

MEXICAN ECONOMIC DEVELOPMENT INC

Form 20-F

April 21, 2016

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As filed with the Securities and Exchange Commission on April 21, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

**ANNUAL REPORT PURSUANT TO SECTION 13**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

Commission file number 001-35934

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

(Exact name of registrant as specified in its charter)

**Mexican Economic Development, Inc.**

(Translation of registrant's name into English)

**United Mexican States**

(Jurisdiction of incorporation or organization)

**General Anaya No. 601 Pte.**

**Colonia Bella Vista**

**Monterrey, NL 64410 Mexico**

(Address of principal executive offices)

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**Juan F. Fonseca**

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**(Name, telephone, e-mail and/or facsimile number and  
address of company contact person)**

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

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

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

None

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

None

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

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

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

**Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):**

Large Accelerated filer  Accelerated filer  Non-accelerated filer

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

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U.S. GAAP

IFRS

Other

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

Item 17

Item 18

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

Yes

No

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### **INTRODUCTION**

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

### **References**

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

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

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

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

### **Currency Translations and Estimates**

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 17.1950 to US\$ 1.00, the noon buying rate for Mexican pesos on December 31, 2015, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. On April 15, 2016, this exchange rate was Ps. 17.5580 to US\$ 1.00. See **Item 3. Key Information Exchange Rate Information** for information regarding exchange rates since 2011.

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

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

### **Forward-Looking Information**

This annual report contains words, such as believe, expect and anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including but not limited to effects on our company from changes in our relationship with or among our affiliated companies, movements in the prices of raw materials,

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competition, significant developments in Mexico and the other countries where we operate, our ability to successfully integrate mergers and acquisitions we have completed in recent years, international economic or political conditions or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

### **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, 2015 and 2014, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015, 2014 and 2013. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ). Our date of transition to IFRS was January 1, 2011.

Pursuant to IFRS, the information presented in this annual report presents financial information for 2015, 2014, 2013, 2012 and 2011 in nominal terms in Mexican pesos, taking into account local inflation of any hyperinflationary economic environment and converting from local currency to Mexican pesos using the official exchange rate at the end of the period published by the local central bank of each country categorized as a hyperinflationary economic environment (for this annual report, only Venezuela). Furthermore, for our Venezuelan entities we were able to convert local currency using one of the three legal exchange rates in that country. For further information, see Notes 3.3 and 3.4 to our audited consolidated financial statements. For each non-hyperinflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for equity and the average exchange rate for the income statement. See Note 3.3 to our audited consolidated financial statements.

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

Except when specifically indicated, information in this annual report on Form 20-F is presented as of December 31, 2015 and does not give effect to any transaction, financial or otherwise, subsequent to that date.

