEKEN fulfils the benefit payment obligation as it falls due. Plan assets held in trusts are governed by Trustee Boards composed of HEINEKEN representatives and independent and/or member representation, in accordance with local regulations and practice in each country. The relationship and division of responsibility between

HEINEKEN and the Trustee Board (or equivalent) including investment decisions and contribution schedules are carried out in accordance with the plan's regulations.

The defined benefit pension plans in the Netherlands (NL) and the United Kingdom represent the majority of the total defined benefit plan assets and the present value of the defined benefit obligations.

Refer to the table below for the split of these plans in the total present value of the net obligations of HEINEKEN.

In millions of €	2020 UK	2019 UK	2020 NL	2019 NL	2020 Other	2019 Other	2020 Total	2019 Total
Total present value of defined benefit obligations	4,063	3,945	4,102	4,096	1,425	1,476	9,590	9,517
Fair value of defined benefit plan assets	(3,751)	(3,529)	(4,059)	(3,939)	(947)	(983)	(8,757)	(8,451)
Present value of net obligations	312	416	43	157	478	493	833	1,066

Defined benefit plan in the Netherlands

HEINEKEN provides employees in the Netherlands with an average pay pension plan based on earnings up to the legal tax limit. Indexation of accrued benefits is conditional on the funded status of the pension fund. HEINEKEN pays contributions to the fund up to a maximum level agreed with the Board of the pension fund and has no obligation to make additional contributions in case of a funding deficit. In 2020, HEINEKEN's cash contribution to the Dutch pension plan was at the maximum level. The same level will apply in 2021. As a result of a legal obligation to settle a closed transitional plan per the end of 2020, a one-off contribution of €80 million was prepaid by HEINEKEN to the pension fund in 2020. Early 2021 the final contribution will be determined and settled with the prepayment. As a result of the final settlement, the respective plan will be fully funded. The final contribution is expected to be in line with the prepayment of €80 million.

Defined benefit plan in the United Kingdom

HEINEKEN's UK plan (Scottish & Newcastle pension plan 'SNPP') was closed to future accrual in 2011 and the liabilities thus relate to past service before plan closure. Based on the triennial review finalised in early 2019, HEINEKEN has renewed the funding plan (until 31 May 2023) including an annual deficit reduction contribution of GBP39.2 million in 2018, thereafter increasing with GBP1.7 million per year. At the end of 2018, an agreement (the Funding Agreement) was reached with the UK pension fund Trustees on a more conservative longer term funding and investment approach towards 2030. This agreement has been formalised during 2019 and signed early 2020, which leads to a gradual decrease of investment risk. The current schedule of deficit recovery payments until May 2023 will remain in place. As of June 2023 deficit recovery payments will be conditional on the funding position of the pension fund and will be capped on the current contribution level.

Defined benefit plans in other countries

In a few other countries HEINEKEN offers defined benefit plans, which are individually not significant to HEINEKEN. The majority of these plans are closed for new participants.

Movement in net defined benefit obligation

The movement in the net defined benefit obligation during the year is as follows:

In millions of €	Note	Present value of defined benefit obligations		Fair value of defined benefit plan assets		Present value of net obligations	
		2020	2019	2020	2019	2020	2019
Balance as at 1 January		9,517	8,511	(8,451)	(7,682)	1,066	829
Included in profit or loss							
Current service cost		111	81	—	—	111	81
Past service cost/(credit)		(10)	(1)	—	—	(10)	(1)
Administration expense		—	—	4	3	4	3
Effect of any settlement		(1)	(5)	—	—	(1)	(5)
Expense recognised in personnel expenses	6.4	100	75	4	3	104	78
Interest expense/(income)	11.1	145	212	(122)	(182)	23	30
		245	287	(118)	(179)	127	108
Included in OCI							
Remeasurement loss/(gain):							
Actuarial loss/(gain) arising from							
Demographic assumptions		(112)	(93)	—	—	(112)	(93)
Financial assumptions		605	1,065	—	—	605	1,065
Experience adjustments		(22)	(125)	—	—	(22)	(125)
Return on plan assets excluding interest income		—	—	(525)	(579)	(525)	(579)
Effect of movements in exchange rates		(280)	210	234	(190)	(46)	20
		191	1,057	(291)	(769)	(100)	288
Other							
Changes in consolidation and reclassification		(8)	20	13	(4)	5	16
Contributions paid:							
By the employer		—	—	(265)	(175)	(265)	(175)
By the plan participants		24	24	(24)	(24)	—	—
Benefits paid		(379)	(382)	379	382	—	—
Settlements		—	—	—	—	—	—
		(363)	(338)	103	179	(260)	(159)
Balance as at 31 December		9,590	9,517	(8,757)	(8,451)	833	1,066

Defined benefit plan assets

In millions of €	2020			2019		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments:						
Europe	411	—	411	579	—	579
Northern America	868	—	868	1,051	—	1,051
Japan	153	—	153	196	—	196
Asia other	213	—	213	122	—	122
Other	83	76	159	339	69	408
	1,728	76	1,804	2,287	69	2,356
Debt instruments:						
Bonds – investment grade	4,634	723	5,357	3,759	512	4,271
Bonds – non-investment grade	393	162	555	251	240	491
	5,027	885	5,912	4,010	752	4,762
Derivatives	35	(473)	(438)	5	(602)	(597)
Properties and real estate	20	860	880	15	794	809
Cash and cash equivalents	169	63	232	107	17	124
Investment funds	9	319	328	66	848	914
Other plan assets	13	26	39	13	70	83
	246	795	1,041	206	1,127	1,333
Balance as at 31 December	7,001	1,756	8,757	6,503	1,948	8,451

During 2020, the UK fund replaced their equity portfolio of approx. €550 million by a synthetic equity exposure using swaps. This lowered the reported equity value, whilst increasing the debt portfolio.

The HEINEKEN pension funds monitor the mix of debt and equity securities in their investment portfolios based on market expectations. Material investments within the portfolio are managed on an individual basis. Through its defined benefit pension plans, HEINEKEN is exposed to a number of risks, the most significant are detailed below.

Risks associated with defined benefit plans

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to AA corporate bond yields. If the return on the plan assets is less than the return on the liabilities implied by this assumption, this will create a deficit. Both the Netherlands and the UK plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term, while providing volatility and risk in the short-term.

In the Netherlands, an Asset-Liability Matching (ALM) study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 38% of plan assets in equity securities, 30% in bonds, 12.5% in other investments, 10% in mortgage and 9.5% in real estate. The last ALM study was performed in 2018 and the next will take place in 2021.

In the UK, an actuarial valuation is performed at least on a triennial basis. The valuation is the basis for the funding plan, strategic investment policies and the (long-term) strategic investment mix. Following the 2018 valuation, this resulted in a strategic asset mix comprising 30% of plan assets in liability driven investments, 20% in equities, 15% in higher yielding credit, 15% in private markets, 12.5% in corporate bonds and 7.5% in long lease property. As part of the Funding Agreement, the strategic asset mix will evolve between now and 2030 to provide a greater certainty of return, lower volatility and higher cash generation.

Interest rate risk

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' fixed rate instruments holdings.

In the Netherlands, interest rate risk is partly managed through fixed income investments. These investments match the liabilities for 24% on average during the year (2019: 23%). In the UK, interest rate risk is partly managed through the use of a mixture of fixed income investments and interest rate swap instruments. These investments and instruments match 84% of the interest rate sensitivity of the total liabilities as measured on a Gilts +1% liability basis (2019: 87% as measured on the same basis).

Inflation risk

Some of the pension obligations are linked to inflation. Higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation. The majority of the plan assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will increase the deficit.

HEINEKEN provides employees in the Netherlands with an average pay pension plan, whereby indexation of accrued benefits is conditional on the funded status of the pension fund. In the UK, inflation is partly managed through the use of a mixture of inflation-linked derivative instruments. These instruments match 84% of the inflation-linked liabilities as measured on a Gilts + 1% liability basis (2019: 76% as measured on the same basis).

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflation-linked increases result in higher sensitivity to changes in life expectancy. In 2015, the Trustee of HEINEKEN UK's pension plan implemented a longevity hedge to remove the risk of a higher increase in life expectancy than anticipated for the 2015 population of pensioners.

Principal actuarial assumptions as at the balance sheet date

Based on the significance of the Dutch and UK pension plans compared with the other plans, the table below refers to the major actuarial assumptions for those two plans as at 31 December:

In %	The Netherlands		UK1	
	2020	2019	2020	2019
Discount rate as at 31 December	0.5	0.9	1.4	2.1
Future salary increases	2.0	2.0	—	—
Future pension increases	0.2	0.5	3.0	2.9

¹ The UK plan is closed for future accrual, leading to certain assumptions being equal to zero.

For the other defined benefit plans, the following actuarial assumptions apply as at 31 December:

In %	Europe		Americas		Africa, Middle East & Eastern Europe	
	2020	2019	2020	2019	2020	2019
Discount rate as at 31 December	0.2-0.8	0.3-0.9	6.9-12.0	6.8-14.0	0.5-8.0	0.9-12.4
Future salary increases	0.0-3.5	0.0-3.5	0.0-4.5	0.0-4.5	0.0-4.0	0.0-5.0
Future pension increases	0.0-1.5	0.0-1.5	0.0-3.5	0.0-3.6	0.0-1.2	0.0-2.9
Medical cost trend rate	0.0-4.5	0.0-4.5	0.0-15.1	0.0-13.1	0.0-0.0	0.0-0.0

Assumptions regarding future mortality rates are based on published statistics and mortality tables. For the Netherlands, the rates are obtained from the 'AG-Prognosetafel 2020', fully generational. For the UK, the future mortality rates are obtained by applying the Continuous Mortality Investigation 2019 projection model.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 18 years.

HEINEKEN expects the contributions to be paid for the defined benefit plans for 2021 to be in line with 2020 excluding the one-off contribution of €80 million for the transitional plan of the Dutch pension fund.

Sensitivity analysis

As at 31 December, changes to one of the relevant actuarial assumptions that are considered reasonably possible, holding other assumptions constant, would have affected the defined benefit obligation by the following amounts:

Effect in millions of €	2020		2019	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate (0.5% movement)	(620)	689	(770)	884
Future salary growth (0.25% movement)	15	(13)	17	(16)
Future pension growth (0.25% movement)	378	(338)	365	(335)
Medical cost trend rate (0.5% movement)	6	(5)	6	(5)
Life expectancy (1 year)	438	(436)	393	(392)

Accounting estimates

To make the actuarial calculations for the defined benefit plans, HEINEKEN needs to make use of assumptions for discount rates, future pension increases and life expectancy as described in this note. The actuarial calculations are made by external actuaries based on inputs from observable market data, such as corporate bond returns and yield curves to determine the discount rates used, mortality tables to determine life expectancy and inflation numbers to determine future salary and pension growth assumptions.

Accounting policies

Defined contribution plans

A defined contribution plan is a post-retirement plan for which HEINEKEN pays fixed contributions to a separate entity. HEINEKEN has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay out employees.

Defined benefit plans

A defined benefit plan is a post-retirement plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

HEINEKEN's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; those benefits are discounted to determine its present value. The fair value of any defined benefit plan assets are deducted. The discount rate is the yield at balance sheet date on high-quality credit-rated bonds that have maturity dates approximating to the terms of HEINEKEN's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculations are performed annually by qualified actuaries using the projected unit credit method. When the calculation results in a benefit to HEINEKEN, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in HEINEKEN. An economic benefit is available to HEINEKEN if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are changed, the expense or benefit is recognised immediately in profit or loss.

HEINEKEN recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses and other net finance income and expenses in profit or loss.

9.2 Provisions

Provisions within HEINEKEN mainly relate to restructuring, and claims and litigation that arise in the ordinary course of business. The outcome depends on future events, which are by nature uncertain.

In millions of €	Claims and litigation	Taxes	Restructuring	Onerous contracts	Other	Total
Balance as at 1 January 2020	339	337	154	30	80	940
Transfers	—	—	—	—	8	8
Provisions made during the year	86	44	359	21	100	610
Provisions used during the year	(11)	(1)	(76)	(1)	(14)	(103)
Provisions reversed during the year	(45)	(85)	(15)	(20)	(27)	(192)
Effect of movements in exchange rates	(125)	(41)	—	(2)	(3)	(171)
Unwinding of discounts	11	1	—	—	—	12
Balance as at 31 December 2020	255	255	422	28	144	1,104
Non-current	229	201	175	18	65	688
Current	26	54	247	10	79	416

Claims and litigation

The provisions for claims and litigation of €255 million (2019: €339 million) mainly relate to civil and labour claims in Brazil.

Taxes

The provisions for taxes of €255 million (2019: €337 million) do not relate to income tax within the scope of IAS 12 and mainly relate to Brazil. Tax legislation in Brazil is highly complex and subject to interpretation, therefore the timing of the cash outflows for these provisions is uncertain.

Restructuring

On 28 October 2020, HEINEKEN announced a review of the effectiveness and efficiency of the organisations at Head Office, regional offices and each of its local operations as a part of its EverGreen strategic review. The increase in the provisions for restructuring of €268 million is related to the productivity programme part of EverGreen.

Other provisions

Included are, among others, provisions for credit risk on surety and guarantees issued of €57 million (2019: €42 million).

Accounting estimates

In determining the likelihood and timing of potential cash out flows, HEINEKEN needs to make estimates. For claims, litigation and tax provisions, HEINEKEN bases its assessment on internal and external legal assistance and established precedents. For large restructuring, management assesses the timing of the costs to be incurred, which influences the classification as current or non-current liabilities.

Accounting policies

A provision is a liability of uncertain timing or amount. A provision is recognised when HEINEKEN has a present legal or constructive obligation as a result of past events that can be estimated reliably, and it is probable (> 50%) that an outflow of economic benefits will be required to settle the obligation. In case of accounting for business combinations, provisions are also recognised when the likelihood is less than probable, but more than remote (> 5%).

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as part of net finance expenses.

Restructuring

A provision for restructuring is recognised when HEINEKEN has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating losses are not provided for. The provision includes the benefit commitments in connection with early retirement and redundancy schemes.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be received by HEINEKEN are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract, and the expected net cost of continuing with the contract. Before a provision is established, HEINEKEN recognises any impairment loss on the assets associated with that contract.

Other provisions

A provision for guarantees is recognised at the time the guarantee is issued. The provision is initially measured at fair value and subsequently at the higher of the amount determined in accordance with the expected credit loss model and the amount initially recognised

9.3 Contingencies

HEINEKEN's contingencies are mainly in the area of tax, civil cases (part of other contingencies) and guarantees.

Tax

The tax contingencies mainly relate to tax positions in Latin America and include a large number of cases with a risk assessment lower than probable but possible. Assessing the amount of tax contingencies, is highly judgemental, and the timing of possible outflows is uncertain. The best estimate of tax related contingent liabilities is €707 million (2019: €957 million), out of which €70 million (2019: €171 million) qualifies for indemnification. For several tax contingencies that were part of acquisitions, an amount of €197 million (2019: €306 million) has been recognised as provisions and other non-current liabilities in the balance sheet (refer to notes 9.2 and 11.6).

Other contingencies

Other contingencies mainly relate to civil cases in Brazil. Management's best estimate of the potential financial impact for these cases is €27 million (2019: €39 million). As at 31 December 2020, €15 million (2019: €23 million) of other contingencies related to acquisitions is included in provisions (refer to Note 9.2).

Guarantees

In millions of €	Total 2020	Less than 1 year	1-5 years	More than 5 years	Total 2019
Guarantees to banks for loans (to third parties)	330	47	278	5	332
Other guarantees	865	426	229	210	1,019
Guarantees	1,195	473	507	215	1,351

Guarantees to banks for loans relate to loans and advances to customers, which are given to external parties in the ordinary course of business of HEINEKEN. HEINEKEN provides guarantees to the banks to cover the risk related to these loans.

Accounting estimates and judgements

HEINEKEN operates in a high number of jurisdictions, and is subject to a wide variety of taxes per jurisdiction. Tax legislation can be highly complex and subject to interpretation. As a result, HEINEKEN is required to exercise significant judgement in the recognition of taxes payable and determination of tax contingencies.

Also for the other contingencies, HEINEKEN is required to exercise significant judgement to determine whether the risk of loss is possible but not probable. Contingencies involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions.

Accounting policies

A contingent liability is a liability of uncertain timing and amount. Contingencies are not recognised in the balance sheet because the existence can only be confirmed by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of HEINEKEN or because the risk of loss is estimated to be possible (>5%) but not probable (<50%) or because the amount cannot be measured reliably.

10. Acquisitions, disposals and investments

10.1 Acquisitions and disposals

Acquisitions and disposals in 2020

During 2020, there were no significant acquisitions or disposals.

Prior year adjustments

During 2020, all the provisional accounting periods related to acquisitions in 2019 were closed without material adjustments.

10.2 Assets or disposal groups classified as held for sale

The assets and liabilities below are classified as held for sale following the commitment of HEINEKEN to a plan to sell these assets and liabilities. Efforts to sell these assets and liabilities have commenced and are expected to be completed within one year.

Assets held for sale and liabilities associated with assets classified as held for sale

In millions of €	2020	2019
Current assets	—	—
Property, plant and equipment	17	46
Intangible assets	—	—
Other non-current assets	7	65
Assets classified as held for sale	24	111
Current liabilities	—	—
Non-current liabilities	—	—
Liabilities associated with assets classified as held for sale	—	—

Accounting estimates and judgements

HEINEKEN classifies assets or disposal groups as held for sale when they are available for immediate sale in its present condition and the sale is highly probable. HEINEKEN should be committed to the sale and it should be unlikely that the plan to sale will be withdrawn. This might be difficult to demonstrate in practice and involves judgement.

Accounting policies

Assets or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are measured at the lower of their carrying amount and FVLCD.

Intangible assets and P,P&E once classified as held for sale are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

10.3 Investments in associates and joint ventures

HEINEKEN has interests in a number of joint ventures and associates. The total carrying amount of these associates and joint ventures was €4,437 million as at 31 December 2020 (2019: €4,868 million) and the total share of profit and other comprehensive income was a loss of €15 million in 2020 (2019: €144 million, profit, 2018: €174 million, profit). The share of profit includes impairments of associates and joint ventures of €139 million (2019: €30 million).

The investments in associates and joint ventures includes the interest of HEINEKEN in United Breweries Limited (UBL) in India. On 10 October 2018, officials from the Competition Commission of India visited UBL for an investigation in relation to allegations of price fixing. The updated investigation report was communicated to UBL on 19 March 2020. UBL has filed its comments to the investigation report on 28 August 2020. As the decision of the Competition Commission of India is pending, UBL deems it not practicable at this stage to estimate its potential financial effect, if any.

The associate CRH (Beer) Limited ('CBL') is considered to be individually material. HEINEKEN holds a shareholding of 40% in CRH (Beer) Limited ('CBL') as of 29 April 2019. CBL holds a controlling interest of 51.67% in China Resources Beer (Holdings) Co. Ltd. ('CR Beer'), a company incorporated in Hong Kong and listed on the Main Board of The Stock Exchange of Hong Kong Limited, operating in the beer business in China. Consequently, HEINEKEN has an effective 20.67% economic interest in CR Beer. Based on the closing share price of HKD71.40 as at 31 December 2020, the fair value of this economic interest in CR Beer amounts to €5,032 million. The carrying amount of CBL as at 31 December 2020 amounts to €2,508 million.

Set out below is the summarised financial information of CR Beer, not adjusted for the percentage of ownership held by HEINEKEN. The financial information has been amended to reflect adjustments made by HEINEKEN when using the

equity method (such as fair value adjustments). Due to a difference in reporting timelines, the financial information is included with a two-month delay. This means that the financial information included relates to the period November 2019–October 2020. The reconciliation of the summarised financial information to the carrying amount of the effective interest in CR Beer is also presented.

In millions of €	2020	2019
Summarised balance sheet (100%)		
Non-current assets	7,657	8,708
Current assets	1,281	1,140
Non-current liabilities	(1,313)	(1,470)
Current liabilities	(2,241)	(2,577)
Net assets	5,384	5,801
Reconciliation to carrying amount		
Opening net assets ¹	5,801	5,887
Profit for the period	47	61
Other comprehensive income	(395)	(86)
Dividends paid	(69)	(61)
Closing net assets	5,384	5,801
Company's share in %	20.67 %	20.67 %
Company's share	1,113	1,199
Goodwill	1,395	1,517
Carrying amount	2,508	2,716

In millions of €	November 2019 to October 2020	May 2019 to October 2019
Summarised income statement (100%)		
Revenue	3,996	2,500
Profit	47	61
Other comprehensive income	(395)	(86)
Total comprehensive income	(348)	(25)
Dividends received	14	13

¹ The opening net asset balance for 2019 is at the acquisition date 29 April 2019.

Summarised financial information for equity accounted joint ventures and associates

The following table includes, in aggregate, the carrying amount and HEINEKEN's share of profit and OCI of joint ventures and associates (net of income tax):

In millions of €	Joint ventures			Associates ¹		
	2020	2019	2018	2020	2019	2018
Carrying amount of interests	1,574	1,734	1,748	2,863	3,134	273
Share of:						
Profit or (loss) from continuing operations	(34)	112	192	3	52	18
Other comprehensive income/(loss)	(2)	4	(37)	18	(24)	1
	(36)	116	155	21	28	19

¹ Includes the investment in CR Beer, which is considered to be individually material. The other joint ventures and associates are considered to be individually immaterial.

Accounting policies

Associates are entities in which HEINEKEN has significant influence, but not control or joint control. Significant influence is generally obtained by ownership of more than 20% but less than 50% of the voting rights. Joint ventures (JVs) are the arrangements in which HEINEKEN has joint control.

HEINEKEN's investments in associates and JVs are accounted for using the equity method of accounting, meaning they are initially recognised at cost. The consolidated financial statements include HEINEKEN's share of the net profit or loss of the associates and JVs whereby the result is determined using the accounting policies of HEINEKEN.

When HEINEKEN's share of losses exceeds the carrying amount of the associate or joint venture, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that HEINEKEN has an obligation or has made a payment on behalf of the associate or JV.

11. Financing and capital structure

11.1 Net finance income and expense

Interest expenses are mainly related to interest charges over the outstanding bonds, commercial paper and bank loans (refer to Note 11.3). Other net finance income and expenses comprises dividend income, fair value changes of financial assets and liabilities measured at fair value, transactional foreign exchange gains and losses (on net basis), unwinding of discount on provisions and interest on the net defined benefit obligation.

In millions of €	Note	2020	2019	2018
Interest income		50	75	71
Interest expenses		(497)	(529)	(492)
Dividend income from fair value through OCI investments		10	10	16
Net change in fair value of derivatives		13	(14)	71
Net foreign exchange gain/(loss) ¹		(133)	(25)	(102)
Unwinding discount on provisions	9.2	(11)	(19)	(17)
Interest on the net defined benefit obligation	9.1	(23)	(26)	(31)
Other		1	15	(1)
Other net finance income/(expenses)		(143)	(59)	(64)
Net finance income/(expenses)		(590)	(513)	(485)

¹ Transactional foreign exchange effects of working capital and foreign currency denominated loans, the latter being offset by net change in fair value of derivatives.

Interest expenses include the interest component of lease liabilities of €60 million (2019: €55 million, 2018: N/A).

Accounting policies

Interest income and expenses are recognised as they accrue, using the effective interest method.

Dividend income is recognised in the income statement on the date that HEINEKEN's right to receive payment is established, which is the ex-dividend date in the case of quoted securities.

11.2 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. In general bank overdrafts form an integral part of HEINEKEN's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

In millions of €	Note	2020	2019
Cash and cash equivalents		4,000	1,821
Bank overdrafts	11.3	(481)	(1,134)
Cash and cash equivalents in the statement of cash flows		3,519	687

Cash and cash equivalents increased in order to build liquidity buffers in relation to the COVID-19 pandemic. For more information on HEINEKEN's liquidity risk exposure refer to Note 11.5.

The following table presents recognised ‘Cash and cash equivalents’ and ‘Bank overdrafts’, and the impact of the netting of gross amounts. The ‘Net amount’ below refers to the impact on HEINEKEN’s balance sheet if all amounts subject to legal offset rights are netted.

	2020				
In millions of €	Gross amounts	Gross amounts offset in the statement of financial position	Net amounts presented in the statement of financial position	Amounts subject to legal offset rights	Net amount
Assets					
Cash and cash equivalents	4,000	—	4,000	(235)	3,765
Liabilities					
Bank overdrafts	(481)	—	(481)	235	(246)
					2019
Assets					
Cash and cash equivalents	1,821	—	1,821	(600)	1,221
Liabilities					
Bank overdrafts	(1,134)	—	(1,134)	600	(534)

HEINEKEN operates in a number of territories where there is limited availability of foreign currency resulting in restrictions on remittances. Mainly as a result of these restrictions, €373 million (2019: €342 million) of cash included in cash and cash equivalents is restricted for use by the Company, yet available for use in the relevant subsidiary’s day-to-day operations.

Accounting policies

Cash and cash equivalents are initially recognised at fair value and subsequently at amortised cost.

HEINEKEN has cash pooling arrangements with legally enforceable rights to offset cash and overdraft balances. Where there is an intention to settle on a net basis, cash and overdraft balances relating to the cash pooling arrangements are reported on a net basis in the statement of financial position.

11.3 Borrowings

HEINEKEN mainly uses bonds, commercial paper and bank loans to ensure sufficient financing to support its operations. Net interest-bearing debt is the key metric for HEINEKEN to measure its indebtedness.

In millions of €	Note	2020			2019		
		Non-current	Current	Total	Non-current	Current	Total
Unsecured bond issues		13,242	1,200	14,442	11,774	1,014	12,788
Lease liabilities		936	263	1,199	1,003	255	1,258
Bank loans		374	38	412	462	22	484
Other interest-bearing liabilities		64	983	1,047	127	568	695
Deposits from third parties ¹		—	615	615	—	693	693
Bank overdrafts		—	481	481	—	1,134	1,134
Total borrowings		14,616	3,580	18,196	13,366	3,686	17,052
Market value of cross-currency interest rate swaps	11.5			14			28
Cash and cash equivalents	11.2			(4,000)			(1,821)
Net interest-bearing debt position				14,210			15,259

¹ Mainly employee deposits.

As at 31 December 2020, €106 million of the €412 million of bank loans is secured (2019: €103 million). Other interest-bearing liabilities includes €698 million of centrally issued commercial paper (2019: €532 million).

In millions of €	Unsecured bond issues	Lease liabilities	Bank loans	Other interest-bearing liabilities	Deposits from third parties	Derivatives used for financing activities	Assets and liabilities used for financing activities
Balance as at 1 January 2020	12,788	1,258	484	695	693	28	15,946
Consolidation changes	—	2	(47)	(24)	—	—	(69)
Effect of movements in exchange rates	(314)	(83)	(21)	(63)	(4)	(19)	(504)
Addition of leases	—	341	—	—	—	—	341
Proceeds	2,973	—	290	2,748	21	5	6,037
(Re)payments	(1,016)	(281)	(295)	(2,300)	(90)	—	(3,982)
Interest paid over lease liability	—	(60)	—	—	—	—	(60)
Other	11	22	1	(9)	(5)	—	20
Balance as at 31 December 2020	14,442	1,199	412	1,047	615	14	17,729

In millions of €	Unsecured bond issues	Lease liabilities	Bank loans	Other interest-bearing liabilities	Deposits from third parties	Derivatives used for financing activities	Assets and liabilities used for financing activities
Balance as at 1 January 2019	13,150	—	326	177	678	(2)	14,329
Policy changes	—	1,252	—	—	—	—	1,252
Consolidation changes	—	4	15	8	—	—	27
Effect of movements in exchange rates	97	29	(1)	—	1	38	164
Addition of leases	—	268	—	—	—	—	268
Proceeds	516	—	335	1,339	98	—	2,288
(Re)payments	(984)	(259)	(189)	(832)	(105)	(8)	(2,377)
Transfer to liabilities held for sale	—	(4)	—	—	—	—	(4)
Interest paid over lease liability	—	(55)	—	—	—	—	(55)
Other	9	23	(2)	3	21	—	54
Balance as at 31 December 2019	12,788	1,258	484	695	693	28	15,946

Changes in borrowings

Cash flows from financing activities are mainly generated by bonds, commercial paper, bank loans and other interest-bearing liabilities presented above. Additionally, HEINEKEN also uses derivatives related to its financing, which can be recognised as assets or liabilities. The above table details the reconciliation of the liabilities and assets arising from financing activities to the cash flow from financing activities. Bank overdrafts form an integral part of HEINEKEN's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. For more information on derivatives refer to Note 11.6.

The interest rate on the net debt position as at 31 December 2020 was 3.0% (2019: 3.0%). The average maturity of the bonds as at 31 December 2020 was 8 years (2019: 7 years).

Centrally available financing headroom

The centrally available financing headroom at Group level was approximately €5.2 billion as at 31 December 2020 (2019: €3.0 billion) and consisted of the undrawn revolving credit facility and cash minus commercial paper and other short-term borrowings. HEINEKEN increased its financing headroom by issuing new bonds and acquiring short-term funding, including raising €3.0 billion through five new bonds under the EMTN programme.

Accounting estimates and judgements

Significant judgement is required to determine the lease term and the incremental borrowing rate. The assessment of whether HEINEKEN is reasonably certain to exercise extension options or not to make use of termination options

impacts the lease term, which as a result could affect the amount of lease liabilities recognised. The assumptions used in the determination of the incremental borrowing rate could impact the rate used in discounting future payments, which as a result could have an impact on the amount of lease liabilities recognised.

Accounting policies

Borrowings

Borrowings are initially measured at fair value less transaction costs. Subsequently the borrowings are measured at amortised cost using the effective interest rate method. Borrowings included in a fair value hedge are stated at fair value in respect of the risk being hedged.

Borrowings for which HEINEKEN has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date are classified as non-current liabilities. For the accounting policy on derivatives and cash and cash equivalents refer to Notes 11.6. and 11.2 respectively.

Lease liabilities

Lease liabilities are measured at the present value of the lease payments to be paid during the lease term, discounted using the incremental borrowing rate ('IBR'). Lease liabilities are subsequently increased by the interest cost on the lease liabilities and decreased by lease payments made. The lease liabilities will be remeasured when there is a change in the amount to be paid (e.g. due to indexation) or when there is a change in the assessment of the lease terms.

The IBR is determined on a country level. For each country there are separate rates depending on the contract currency and the term of the lease. The IBR is calculated based on the local risk free rate plus a country default spread and a credit spread.

The lease term is determined as the non-cancellable period of a lease, together with:

- Periods covered by a unilateral option to extend the lease if HEINEKEN is reasonably certain to make use of that option.
- Periods covered by an option to terminate the lease if HEINEKEN is reasonably certain not to make use of that option.

HEINEKEN applies the following practical expedients for the recognition of leases:

- Apply a single discount rate per country to a portfolio of leases with reasonably similar characteristics.
- Include non-lease components in the lease liability for equipment leases.

11.4 Capital and reserves

Share capital

Refer to the table below for the issued share capital as at 31 December. All issued shares are fully paid.

Share capital	2020		2019	
	Shares of €1.60	Nominal value in millions of €	Shares of €1.60	Nominal value in millions of €
1 January	576,002,613	922	576,002,613	922
Changes	—	—	—	—
31 December	576,002,613	922	576,002,613	922

The Company's authorised capital amounts to €2,500 million, consisting of 1,562,500,000 shares.

The shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings of the Company. In respect of the treasury shares that are held by HEINEKEN, rights are suspended.

Share premium

As at 31 December 2020, the share premium amounted to €2,701 million (2019: €2,701 million).

Translation reserve

The translation reserve comprises foreign currency differences arising from the translation of the assets and liabilities of foreign operations of HEINEKEN (excluding amounts attributable to non-controlling interests) as well as value changes of the hedging instruments in the net investment hedges. HEINEKEN considers this a legal reserve.

Hedging reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred. HEINEKEN considers this a legal reserve.

Fair value reserve

This reserve comprises the cumulative net change in the fair value of FVOCI equity investments. HEINEKEN transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised. HEINEKEN considers this a legal reserve.

Other legal reserves

These reserves relate to the share of profit of joint ventures and associates over the distribution of which HEINEKEN does not have control. The movement in these reserves reflects the share of profit of joint ventures and associates minus dividends received. For retained earnings of subsidiaries which cannot be freely distributed due to legal or other restrictions, a legal reserve is recognised. Furthermore, part of the reserve comprises a legal reserve for capitalised development costs.

Reserve for own shares

The reserve for own shares comprises the treasury shares held by HEINEKEN. Refer to the table below with the changes in 2020.

Reserve for own shares	Number of shares
1 January 2020	694,570
Changes	(414,838)
31 December 2020	279,732

Dividends

The following dividends were declared and paid by HEINEKEN:

In millions of €	2020	2019	2018
Final dividend previous year €1.04, respectively €1.01 per qualifying share	599	581	531
Interim dividend current year €nil, respectively €0.64 per qualifying share	—	368	335
Total dividend declared and paid	599	949	866

For 2020, a payment of a total cash dividend of €0.70 per share (2019: 1.68) will be proposed at the AGM on 22 April 2021. If approved, the full dividend will be paid on 6 May 2021, as no interim dividend was paid during 2020. The payment will be subject to a 15% Dutch withholding tax.

After the balance sheet date, the Executive Board proposed the following appropriation of loss. The dividends have not been provided for.

In millions of €	2020	2019	2018
Dividend per qualifying share €0.70 (2019: €1.68)	403	967	912
Addition to/(reduction of) retained earnings	(607)	1,199	1,001
Net profit/(loss)	(204)	2,166	1,913

Non-controlling interests

The non-controlling interests (NCI) relate to minority stakes held by third parties in HEINEKEN consolidated subsidiaries. The total NCI as at 31 December 2020 amounted to €1,000 million (2019: €1,164 million).

Capital management

There were no major changes in HEINEKEN's approach to capital management during the year. The Executive Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and acquisitions.

HEINEKEN is not subject to externally imposed capital requirements other than the legal reserves. Shares are purchased from time to time to meet the requirements of the share-based payment awards, as further explained in Note 6.5.

Accounting policies

Shares are classified as equity. When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects recognised as a deduction from equity. Repurchased shares recorded at purchase price are classified as treasury shares and are presented in the reserve for own shares.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

Dividends are recognised as a liability in the period in which they are declared.

11.5 Credit, liquidity and market risk

This note summarises the financial risks that HEINEKEN is exposed to, and HEINEKEN's policies and processes that are in place for managing these risks. For more information on derivatives used in managing risk refer to Note 11.6.

Risk management framework

The Executive Board sets rules and monitors the adequacy of HEINEKEN's risk management and control systems. These systems are regularly reviewed to reflect changes in market conditions and HEINEKEN's activities.

Managing the financial risks and financial resources includes the use of derivatives, primarily spot and forward exchange contracts, options and interest rate swaps. It is HEINEKEN's policy not to enter into speculative transactions.

In the normal course of business HEINEKEN is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk

Credit risk

Credit risk is the risk of a loss to HEINEKEN when a customer or counterparty fails to pay.

All local operations are required to comply with the Global Credit Policy and develop local credit management procedures accordingly. HEINEKEN reviews and updates the Global Credit Policy periodically to ensure that adequate controls are in place to mitigate credit risk.

Credit risk arises mainly from HEINEKEN's receivables from customers like trade receivables, loans to customers and advances to customers. At the balance sheet date, there were no significant concentrations of credit risk.

Loans and advances to customers

HEINEKEN's loans and receivables include loans and advances to customers. Loans and advances to customers are usually backed by collateral such as properties. HEINEKEN charges interest on loans to its customers.

Trade and other receivables

HEINEKEN's local management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Under these policies all customers requiring credit above a certain amount are reviewed and new customers are analysed individually for creditworthiness before HEINEKEN's standard payment and delivery terms and conditions are offered. This review can include external ratings, where available, and in some cases bank references. Credit limits are determined for each customer and are reviewed regularly. Customers that fail to meet HEINEKEN's credit requirements transact only with HEINEKEN on either a prepayment or cash on delivery basis.

Customers are monitored, on a country basis, according to their credit risk characteristics. Distinction is made between individuals and legal entities, type of distribution channel, geographic location, ageing profile, maturity and existence of previous financial difficulties.

HEINEKEN has a policy in place in respect of compliance with Anti-Money Laundering Laws. HEINEKEN considers it important to know with whom business is done and from whom payments are received.

Allowances

HEINEKEN establishes allowances for impairment of loans and advances to customers, trade and other receivables using an expected credit losses model. These allowances cover specific loss components that relate to individual exposures, and a collective loss component established for groups of similar customers. The collective loss allowance is determined based on historical data of payment statistics and updated periodically to incorporate forward looking information. The loans and advances to customers, trade and other receivables are written off when there is no reasonable expectation of recovery.

Due to the uncertainty relating to the depth and duration of the COVID-19 pandemic and its related impact on HEINEKEN's customers, more judgement is required in the calculation of expected credit losses compared to previous years. As part of these assessments, HEINEKEN has incorporated all reasonable and supportable information available such as whether there has been a breach or deterioration of payments terms, a request for extended payment terms or a request for waived payment terms.

Investments

HEINEKEN invests centrally available cash balances in deposits and liquid investments with various counterparties that have strong credit ratings. HEINEKEN actively monitors these credit ratings.

Guarantees

HEINEKEN's policy is to avoid issuing guarantees unless this leads to substantial benefits for HEINEKEN. For some loans (to customers) HEINEKEN does issue guarantees. In these cases HEINEKEN aims to receive security from the customer to limit the credit risk exposure.

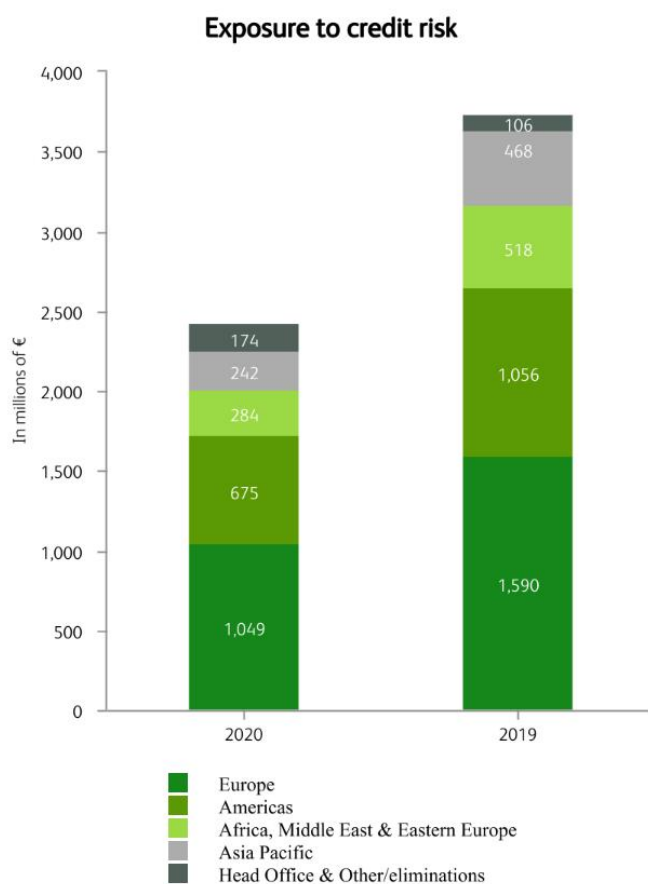
Heineken N.V. has issued a joint and several liability statement to the provisions of Section 403, Part 9, Book 2 of the Dutch Civil Code with respect to legal entities established in the Netherlands. Refer to Note 13.4.