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

	2015 <sup>(1)</sup>	2015 <sup>(2)-(3)</sup>	Year Ended December 31,		2012 <sup>(5)</sup>	2011 <sup>(6)</sup>
			2014	2013 <sup>(4)</sup>		
	(in millions of Mexican pesos or millions of U.S. dollars, except percentages and share and per share data)					
<b>Income Statement Data:</b>						
Total revenues	\$ 18,121	Ps. 311,589	Ps. 263,449	Ps. 258,097	Ps. 238,309	Ps. 201,540
Gross Profit	7,164	123,179	110,171	109,654	101,300	84,296
Income before Income Taxes and Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method	1,463	25,163	23,744	25,080	27,530	23,552
Income taxes	461	7,932	6,253	7,756	7,949	7,618
Consolidated net income	1,354	23,276	22,630	22,155	28,051	20,901
Controlling interest net income	1,029	17,683	16,701	15,922	20,707	15,332
Non-controlling interest net income	325	5,593	5,929	6,233	7,344	5,569
Basic controlling interest net income:						
Per Series B Share	0.05	0.88	0.83	0.79	1.03	0.77
Per Series D Share	0.06	1.10	1.04	1.00	1.30	0.96
Diluted controlling interest net income:						
Per Series B Share	0.05	0.88	0.83	0.79	1.03	0.76
Per Series D Share	0.06	1.10	1.04	0.99	1.29	0.96
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	8,644.6	8,644.6	8,644.7	8,644.7	8,644.7	8,644.7
Allocation of earnings:						
Series B Shares	46.11%	46.11%	46.11%	46.11%	46.11%	46.11%
Series D Shares	53.89%	53.89%	53.89%	53.89%	53.89%	53.89%
<b>Financial Position Data:</b>						
Total assets	\$ 23,805	Ps. 409,332	Ps. 376,173	Ps. 359,192	Ps. 295,942	Ps. 263,362
Current liabilities	3,800	65,346	49,319	48,869	48,516	39,325
Long-term debt <sup>(7)</sup>	5,000	85,969	82,935	72,921	28,640	23,819
Other long-term liabilities	940	16,161	13,797	14,852	8,625	8,047
Capital stock	195	3,348	3,347	3,346	3,346	3,345
Total equity	14,065	241,856	230,122	222,550	210,161	192,171
Controlling interest	10,556	181,524	170,473	159,392	155,259	144,222
Non-controlling interest	3,509	60,332	59,649	63,158	54,902	47,949
<b>Other Information</b>						
Depreciation	\$ 568	Ps. 9,761	Ps. 9,029	Ps. 8,805	Ps. 7,175	Ps. 5,694
Capital expenditures <sup>(8)</sup>	1,098	18,885	18,163	17,882	15,560	12,666
Gross margin <sup>(9)</sup>	40%	40%	42%	42%	43%	42%

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 17.19 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, 2015 was the SIMADI rate of 198.70 bolivars to US\$ 1.00 compared to the year ended on December 31, 2014 of 49.99 bolivars to US\$ 1.00 and compared to the year ended on December 31, 2013 of 6.3 bolivars to US\$ 1.00. See Note 3.3 of our audited consolidated financial statements.



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- (3) Includes results of Socofar, S.A. ( Socofar or Grupo Socofar ), from October 2015, FEMSA Comercio Fuel Division from March 2015 and other business acquisitions. See **Item 4. Information on the Company The Company Corporate Background.** and Note 4 of our audited consolidated financial statements.
- (4) Includes results of Coca-Cola FEMSA Philippines, Inc., or CCFPI (formerly Coca-Cola Bottlers Philippines, Inc.), from February 2013 using the equity method, Grupo Yoli, S.A. de C.V. ( Group Yoli ) from June 2013, Companhia Fluminense de Refrigerantes ( Companhia Fluminense ) from September 2013, Spaipa S.A. Indústria Brasileira de Bebidas ( Spaipa ) from November 2013 and other business acquisitions. See **Item 4. Information on the Company The Company Corporate Background.** Note 10 and Note 4 to our audited consolidated financial statements.
- (5) Includes results of Grupo Fomento Queretano, S.A.P.I. de C.V. ( Grupo Fomento Queretano ) from May 2012. See **Item 4. Information on the Company The Company Corporate Background.** and Note 4 to our audited consolidated financial statements.
- (6) Includes results of Administradora de Acciones del Noreste, S.A.P.I. de C.V. ( Grupo Tampico ) from October 2011 and from Corporación de los Ángeles, S.A. de C.V. ( Grupo CIMSA ) from December 2011. See **Item 4. Information on the Company The Company Corporate Background.**
- (7) Includes long-term debt minus the current portion of long-term debt.
- (8) Includes investments in property, plant and equipment, intangible and other assets, net of cost of long lived assets sold, and write-off.
- (9) Gross margin is calculated by dividing gross profit by total revenues.