Exposure to credit risk

The maximum exposure to credit risk as at 31 December is as follows:

In millions of €	Note	2020	2019
Cash and cash equivalents	11.2	4,000	1,821
Trade and other receivables, excluding prepayments	7.2	2,424	3,738
Derivative assets	11.6	98	30
Fair value through OCI investments	8.5	13	408
Loans and advances to customers	8.4	194	277
Other non-current receivables	8.5	307	406
Guarantees to banks for loans (to third parties)	9.3	330	332
		7,366	7,012

The exposure to credit risk by segment for trade and other receivables excluding prepayments is as follows:



HEINEKEN enters into derivatives and other financial liabilities to manage market risks. Generally, HEINEKEN seeks to apply hedge accounting or establish natural hedges in order to minimise the impact of market risks in profit or loss. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules.

Foreign currency risk

HEINEKEN is exposed to:

- Transactional risk on (future) sales, working capital, (future) purchases, deposits, borrowings and dividends denominated in a currency other than the respective functional currencies of HEINEKEN entities.
- Translational risk, which is the risk resulting from the translation of foreign operations into the reporting currency of HEINEKEN.

The main currencies that give rise to this risk are the US Dollar, Mexican Peso, Brazilian Real, British Pound, Vietnamese Dong and euro. Overall, COVID-19 negatively impacted currency developments for HEINEKEN. In 2020, the transactional exchange risk was hedged in line with the hedging policy to the extent possible. Especially the development of the Mexican Peso and Brazilian Real resulted in a negative translational and transactional impact on the reported numbers of HEINEKEN.

In managing foreign currency risk, HEINEKEN aims to ensure the availability of foreign currencies and to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in foreign exchange rates and the availability of foreign currencies, especially in emerging markets, will have an impact on profit.

HEINEKEN hedges up to 90% of its net US Dollar export cash flows on the basis of rolling cash flow forecasts of sales and purchases. Material cash flows in other foreign currencies are also hedged on the basis of rolling cash flow forecasts. For this hedging, HEINEKEN mainly uses forward exchange contracts. The majority of the forward exchange contracts have maturities of less than one year after the balance sheet date.

HEINEKEN has a clear policy on hedging transactional exchange risks. Translation exchange risks are hedged to a limited extent, as the underlying currency positions are generally considered to be long-term in nature. The result of the hedging of translation risk, using net investment hedges is recognised in the translation reserve, as can be seen in the consolidated statement of comprehensive income.

HEINEKEN's policy is to hedge material recognised transactional exposure like trade payables, receivables, borrowings and declared dividends. For material unrecognised transactional exposures like forecasted sales in foreign currencies, HEINEKEN hedges the exposure between agreed percentages according to the policy.

It is HEINEKEN's policy to provide intra-HEINEKEN financing in the functional currency of subsidiaries where possible to prevent foreign currency exposure on a subsidiary level. The resulting exposure at Group level is hedged by means of foreign currency denominated external debts and by forward exchange contracts. Intra-HEINEKEN financing in foreign currencies is mainly in British Pound, US Dollar and Swiss Franc. In some cases, HEINEKEN elects to treat intra-HEINEKEN financing with a permanent character as equity and does not hedge the foreign currency exposure.

HEINEKEN has financial liabilities in foreign currencies like US Dollar and British Pound to hedge local operations, which generate cash flows that have the same or closely correlated functional currencies. The corresponding interest on these liabilities is also denominated in currencies that match the cash flows generated by the underlying operations of HEINEKEN.

In respect of other monetary assets and liabilities denominated in currencies other than the functional currencies of HEINEKEN, HEINEKEN ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to foreign currency risk

Based on notional amounts, HEINEKEN's transactional exposure to the US Dollar and euro as at 31 December is as follows. The euro column relates to transactional exposure to the euro within subsidiaries which are reporting in other currencies. The amounts below include intra-HEINEKEN cash flows.

In millions	2020		2019	
	EUR	USD	EUR	USD
Financial assets	111	4,940	171	4,908
Financial liabilities	(2,374)	(5,433)	(2,243)	(5,524)
Gross balance sheet exposure	(2,263)	(493)	(2,072)	(616)
Estimated forecast sales next year	154	1,207	161	1,203
Estimated forecast purchases next year	(1,825)	(2,346)	(1,871)	(2,644)
Gross exposure	(3,934)	(1,632)	(3,782)	(2,057)
Net notional amounts foreign exchange contracts	373	885	366	858
Net exposure	(3,561)	(747)	(3,416)	(1,199)
Sensitivity analysis				
Equity	(158)	27	(142)	18
Profit/(Loss)	<u>(30)</u>	<u>(6)</u>	<u>(21)</u>	<u>(12)</u>

The sensitivity analysis above shows the impact on equity and profit of a 10% strengthening of the US Dollar against the euro or, in case of the euro, a strengthening of the euro against all other currencies as at 31 December 2020. This analysis assumes that all other variables, in particular interest rates, remain constant. In case of a 10% weakening, the effects are equal but with an opposite effect.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates affect the fair value or cash flows of a financial instrument. The most significant interest rate risk for HEINEKEN relates to borrowings (Note 11.3).

By managing interest rate risk, HEINEKEN aims to reduce the impact of short-term fluctuations on earnings. Over the longer term however, permanent changes in interest rates will have an impact on profit.

HEINEKEN opts for a mix of fixed and variable interest rate financial instruments like bonds, commercial paper and bank loans, combined with the use of derivative interest rate instruments. Currently, HEINEKEN's interest rate position is more weighted towards fixed than floating. Interest rate derivative instruments that can be used are (cross-currency) interest rate swaps, forward rate agreements, caps and floors.

Interest rate risk – profile

At the reporting date, the interest rate profile of HEINEKEN's interest-bearing financial instruments is as follows:

In millions of €	2020	2019
Fixed rate instruments		
Financial assets	122	128
Financial liabilities	(16,473)	(14,822)
Cross-currency interest rate swaps	407	445
	(15,944)	(14,249)
Variable rate instruments		
Financial assets	4,289	2,275
Financial liabilities	(1,724)	(2,230)
Cross-currency interest rate swaps	(463)	(463)
	2,102	(418)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates constantly applied during the reporting period would not have a material impact on equity and profit or loss.

Commodity price risk

Commodity price risk is the risk that changes in the prices of commodities will affect HEINEKEN's cost. The objective of commodity price risk management is to manage and control commodity risk exposures within acceptable parameters. As a consequence of the COVID-19 pandemic, the commodity price volatility increased significantly in 2020. The main commodity exposure relates to the purchase of aluminium cans, glass bottles, malt and utilities. Commodity price risk is in principle mitigated by negotiating fixed prices in supplier contracts with various contract durations.

Another method to mitigate commodity price risk is by entering into commodity derivatives. HEINEKEN enters into commodity derivatives for aluminium hedging and to a certain extent other derivatives for commodities like fuel, corn and sugar. HEINEKEN does not enter into commodity contracts other than to meet HEINEKEN's expected usage and sale requirements.

Sensitivity analysis for aluminium hedges

A 10% change in the market price of aluminium would not have a material impact on equity.

11.6 Derivative financial instruments

HEINEKEN uses derivatives in order to manage market risks. Refer to the table below for the fair value of derivatives recorded on the balance sheet of HEINEKEN as per reporting date:

In millions of €	2020		2019	
	Asset	Liability	Asset	Liability
Current	77	(52)	28	(69)
Non-current ¹	21	(35)	2	(22)
	98	(87)	30	(91)

¹ Non-current derivative assets and liabilities are part of 'Other non-current assets' (Note 8.5) and 'Other non-current liabilities' respectively.

Generally, HEINEKEN seeks to apply hedge accounting or make use of natural hedges in order to minimise profit and loss or cash flow volatility. Refer to the table below for derivatives that are used in hedge accounting:

In millions of €	2020		2019	
	Asset	Liability	Asset	Liability
No hedge accounting - CCIRS	3	—	—	(16)
No hedge accounting - Other	9	(12)	4	(10)
Cash flow hedge - Forwards	46	(37)	11	(31)
Cash flow hedge - Commodity forwards	21	(3)	15	(20)
Fair value hedge - CCIRS	—	(35)	—	(7)
Net investment hedge - CCIRS	18	—	—	(5)
Net investment hedge - Forwards	1	—	—	(2)
	98	(87)	30	(91)

Cash flow hedges

The hedging of future, highly probable forecasted transactions are designated as cash flow hedges. Cash flow hedges are entered into to cover commodity price risk and transactional foreign exchange risk.

Net investment hedges

HEINEKEN hedges its investments in certain subsidiaries by entering into local currency denominated borrowings, forward contracts and cross-currency interest rate swaps, which mitigate the foreign currency translation risk arising

from the subsidiaries net assets. These borrowings, forward contracts and swaps are designated as net investment hedges and fully effective, as such there was no ineffectiveness recognised in profit and loss in 2020 (2019: nil). As at 31 December 2020 the fair value of these borrowings was €200 million (2019: €288 million), the market value of forward contracts was €1 million positive (2019: €2 million negative) and the market value of these swaps was €18 million positive (2019: €5 million negative).

Fair value hedges

HEINEKEN has entered into several cross-currency interest rate swaps (CCIRS) which have been designated as fair value hedges to hedge the foreign exchange rate risk on the principal amount and future interest payments of certain US Dollar borrowings. The borrowings and the cross-currency interest rate swaps have the same critical terms. The accumulated loss arising on derivatives as designated hedging instruments in fair value hedges amounts to €38 million as at 31 December 2020 (2019: €11 million). The gain arising on the adjustment for the hedged item attributable to the hedged risk in a designated fair value hedge accounting relationship also amounts to €38 million as at 31 December 2020 (2019: €11 million).

Hedge effectiveness

Hedge effectiveness is determined at the start of the hedge relationship and periodically through a prospective effectiveness assessment to ensure that an economic relationship exists between the hedged item and hedging instrument. This assessment is done qualitatively by comparing the critical terms, and if needed quantitative assessments are done using hypothetical derivatives. For the current hedges no hedge ineffectiveness is expected.

Accounting policies

Derivative financial instruments are recognised initially at fair value. Subsequent accounting for derivatives depends on whether or not the derivatives are designated as hedging instrument in a cash flow, fair value or net investment hedge. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities. Refer to Note 13.1 for fair value measurements.

Cash flow hedge

Changes in the fair value are recognised in other comprehensive income and presented in the hedging reserve within equity to the extent that the hedge is effective. The ineffective part is recognised as other net finance income/(expense). When the hedged risk impacts the profit or loss, the amounts previously recognised in other comprehensive income are recycled through other comprehensive income and transferred to the same item in the profit or loss as the hedged item. When the hedged risk subsequently results in a non-financial asset or liability (e.g. inventory or P,P&E), the amount previously recognised in the cash flow hedge reserve is directly included in its carrying amount and does not affect other comprehensive income.

Fair value hedge

The fair value changes of derivatives used in fair value hedges are recognised in profit or loss.

Net investment hedge

The fair value changes of derivatives used in net investment hedges are recognised in other comprehensive income and presented within equity in the translation reserve. Any ineffectiveness is recognised in profit or loss.

12. Tax

12.1 Income tax expense

Recognized in profit or loss

In millions of €	2020	2019	2018
Current tax expense			
Current year	688	896	809
Under/(over) provided in prior years	15	27	(24)
	703	923	785
Deferred tax expense			
Origination and reversal of temporary differences, tax losses and tax credits	(438)	30	(29)
De-recognition/(recognition) of deferred tax assets	(2)	(33)	—
Effect of changes in tax rates	(13)	(1)	(3)
Under/(over) provided in prior years	(5)	(9)	(12)
	(458)	(13)	(44)
Total income tax expense in profit or loss	245	910	741

Reconciliation of the effective tax rate

In millions of €	2020	2019	2018			
Profit before income tax	157	3,284	2,846			
Share of (profit)/loss of associates and joint ventures	31	(164)	(210)			
Profit before income tax excluding share of profit/(loss) of associates and joint ventures	188	3,120	2,636			
	%	2020	%	2019	%	2018
Company's domestic tax rate	25.0	47	25.0	780	25.0	659
Effect of tax rates in foreign jurisdictions	(5.6)	(10)	0.7	21	(0.1)	(3)
Effect of non-deductible expenses	66.2	124	3.2	100	2.3	62
Effect of tax incentives and exempt income	(34.3)	(64)	(3.8)	(119)	(3.2)	(84)
De-recognition/(recognition) of deferred tax assets	(1.0)	(2)	(1.1)	(33)	—	—
Effect of unrecognised current year losses	67.9	128	2.8	87	3.4	89
Effect of changes in tax rates	(6.9)	(13)	—	(1)	(0.1)	(3)
Withholding taxes	26.2	49	2.1	67	3.2	84
Under/(over) provided in prior years	5.5	10	0.6	18	(1.4)	(37)
Other reconciling items	(12.7)	(24)	(0.3)	(10)	(1.0)	(26)
	130.3	245	29.2	910	28.1	741

COVID-19 related impairment and operational losses for which no tax benefit could be recognised increased the effective tax rate in 2020. Furthermore, the relative effect of permanent items increased significantly due to the low profit before income tax.

For the income tax impact on items recognised in other comprehensive income, refer to Note 12.3.

12.2 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

In millions of €	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
P,P&E	104	98	(623)	(803)	(519)	(705)
Intangible assets	45	29	(1,049)	(1,358)	(1,004)	(1,329)
Investments	35	41	(5)	(5)	30	36
Inventories	57	47	(3)	(12)	54	35
Borrowings	281	308	(3)	—	278	308
Post-retirement obligations	279	278	(5)	(4)	274	274
Provisions	258	302	(13)	(28)	245	274
Other items	182	138	(181)	(216)	1	(78)
Tax losses carried forward	421	410	—	—	421	410
Tax assets/(liabilities)	1,662	1,651	(1,882)	(2,426)	(220)	(775)
Set-off of tax	(883)	(1,004)	883	1,004	—	—
Net tax assets/(liabilities)	779	647	(999)	(1,422)	(220)	(775)

Of the total net deferred tax assets of €779 million as at 31 December 2020 (2019: €647 million), €528 million (2019: €101 million) is recognised in respect of subsidiaries in various countries where there have been losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise these deferred tax assets. This judgement is performed annually and based on budgets and business plans for the coming years, including planned commercial initiatives and the impact of COVID-19.

No deferred tax liability has been recognised in respect of undistributed earnings of subsidiaries, joint ventures and associates, with an impact of €201 million (2019: €141 million). This is because HEINEKEN is able to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse in the foreseeable future.

Tax losses carried forward

HEINEKEN has tax losses carried forward of €3,663 million as at 31 December 2020 (2019: €4,024 million), out of which €409 million (2019: €382 million) expires in the following five years, €490 million (2019: €191 million) will expire after five years and €2,764 million (2019: €3,451 million) can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of tax losses carried forward of €1,858 million (2019: €2,163 million) as it is not probable that taxable profit will be available to offset these losses. Out of this €1,858 million (2019: €2,163 million), €256 million (2019: €173 million) expires in the following five years, €233 million (2019: €16 million) will expire after five years and €1,369 million (2019: €1,974 million) can be carried forward indefinitely.

Movement in deferred tax balances during the year

In millions of €	1 January 2020	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	31 December 2020
P,P&E	(705)	(1)	74	122	—	(9)	(519)
Intangible assets	(1,329)	2	128	195	—	—	(1,004)
Investments	36	—	(7)	1	—	—	30
Inventories	35	—	—	19	—	—	54
Borrowings	308	1	(1)	(36)	(3)	9	278
Post-retirement obligations	274	—	(10)	—	10	—	274
Provisions	274	6	(58)	23	—	—	245
Other items	(78)	—	4	87	(12)	—	1
Tax losses carried forward	410	1	(37)	47	—	—	421
Net tax assets/(liabilities)	(775)	9	93	458	(5)	—	(220)

In millions of €	1 January 2019	Changes in accounting policy (IFRS 16)	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	31 December 2019
P,P&E	(468)	(226)	(1)	(16)	11	—	(5)	(705)
Intangible assets	(1,331)	—	(19)	(37)	49	—	9	(1,329)
Investments	39	—	—	2	(5)	—	—	36
Inventories	28	—	—	1	4	—	2	35
Borrowings	11	291	—	11	(15)	—	10	308
Post-retirement obligations	225	—	—	6	(15)	58	—	274
Provisions	283	—	—	(5)	(2)	—	(2)	274
Other items	1	(65)	—	(40)	(7)	10	23	(78)
Tax losses carried forward	407	—	2	9	(7)	—	(1)	410
Net tax assets/(liabilities)	(805)	—	(18)	(69)	13	68	36	(775)

Accounting estimates and judgements

The tax legislation in the countries in which HEINEKEN operates is often complex and subject to interpretation. In determining the current and deferred income tax position, judgement is required. New information may become available that causes HEINEKEN to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the income tax expense in the period that such a determination is made.

Accounting policies

Income tax comprises current and deferred tax. Current tax is the expected income tax payable or receivable in respect of taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to income tax payable in respect of previous years.

Deferred tax is a tax payable or receivable in the future and is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax is not recognised on temporary differences related to:

- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.
- Investments in subsidiaries, associates and joint ventures to the extent that HEINEKEN is able to control the timing of the reversal of the temporary differences and it is probable (>50% chance) that they will not reverse in the foreseeable future.
- The initial recognition of non-deductible goodwill.

The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using tax rates (substantively) enacted, at year-end.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

Current and deferred tax are recognised in the income statement (refer to Note 12.1), except when it relates to a business combination or for items directly recognised in equity or other comprehensive income (refer to Note 12.3).

12.3 Income tax on other comprehensive income

In millions of €	2020			2019			2018		
	Amount before tax	Tax	Amount net of tax	Amount before tax	Tax	Amount net of tax	Amount before tax	Tax	Amount net of tax
Items that will not be reclassified to profit or loss:									
Remeasurement of post-retirement obligations	53	9	62	(268)	58	(210)	296	(75)	221
Net change in fair value through OCI investments	(90)	(8)	(98)	6	3	9	8	3	11
Items that may be subsequently reclassified to profit or loss:									
Currency translation differences	(2,169)	55	(2,114)	412	(43)	369	(134)	28	(106)
Change in fair value of net investment hedges	76	—	76	(43)	—	(43)	(3)	—	(3)
Change in fair value of cash flow hedges	58	(13)	45	52	12	64	(96)	29	(67)
Cash flow hedges reclassified to profit or loss	5	(1)	4	27	(6)	21	(77)	—	(77)
Net change in fair value through OCI investments	(1)	—	(1)	1	—	1	—	—	—
Cost of hedging	(8)	2	(6)	(6)	1	(5)	7	(1)	6
Share of other comprehensive income of associates/joint ventures	16	—	16	(20)	—	(20)	(36)	—	(36)
Other comprehensive income/(loss)	(2,060)	44	(2,016)	161	25	186	(35)	(16)	(51)

13. Other

13.1 Fair value

In this note more information is disclosed regarding the fair value and the different methods of determining fair values.