**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 following table sets forth for each year the nominal amount of dividends per share that we declared in Mexican peso and U.S. dollar amounts and their respective payment dates for the 2011 to 2015 fiscal years:

Date Dividend Paid	Fiscal Year with Respect to which Dividend was Declared	Aggregate Amount of Dividend Declared	Per Series B Share Dividend		Per Series D Share Dividend	
			Share Dividend	Share Dividend <sup>(7)</sup>	Share Dividend	Share Dividend <sup>(7)</sup>
May 4, 2011 and November 2, 2011 <sup>(1)</sup>	2010	Ps. 4,600,000,000	Ps. 0.2294	\$ 0.0199	Ps. 0.28675	\$ 0.0249
May 4, 2011			Ps. 0.1147	\$ 0.0099	Ps. 0.14338	\$ 0.0124
November 2, 2011			Ps. 0.1147	\$ 0.0085	Ps. 0.14338	\$ 0.0106
	2011	Ps. 6,200,000,000	Ps. 0.3092	\$ 0.0231	Ps. 0.3865	\$ 0.0288

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May 3, 2012 and November 6, 2012<sup>(2)</sup>

May 3, 2012		Ps.	0.1546	\$	0.0119	Ps.	0.1932	\$	0.0149		
November 6, 2012		Ps.	0.1546	\$	0.0119	Ps.	0.1932	\$	0.0149		
May 7, 2013 and November 7, 2013 <sup>(3)</sup>	2012	Ps.	6,684,103,000	Ps.	0.3333	\$	0.0264	Ps.	0.4166	\$	0.0330
May 7, 2013		Ps.	0.1666	\$	0.0138	Ps.	0.2083	\$	0.0173		
November 7, 2013		Ps.	0.1666	\$	0.0126	Ps.	0.2083	\$	0.0158		
December 18, 2013 <sup>(4)</sup>	2012	Ps.	6,684,103,000	Ps.	0.3333	\$	0.0257	Ps.	0.4166	\$	0.0321
May 7, 2015 and November 5, 2015 <sup>(5)</sup>	2014	Ps.	7,350,000,000	Ps.	0.3665	\$	0.0230	Ps.	0.4581	\$	0.0287
May 7, 2015		Ps.	0.1833	\$	0.0120	Ps.	0.2291	\$	0.0149		
November 5, 2015		Ps.	0.1833	\$	0.0110	Ps.	0.2291	\$	0.01318		
May 5, 2016 and November 3, 2016 <sup>(6)</sup>	2015	Ps.	8,355,000,000	Ps.	0.4167		N/A	Ps.	0.5208		N/A
May 5, 2016		Ps.	0.2083		N/A	Ps.	0.2604		N/A		
November 3, 2016		Ps.	0.2083		N/A	Ps.	0.2604		N/A		

- (1) The dividend payment for 2010 was divided into two equal payments in Mexican pesos. The first payment was payable on May 4, 2011, with a record date of May 3, 2011, and the second payment was payable on November 2, 2011, with a record date of November 1, 2011.
- (2) The dividend payment for 2011 was divided into two equal payments in Mexican pesos. The first payment was payable on May 3, 2012 with a record date of May 2, 2012, and the second payment was payable on November 6, 2012 with a record date of November 5, 2012.
- (3) The dividend payment for 2012 was divided into two equal payments in Mexican pesos. The first payment was payable on May 7, 2013 with a record date of May 6, 2013, and the second payment was payable on November 7, 2013 with a record date of November 6, 2013.
- (4) The dividend payment declared in December 2013 was payable on December 18, 2013 with a record date of December 17, 2013.
- (5) The dividend payment for 2014 was divided into two equal payments in Mexican pesos. The first payment was payable on May 7, 2015 with a record date of May 6, 2015, and the second payment was payable on November 5, 2015 with a record date of November 4, 2015. The dividend payment for 2014 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. **See Item 4. Information on the Company Regulatory Matters Mexican Tax Reform.**
- (6) The dividend payment for 2015 will be divided into two equal payments. The first payment will become payable on May 5, 2016 with a record date of May 4, 2016, and the second payment will become payable on November 3, 2016 with a record date of November 1, 2016. The dividend payment for 2015 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. **See Item 4. Information on the Company Regulatory Matters Mexican Tax Reform.**
- (7) Translations to U.S. dollars are based on the exchange rates on the dates the payments were made.

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At the annual ordinary general shareholders meeting, or AGM, the board of directors submits the 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. As of the date of this report, the legal reserve of our company is fully constituted. Thereafter, the holders of Series B Shares may determine and allocate a certain percentage of net profits to any general or special reserve, including a reserve for open-market purchases of our shares. The remainder of net profits is available for distribution in the form of dividends to our shareholders. Dividends may only be paid if net profits are sufficient to offset losses from prior fiscal years.

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

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

**Table of Contents****Exchange Rate Information**

The following table sets forth, for the periods indicated, the high, low, average and year-end noon exchange rate, expressed in Mexican pesos per US\$ 1.00, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. The rates have not been restated in constant currency units and therefore represent nominal historical figures.

<u>Year ended December 31,</u>	Exchange Rate			Year End
	High	Low	Average <sup>(1)</sup>	
2011	14.25	11.51	12.46	13.95
2012	14.37	12.63	13.14	12.96
2013	13.43	11.98	12.86	13.10
2014	14.79	12.84	13.37	14.75
2015	17.63	14.56	15.97	17.20

(1) Average month-end rates.

	Exchange Rate		
	High	Low	Period End
<b>2014:</b>			
First Quarter	Ps. 13.51	Ps. 13.00	Ps. 13.06
Second Quarter	13.14	12.85	12.97
Third Quarter	13.48	12.93	13.43
Fourth Quarter	14.79	13.39	14.75
<b>2015:</b>			
First Quarter	Ps. 15.58	Ps. 14.56	Ps. 15.25
Second Quarter	15.69	14.80	15.69
Third Quarter	17.10	15.67	16.90
Fourth Quarter	17.35	16.37	17.20
October	16.89	16.38	16.53
November	16.85	16.37	16.60
December	17.36	16.53	17.20
<b>2016:</b>			
January	Ps. 18.59	Ps. 17.36	Ps. 18.21
February	19.19	14.75	18.07
March	17.94	17.21	17.21
First Quarter	19.19	17.21	17.21



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**RISK FACTORS**

**Risks Related to Our Company**

**Coca-Cola FEMSA**

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

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

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

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

Coca-Cola FEMSA depends on The Coca-Cola Company to continue with 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. 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 the relationship with The Coca-Cola Company would have an adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.

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

The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA's business. As of April 8, 2016, The Coca-Cola Company indirectly owned 28.1% of Coca-Cola FEMSA's outstanding capital stock, representing 37% of Coca-Cola FEMSA's shares with full voting rights. The Coca-Cola Company is entitled to appoint five of Coca-Cola FEMSA's maximum of 21 directors and the vote of at least two of them is required to approve certain actions by Coca-Cola FEMSA's board of directors. As of April 8, 2016, we indirectly owned 47.9% of Coca-Cola FEMSA's outstanding capital stock, representing 63% of Coca-Cola FEMSA's capital stock with full voting rights. We are entitled to appoint 13 of Coca-Cola FEMSA's maximum of 21 directors and all of its executive officers. We and The Coca-Cola Company together, or only we in certain circumstances, have the power to determine the outcome of all actions requiring the approval of Coca-Cola FEMSA's board of directors, and we and The Coca-Cola Company together, or only we in certain circumstances, have the power to determine the outcome of all actions requiring the approval of Coca-Cola FEMSA's shareholders. The interests of The Coca-Cola Company may be different from the interests of Coca-Cola FEMSA's other shareholders or its creditors, which may result in Coca-Cola FEMSA taking actions contrary to the interests of such other shareholders or its creditors.

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

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

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

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

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

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

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

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

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

Coca-Cola FEMSA obtains the vast majority of the water used in its production from municipal utility companies and pursuant to concessions to use wells, which are generally granted based on studies of the existing and projected groundwater supply. Coca-Cola FEMSA's existing water concessions or contracts to obtain water may be

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terminated by governmental authorities under certain circumstances and their renewal depends on several factors, including having paid fees in full, having complied with applicable 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 its other territories, Coca-Cola FEMSA's existing water supply may not be sufficient to meet its future production needs, and the available water supply may be adversely affected by shortages or changes in governmental regulations and environmental changes.