Financial instruments - hierarchy

The financial instruments included on the HEINEKEN statement of financial position are measured at either fair value or amortised cost. To measure the fair value, HEINEKEN generally uses external valuations with market inputs. The measurement of fair value can be subjective in some cases and may be dependent on inputs used in the calculations. The different valuation methods are referred to as 'hierarchies' as described below.

- Level 1 - The fair value is determined using quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2 - The fair value is calculated using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - The fair value is determined using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The following table shows the carrying amounts and fair values of financial assets and liabilities according to their fair value hierarchy.

In millions of €	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Fair value through OCI investments	8.5	117	33	—	84
Non-current derivative assets	11.6	21	—	20	1
Current derivative assets	11.6	77	—	77	—
Total 2020		215	33	97	85
Total 2019		438	283	30	125
Non-current derivative liabilities	11.6	(35)	—	(35)	—
Borrowings ¹	11.3	(14,854)	(15,508)	(1,076)	—
Current derivative liabilities	11.6	(52)	—	(52)	—
Total 2020		(14,941)	(15,508)	(1,163)	—
Total 2019	11.3	(13,526)	(13,824)	(737)	—

¹ Borrowings excluding lease liabilities, deposits, bank overdrafts and other interest-bearing liabilities.

Refer to the table below for detail of the determination of level 3 fair value measurements as at 31 December:

In millions of €	2020	2019
Fair value through OCI investments based on level 3		
Balance as at 1 January	125	91
Fair value adjustments recognised in other comprehensive income	(41)	34
Balance as at 31 December	84	125

The fair values for the level 3 fair value through OCI investments are based on the financial performance of the investments and the market multiples of comparable equity securities.

Accounting estimates

The different methods applied by HEINEKEN to determine the fair value require the use of estimates.

Investments in equity securities

The fair value of financial assets at fair value through profit or loss and fair value through OCI is determined by reference to their quoted closing bid price at the reporting date or, if unquoted, determined using an appropriate valuation technique. These valuation techniques maximise the use of observable market data where available.

Derivative financial instruments

The fair value of derivative financial instruments is based on their listed market price, if available. If a listed market price is not available, fair value is in general estimated by discounting the difference between the cash flows based on contractual price and the cash flows based on current price for the residual maturity of the contract using observable interest yield curves, basis spread and foreign exchange rates. These calculations are tested for reasonableness by comparing the outcome of the internal valuation with the valuation received from the counterparty. Fair values include the instrument's credit risk and adjustments to take account of the credit risk of the HEINEKEN entity and counterparty when appropriate.

Non-derivative financial instruments

Fair value, which is determined for disclosure purposes or when fair value hedge accounting is applied, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair values include the instrument's credit risk and adjustments to take account of the credit risk of the HEINEKEN entity and counterparty when appropriate.

13.2 Off-balance sheet commitments

The raw materials purchase contracts mainly relate to malt, bottles and cans which are used in the production and sale of finished products.

<u>In millions of €</u>	<u>Total 2020</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total 2019</u>
Property, plant and equipment ordered	363	352	11	—	321
Raw materials purchase contracts	9,586	2,934	5,791	861	8,827
Marketing and merchandising commitments	851	311	525	15	1,051
Other off-balance sheet obligations	1,773	324	629	820	2,005
Off-balance sheet obligations	12,573	3,921	6,956	1,696	12,204
Undrawn committed bank facilities	3,941	389	3,552	—	3,750

Other off-balance sheet obligations include energy, distribution and service contracts.

Committed bank facilities are credit facilities on which a commitment fee is paid as compensation for the bank's requirement to reserve capital. The bank is legally obliged to provide the facility under the terms and conditions of the agreement.

Accounting policies

Off-balance sheet commitments are reported on an undiscounted basis.

Raw materials purchase contracts

Raw material purchase contracts include long-term purchase contracts with suppliers in which prices are fixed or will be agreed based upon predefined price formulas.

13.3 Related parties

Identification of related parties

The following parties are considered to be related to Heineken N.V.:

- Key management personnel: the Executive Board and the Supervisory Board
- Parent company Heineken Holding N.V. and ultimate controlling party Mrs. de Carvalho-Heineken (refer to 'Shareholder Information')
- Associates and Joint ventures of Heineken N.V.
- Shareholder with significant influence Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA)
- HEINEKEN pension funds (refer to Note 9.1)
- Employees of HEINEKEN (refer to Note 6.4)

Key management remuneration

In millions of €	2020	2019	2018
Executive Board	9.9	10.8	12.0
Supervisory Board	1.3	1.5	1.0
Total	11.2	12.3	13.0

Executive Board

The remuneration of the members of the Executive Board consists of a fixed component and a variable component. The variable component is made up of a Short-term incentive (STI) and a Long-term incentive (LTI). The STI is based on financial and operational measures (75%) and on individual leadership measures (25%) as set by the Supervisory Board at the beginning of the year. Refer to Note 6.5 for information related to the LTI component.

As at 31 December 2020, Mr. R.G.S. van den Brink held 4,379 Company shares and Mrs. L.M. Debroux held 63,330 Company shares (2019: Mrs. L.M. Debroux 45,318).

In thousands of €	2020				2019		
	R.G.S. van den Brink ²	L.M. Debroux ⁵	J.F.M.L. van Boxmeer ^{1,3,4,6}	Total	J.F.M.L. van Boxmeer	L.M. Debroux	Total
Fixed salary	631	737	500	1,868	1,250	850	2,100
Short-term incentive	—	—	—	—	2,223	1,080	3,303
Matching share entitlement	—	—	—	—	505	245	750
Long-term incentive	396	(235)	1,597	1,758	2,323	1,201	3,524
Pension contributions	154	179	120	453	762	167	929
Other emoluments	80	154	5,536	5,770	49	183	232
Total	1,261	835	7,753	9,849	7,112	3,726	10,838

In thousands of €	2018		
	J.F.M.L. van Boxmeer	L.M. Debroux	Total
Fixed salary	1,250	735	1,985
Short-term incentive	2,730	1,147	3,877
Matching share entitlement	610	256	866
Long-term incentive	2,732	1,360	4,092
Pension contributions	873	145	1,018
Other emoluments	49	162	211
Total	8,244	3,805	12,049

- 1 Stepped down as CEO and Chairman of the Executive Board on 1 June 2020.
- 2 Appointed on 24 April 2020 as member of the Executive Board and on 1 June 2020 as CEO and Chairman of the Executive Board.
- 3 In 2020, an estimated tax penalty of €7.0 million to the Dutch tax authorities was recognised in relation to the remuneration of Mr. J.F.M.L. van Boxmeer. This tax was an expense to the employer and therefore not included in the table above.
- 4 In 2020, the accrual for the long-term incentive plans for Mr. J.F.M.L. van Boxmeer (LTI plan 2019-2021 and 2020-2022) have been recognised in full.
- 5 The reversal of the LTI plan 2018-2020 accrual (due to the cancellation it will not vest and will not be paid out) and the decline in the LTI plan 2019-2021 (due to declining performance), has resulted in a negative long-term incentive expense in 2020.
- 6 Other emoluments include the end of service payment for Mr. J.F.M.L. van Boxmeer.

In response to the COVID-19 impact on HEINEKEN's business and as announced on 22 April 2020, the Executive Board has voluntarily decided to reduce their base salary by 20% between May and December 2020. In addition the Supervisory Board has decided that there will not be a Short-term incentive (STI) pay-out for the performance year 2020 and that the LTIP 2018-2020 will not vest (refer to Note 6.5 for more information).

The matching share entitlements for each year are based on the performance in that year. The Executive Board members receive 25% of their STI pay in (investment) shares. In addition they have the opportunity to indicate before year-end whether they wish to receive up to another 25% of their STI in (investment) shares. All (investment) shares are restricted for sale for five calendar years, after which they are matched 1:1 by (matching) shares. Following the decision not to pay out the STI relating to the performance year 2020, no investment shares were issued this year for the members of the Executive Board.

Supervisory Board

The individual members of the Supervisory Board received the following remuneration:

In thousands of €	2020	2019	2018
J.M. Huët	225	195	86
J.A. Fernández Carbajal	154	153	109
M. Das	130	133	85
M.R. de Carvalho	135	141	96
A.M. Fentener van Vlissingen ³	—	—	43
V.C.O.B.J. Navarre	105	110	74
J.G. Astaburuaga Sanjinés	116	133	104
P. Mars-Wright	126	151	103
M. Helmes ⁴	125	131	62
R.L. Ripley ²	110	97	—
I.H. Arnold ²	115	100	—
G.J. Wijers ¹	—	103	163
Y. Dervisoglu ¹	—	53	70
	1,341	1,500	995

¹ Stepped down as at 25 April 2019.

² Appointed as at 25 April 2019.

³ Stepped down as at 19 April 2018.

⁴ Appointed as at 19 April 2018.

Mr. J.M. Huët held 3,719 shares of Heineken Holding N.V. as at 31 December 2020 (2019: nil shares). Mr. M.R de Carvalho held 100,008 shares of Heineken N.V. as at 31 December 2020 (2019: 100,008 shares). As at 31 December 2020 and 2019, the Supervisory Board members did not hold any of the Company's bonds or option rights. Mr. M. R de Carvalho held 100,008 shares of Heineken Holding N.V. as at 31 December 2020 (2019: 100,008 shares).

Heineken Holding N.V.

In 2020, an amount of €1,171,702 (2019: €1,146,413, 2018: €1,393,537) was paid to Heineken Holding N.V. for management services for HEINEKEN.

This payment is based on an agreement of 1977 as amended in 2001, providing that Heineken N.V. reimburses Heineken Holding N.V. for its costs.

Other related party transactions

In millions of €	Associates & Joint Ventures			FEMSA			Total		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Sales	364	462	467	831	1,170	1,235	1,195	1,632	1,702
Purchases	178	290	271	131	160	144	309	450	415
Accounts receivables	109	114	93	135	208	274	244	322	367
Accounts payables and other liabilities	37	20	40	65	108	43	102	128	83

13.4 HEINEKEN entities

Control of HEINEKEN

The shares of the Company are traded on Euronext Amsterdam, where the Company is included in the main AEX Index. Heineken Holding N.V. Amsterdam has an interest of 50.005% in the issued capital of the Company and consolidates the financial information of the Company.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued with respect to legal entities established in the Netherlands. . In the table below the list of the legal entities for which the declaration has been issued..

	Country of incorporation	Percentage of ownership	
		2020	2019
Heineken Nederlands Beheer B.V.	The Netherlands	100 %	100 %
Heineken Group B.V.	The Netherlands	100 %	100 %
Heineken Brouwerijen B.V.	The Netherlands	100 %	100 %
Heineken CEE Investments B.V.	The Netherlands	100 %	100 %
Heineken Nederland B.V.	The Netherlands	100 %	100 %
Heineken International B.V.	The Netherlands	100 %	100 %
Heineken Supply Chain B.V.	The Netherlands	100 %	100 %
Heineken Global Procurement B.V.	The Netherlands	100 %	100 %
Heineken Mexico B.V.	The Netherlands	100 %	100 %
HIBV Skopje Holdings B.V.	The Netherlands	100 %	100 %
Heineken Beer Systems B.V.	The Netherlands	100 %	100 %
Amstel Brouwerij B.V.	The Netherlands	100 %	100 %
Vrumona B.V.	The Netherlands	100 %	100 %
B.V. Beleggingsmaatschappij Limba	The Netherlands	100 %	100 %
Brand Bierbrouwerij B.V.	The Netherlands	100 %	100 %
Brasinvest B.V.	The Netherlands	100 %	100 %
Heineken Asia Pacific B.V.	The Netherlands	100 %	100 %
B.V. Handel- en Exploitatie Maatschappij Schoonhoven ¹	The Netherlands	n/a	100 %
Distilled Trading International B.V.	The Netherlands	100 %	100 %
Premium Beverages International B.V.	The Netherlands	100 %	100 %
De Brouwketel B.V.	The Netherlands	100 %	100 %
Proseco B.V.	The Netherlands	100 %	100 %
Roeminck Insurance N.V.	The Netherlands	100 %	100 %
Heineken Americas B.V.	The Netherlands	100 %	100 %
Heineken Export Americas B.V.	The Netherlands	100 %	100 %
Amstel Export Americas B.V.	The Netherlands	100 %	100 %
Heineken Brazil B.V.	The Netherlands	100 %	100 %
B.V. Panden Exploitatie Maatschappij PEM	The Netherlands	100 %	100 %
Heineken Exploitatie Maatschappij B.V.	The Netherlands	100 %	100 %
Hotel De L'Europe B.V.	The Netherlands	100 %	100 %
Hotel De L'Europe Monumenten I B.V.	The Netherlands	100 %	100 %
Hotel De L'Europe Monumenten II B.V.	The Netherlands	100 %	100 %
Heineken Groothandel B.V.	The Netherlands	100 %	100 %
Heineken Horeca Services B.V.	The Netherlands	100 %	100 %
Beerwulf B.V.	The Netherlands	100 %	100 %
Heineken Belize B.V.	The Netherlands	100 %	100 %
Heineken Netherlands Supply B.V.	The Netherlands	100 %	100 %

¹ Entity ceased to exist during 2020 following a legal merger.

Pursuant to the provisions of Section 357 of the Republic of Ireland Companies Act 2014, the Company irrevocably guarantees, in respect of the financial year from 1 January 2020 up to and including 31 December 2020, the liabilities

referred to in Schedule 3 of the Republic of Ireland Companies Act 2014 of the wholly-owned subsidiary companies Heineken Ireland Limited, Heineken Ireland Sales Limited, The West Cork Bottling Company Limited, Western Beverages Limited, Beamish & Crawford Limited and Nash Beverages Limited.

Significant subsidiaries

Set out below are HEINEKEN's significant subsidiaries at 31 December 2020. The subsidiaries as listed below are held by the Company and the proportion of ownership interests held equals the proportion of the voting rights held by HEINEKEN. The disclosed significant subsidiaries represent the largest subsidiaries and represent an approximate total revenue of €14 billion and total asset value of €27 billion and are structural contributors to the business.

There were no significant changes to the HEINEKEN structure and ownership interests.

	Country of incorporation	Percentage of ownership	
		2020	2019
Heineken International B.V.	The Netherlands	100.0	100.0
Heineken Brouwerijen B.V.	The Netherlands	100.0	100.0
Heineken Nederland B.V.	The Netherlands	100.0	100.0
Cuauhtémoc Moctezuma Holding, S.A. de C.V.	Mexico	100.0	100.0
Cervejarias Kaiser Brasil S.A.	Brazil	100.0	100.0
Bavaria S.A.	Brazil	100.0	100.0
Heineken France S.A.S.	France	100.0	100.0
Nigerian Breweries Plc.	Nigeria	56.1	56.0
Heineken USA Inc.	United States	100.0	100.0
Heineken UK Ltd	United Kingdom	100.0	100.0
Heineken España S.A.	Spain	99.8	99.8
Heineken Italia S.p.A.	Italy	100.0	100.0
Brau Union Österreich AG	Austria	100.0	100.0
Grupa Żywiec S.A.	Poland	65.2	65.2
LLC Heineken Breweries	Russia	100.0	100.0
Heineken Vietnam Brewery Limited Company	Vietnam	60.0	60.0
SCC - Sociedade Central de Cervejas e Bebidas S.A.	Portugal	99.9	99.9
Heineken South Africa (Proprietary) Limited	South Africa	82.4	82.4

13.5 Subsequent events

At the end of October 2020, HEINEKEN announced the acquisition of cider brand Strongbow from Asahi Group Holdings Limited (Asahi) in Australia, along with two other cider brands, Little Green and Bonamy's. As part of the transaction, HEINEKEN will also gain the perpetual licenses on beer brands Stella Artois and Beck's in Australia. The transaction was completed on 6 January 2021 for €137 million.

DESCRIPTION OF SECURITIES REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT

As of December 31, 2020, Fomento Económico Mexicano, S.A.B. de C.V. (“FEMSA,” “the Company,” “we,” “us” and “our”) had the following series of securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class:	Trading symbol:	Name of each exchange on which registered:
[American Depositary Shares, each representing 10 BD Units, and each BD Unit consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value]	[FMX]	New York Stock Exchange
[2.875% Senior Notes due 2023]	[FMX23]	New York Stock Exchange
[4.375% Senior Notes due 2043]	[FMX43]	New York Stock Exchange
[3.500% Senior Notes due 2050]	[FMX50]	New York Stock Exchange

Disclosures under the following items are not applicable to us and have been omitted: warrants and rights (Item 12.B of Form 20-F) and other securities (Item 12.C of Form 20-F).

DESCRIPTION OF OUR CAPITAL STOCK

Below is a brief summary of certain significant provisions of our current bylaws and Mexican law relating to the AA Shares, A Shares and L Shares. It does not purport to be complete and is qualified by reference to the bylaws themselves. An English translation of our bylaws has been filed with the SEC as an exhibit to our annual report.

Type and Class of Securities (Item 9.A.5 of Form 20-F)

We have three series of capital stock, each with no par value: Series B shares, Series D-B shares and Series D-L shares. Series B Shares have full voting rights, and Series D-B and D-L Shares have limited voting rights. The shares of the Company are not separable and may be transferred only in the following forms: B Units, consisting of five Series B Shares; and BD Units, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares. The amount of B Units and BD Units issued as of the last of day of the financial year covered by the annual report to which this exhibit is attached is given on the cover page of the annual report.

Preemptive Rights (Item 9.A.3 of Form 20-F)

See “Item 10—Additional Information—Shareholders Meetings—Preemptive Rights” in the annual report to which this exhibit is attached.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

See “Item 10—Additional Information—Shareholders Meetings—Limitations on Share Ownership” in the annual report to which this exhibit is attached.

Other rights (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of the Shares (Item 10.B.3 of Form 20-F)

See “Item 10—Additional Information—Bylaws—Voting Rights and Certain Minority Rights” and “Item 10—Additional Information—Shareholders Meetings” in the annual report to which this exhibit is attached.

Requirements for Amendments (Item 10.B.4 of Form 20-F)

The rights of holders are set in our bylaws. A general shareholders’ extraordinary meeting (in which all holders of BD Units and B Units are entitled to attend and to vote on matters) is necessary for the amendment of our bylaws.

Limitations on the Rights to Own Our Shares (Item 10.B.6 of Form 20-F)

See “Item 10—Additional Information—Shareholders Meetings—Limitations on Share Ownership” in the annual report to which this exhibit is attached.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

There are no provisions in our bylaws which may have the effect of delaying, deferring or preventing a change in control of FEMSA and that would only operate with respect to a merger, acquisition or corporate restructuring involving FEMSA or any of its subsidiaries.

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions in our bylaws governing the ownership threshold above which shareholder ownership must be disclosed.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

Not applicable.

Changes in Our Capital (Item 10.B.10 of Form 20-F)

See “Item 10—Additional Information—Shareholders Meetings—Change in Capital” in the annual report to which this exhibit is attached.

**AMERICAN DEPOSITARY SHARES
(Item 12.D.1 and 12.D.2 of Form 20-F)**

This summary of the general terms and provisions of FEMSA’s American Depositary Shares (“ADSs”) does not purport to be complete and is qualified in its entirety by reference to the Deposit Agreement, as further amended and restated as of May 11, 2007, among FEMSA, The Bank of New York Mellon (formerly The Bank of New York), as depositary (the “Depositary”) and all owners and holders from time to time of American Depositary Receipts issued thereunder (the “Deposit Agreement”), including the form of American Depositary Receipt (“ADR”). Please refer to Exhibit 1 to FEMSA’s registration statement on Form F-6 filed on April 30, 2007 (File No. 333-142469) filed with the U.S. Securities and Exchange Commission (“SEC”). Capitalized terms used in this section but not defined herein have the meanings given to them in the Deposit Agreement.

General

Each ADS represents an ownership interest in 10 BD Units of FEMSA, and each BD Unit consists of one Series B share, two Series D-B Shares and two Series D-L Shares, without par value. The principal executive office of the Depositary is 240 Greenwich Street, New York, New York 10286.

Procedures for Voting

Upon receipt from the Company of notice of any meeting of holders of Units or Shares or other Deposited Securities, if requested in writing by the Company, the Depositary shall, as soon as practicable thereafter, mail to the

Owners of Receipts a notice, which shall contain (a) such information as is contained in such notice of meeting received by the Depositary from the Company, (b) a statement that the Owners of Receipts as of the close of business on a specified record date will be entitled, subject to any applicable provision of Mexican law and of the By-laws of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Units or Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a statement as to the manner in which such instructions may be given, including an express indication that such instructions may be given or deemed given in accordance with the last sentence of this paragraph if no instruction is received, to the Depositary to give a discretionary proxy to a person designated by the Company. Upon the written request of an Owner of a Receipt on such record date, received on or before the Instruction Date, the Depositary shall endeavor, in so far as practicable to vote or cause to be voted the amount of Units, Shares or other Deposited Securities represented by the American Depositary Shares evidenced by such Receipt in accordance with the instructions set forth in such request. The Depositary shall not vote or attempt to exercise the right to vote that attaches to the Units or Shares or other Deposited Securities, other than in accordance with such instructions or deemed instructions. If no instructions are received by the Depositary from any Owner with respect to any of the Deposited Securities represented by the American Depositary Shares evidenced by such Owner's Receipts on or before the date established by the Depositary for such purpose, the Depositary shall deem such Owner to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Securities and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Securities, provided, that no such instruction shall be given with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information as promptly as practicable in writing) that (x) the Company does not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of Units or Shares. In the event that the Company does so inform the Depositary in writing of the existence of any of the foregoing circumstances (x), (y) or (z), then the Depositary shall deem such Owner to have so instructed the Depositary to vote or to give voting instructions with respect to or cause the Custodian to vote or give voting instructions with respect to such Deposited Securities in the same manner as holders of the majority of the class of Deposited Securities voted at the relevant meeting.

Subject to the rules of any securities exchange or market on which American Depositary Shares or the Deposited Securities represented thereby are listed or traded, at least two (2) Business Days prior to the date of such meeting or date for giving such instructions, the Depositary shall if requested by the Company deliver to the Company, to the attention of its secretary, copies of all instructions received from Owners in accordance with which the Depositary will vote, or cause to be voted, or give voting instructions with respect to, the Deposited Securities. Delivery of instructions will be made at the expense of the Company provided that payment of such expense shall not be a condition precedent to the obligations of the Depositary under this section.

Notwithstanding anything else contained under the Deposit Agreement, the Depositary shall, if so requested in writing by the Company, represent all Deposited Securities (whether or not voting instructions have been received in respect of such Deposited Securities from holders as of the record date) for the sole purpose of establishing a quorum at a meeting of shareholders.

There can be no assurance that Owners generally or any Owner in particular will receive the notice described in the preceding paragraph sufficiently prior to the Instruction Date to ensure that the Depositary will vote the Units, Shares or Deposited Securities in accordance with the provisions set forth in the preceding paragraph.

Dividends and Distributions

Whenever the Depositary shall receive any cash dividend or other cash distribution on any Deposited Securities, the Depositary shall, if at the time of receipt thereof any amounts received in a foreign currency can in the judgment of the Depositary be converted on a reasonable basis into United States dollars transferable to the United States, and subject to the Deposit Agreement, convert such dividend or distribution into Dollars and shall distribute as promptly as practicable the amount thus received (net of the fees and expenses of the Depositary as provided in the Deposit Agreement, if applicable) to the Owners of Receipts entitled thereto, provided, however, that in the event that the Company or the Depositary shall be required to withhold and does withhold from such cash dividend or such other cash distribution in respect of any Deposited Securities an amount on account of taxes, the amount distributed to the Owners of the Receipts evidencing American Depositary Shares representing such Deposited Securities shall be reduced accordingly.

Subject to the provisions of Sections 4.11 (Withholding) and 5.9 (Charges to Depository) of the Deposit Agreement, whenever the Depository shall receive any distribution other than a distribution described in Sections 4.1 (Cash Distributions), 4.3 (Distributions in Units or Shares) or 4.4 (Rights) of the Deposit Agreement, the Depository shall cause the securities or property received by it to be distributed to the Owners of Receipts entitled thereto, after deduction or upon payment of any fees and expenses of the Depository or any taxes or other governmental charges in proportion to the number of American Depositary Shares representing such Deposit Securities held by them respectively, in any manner that the Depository may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depository such distribution cannot be made proportionately among the Owners of Receipts entitled thereto, or if for any other reason the Depository deems such distribution not to be feasible, the Depository may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees of the Depository as provided in Section 5.9 (Charges of Depository) of the Deposit Agreement) shall be distributed by the Depository to the Owners of Receipts entitled thereto as in the case of a distribution received in cash.

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Units or Shares, the Depository may, after Consultation with the Company and shall if the Company shall so request, distribute as promptly as practicable to the Owners of outstanding Receipts entitled thereto, additional Receipts evidencing an aggregate number of American Depositary Shares representing the amount of Units or Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Units or Shares and the issuance of American Depositary Shares evidenced by Receipts, including the withholding of any tax or other governmental charge as provided in Section 4.11 (Withholding) of the Deposit Agreement and the payment of the fees of the Depository as provided in Section 5.9 (Charges of Depository) of the Deposit Agreement. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depository shall sell the amount of Units or Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions set forth in the Deposit Agreement. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Units or Shares distributed upon the Deposited Securities represented thereby.

In the event that the Depository determines that any distribution in property (including Units or Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depository is obligated to withhold, the Depository may by public or private sale dispose of all or a portion of such property (including Units or Shares and rights to subscribe therefor) in such amounts and in such manner as the Depository deems necessary and practicable to pay any such taxes or charges and the Depository shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners of Receipts entitled thereto.

The Depository will forward to the Company or its agent such information from its records as the Company may reasonably request to enable the Company or its agents to file necessary reports with governmental authorities or agencies. The Depository, the Custodian or the Company and its agents may, but shall not be obligated to, file such reports as are necessary to reduce or eliminate applicable taxes on dividends and on other distributions in respect of Deposited Securities under applicable tax treaties or laws for the Owners. Owners of American Depositary Shares may be required from time to time, and in a timely manner, to file such proof of taxpayer status, residence and beneficial ownership (as applicable), to execute such certificates and to make such representations and warranties, or to provide any other information or documents, as the Depository or the Custodian may deem necessary or proper to fulfill the Depository's or the Custodian's obligations under applicable law. The Owners shall indemnify the Depository, the Company, the Custodian and any of their respective directors, employees, agents and affiliates against, and hold each of them harmless from, any claims by any governmental authority with respect to taxes, additions to tax, penalties or interest arising out of any refund of taxes, reduced rate of withholding at source or other tax benefit obtained.

The Depository is under no obligation to provide the holders and Owners with any information about the tax status of the Company. The Depository shall not incur any liability for any tax consequences that may be incurred by holders and Owners on account of their ownership of the American Depositary Shares, including without limitation, tax consequences resulting from the Company (or any of its subsidiaries) being treated as a "Foreign Personal Holding Company," or as a "Passive Foreign Investment Company" (in each case as defined in the U.S. Internal Revenue Code and the regulations issued thereunder) or otherwise.

Notices, Reports and Proxy Soliciting Material; Rights of Inspection

The Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934 and, accordingly, files certain reports with the SEC.

Such reports and communications will be available for inspection and copying at the public reference facilities maintained by the SEC located at 100 F Street, N.E., Washington, D.C. 20549.

The Depositary will make available for inspection by Owners of Receipts at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary shall also, upon written request, send to the Owners of Receipts copies of such reports furnished by the Company pursuant to the Deposit Agreement. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by the Company shall be furnished in English.

The Depositary shall keep books at its Corporate Trust Office for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners of Receipts, provided that such inspection shall not be for the purpose of communicating with Owners of Receipts in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the Receipts.

Sale or Exercise of Rights

In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Units or Shares or any rights of any other nature, the Depositary after Consultation with the Company shall have discretion as to the procedure to be followed in making such rights available to any Owners or in disposing of such rights on behalf of any Owners and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion that it is lawful and feasible to make such rights available to all Owners or to certain Owners but not to other Owners, the Depositary may distribute, to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner of Receipts requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner under the Deposit Agreement, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Units or Shares to be received upon the exercise of the rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Units or Shares, and the Company shall cause the Units or Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Units or Shares so purchased to be deposited pursuant to Section 2.2 (Deposit of Units or Shares) of the Deposit Agreement, and shall, pursuant to Section 2.3 (Execution and Delivery of Receipts) of the Deposit Agreement, execute and deliver Receipts to such Owner. In the case of a distribution pursuant to the foregoing paragraph, such Receipts shall be legended in accordance with applicable U.S. laws, and shall be subject to the appropriate restrictions on sale, deposit, cancellation and transfer under such laws.

If the Depositary determines in its discretion that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of the fees and expenses of the Depositary as provided in Section 5.9 (Charges of Depositary) of the Deposit Agreement and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of the Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any Receipt or otherwise.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act with respect to a distribution to Owners or are registered under the provisions of the Securities Act. If an Owner of Receipts requests distribution of warrants or other instruments, notwithstanding that there has been no such registration under such the Securities Act, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Owner is exempt from such registration.

Neither the Depositary nor the Company shall be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

Deposit or Sale of Securities Resulting from Splits or Plans of Reorganization

In circumstances where the provisions of Section 4.3 (Distributions in Units or Shares) of the Deposit Agreement do not apply, upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation, or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities shall be treated as new Deposited Securities under the Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, if any, the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may, and shall if the Company shall so request, execute and deliver additional Receipts as in the case of a dividend in Units or Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

Amendment or Termination of the Deposit Arrangements

The form of the Receipts and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Owners and holders in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners of Receipts, shall, however, not become effective as to outstanding Receipts until the expiration of thirty days after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner of a Receipt at the time any amendment so becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law.

The Depositary shall at any time at the direction of the Company terminate the Deposit Agreement by mailing notice of such termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement by mailing notice of such termination to the Company and the Owners of all Receipts then outstanding if at any time 60 days shall have expired after the Depositary shall have delivered to the Company a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment as provided in Section 5.4 (Resignation and Removal of the Depositary) of the Deposit Agreement. On and after the date of termination, the

Owner of a Receipt will, upon (a) surrender of such Receipt at the Corporate Trust Office of the Depository, (b) payment of the fee of the Depository for the surrender of Receipts referred to in Section 2.5 (Surrender of Receipts and Withdrawal of Units or Shares) of the Deposit Agreement and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the American Depositary Shares evidenced by such Receipt. If any Receipts shall remain outstanding after the date of termination, the Depository thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depository shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depository (after deducting, in each case, the fee of the Depository for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). At any time after the expiration of 6 months from the date of termination, the Depository may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it thereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depository with respect to such net proceeds. After making such sale, the Depository shall be discharged from all obligations under the Deposit Agreement, except to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depository for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of the Deposit Agreement, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depository under Sections 5.8 (Indemnification) and 5.9 (Charges of Depository) of the Deposit Agreement.

Restrictions on the Right to Transfer or Withdraw the Underlying Securities

Notwithstanding any other provision of the Deposit Agreement or the form of ADR, the surrender of outstanding Receipts and withdrawal of Deposited Securities may be suspended only for (i) temporary delays caused by closing the transfer books of the Depository or the Company or the deposit of Units or Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities.

The delivery of Receipts against deposits of Units or Shares generally or against deposits of particular Units or Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the transfer books of the Depository are closed, or if any such action is deemed necessary or advisable by the Depository or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or any securities exchange on which the Units, Shares or American Depositary Shares are listed, or under any provision of the Deposit Agreement or the form of ADR, or for any other reason, subject to the provisions of Section 7.7 (Compliance with U.S. Securities Laws) of the Deposit Agreement. Without limitation of the foregoing, the Depository shall not knowingly accept for deposit under the Deposit Agreement any Units or Shares required to be registered under the provisions of the Securities Act, unless a registration statement is in effect as to such Units or Shares.

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented hereby, such tax or other governmental charge shall be payable by the Owner hereof to the Depository. The Depository may refuse to effect any transfer of the ADR or any withdrawal of Deposited Securities represented by American Depositary Shares evidenced by such Receipt until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner hereof any part or all of the Deposited Securities represented by the American Depositary Shares evidenced by the ADR, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner hereof shall remain liable for any deficiency.

Any person presenting Units or Shares for deposit or any Owner or holder of a Receipt may be required from time to time to file with the Depository or the Custodian such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Company or the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Depository may deem necessary or proper or as the Company may reasonably require by written request to the Depository. The Depository may withhold the delivery or registration of transfer of any Receipt or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. The Depository shall provide the Company, upon the Company's reasonable written request, in a timely manner, with copies of any such proofs of citizenship or residence, or exchange control approval that it receives, unless that disclosure is not permitted under applicable law. No Unit or Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depository that any necessary approval has been granted by any governmental body in Mexico which is then performing the function of the regulation of currency exchange.

The Company agrees to pay the fees, reasonable expenses and out-of-pocket charges of the Depository and those of any Registrar only in accordance with agreements in writing entered into between the Depository and the Company from time to time. The Depository shall present its statement for such charges and expenses to the Company once every three months. The charges and expenses of the Custodian are for the sole account of the Depository.

The following charges shall be incurred by any party depositing or withdrawing Units or Shares or by any party surrendering Receipts or to whom Receipts are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.3 (Distributions in Units or Shares) of the Deposit Agreement), or by Owners, as applicable: (1) taxes and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Units or Shares generally on the Unit or Share register of the Company or Foreign Registrar and applicable to transfers of Units or Shares to or from the name of the Depository or its nominee or the Custodian or its nominee on the making of deposits or withdrawals under the Deposit Agreement, (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement, (4) such expenses as are incurred by the Depository in the conversion of foreign currency pursuant to Section 4.5 (Conversion of Foreign Currency) of the Deposit Agreement, (5) a fee of \$5.00 or less per 100 American Depository Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.3 (Execution and Delivery of Receipts), 4.3 (Distributions in Units or Shares) or 4.4 (Rights) of the Deposit Agreement and the surrender of Receipts pursuant to Section 2.5 (Surrender of Receipts and Withdrawal of Units or Shares) or 6.2 (Termination) of the Deposit Agreement, (6) a fee of \$.02 or less per American Depository Share (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement, including, but not limited to Sections 4.1 (Cash Distributions), 4.2 (Distributions Other Than Cash, Units, Shares or Rights), 4.3 (Distributions in Units or Shares) and 4.4 (Rights) of the Deposit Agreement, to the extent permitted by the rules of any securities exchange on which the American Depository Shares may be listed for trading, (7) a fee for the distribution of securities pursuant to Section 4.2 (Distributions Other Than Cash, Units, Shares or Rights) of the Deposit Agreement, such fee being in an amount equal to the fee for the execution and delivery of American Depository Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Units or Shares) but which securities are instead distributed by the Depository to Owners and (8) any other charge payable by the Depository, any of the Depository's agents, including the Custodian, or the agents of the Depository's agents in connection with the servicing of Units or Shares or other Deposited Securities (which charge shall be assessed against Owners as of the date or dates set by the Depository in accordance with Section 4.6 (Fixing of Record Date) of the Deposit Agreement and shall be payable at the sole discretion of the Depository by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

Notwithstanding any other provision in the Deposit Agreement, the Company may restrict transfers of the Units or Shares, as the case may be, where such transfer might result in ownership of Units or Shares exceeding limits imposed by applicable law or the By-laws of the Company. The Company may also restrict, in such manner as it deems appropriate, transfers of the American Depository Shares where such transfer may result in the total number of Units or Shares represented by the American Depository Shares owned by a single Owner exceeding such limits. The Company may, in its sole discretion but subject to applicable law, instruct the Depository to take such reasonable and practicable actions with respect to the ownership interest of any Owner in excess of the limits set

forth in the preceding sentence, including, but not limited to, the imposition of restrictions on the transfer of American Depositary Shares, the removal or limitation of voting rights or mandatory sale or disposition on behalf of an Owner of the Units or the Shares (as the case may be) represented by the American Depositary Shares held by such Owner in excess of such limitations, if and to the extent such disposition is reasonable and practicable and permitted by applicable law and the By-laws of the Company. The Depositary shall, at the sole expense of the Company, use its reasonable efforts to comply with the reasonable and practicable written instructions of the Company as provided in Article 25 (Ownership Restrictions) of the form of ADR. The Depositary shall have no liability for any action taken by it pursuant to Article 25 (Ownership Restrictions) of the form of ADR and Section 3.5 (Ownership Restrictions) of the Deposit Agreement.

Limitation of Depositary's Liability

Neither the Depositary nor the Company nor any of their respective directors, employees, agents or affiliates shall incur any liability to any Owner or holder of any Receipt, if by reason of any provision of any present or future law or regulation of the United States or any other country, or of any governmental or regulatory authority or stock exchange, or by reason of any provision, present or future, of the By-laws of the Company, or by reason of any provision of any Securities issued or distributed by the Company, or any offering or distribution thereof or by reason of any act of God or war or terrorism or other circumstances beyond its control, the Depositary or the Company shall be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of the Deposit Agreement or Deposited Securities it is provided shall be done or performed; nor shall the Depositary or the Company incur any liability to any Owner or holder of a Receipt by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement. Where, by the terms of a distribution pursuant to Sections 4.1 (Cash Distributions), 4.2 (Distributions Other Than Cash, Units, Shares or Rights) or 4.3 (Distributions in Units or Shares) of the Deposit Agreement, or an offering or distribution pursuant to Section 4.4 (Rights) of the Deposit Agreement, or for any other reason, such distribution or offering may not be made available to Owners of Receipts, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse. Neither the Company nor the Depositary assumes any obligation or shall be subject to any liability under the Deposit Agreement to Owners or holders of Receipts, except that they agree to perform their obligations specifically set forth in the Deposit Agreement without negligence or bad faith. The Depositary shall not be subject to any liability with respect to the validity or worth of the Deposited Securities. Neither the Depositary nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the Receipts, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense and liability shall be furnished as often as may be required, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary. Neither the Depositary nor the Company shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any governmental authority, any person presenting Units or Shares for deposit, any Owner or holder of a Receipt, or any other person believed by it in good faith to be competent to give such advice or information. The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary. The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith. The Company agrees to indemnify the Depositary, its directors, employees, agents and affiliates and any Custodian against, and hold each of them harmless from, any liability or expense (including, but not limited to, the fees and expenses of counsel) which may arise out of any registration with the SEC of Receipts, American Depositary Shares or Deposited Securities or the offer or sale thereof in the United States or out of acts performed or omitted, in accordance with the provisions of the Deposit Agreement and of the Receipts, as the same may be amended, modified or supplemented from time to time, (i) by either the Depositary or a Custodian or their respective directors, employees, agents and affiliates, except for any liability or expense arising out of the negligence or bad faith of either of them, or (ii) by the Company or any of its directors, employees, agents and affiliates. The Depositary agrees to indemnify the Company, its directors,

employees, agents and affiliates and hold them harmless from any liability or expense which may arise out of acts performed or omitted by the Depository or its Custodian or their respective directors, employees, agents and affiliates due to their negligence or bad faith. No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement. Any person seeking indemnification under the Deposit Agreement shall notify the person from whom it is seeking indemnification of the commencement of any indemnifiable action or claim promptly after such indemnified person becomes aware of such commencement (provided that the failure to make such notification shall not affect such indemnified person's rights to seek indemnification except to the extent the indemnifying person is materially prejudiced by such failure) and shall consult in good faith with the indemnifying person as to the conduct of the defense of such action or claim that may give rise to an indemnity hereunder, which defense shall be reasonable in the circumstances. No indemnified person shall compromise or settle any action or claim that may give rise to an indemnity hereunder without the consent of the indemnifying person, which consent shall not be unreasonably withheld.