Water supply in the Sao Paulo region in Brazil has been reduced in recent years by low rainfall, which has affected the main water reservoir that serves the greater Sao Paulo area (Cantareira). Although Coca-Cola FEMSA's Jundiá plant does not obtain water from this water reservoir, water shortages or changes in governmental regulations aimed at rationalizing water in such region could affect Coca-Cola FEMSA's water supply in its Jundiá plant. We cannot assure you that water will be available in sufficient quantities to meet Coca-Cola FEMSA's future production needs or will prove sufficient to meet its water supply needs. Continued water scarcity in the regions where Coca-Cola FEMSA operates may adversely affect its business, financial condition, results of operations and prospects.

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

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

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

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

Coca-Cola FEMSA's most significant packaging raw material costs arise from the purchase of resin and plastic preforms to make plastic bottles and from the purchase of finished plastic bottles, the prices of which are related to crude oil prices and global resin supply. The average prices that Coca-Cola FEMSA paid for resin and plastic preforms in U.S. dollars in 2015 decreased 24% as compared to 2014 in all Coca-Cola FEMSA's territories; however, given that high currency volatility has affected and continues to affect most of Coca-Cola FEMSA's territories, the average prices for resin and plastic preforms in local currencies were higher in 2015 in Mexico, Colombia, Venezuela and Brazil. In 2015, average sweetener prices were lower in Guatemala, and were higher in the rest of Coca-Cola FEMSA's territories, in each case as compared to 2014. From 2010 through 2015, international sugar prices were volatile due to various factors, including shifting demand, availability and climate issues affecting production and distribution. In all of the countries where Coca-Cola FEMSA operates, other than Brazil, sugar prices are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to purchase for sugar above international market prices. **See Item 4. Information on the Company Coca-Cola FEMSA Raw Materials.** We cannot assure you that Coca-Cola FEMSA's raw material prices will not further increase in the future. Increases in the prices of raw materials would increase Coca-Cola FEMSA's cost of goods sold and adversely affect its business, financial conditions, results of operations and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

### ***Political and social events in the countries where Coca-Cola FEMSA operates and changes in governmental policies may have an adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.***

In recent years, some of the governments in the countries where Coca-Cola FEMSA operates have implemented and may continue to implement significant changes in laws, public policy and/or regulations that could affect the political and social conditions in these countries. Any such changes may have an adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects. We cannot assure you that political or social developments in any of the countries where Coca-Cola FEMSA operates, such as the election of new administrations, political disagreements, civil disturbances and the rise in violence and perception of violence, over which Coca-Cola FEMSA has no control, will not have a corresponding adverse effect on the local or global markets or on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.

## **FEMSA Comercio**

### ***Competition from other retailers in Mexico could adversely affect FEMSA Comercio Retail Division's business, financial condition, results of operations and prospects.***

The Mexican retail sector is highly competitive. FEMSA participates in the retail sector primarily through FEMSA Comercio Retail Division. Its OXXO stores face competition from small-format stores like 7-Eleven, Extra, Super City, Círculo K stores and other numerous chains of retailers across Mexico, from other regional small-format retailers to small informal neighborhood stores. In particular, small informal neighborhood stores can sometimes avoid regulatory oversight and taxation, enabling them to sell certain products at prices below average market prices. In addition, these small informal neighborhood stores could improve their technological capabilities so as to enable credit card transactions and electronic payment of utility bills, which would diminish one of FEMSA Comercio Retail Division's competitive advantages. FEMSA Comercio Retail Division may face additional competition from new market participants. Increased competition may limit the number of new store locations available and require FEMSA Comercio Retail Division to modify its product offering or pricing structure. As a consequence, FEMSA Comercio Retail Division's business, financial condition, results of operations and prospects may be adversely affected by competition in the future.

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### ***Sales of OXXO small-format stores may be adversely affected by changes in economic conditions in Mexico.***

Small-format stores often sell certain products at a premium. The small-format store market is thus highly sensitive to economic conditions, since an economic slowdown is often accompanied by a decline in consumer purchasing power, which in turn results in a decline in the overall consumption of FEMSA Comercio Retail Division's main product categories. During periods of economic slowdown, OXXO stores may experience a decline in traffic per store and average ticket per customer, which may result in a decline in FEMSA Comercio Retail Division's overall performance.