DEBT SECURITIES
(Item 12.A of Form 20-F)

The following description of the 2023 Notes, 2043 Notes and 2050 Notes (each as defined herein) is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to (i) the Prospectus and Prospectus Supplement, dated April 9, 2013, in relation to the 2023 and 2043 Notes and (ii) the Prospectus, dated September 26, 2019, the Prospectus Supplement, dated January 14, 2020, and the Prospectus Supplement, dated February 7, 2020, in relation to the 2050 Notes, each of which contain a detailed summary of additional provisions of the notes and of the relevant indentures under which the notes are issued.

We encourage you to read the above referenced prospectus, as supplemented, and the relevant indentures for additional information. Capitalized terms used but not defined herein have the meanings given to them in the relevant indentures. Section references included herein refer to sections in the relevant indentures.

A. 2.875% Senior Notes due 2023 and 4.375% Senior Notes due 2043

General

The 2.875% Senior Notes due 2023 ("2023 Notes") were issued in an aggregate principal amount of \$300,000,000, will bear interest at the rate of 2.875% per year and will mature on May 10, 2023. The 4.375% Senior Notes due 2043 ("2043 Notes") were issued in an aggregate principal amount of \$700,000,000, will bear interest at the rate of 4.375 % per year and will mature on May 10, 2043. All payments of principal and premium, if any, and interest on the 2023 Notes and 2043 Notes will be made in U.S. dollars.

The 2023 Notes and 2043 Notes were issued pursuant to the indenture, dated as of April 8, 2013, as supplemented by the a first supplemental indenture, dated May 10, 2013, among FEMSA, The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent, and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish paying agent (collectively, the "2023 and 2043 Notes Indenture"). The paying agent's office is located at 240 Greenwich Street, New York, New York 10286 (formerly, 101 Barclay Street, Floor 4 East, New York, New York 10286). The Irish paying agent's office is located at Hanover Building, Windmill Lane Dublin 2, Ireland.

The 2023 Notes and 2043 Notes are not guaranteed by any of our subsidiaries.

Interest on the 2023 Notes and 2043 Notes will be payable on May 10 and November 10 of each year, beginning on November 10, 2013, to the holders in whose names the 2023 Notes and 2043 Notes are registered at the close of business on April 26 or October 27 immediately preceding the related interest payment date.

We will pay interest on the 2023 Notes and 2043 Notes on the interest payment dates stated above and at maturity. Each payment of interest due on an interest payment date or at maturity will include interest accrued from and including the last date to which interest has been paid or made available for payment, or from the issue date, if none has been paid or made available for payment, to but excluding the relevant payment date. We will compute interest on the 2023 Notes and 2043 Notes on the basis of a 360-day year consisting of twelve 30-day months.

“Business day” means each Monday, Tuesday, Wednesday, Thursday and Friday that is (a) not a day on which banking institutions in New York City or Mexico City generally are authorized or obligated by law, regulation or executive order, as applicable, to close and (b) in the case of 2023 Notes and 2043 Notes issued in certificated form, a day on which banks and financial institutions are generally open for business in the location of each office of a paying agent, but only with respect to a payment to be made at the office of such paying agent.

If any payment is due on the 2023 Notes or 2043 Notes on a day that is not a business day, we will make the payment on the next business day. Payments postponed to the next business day in this situation will be treated under the 2023 and 2043 Notes Indenture as if they were made on the original payment date. Postponement of this kind will not result in a default under the 2023 Notes, 2043 Notes or the 2023 and 2043 Notes Indenture, and no interest will accrue on the postponed amount from the original payment date to the next business day.

We are a holding company and our principal assets are shares that we hold in our subsidiaries. The 2023 Notes and 2043 Notes are not secured by any of our assets or properties. As a result, an owner of the 2023 Notes or 2043 Notes is one of our unsecured creditors. The 2023 Notes and 2043 Notes are not subordinated to any of our other unsecured obligations. In the event of a bankruptcy or liquidation proceeding against us, the 2023 Notes and 2043 Notes would rank equally in right of payment with all our other unsecured and unsubordinated obligations. The 2023 Notes and 2043 Notes do not restrict our ability or the ability of our subsidiaries to incur additional indebtedness in the future.

Unless otherwise specified in the applicable prospectus supplement, we reserve the right, from time to time without the consent of holders of either the 2023 Notes or 2043 Notes, to issue additional debt securities on terms and conditions substantially identical to those of the 2023 Notes or 2043 Notes (except as to denomination and as may otherwise be provided in any applicable prospectus supplement). (*Section 301*)

Payment of Additional Interest

We are required by Mexican law to deduct Mexican withholding taxes from payments of interest (or amounts deemed interest) to holders of the 2023 Notes and 2043 Notes who are not residents of Mexico for tax purposes as described under “Taxation—Mexican Tax Considerations” in the applicable prospectus supplement for the 2023 Notes and 2043 Notes.

Subject to the limitations and exceptions described below, we will pay to holders of the 2023 Notes and 2043 Notes all additional interest that may be necessary so that every net payment of interest or principal or premium to the holder will not be less than the amount provided for in the 2023 Notes and 2043 Notes. By net payment, we mean the amount that we or our paying agent will pay the holder after we deduct or withhold an amount for or on account of any present or future taxes, duties, assessments or other governmental charges imposed or levied with respect to that payment (or the payment of such additional interest) by a Mexican taxing authority or the taxing authority of any other country under whose laws we or any successor of us (assuming the obligations of the 2023 Notes and 2043 Notes, the 2023 and 2043 Notes Indenture and any applicable supplemental indenture following a merger, consolidation or transfer, lease or conveyance of substantially all of our assets and properties) are organized at the time of payment, except for the United States (each, a “Taxing Jurisdiction”).

Our obligation to pay additional interest is, however, subject to several important exceptions. We will not pay additional interest to or on behalf of any holder or beneficial owner, or to the trustee, for or on account of any of the following:

- any taxes, duties, assessments or other governmental charges imposed solely because at any time there is or was a connection between the holder and the Taxing Jurisdiction (other than the mere receipt of a payment or the ownership or holding of a debt security or the enforcement of rights with respect to a debt security);
- any estate, inheritance, gift, sales, transfer, personal property or other similar tax, assessment or other governmental charge imposed with respect to the debt securities;

- any taxes, duties, assessments or other governmental charges imposed solely because the holder or any other person fails to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with the Taxing Jurisdiction of the holder or any beneficial owner of the debt security if compliance is required by law, regulation or by an applicable income tax treaty to which such Taxing Jurisdiction is a party and which is effective, as a precondition to exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and we have given the holders at least 30 calendar days' notice prior to the first payment date with respect to which such certification, identification or reporting requirement is required to the effect that holders will be required to provide such information and identification;
- any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on the debt securities;
- any taxes, duties, assessments or other governmental charges with respect to a debt security presented for payment more than 15 days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to holders, whichever occurs later, except to the extent that the holders of such debt security would have been entitled to such additional interest on presenting such debt security for payment on any date during such 15-day period;
- any payment on a debt security to a holder that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the additional interest had the beneficiary, settlor, member or beneficial owner been the holder of such debt security;
- any taxes, duties, assessments or other governmental charges that are imposed on a payment to an individual and are required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other directive implementing the conclusions of the ECOFIN Council meetings of November 26 and 27, 2000, December 13, 2001, and January 21, 2003, or any law or agreement implementing or complying with, or introduced in order to conform to, such a directive; and
- any combination of the items in the bullet points above. (*Section 1008*)

The limitations on our obligations to pay additional interest described in the third bullet point above will not apply if the provision of information, documentation or other evidence described in the applicable bullet point would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a holder or beneficial owner of a debt security, taking into account any relevant differences between U.S. and Mexican law, regulation or administrative practice, or the laws, regulations or administrative practices of any other Taxing Jurisdiction, than comparable information or other reporting requirements imposed under U.S. tax law (including the United States/Mexico Income Tax Treaty), regulations (including proposed regulations) and administrative practice. (*Section 1008(a)*)

Applicable Mexican regulations currently allow us to withhold at a reduced rate, provided that we comply with certain information reporting requirements. Accordingly, the limitations on our obligations to pay additional interest described in the third bullet point above also will not apply with respect to any Mexican withholding taxes unless (a) the provision of the information, documentation or other evidence described in the applicable bullet point is expressly required by the applicable Mexican regulations, (b) we cannot obtain the information, documentation or other evidence necessary to comply with the applicable Mexican regulations on our own through reasonable diligence and (c) we otherwise would meet the requirements for application of the applicable Mexican regulations.

In addition, the limitation described in the third bullet point above does not require that any person that is not a resident of Mexico for tax purposes, including any non-Mexican pension fund, retirement fund or financial institution, register with the *Secretaría de Hacienda y Crédito Público* (the Ministry of Finance and Public Credit, or the "SHCP") or with the *Servicio de Administración Tributaria* (the Tax Administration Service or "SAT") to establish eligibility for an exemption from, or a reduction of, Mexican withholding tax.

We will remit the full amount of any taxes withheld to the applicable taxing authorities in accordance with the applicable law of the Taxing Jurisdiction. We will also provide the trustee with documentation (which may consist of copies of such documentation) reasonably satisfactory to the trustee evidencing the payment of taxes in respect of which we have paid any additional interest. We will provide copies of such documentation to the holders of the debt securities or the relevant paying agent upon request. (*Section 1008(a)*)

In the event that additional interest actually paid with respect to the debt securities pursuant to the preceding paragraphs is based on rates of deduction or withholding of taxes in excess of the appropriate rate applicable to the holder of such debt securities, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, then such holder shall, by accepting such debt securities, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto. (*Section 1008(d)*)

Any reference in the applicable prospectus supplement for the 2023 Notes and 2043 Notes, the 2023 and 2043 Notes Indenture, any applicable supplemental indenture or the debt securities to principal, premium, if any, interest or any other amount payable in respect of the debt securities by us will be deemed also to refer to any additional interest that may be payable with respect to that amount under the obligations referred to therein. (*Section 1008(e)*)

Redemption

We are not permitted to redeem the 2023 Notes or 2043 Notes before their stated maturity, except as set forth below in the sections “Optional Redemption with ‘Make-Whole’ Amount” and “Tax Redemption” in the applicable prospectus supplement for the 2023 Notes and 2043 Notes. The 2023 Notes and 2043 Notes are not entitled to the benefit of any sinking fund (meaning that we will not deposit money on a regular basis into any separate account to repay the 2023 Notes or 2043 Notes). In addition, holders are not entitled to require us to repurchase their 2023 Notes or 2043 Notes from them before the stated maturity.

Optional Redemption with “Make-Whole” Amount

We will have the right at our option to redeem either the 2023 Notes or 2043 Notes in whole or in part, at any time or from time to time prior to their maturity, on at least 30 days’ but not more than 60 days’ notice, at a redemption price equal to the greater of (1) 100% of the principal amount of the 2023 Notes or 2043 Notes to be redeemed and (2) the sum of the present values of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 30 basis points, plus in each case accrued interest on the principal amount of the 2023 Notes or 2043 Notes being redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the U.S. Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the 2023 Notes or 2043 Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of the 2023 Notes or 2043 Notes.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by us.

“Comparable Treasury Price” means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations quoted to an entity selected by us for such redemption date, after excluding the highest and lowest

such Reference Treasury Dealer Quotation or (2) if such entity obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Reference Treasury Dealer” means each of Citigroup Global Markets Inc. and Goldman, Sachs & Co. or their respective affiliates which are primary U.S. government securities dealers; provided, however, that if any of the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a “Primary Treasury Dealer”), we will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by an entity selected by us, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to an entity selected by us by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on the third business day preceding such redemption date.

On and after the redemption date, interest will cease to accrue on the 2023 Notes and 2043 Notes or any portion of the 2023 Notes and 2043 Notes called for redemption (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with the trustee money sufficient to pay the redemption price of and (unless the redemption date shall be an interest payment date) accrued interest to the redemption date on the 2023 Notes or 2043 Notes to be redeemed on such date. If less than all of the 2023 Notes or 2043 Notes are to be redeemed, the 2023 Notes or 2043 Notes to be redeemed shall be selected by the trustee by such method as the trustee shall deem fair and appropriate or in accordance with the applicable procedures of The Depository Trust Company (“DTC”).

Tax Redemption

We will have the right to redeem the 2023 Notes and 2043 Notes, in whole but not in part, at any time at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, if, as a result of certain changes in tax laws applicable to payments under the 2023 Notes or 2043 Notes, there is an increase in the additional interest we are obligated to pay under the 2023 Notes or 2043 Notes. See “Description of Debt Securities—Optional Redemption—Redemption for Taxation Reasons” in the applicable prospectus for the 2023 Notes and 2043 Notes.

Covenants

The following covenants will apply to us and our subsidiaries for so long as any debt security remains outstanding. These covenants restrict our ability and the ability of our subsidiaries to enter into certain transactions. However, these covenants do not limit our ability to incur indebtedness or require us to comply with financial ratios or to maintain specified levels of net worth or liquidity. In addition, these covenants and the 2023 and 2043 Notes Indenture generally do not limit the ability of our principal shareholders to reduce their ownership interest in us.

Limitation on Liens

We may not, and we may not allow any of our significant subsidiaries to, create, incur, issue or assume any liens on our property to secure debt where the debt secured by such liens would exceed an aggregate amount equal to the greater of (1) U.S. \$2,800.00 million and (2) 16% of our Consolidated Net Tangible Assets less, in each case, the aggregate amount of attributable debt of us and our significant subsidiaries pursuant to the first bullet point under “—Limitation on Sales and Leasebacks” in the applicable prospectus for the 2023 Notes and 2043 Notes unless we secure the debt securities equally with, or prior to, the debt secured by such liens. This restriction will not, however, apply to the following:

- liens on property acquired and existing on the date the property was acquired or arising after such acquisition pursuant to contractual commitments entered into prior to such acquisition and not in contemplation of such acquisition;

- liens on any property securing debt incurred or assumed for the purpose of financing its purchase price or the cost of its construction, improvement or repair; *provided* that such lien attaches to the property within 12 months of its acquisition or the completion of its construction, improvement or repair and does not attach to any other property;
- liens existing on any property of any subsidiary prior to the time that the subsidiary became a subsidiary of ours or liens arising after that time under contractual commitments entered into prior to and not in contemplation of that event;
- liens on any property securing debt owed by a subsidiary of ours to us or to another of our subsidiaries;
- liens existing on the date the debt securities are issued;
- liens resulting from the deposit of funds or evidence of debt in trust for the purpose of defeasing our debt or the debt of any of our subsidiaries;
- any (i) liens for taxes, assessments and other governmental charges and (ii) attachment or judgment liens, in each case, the payment of which is being contested in good faith by appropriate proceedings for which such reserves or other appropriate provision, if any, as may be required by International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) shall have been made;
- liens on accounts receivable, inventory, or bottles and cases to secure working capital or revolving credit debt incurred in the ordinary course of business;
- liens resulting from a direct or indirect pledge of any or all of our shares in Heineken N.V. or Heineken Holdings N.V. or any holding company the principal assets of which consist of such shares;
- any liens on real estate related to retail or commercial locations operated by us or our subsidiaries that is contributed to a trust (a “Real Estate Trust”); and
- liens arising out of the refinancing, extension, renewal or refunding of any debt described above, provided that the aggregate principal amount of such debt is not increased and such lien does not extend to any additional property. (*Section 1006*)

“Consolidated Net Tangible Assets” means at any time the total assets (stated net of properly deductible items, to the extent not already deducted in the computation of total assets) appearing on our consolidated balance sheet less all goodwill and intangible assets appearing on such balance sheet, all determined on a consolidated basis at such time in accordance with IFRS. (*Section 101*)

For purposes of this covenant, the covenant set forth under “—Limitation on Sale and Leaseback Transactions” in the applicable prospectus for the 2023 Notes and 2043 Notes and the events of default set forth under “—Default, Remedies and Waiver of Default—Events of Default” in the applicable prospectus for the 2023 Notes and 2043 Notes, “significant subsidiary” means any of our subsidiaries that meets the definition of significant subsidiary under Regulation S-X as promulgated by the SEC. As of December 31, 2012, our significant subsidiaries consisted of Coca-Cola FEMSA, S.A.B. de C.V., FEMSA Comercio, S.A. de C.V. and CB Equity LLP. (*Section 101*)

Limitation on Sales and Leasebacks

We may not, and we may not allow any of our significant subsidiaries to, enter into any sale and leaseback transaction without effectively providing that the debt securities will be secured equally and ratably with or prior to the sale and leaseback transaction, unless:

- the aggregate amount of attributable debt of us and our significant subsidiaries pursuant to this bullet point would not exceed an aggregate amount equal to the greater of (1) U.S. \$2,800.00 million or (2) 16% of our

Consolidated Net Tangible Assets less, in each case, any secured indebtedness permitted under “—Limitation on Liens” in the applicable prospectus for the 2023 Notes and 2043 Notes that does not secure the debt securities equally with, or prior to, the debt secured by such liens;

- we or one of our subsidiaries, within 12 months of the sale and leaseback transaction, retire debt not owed to us or any of our subsidiaries that is not subordinated to the debt securities or invest in equipment, plant facilities or other fixed assets used in the operations of us or any of our subsidiaries, in an aggregate amount equal to the greater of (1) the net proceeds of the sale or transfer of the property or other assets that are the subject of the sale and leaseback transaction and (2) the fair market value of the property leased (Section 1007); or
- the transaction involves the lease by us or our subsidiaries of real estate contributed to a Real Estate Trust.

Notwithstanding the foregoing, we and/or our subsidiaries may enter into sale and leaseback transactions that solely refinance, extend, renew or refund sale and leaseback transactions permitted under the bullet points above and the restriction described in the preceding paragraph will not apply to such sale and leaseback transactions.

“Sale and leaseback transaction” means a transaction or arrangement between us or one of our subsidiaries and a bank, insurance company or other lender or investor where we or our subsidiary leases property for an initial term of three years or more that was or will be sold by us or our significant subsidiary to that lender or investor for a sale price of U.S. \$5 million (or its equivalent in other currencies) or more. (Section 101)

“Attributable debt” means, with respect to any sale and leaseback transaction, the lesser of (1) the fair market value of the asset subject to such transaction and (2) the present value, discounted at a rate per annum equal to the discount rate of a capital lease obligation with a like term in accordance with IFRS, of the obligations of the lessee for net rental payments (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments and similar charges and contingent rents) during the term of the lease. (Section 101)

Defaults, Remedies and Waiver of Defaults

Holders will have special rights if an event of default with respect to the debt securities they hold occurs and is not cured, as described below.

Events of Default

Each of the following will be an “event of default” with respect to any series of the debt securities:

- we fail to pay interest on any debt security within 30 days after its due date;
- we fail to pay the principal or premium, if any, of any debt security on its due date;
- we remain in breach of any covenant in the 2023 and 2043 Notes Indenture for the benefit of holders of the debt securities of any series, for 90 days after we receive a notice of default (sent by the trustee at the written request of holders of a majority in principal amount of the debt securities of that series to us or by the holders of a majority in principal amount of the debt securities of that series to us and the trustee) stating that we are in breach;
- we or any of our significant subsidiaries experience a default or event of default under any instrument relating to debt, prior to its maturity, that results in the failure to pay principal, or in the acceleration, of an aggregate principal amount equal to or greater than U.S. \$100 million (or its equivalent in other currencies);
- a final judgment is rendered against us or any of our significant subsidiaries in an aggregate amount in excess of U.S. \$50 million (or its equivalent in other currencies) that is not discharged or bonded in full within 90 days, for 10 days after we receive a notice of this default (sent by the trustee at the written

request of holders of a majority in principal amount of the debt securities of such series to us or by the holders of a majority in principal amount of the debt securities of such series to us and the trustee); or

- we or any of our significant subsidiaries file for bankruptcy, or other events of bankruptcy, insolvency or reorganization or similar proceedings occur relating to us or any of our significant subsidiaries.

Remedies Upon Event of Default

If an event of default with respect to any series of the debt securities occurs and is not cured or waived, the trustee, at the written request of holders of a majority in principal amount of the debt securities of such series, may declare the entire principal amount of all the debt securities to be due and payable immediately, and upon any such declaration the principal, any accrued interest and any additional interest shall become due and payable. If, however, an event of default with respect to any series of debt securities occurs because of a bankruptcy, insolvency or reorganization relating to us or any of our significant subsidiaries, the entire principal amount of all the debt securities of such series and any accrued interest and any additional interest will be automatically accelerated, without any action by the trustee or any holder and any principal, interest or additional interest will become immediately due and payable. (*Section 502*)

Each of the situations described in the preceding paragraph is called an acceleration of the maturity of the debt securities. If at any time after a declaration of acceleration with respect to any series of debt securities is made and before a judgment for payment has been obtained, the holders of a majority in aggregate principal amount of the outstanding debt securities of such series (except in the event of an event of default arising from bankruptcy, insolvency or reorganization or similar proceedings) may rescind and annul such declaration and its consequences, provided that all amounts then due (other than amounts due solely because of such acceleration) have been paid and all other defaults with respect to such series of debt securities have been cured or waived. (*Section 502*)

If any event of default occurs, the trustee will be obligated to use those of its rights and powers under the 2023 and 2043 Notes Indenture, and to use the same degree of care and skill in doing so, that a prudent person would use under the circumstances in conducting his or her own affairs.

The trustee is not required to take any action under the 2023 and 2043 Notes Indenture at the request of any holders unless the holders offer the trustee reasonable protection, known as an indemnity, from expenses and liability. Subject to the trustee's right to receive an indemnity that is reasonably satisfactory to it, the holders of a majority in principal amount of the applicable series of outstanding debt securities may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. These majority holders may also direct the trustee in writing in performing any other action under the 2023 and 2043 Notes Indenture with respect to the debt securities. (*Sections 512 and 603(e)*)

Before a holder of any debt securities of any series bypasses the trustee and brings its own lawsuit or other formal legal action or takes other steps to enforce its rights or protect its interests relating to the debt securities, the following must occur:

- the holder must give the trustee written notice that an event of default has occurred with respect to the debt securities of such series and the event of default has not been cured or waived;
- the holders of a majority in aggregate principal amount of the outstanding debt securities of such series must make a written request that the trustee take action with respect to the debt securities of such series because of the default and they or other holders must offer to the trustee indemnity satisfactory to the trustee against the cost and other liabilities incurred by complying with such request;
- the trustee must not have taken action for 60 days after the above steps have been taken; and
- during those 60 days, the holders of a majority in aggregate principal amount of the outstanding debt securities of such series must not have given the trustee directions that are inconsistent with the written

request previously delivered by the holders of a majority in aggregate principal amount of the outstanding debt securities of such series. (Section 507)

A holder will be entitled, however, at any time to bring a lawsuit for the payment of money due on any debt securities held by that holder on or after its due date. (Section 508)

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of the maturity.

Waiver of Default

The holders of not less than a majority in principal amount of the outstanding debt securities of any series may waive a past default for all the debt securities of such series. If this happens, the default will be treated as if it had been cured. However, no holder may waive (i) a payment default on any debt security or (ii) a covenant default by which we make any of the changes in “—Modification and Waiver—Changes Requiring Each Holder’s Approval” in the applicable prospectus for the 2023 Notes and 2043 Notes without obtaining approval of each affected holder of outstanding debt securities of such series. (Section 513)

Modification and Waiver

There are three types of changes we can make to the 2023 and 2043 Notes Indenture, any supplemental indenture and the outstanding debt securities under the 2023 and 2043 Notes Indenture.

Changes Requiring Each Holder’s Approval

The following changes cannot be made without the approval of each holder of an outstanding debt security affected by the change:

- a change in the stated maturity of any principal or interest payment on a debt security;
- a reduction in the principal amount, the interest rate or the redemption price for a debt security;
- a change in our obligation to pay additional interest;
- a change in the currency of any payment on a debt security other than as permitted by the debt security;
- a change in the currency of any payment on a debt security other than as permitted by the debt security;
- a change in the place of any payment on a debt security;
- an impairment of the holder’s right to sue for payment of any amount due on its debt security;
- a reduction in the percentage in principal amount of the debt securities needed to change the 2023 and 2043 Notes Indenture or the outstanding debt securities under the 2023 and 2043 Notes Indenture; and
- a reduction in the percentage in principal amount of the outstanding debt securities needed to waive our compliance with the 2023 and 2043 Notes Indenture, any supplemental indenture or to waive defaults. (Section 902)

Changes Not Requiring Approval

Some changes will not require the approval of holders of debt securities. These changes are limited to specific kinds of changes, like the addition of covenants, events of default or security, and other clarifications and changes that would not adversely affect the holders of outstanding debt securities under the 2023 and 2043 Notes Indenture in any material respect. (Section 901)

Changes Requiring Majority Approval

Any other change to the 2023 and 2043 Notes Indenture or the debt securities of any series will be required to be approved by the holders of a majority in principal amount of the outstanding debt securities of such series affected by the change or waiver. The required approval must be given by written consent. (*Section 902*)

The same majority approval will be required for us to obtain a waiver of certain of our covenants in the 2023 and 2043 Notes Indenture and any supplemental indenture. Our covenants include the promises we make about merging, creating liens on our interests and entering into sale and leaseback transactions, which we describe under “—Merger, Consolidation or Sale of Assets” and “—Covenants” in the applicable prospectus for the 2023 Notes and 2043 Notes. If the holders approve a waiver of a covenant, we will not have to comply with it. The holders, however, cannot approve a waiver of any provision in a particular debt security, the 2023 and 2043 Notes Indenture or any supplemental indenture, as it affects that debt security, that we cannot change without the approval of the holder of that debt security as described under in “—Changes Requiring Each Holder’s Approval” in the applicable prospectus for the 2023 Notes and 2043 Notes, unless that holder approves the waiver. (*Section 1010*)

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the 2023 and 2043 Notes Indenture, any supplemental indenture or the debt securities or request a waiver.

Defeasance

We may, at our option, elect to terminate (1) all of our obligations with respect to the debt securities (“legal defeasance”), except for certain obligations, including those regarding any trust established for defeasance and obligations relating to the transfer and exchange of the debt securities, the replacement of mutilated, destroyed, lost or stolen debt securities, the maintenance of agencies with respect to the debt securities and the rights, powers, trusts, duties, immunities, and indemnities and other provisions in respect of the trustee (*Sections 1201 and 1202*) or (2) our obligations under certain covenants in the 2023 and 2043 Notes Indenture, so that any failure to comply with such obligations will not constitute an event of default (“covenant defeasance”) in respect of a particular series of debt securities. (*Sections 1201 and 1203*) In order to exercise either legal defeasance or covenant defeasance, we must irrevocably deposit with the trustee U.S. dollars or such other currency in which the debt securities are denominated (the “securities currency”), government obligations of the United States or a government, governmental agency or central bank of the country whose currency is the securities currency, or any combination thereof, in such amounts as will be sufficient to pay the principal, premium, if any, and interest (including additional interest) in respect of the debt securities then outstanding on the maturity date of the debt securities, and comply with certain other conditions, including, without limitation, the delivery of opinions of counsel as to specified tax and other matters. (*Sections 1201, 1204 and 1205*)

If we elect either legal defeasance or covenant defeasance with respect to any series of debt securities, we must so elect it with respect to all of the outstanding debt securities of such series. (*Section 1201*)

Currency Indemnity

Our obligations under the debt securities will be discharged only to the extent that the trustee or the relevant holder is able to purchase the securities currency with any other currency paid to the trustee or that holder in accordance with any judgment or otherwise. If the trustee or the holder cannot purchase the securities currency in the amount originally to be paid, we have agreed to pay the difference. The holder, however, agrees that, if the amount of the securities currency purchased exceeds the amount originally to be paid to such holder, the holder will reimburse the excess to us. (*Section 1009*)

Other Relationships with Trustee

The trustee or its affiliates may have other business relationships with us from time to time.

Governing Law

The 2023 Notes and 2043 Notes, the 2023 and 2043 Notes Indenture and any supplemental indenture will be governed by, and construed in accordance with, the laws of the State of New York, United States of America. (*Section 113*)

B. 3.500% Senior Notes due 2050

The 3.500% Senior Notes due 2050 (the “2050 Notes”) were issued in an aggregate principal amount of \$2,500,000,000, will bear interest at the rate of 3.500% per year and will mature on January 16, 2050. All payments of principal and premium, if any, and interest on the 2050 Notes will be made in U.S. dollars.

The 2050 Notes were issued pursuant to the indenture, dated as of April 8, 2013, as supplemented by a third supplemental indenture, dated January 16, 2020, and a fourth supplemental indenture, dated February 12, 2020, among FEMSA and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (collectively, the “2050 Notes Indenture.”) The paying agent’s office is located at 240 Greenwich Street, New York, New York 10286 (formerly, 101 Barclay Street, Floor 4 East, New York, New York 10286).

The 2050 Notes are not guaranteed by any of our subsidiaries.

Interest on the 2050 Notes will be payable on January 16 and July 16 of each year, beginning on July 16, 2020, to the holders in whose names the 2050 Notes are registered at the close of business on January 1 or July 1 immediately preceding the related interest payment date.

We will pay interest on the 2050 Notes on the interest payment dates stated above and at maturity. Each payment of interest due on an interest payment date or at maturity will include interest accrued from and including the last date to which interest has been paid or made available for payment, or from the issue date, if none has been paid or made available for payment, to but excluding the relevant payment date. We will compute interest on the 2050 Notes on the basis of a 360-day year consisting of twelve 30-day months.

Unless otherwise specified in the applicable prospectus supplement, “business day” means each Monday, Tuesday, Wednesday, Thursday and Friday that is (a) not a day on which banking institutions in New York City or Mexico City generally are authorized or obligated by law, regulation or executive order, as applicable, to close and (b) in the case of 2050 Notes issued in certificated form, a day on which banks and financial institutions are generally open for business in the location of each office of a paying agent, but only with respect to a payment to be made at the office of such paying agent. (Section 101)

If any payment is due on the 2050 Notes on a day that is not a business day, we will make the payment on the next business day. Payments postponed to the next business day in this situation will be treated under the 2050 Notes Indenture as if they were made on the original payment date. Postponement of this kind will not result in a default under the 2050 Notes or the 2050 Notes Indenture, and no interest will accrue on the postponed amount from the original payment date to the next business day.

If any payment is due on the 2050 Notes on a day that is not a business day, we will make the payment on the next business day. Payments postponed to the next business day in this situation will be treated under the 2050 Notes Indenture as if they were made on the original payment date. Postponement of this kind will not result in a default under the 2050 Notes or the 2050 Notes Indenture, and no interest will accrue on the postponed amount from the original payment date to the next business day.

We are a holding company and our principal assets are shares that we hold in our subsidiaries. The 2050 Notes will be our unsecured and unsubordinated obligations. As a result, the 2050 Notes are not secured by any of our assets or properties and will be effectively subordinated to all of our existing and future secured obligations to the extent of the value of the assets securing such obligations. The 2050 Notes are not guaranteed by any of our subsidiaries. As a result, the 2050 Notes will be structurally subordinated to all existing and future indebtedness and other obligations, including trade payables, of our subsidiaries in respect of assets of and revenue generated by such subsidiaries. In the event of a bankruptcy, *concurso mercantil*, *quiebra*, liquidation or other similar proceeding by or against us, the 2050 Notes would rank equally in right of payment with all our other existing and future unsecured and unsubordinated obligations, and junior to certain obligations given preference under applicable law, including tax, labor and social security obligations. The 2050 Notes do not restrict our ability or the ability of our subsidiaries to incur additional indebtedness in the future.

Unless otherwise specified in the applicable prospectus supplement, we reserve the right, from time to time without the consent of holders of the 2050 Notes, to issue additional debt securities on terms and conditions identical to those of the 2050 Notes (except for the issue date and issue price), which additional debt securities will increase the aggregate principal amount of, and will be consolidated and form a single series with, the 2050 Notes. The additional debt securities will be treated as a single class for all purposes under the 2050 Notes Indenture and will vote together as one class on all matters with respect to the debt securities, *provided* that any additional debt securities shall be issued under a separate CUSIP number, ISIN and Common Code unless the additional debt securities are issued pursuant to a “qualified reopening” of the original series, are otherwise treated as part of the same “issue” of debt instruments as the original series or the original 2050 Notes were, and the additional debt securities are, are issued with no more than a *de minimis* amount of original discount, in each case for U.S. federal income tax purposes. Unless the context otherwise requires, for all purposes of the 2050 Notes Indenture and the description of debt securities contained in the applicable prospectus supplement for the 2050 Notes, references to the debt securities include any additional debt securities. (*Section 301*)

Payment of Additional Interest

We are required by Mexican law to deduct Mexican withholding taxes from payments of interest (or amounts deemed interest) to holders of the 2050 Notes who are not residents of Mexico for tax purposes as described under “Taxation—Mexican Tax Considerations” in the applicable prospectus for the 2050 Notes.

Subject to the limitations and exceptions described below, we will pay to holders of the 2050 Notes all additional interest that may be necessary so that every net payment of interest or principal or premium to the holder will not be less than the amount provided for in the 2050 Notes. By net payment, we mean the amount that we or our paying agent will pay the holder after we deduct or withhold an amount for or on account of any present or future taxes, duties, assessments or other governmental charges imposed or levied with respect to that payment (or the payment of such additional interest) by a Mexican taxing authority or the taxing authority of any other country under whose laws we or any successor of us (assuming the obligations of the 2050 Notes, the 2050 Notes Indenture and any applicable supplemental indenture following a merger, consolidation or transfer, lease or conveyance of substantially all of our assets and properties) are organized at the time of payment, except for the United States (each, a “Taxing Jurisdiction”).

Our obligation to pay additional interest is, however, subject to several important exceptions. We will not pay additional interest to or on behalf of any holder or beneficial owner, or to the trustee, for or on account of any of the following:

- any taxes, duties, assessments or other governmental charges imposed solely because at any time there is or was a connection between the holder and the Taxing Jurisdiction (other than the mere receipt of a payment or the ownership or holding of a debt security or the enforcement of rights with respect to a debt security);
- any estate, inheritance, gift, sales, transfer, personal property or other similar tax, assessment or other governmental charge imposed with respect to the debt securities;
- any taxes, duties, assessments or other governmental charges imposed solely because the holder or any other person fails to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with the Taxing Jurisdiction of the holder or any beneficial owner of the debt security if compliance is required by law, regulation or by an applicable income tax treaty to which such Taxing Jurisdiction is a party and which is effective, as a precondition to exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and we have given the holders at least 30 calendar days’ notice prior to the first payment date with respect to which such certification, identification or reporting requirement is required to the effect that holders will be required to provide such information and identification;
- any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on the debt securities;

- any taxes, duties, assessments or other governmental charges with respect to a debt security presented for payment more than 15 days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to holders, whichever occurs later, except to the extent that the holders of such debt security would have been entitled to such additional interest on presenting such debt security for payment on any date during such 15-day period;
- any payment on a debt security to a holder that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the additional interest had the beneficiary, settlor, member or beneficial owner been the holder of such debt security;
- any taxes, duties, assessments or other governmental charges that are imposed on a payment to an individual and are required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other directive implementing the conclusions of the ECOFIN Council meetings of November 26 and 27, 2000, December 13, 2001, and January 21, 2003, or any law or agreement implementing or complying with, or introduced in order to conform to, such a directive; and
- any combination of the items in the bullet points above. (*Section 1008*)

The limitations on our obligations to pay additional interest described in the third bullet point above will not apply if the provision of information, documentation or other evidence described in the applicable bullet point would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a holder or beneficial owner of a debt security, taking into account any relevant differences between U.S. and Mexican law, regulation or administrative practice, or the laws, regulations or administrative practices of any other Taxing Jurisdiction, than comparable information or other reporting requirements imposed under U.S. tax law (including the United States/Mexico Income Tax Treaty), regulations (including proposed regulations) and administrative practice. (*Section 1008(a)*)

Applicable Mexican regulations currently allow us to withhold at a reduced rate, provided that we comply with certain information reporting requirements. Accordingly, the limitations on our obligations to pay additional interest described in the third bullet point above also will not apply with respect to any Mexican withholding taxes unless (a) the provision of the information, documentation or other evidence described in the applicable bullet point is expressly required by the applicable Mexican regulations, (b) we cannot obtain the information, documentation or other evidence necessary to comply with the applicable Mexican regulations on our own through reasonable diligence and (c) we otherwise would meet the requirements for application of the applicable Mexican regulations.

In addition, the limitation described in the third bullet point above does not require that any person that is not a resident of Mexico for tax purposes, including any non-Mexican pension fund, retirement fund, tax exempt organization, financial institution or any other holder or beneficial owner of a debt security, register with, or provide information to, the SHCP or with the SAT) to establish eligibility for an exemption from, or a reduction of, Mexican withholding tax.

We will remit the full amount of any taxes withheld to the applicable taxing authorities in accordance with the applicable law of the Taxing Jurisdiction. We will also provide the trustee with documentation (which may consist of copies of such documentation) reasonably satisfactory to the trustee evidencing the payment of taxes in respect of which we have paid any additional interest. We will provide copies of such documentation to the holders of the debt securities or the relevant paying agent upon request. (*Section 1008(a)*)

In the event that additional interest actually paid with respect to the debt securities pursuant to the preceding paragraphs is based on rates of deduction or withholding of taxes in excess of the appropriate rate applicable to the holder of such debt securities, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, then such holder shall, by accepting such debt securities, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty

that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto. (Section 1008(d))

Any reference in the applicable prospectus supplement for the 2050 Notes, the 2050 Notes Indenture, any applicable supplemental indenture or the debt securities to principal, premium, if any, interest or any other amount payable in respect of the debt securities by us will be deemed also to refer to any additional interest that may be payable with respect to that amount under the obligations referred to therein. (Section 1008(e))

Redemption

We are not permitted to redeem the 2050 Notes before their stated maturity, except as set forth below. The 2050 Notes are not entitled to the benefit of any sinking fund (meaning that we will not deposit money on a regular basis into any separate account to repay the 2050 Notes). In addition, holders are not entitled to require us to repurchase their 2050 Notes from them before the stated maturity.

Optional Redemption With “Make-Whole” Amount

We will have the right at our option to redeem the outstanding 2050 Notes in whole at any time or in part from time to time prior to July 16, 2049 (the date that is six months prior to the maturity date of the 2050 Notes or the “Par Call Date”), on at least 15 days’ but not more than 60 days’ notice, at a redemption price equal to the greater of (1) 100% of the principal amount of the 2050 Notes to be redeemed and (2) the sum of the present values of each remaining scheduled payment of principal and interest thereon through the Par Call Date as if the 2050 Notes were redeemed on the Par Call Date (exclusive of accrued and unpaid interest to the redemption date on the principal amount of the 2050 Notes being redeemed on such redemption date and additional interest thereon) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points, plus in each case accrued and unpaid interest to the redemption date on the principal amount of the 2050 Notes being redeemed on such redemption date and additional interest thereon.