### ***Regulatory changes may adversely affect FEMSA Comercio Retail Division's business.***

In Mexico, FEMSA Comercio Retail Division is subject to regulation in areas such as labor, taxation, zoning, operations and related local permits and health and safety regulations. Changes in existing laws and regulations, the adoption of new laws or regulations, or a stricter interpretation or enforcement thereof in the countries where FEMSA Comercio Retail Division operates may increase its operating and compliance costs or impose restrictions on its operations which, in turn, may adversely affect FEMSA Comercio Retail Division's business, financial condition, results of operations and prospects. 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 FEMSA Comercio Retail Division's business, financial condition, results of operations and prospects.

### ***FEMSA Comercio Retail Division may not be able to maintain its historic growth rate.***

FEMSA Comercio Retail Division increased the number of OXXO stores at a compound annual growth rate of 10.1% from 2011 to 2015. The growth in the number of OXXO stores has driven growth in total revenue and results at FEMSA Comercio Retail Division over the same period. As the overall number of stores increases, 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, FEMSA Comercio Retail Division's 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 Colombia, OXXO stores may not be able to maintain historic growth rates similar to those in Mexico. We cannot assure you that FEMSA Comercio Retail Division's future retail stores will generate revenues and cash flow comparable with those generated by its existing retail stores.

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

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

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

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***FEMSA Comercio Retail Division's business may be adversely affected by an increase in the price of electricity.***

The performance of FEMSA Comercio Retail Division's stores would be adversely affected by increases in the price of utilities on which the stores depend, such as electricity. In recent years the price of electricity in Mexico has remained stable, and particularly the price was reduced last year, although it could potentially increase as a result of inflation, shortages, interruptions in supply, or other reasons, and such an increase could adversely affect FEMSA Comercio Retail Division's business, financial condition, results of operations and prospects.

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

FEMSA Comercio Retail Division has recently entered into new markets through the acquisition of other small-format retail businesses such as drugstores and quick-service restaurants. FEMSA Comercio Retail Division continued with this strategy in 2015 and may continue with it in the future. These new businesses are currently less profitable than OXXO, and might therefore marginally dilute FEMSA Comercio Retail Division's margins in the short to medium term.

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

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

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

FEMSA Comercio Fuel Division sells mainly gasoline and diesel through owned or leased retail service stations. Currently, the prices of these products are regulated in Mexico by the *Comisión Reguladora de Energía* (Energy Regulatory Commission), a government agency. Changes in how these prices may be determined or controlled may adversely affect FEMSA Comercio Fuel Division's business, financial condition, results of operations and prospects. In the future and in accordance with what is envisioned by the current regulations in Mexico, fuel prices will follow the dynamics of the international fuel market, which may also adversely affect FEMSA Comercio Fuel Division's business, financial condition, results of operations and prospects.

***Uncertainty in Mexican legislation and regulation of the energy sector could affect FEMSA Comercio Fuel Division's business.***

Mexican legislation and regulation of the energy sector in general, and of fuel distribution in particular, is in transition or has not been fully implemented (through secondary legislation and rules) given the recent passing of energy reforms. The authorities have certain discretion to implement the energy reform and, in the future, new rules, additional requirements or steps or interpretations could adversely affect FEMSA Comercio Fuel Division's business, financial condition, results of operations and prospects.

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

Federal, state and municipal laws and regulations for the installation of new service stations are becoming or may become 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. Other new technologies could further reduce the sale of traditional fuels, all of which could adversely affect FEMSA Comercio Fuel Division's results or financial position.

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***Competition from new players in Mexico could adversely affect FEMSA Comercio Fuel Division's business.***

The opening of the Mexican fuel distribution market is expected to alter the competitive dynamics of the industry. The Mexican fuel distribution and retail market is expected to enter into a consolidation process as large companies and international competitors enter the market or gain market share at the expense of small, independently owned and operated service stations. Consolidation may occur rapidly and materially alter the market dynamics in Mexico which may affect our ability to take advantage of existing opportunities. Such changes could adversely affect FEMSA Comercio Fuel Division's business, financial condition, and results of operations and prospects. We cannot assure you that any further market consolidation will not be detrimental to FEMSA Comercio Fuel Division's market position or competitiveness or will not materially and adversely affect its business, financial condition, results of operations and prospects.

**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, 2015, 70% of our consolidated total revenues were attributable to Mexico. During 2012, 2013 and 2014 the Mexican gross domestic product, or GDP, increased by approximately 4%, 1.4% and 2.1%, respectively, and in 2015 it increased by approximately 2.5% on an annualized basis compared to 2014, due to stronger performance in the services and primary sectors, which were partially offset by lower volumes and cheaper prices in the oil and gas industries. We cannot assure you that such conditions will not have a material adverse effect on our business, financial condition, results of operations and prospects going forward. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our results.

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

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 39% of our total debt as of December 31, 2015.

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

Depreciation of the Mexican peso and of our other local currencies relative to the U.S. dollar increases the cost of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars, and thereby negatively affects our financial position and results. A severe devaluation or depreciation of the Mexican peso may result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated debt or obligations in other currencies. The Mexican peso is a free-floating currency and as such, it experiences exchange rate fluctuations relative to the U.S. dollar over time. During 2014, 2013 and 2012, the Mexican peso experienced fluctuations relative to the U.S. dollar consisting of 7.1% of recovery, 1% of depreciation and 12.6% of depreciation respectively, compared to the years of 2013, 2012 and 2011. During 2015, the Mexican peso depreciated relative to the U.S. dollar by approximately 16.6% compared to 2014. Through April 15, 2016, the Mexican peso has depreciated 2.1% since December 31, 2015.



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

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

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

Mexican political events may significantly affect our operations. Presidential elections in Mexico occur every six years, with the most recent one occurring in July 2012. Enrique Peña Nieto, a member of the *Partido Revolucionario Institucional*, was elected as the president of Mexico and took office on December 1, 2012. In addition, the Mexican Congress has approved a number of structural reforms intended to modernize certain sectors of and foster growth in the Mexican economy, and is continuing to approve further reforms. President Peña Nieto continues to face significant challenges as the structural reforms approved by the Mexican Congress could have an effect on the Mexican economy. Furthermore, no single party has a majority in the Senate or the *Cámara de Diputados* (House of Representatives), and the absence of a clear majority by a single party could result in government gridlock and political uncertainty. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition, results of operations and prospects.

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

The presence of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, pose a risk to our business. Organized criminal activity and related violent incidents have decreased in 2015 compared to 2014 and 2013, but remain prevalent in some parts of Mexico. These incidents are relatively concentrated along the northern Mexican border, as well as in certain other Mexican states such as Sinaloa, Morelos, Michoacan and Guerrero. The north of Mexico is an important region for our retail operations, and an increase in crime rates could negatively affect our sales and customer traffic, increase our security expenses, and result in higher turnover of personnel or damage to the perception of our brands. This situation could worsen and adversely impact our business and financial results because consumer habits and patterns adjust to the increased perceived and real security risks, as people refrain from going out as much and gradually shift some on-premise consumption to off-premise consumption of food and beverages on certain social occasions.

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

The devaluation of the local currencies against the U.S. dollar in our non-Mexican territories can increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso can negatively affect our results for these countries. In recent years, the value of the currency in the countries where we operate has been relatively stable relative to the Mexican peso, except in Venezuela. During 2015, in addition to the Venezuelan currency, the currencies of Brazil and Argentina also depreciated against the Mexican peso. Future currency devaluation or the imposition of exchange controls in any of these countries, or in Mexico, would have an adverse effect on our financial position and results.

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

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In January 2014, the Venezuelan government announced an exchange rate determined by the state-run system known as the *Sistema Complementario de Administración de Divisas*, or SICAD. In March 2014, the Venezuelan government announced a new law that authorized an alternative method of exchanging Venezuelan bolivars to U.S. dollars known as SICAD II. In February 2015, the Venezuelan government announced that it was replacing SICAD II with a new market-based exchange rate determined by the system known as the *Sistema Marginal de Divisas*, or SIMADI. In February 2016, the Venezuelan government announced a 37% devaluation of the official exchange rate and changed the existing three-tier exchange rate system into a dual system. The official exchange rate (6.30 bolivars per US\$ 1.00 as of December 31, 2015) and the SICAD exchange rate (13.50 bolivars per US\$ 1.00 as of December 31, 2015) were merged into a single official exchange rate of 10.00 bolivars per U.S. dollar. The decision was part of a package of economic policies intended to mitigate the economic crisis of the member countries of the Organization of the Petroleum Exporting Countries (OPEC).