“Comparable Treasury Issue” means the U.S. Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the period from redemption date to the Par Call Date that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the period from the redemption date to the Par Call Date.

“Comparable Treasury Price” means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations quoted to an entity selected by us for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if such entity obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by us.

“Reference Treasury Dealer” means each of BofA Securities, Inc., J.P. Morgan Securities LLC and Goldman Sachs & Co. LLC or their respective affiliates which are primary U.S. government securities dealers; provided, however, that if any of the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a “Primary Treasury Dealer”), we will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by an entity selected by us, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to an entity selected by us by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on the third business day preceding such redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Par Redemption

On and after the Par Call Date, we will have the right, at our option, to redeem the 2050 Notes in whole at any time or in part from time to time, on at least 15 days' but not more than 60 days' notice, at a redemption price equal to 100% of the outstanding principal amount of the 2050 Notes to be redeemed plus accrued and unpaid interest and additional interest to the redemption date on the principal amount of the 2050 Notes being redeemed on such redemption date.

General Provisions for Optional Redemption

On and after the redemption date, interest will cease to accrue on the 2050 Notes or any portion of the 2050 Notes called for redemption (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with the trustee money sufficient to pay the redemption price of and (unless the redemption date shall be an interest payment date) accrued and unpaid interest to the redemption date on the 2050 Notes to be redeemed on such date and additional interest thereon. If less than all of the outstanding 2050 Notes are to be redeemed, the 2050 Notes to be redeemed shall be selected by the trustee by such method as the trustee shall deem fair and appropriate or in accordance with the applicable procedures of DTC.

Tax Redemption

We will have the right to redeem the 2050 Notes, in whole but not in part, at any time at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the redemption date and additional interest, if, as a result of certain changes in tax laws applicable to payments under the 2050 Notes, there is an increase in the additional interest we are obligated to pay under the 2050 Notes. See "Description of Debt Securities—Redemption of Debt Securities—Redemption for Taxation Reasons" in the applicable prospectus for the 2050 Notes.

Covenants

The following covenants will apply to us and our subsidiaries for so long as any debt security remains outstanding. These covenants restrict our ability and the ability of our subsidiaries to enter into certain transactions. However, these covenants do not limit our ability to incur indebtedness or require us to comply with financial ratios or to maintain specified levels of net worth or liquidity. In addition, these covenants and the 2050 Notes Indenture generally do not limit the ability of our principal shareholders to reduce their ownership interest in us.

Limitation on Liens

We may not, and we may not allow any of our significant subsidiaries to, create, incur, issue or assume any liens on our property to secure debt where the debt secured by such liens would exceed an aggregate amount equal to the greater of (1) U.S. \$2,800.00 million and (2) 16% of our Consolidated Net Tangible Assets less, in each case, the aggregate amount of attributable debt of us and our significant subsidiaries pursuant to the first bullet point under "—Limitation on Sales and Leasebacks" in the applicable prospectus for the 2050 Notes unless we secure the debt securities equally with, or prior to, the debt secured by such liens. This restriction will not, however, apply to the following:

- liens on property acquired and existing on the date the property was acquired or arising after such acquisition pursuant to contractual commitments entered into prior to such acquisition and not in contemplation of such acquisition;
- liens on any property securing debt incurred or assumed for the purpose of financing its purchase price or the cost of its construction, improvement or repair; *provided* that such lien attaches to the property within 12 months of its acquisition or the completion of its construction, improvement or repair and does not attach to any other property;

- liens existing on any property of any subsidiary prior to the time that the subsidiary became a subsidiary of ours or liens arising after that time under contractual commitments entered into prior to and not in contemplation of that event;
- liens on any property securing debt owed by a subsidiary of ours to us or to another of our subsidiaries;
- liens existing on the date the debt securities are issued;
- liens resulting from the deposit of funds or evidence of debt in trust for the purpose of defeasing our debt or the debt of any of our subsidiaries;
- any (i) liens for taxes, assessments and other governmental charges and (ii) attachment or judgment liens, in each case, the payment of which is being contested in good faith by appropriate proceedings for which such reserves or other appropriate provision, if any, as may be required by International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) shall have been made;
- liens on accounts receivable, inventory, or bottles and cases to secure working capital or revolving credit debt incurred in the ordinary course of business;
- liens resulting from a direct or indirect pledge of any or all of our shares in Heineken N.V. or Heineken Holdings N.V. or any holding company the principal assets of which consist of such shares;
- any liens on real estate related to retail or commercial locations operated by us or our subsidiaries that is contributed to a trust (a “Real Estate Trust”); and
- liens arising out of the refinancing, extension, renewal or refunding of any debt described above, provided that the aggregate principal amount of such debt is not increased and such lien does not extend to any additional property. (*Section 1006*)

“Consolidated Net Tangible Assets” means at any time the total assets (stated net of properly deductible items, to the extent not already deducted in the computation of total assets) appearing on our consolidated balance sheet less all goodwill and intangible assets appearing on such balance sheet, all determined on a consolidated basis at such time in accordance with IFRS. (*Section 101*)

For purposes of this covenant, the covenant set forth under “—Limitation on Sale and Leaseback Transactions” in the applicable prospectus for the 2050 Notes and the events of default set forth under “—Default, Remedies and Waiver of Default—Events of Default” in the applicable prospectus for the 2050 Notes, “significant subsidiary” means any of our subsidiaries that meets the definition of significant subsidiary under Regulation S-X as promulgated by the SEC. As of December 31, 2012, our significant subsidiaries consisted of Coca-Cola FEMSA, S.A.B. de C.V., FEMSA Comercio, S.A. de C.V. and CB Equity LLP. (*Section 101*)

Limitation on Sales and Leasebacks

We may not, and we may not allow any of our significant subsidiaries to, enter into any sale and leaseback transaction without effectively providing that the debt securities will be secured equally and ratably with or prior to the sale and leaseback transaction, unless:

- the aggregate amount of attributable debt of us and our significant subsidiaries pursuant to this bullet point would not exceed an aggregate amount equal to the greater of (1) U.S. \$2,800.00 million or (2) 16% of our Consolidated Net Tangible Assets less, in each case, any secured indebtedness permitted under “—Limitation on Liens” in the applicable prospectus for the 2050 Notes that does not secure the debt securities equally with, or prior to, the debt secured by such liens;

- we or one of our subsidiaries, within 12 months of the sale and leaseback transaction, retire debt not owed to us or any of our subsidiaries that is not subordinated to the debt securities or invest in equipment, plant facilities or other fixed assets used in the operations of us or any of our subsidiaries, in an aggregate amount equal to the greater of (1) the net proceeds of the sale or transfer of the property or other assets that are the subject of the sale and leaseback transaction and (2) the fair market value of the property leased (Section 1007); or
- the transaction involves the lease by us or our subsidiaries of real estate contributed to a Real Estate Trust.

Notwithstanding the foregoing, we and/or our subsidiaries may enter into sale and leaseback transactions that solely refinance, extend, renew or refund sale and leaseback transactions permitted under the bullet points above and the restriction described in the preceding paragraph will not apply to such sale and leaseback transactions.

“Sale and leaseback transaction” means a transaction or arrangement between us or one of our subsidiaries and a bank, insurance company or other lender or investor where we or our subsidiary leases property for an initial term of three years or more that was or will be sold by us or our significant subsidiary to that lender or investor for a sale price of U.S. \$5 million (or its equivalent in other currencies) or more. (Section 101)

“Attributable debt” means, with respect to any sale and leaseback transaction, the lesser of (1) the fair market value of the asset subject to such transaction and (2) the present value, discounted at a rate per annum equal to the discount rate of a capital lease obligation with a like term in accordance with IFRS, of the obligations of the lessee for net rental payments (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments and similar charges and contingent rents) during the term of the lease. (Section 101)

Defaults, Remedies and Waiver of Defaults

Holders will have special rights if an event of default with respect to the debt securities they hold occurs and is not cured, as described below.

Events of Default

Each of the following will be an “event of default” with respect to any series of the debt securities:

- we fail to pay interest on any debt security within 30 days after its due date;
- we fail to pay the principal or premium, if any, of any debt security on its due date;
- we remain in breach of any covenant in the 2050 Notes Indenture for the benefit of holders of the debt securities of any series, for 90 days after we receive a notice of default (sent by the trustee at the written request of holders of a majority in principal amount of the debt securities of that series to us or by the holders of a majority in principal amount of the debt securities of that series to us and the trustee) stating that we are in breach;
- we or any of our significant subsidiaries experience a default or event of default under any instrument relating to debt, prior to its maturity, that results in the failure to pay principal, or in the acceleration, of an aggregate principal amount equal to or greater than U.S. \$100 million (or its equivalent in other currencies);
- a final judgment is rendered against us or any of our significant subsidiaries in an aggregate amount in excess of U.S. \$50 million (or its equivalent in other currencies) that is not discharged or bonded in full within 90 days, for 10 days after we receive a notice of this default (sent by the trustee at the written request of holders of a majority in principal amount of the debt securities of such series to us or by the holders of a majority in principal amount of the debt securities of such series to us and the trustee); or

- we or any of our significant subsidiaries file for bankruptcy, or other events of bankruptcy, insolvency or reorganization or similar proceedings occur relating to us or any of our significant subsidiaries.

Remedies Upon Event of Default

If an event of default with respect to any series of the debt securities occurs and is not cured or waived, the trustee, at the written request of holders of a majority in principal amount of the debt securities of such series, may declare the entire principal amount of all the debt securities to be due and payable immediately, and upon any such declaration the principal, any accrued interest and any additional interest shall become due and payable. If, however, an event of default with respect to any series of debt securities occurs because of a bankruptcy, insolvency or reorganization relating to us or any of our significant subsidiaries, the entire principal amount of all the debt securities of such series and any accrued interest and any additional interest will be automatically accelerated, without any action by the trustee or any holder and any principal, interest or additional interest will become immediately due and payable. (*Section 502*)

Each of the situations described in the preceding paragraph is called an acceleration of the maturity of the debt securities. If at any time after a declaration of acceleration with respect to any series of debt securities is made and before a judgment for payment has been obtained, the holders of a majority in aggregate principal amount of the outstanding debt securities of such series (except in the event of an event of default arising from bankruptcy, insolvency or reorganization or similar proceedings) may rescind and annul such declaration and its consequences, provided that all amounts then due (other than amounts due solely because of such acceleration) have been paid and all other defaults with respect to such series of debt securities have been cured or waived. (*Section 502*)

If any event of default occurs, the trustee will be obligated to use those of its rights and powers under the 2050 Notes Indenture, and to use the same degree of care and skill in doing so, that a prudent person would use under the circumstances in conducting his or her own affairs.

The trustee is not required to take any action under the 2050 Notes Indenture at the request of any holders unless the holders offer the trustee reasonable protection, known as an indemnity, from expenses and liability. Subject to the trustee's right to receive an indemnity that is reasonably satisfactory to it, the holders of a majority in principal amount of the applicable series of outstanding debt securities may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. These majority holders may also direct the trustee in writing in performing any other action under the 2050 Notes Indenture with respect to the debt securities. (*Sections 512 and 603(e)*)

Before a holder of any debt securities of any series bypasses the trustee and brings its own lawsuit or other formal legal action or takes other steps to enforce its rights or protect its interests relating to the debt securities, the following must occur:

- the holder must give the trustee written notice that an event of default has occurred with respect to the debt securities of such series and the event of default has not been cured or waived;
- the holders of a majority in aggregate principal amount of the outstanding debt securities of such series must make a written request that the trustee take action with respect to the debt securities of such series because of the default and they or other holders must offer to the trustee indemnity satisfactory to the trustee against the cost and other liabilities incurred by complying with such request;
- the trustee must not have taken action for 60 days after the above steps have been taken; and
- during those 60 days, the holders of a majority in aggregate principal amount of the outstanding debt securities of such series must not have given the trustee directions that are inconsistent with the written request previously delivered by the holders of a majority in aggregate principal amount of the outstanding debt securities of such series. (*Section 507*)

A holder will be entitled, however, at any time to bring a lawsuit for the payment of money due on any debt securities held by that holder on or after its due date. (Section 508)

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of the maturity.

Waiver of Default

The holders of not less than a majority in principal amount of the outstanding debt securities of any series may waive a past default for all the debt securities of such series. If this happens, the default will be treated as if it had been cured. However, no holder may waive (i) a payment default on any debt security or (ii) a covenant default by which we make any of the changes in “—Modification and Waiver – Changes Requiring Each Holder’s Approval” in the applicable prospectus for the 2050 Notes without obtaining approval of each affected holder of outstanding debt securities of such series. (Section 513)

Modification and Waiver

There are three types of changes we can make to the 2050 Notes Indenture, any supplemental indenture and the outstanding debt securities under the 2050 Notes Indenture.

Changes Requiring Each Holder’s Approval

The following changes cannot be made without the approval of each holder of an outstanding debt security affected by the change:

- a change in the stated maturity of any principal or interest payment on a debt security;
- a reduction in the principal amount, the interest rate or the redemption price for a debt security;
- a change in our obligation to pay additional interest;
- a change in the currency of any payment on a debt security other than as permitted by the debt security;
- a change in the currency of any payment on a debt security other than as permitted by the debt security;
- a change in the place of any payment on a debt security;
- an impairment of the holder’s right to sue for payment of any amount due on its debt security;
- a reduction in the percentage in principal amount of the debt securities needed to change the 2050 Notes Indenture or the outstanding debt securities under the 2050 Notes Indenture; and
- a reduction in the percentage in principal amount of the outstanding debt securities needed to waive our compliance with the 2050 Notes Indenture, any supplemental indenture or to waive defaults. (Section 902)

Changes Not Requiring Approval

Some changes will not require the approval of holders of debt securities. These changes are limited to specific kinds of changes, like the addition of covenants, events of default or security, and other clarifications and changes that would not adversely affect the holders of outstanding debt securities under the 2050 Notes Indenture in any material respect. (Section 901)

Changes Requiring Majority Approval

Any other change to the 2050 Notes Indenture or the debt securities of any series will be required to be approved by the holders of a majority in principal amount of the outstanding debt securities of such series affected by the change or waiver. The required approval must be given by written consent. (Section 902)

The same majority approval will be required for us to obtain a waiver of certain of our covenants in the 2050 Notes Indenture and any supplemental indenture. Our covenants include the promises we make about merging, creating liens on our interests and entering into sale and leaseback transactions, which we describe under “—Merger, Consolidation or Sale of Assets” and “—Covenants” in the applicable prospectus for the 2050 Notes. If the holders approve a waiver of a covenant, we will not have to comply with it. The holders, however, cannot approve a waiver of any provision in a particular debt security, the 2050 Notes Indenture or any supplemental indenture, as it affects that debt security, that we cannot change without the approval of the holder of that debt security as described under in “—Changes Requiring Each Holder’s Approval,” unless that holder approves the waiver. (*Section 1010*)

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the 2050 Notes Indenture, any supplemental indenture or the debt securities or request a waiver.

Defeasance

We may, at our option, elect to terminate (1) all of our obligations with respect to the debt securities (“legal defeasance”), except for certain obligations, including those regarding any trust established for defeasance and obligations relating to the transfer and exchange of the debt securities, the replacement of mutilated, destroyed, lost or stolen debt securities, the maintenance of agencies with respect to the debt securities and the rights, powers, trusts, duties, immunities, and indemnities and other provisions in respect of the trustee (*Sections 1201 and 1202*) or (2) our obligations under certain covenants in the 2050 Notes Indenture, so that any failure to comply with such obligations will not constitute an event of default (“covenant defeasance”) in respect of a particular series of debt securities. (*Sections 1201 and 1203*) In order to exercise either legal defeasance or covenant defeasance, we must irrevocably deposit with the trustee U.S. dollars or such other currency in which the debt securities are denominated (the “securities currency”), government obligations of the United States or a government, governmental agency or central bank of the country whose currency is the securities currency, or any combination thereof, in such amounts as will be sufficient to pay the principal, premium, if any, and interest (including additional interest) in respect of the debt securities then outstanding on the maturity date of the debt securities, and comply with certain other conditions, including, without limitation, the delivery of opinions of counsel as to specified tax and other matters. (*Sections 1201, 1204 and 1205*)

If we elect either legal defeasance or covenant defeasance with respect to any series of debt securities, we must so elect it with respect to all of the outstanding debt securities of such series. (*Section 1201*)

Currency Indemnity

Our obligations under the debt securities will be discharged only to the extent that the trustee or the relevant holder is able to purchase the securities currency with any other currency paid to the trustee or that holder in accordance with any judgment or otherwise. If the trustee or the holder cannot purchase the securities currency in the amount originally to be paid, we have agreed to pay the difference. The holder, however, agrees that, if the amount of the securities currency purchased exceeds the amount originally to be paid to such holder, the holder will reimburse the excess to us. (*Section 1009*)

Other Relationships with Trustee

The trustee or its affiliates may have other business relationships with us from time to time.

Governing Law

The 2050 Notes, the 2050 Notes Indenture and any supplemental indenture will be governed by, and construed in accordance with, the laws of the State of New York, United States of America. (*Section 113*)

Significant Subsidiaries

The following table sets forth our significant subsidiaries as of December 31, 2020:

Name of Company	Jurisdiction of Establishment	Percentage Owned
CIBSA:	Mexico	100.0 %
Coca-Cola FEMSA	Mexico	47.2 % ⁽¹⁾
Emprex:	Mexico	100.0 %
FEMCO	Mexico	100.0 %
CB Equity	United Kingdom	100.0 %

(1) Percentage of capital stock. FEMSA, through CIBSA, owns 56% of the ordinary voting shares of Coca-Cola FEMSA after giving effect to the eight-for-one stock split (as defined herein) consummated by Coca-Cola FEMSA on April 11, 2019.

Certification

I, Miguel Eduardo Padilla Silva, certify that:

1. I have reviewed this annual report on Form 20-F of Fomento Económico Mexicano, S.A.B. de C.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results from operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 14, 2021

By: /s/ Miguel Eduardo Padilla Silva
Miguel Eduardo Padilla Silva
Chief Executive Officer

Exh. 12.1-1

Certification

I, Eugenio Garza y Garza, certify that:

1. I have reviewed this annual report on Form 20-F of Fomento Económico Mexicano, S.A.B. de C.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results from operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 14, 2021

By: /s/ Eugenio Garza y Garza
Eugenio Garza y Garza
Director of Finance and Corporate Development

Exh. 12.2-1

Certification**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Fomento Económico Mexicano, S.A.B. de C.V. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on form 20-F for the year ended December 31, 2020 (the "Form 20-F") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results from operations of the Company.

Date: April 14, 2021

By: /s/ Miguel Eduardo Padilla Silva

Miguel Eduardo Padilla Silva

Chief Executive Officer

Date: April 14, 2021

By: /s/ Eugenio Garza y Garza

Eugenio Garza y Garza

Director of Finance and Corporate Development

Exh. 13.1-1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form F-3, No. 333-233960) of Fomento Económico Mexicano, S.A.B. de C.V., of our reports dated April 14, 2021, with respect to the consolidated financial statements of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries, and the effectiveness of internal control over financial reporting of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries included in this Annual Report (Form 20-F) for the year ended December 31, 2020.

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

/s/ MANCERA, S.C.
Monterrey, N.L., Mexico
April 14, 2021

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-233960 on Form F-3 of our report dated February 9, 2021, relating to the financial statements of Heineken N.V. appearing in this Annual Report on Form 20-F for the year ended December 31, 2020.

/s/ Deloitte Accountants B.V.
Amsterdam, The Netherlands
April 14, 2021