In March 2016, the Venezuelan government announced that it was replacing the SIMADI exchange rate with a new market-based exchange rate known as *Divisas Complementarias*, or DICOM, and the official exchange rate with a preferential exchange rate denominated *Divisa Protegida*, or DIPRO. The DIPRO exchange rate is determined by the Venezuelan government and may be used to settle imports of a list of goods and raw materials, which has not been published as of the date of this annual report. The DICOM exchange rate is determined based on supply and demand of U.S. dollars. As of April 15, 2016, the DIPRO and DICOM exchange rates were 10 bolivars and 339.45 bolivars per US\$ 1.00, respectively.

We translated our results of operations in Venezuela for the full year ended December 31, 2015 into our reporting currency, the Mexican peso, using the SIMADI exchange rate of 198.70 bolivars to US\$ 1.00, which was the exchange rate in effect as of such date. As a result, in 2015, we recognized a reduction in equity of Ps. 2,687 million. Coca-Cola FEMSA will closely monitor any further developments that may affect the exchange rates to translate the financial statements of its Venezuelan subsidiary in the future.

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

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

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

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

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

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

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

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

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

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

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

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

As of March 8, 2016, a voting trust, of which the participants are members of seven families, owned 38.69% of our capital stock and 74.86% of our capital stock with full voting rights, consisting of Series B Shares. Consequently, the voting trust has the power to elect a majority of the members of our board of directors and to play a significant or controlling role in the outcome of substantially all matters to be decided by our board of directors or our shareholders. The interests of the voting trust may differ from those of our other shareholders. **See Item 7. Major Shareholders and Related-Party Transactions and Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are a holding company. Accordingly, our cash flows are principally derived from dividends, interest and other distributions made to us by our subsidiaries. Currently, our subsidiaries do not have contractual obligations that require them to pay dividends to us. In addition, debt and other contractual obligations of our subsidiaries may in the future impose restrictions on our subsidiaries' ability to make dividend or other payments to us, which in turn may adversely affect our ability to pay dividends to shareholders and meet our debt and other obligations. As of March 31, 2016, we had no restrictions on our ability to pay dividends. Further, our non-controlling shareholder position in Heineken means that we will be unable to require payment of dividends with respect to the Heineken shares.

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**ITEM 4. INFORMATION ON THE COMPANY**

**The Company**

**Overview**

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

We conduct our operations through the following principal holding companies:

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

FEMSA Comercio, comprising a Retail Division operating various small-format chain stores, including OXXO, the largest and fastest-growing chain in Latin America, and a Fuel Division operating the OXXO GAS chain of retail service stations for fuels, motor oils and other car care products. As of December 31, 2015, the Fuel Division is treated as a separate business segment; and

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

**Corporate Background**

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

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

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

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

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

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

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

In January 2010, FEMSA announced that its board of directors unanimously approved a definitive agreement under which FEMSA would exchange its brewery business of Cuauhtémoc Moctezuma for a 20% economic interest in Heineken Group, one of the world's leading brewers. In April 2010, FEMSA announced the closing of the transaction, after Heineken N.V., Heineken Holding N.V. and FEMSA approved the transaction. Under the terms of the agreement, FEMSA received 43,018,320 shares of Heineken Holding N.V. and 43,009,699 shares of Heineken N.V., with an additional 29,172,504 shares of Heineken N.V. (which shares we refer to as the Allotted Shares) delivered pursuant to an allotted share delivery instrument, or the ASDI, with the final installment delivered in October 2011. As of December 31, 2015, FEMSA's interest in Heineken N.V. represented 12.53% of Heineken N.V.'s outstanding capital and 14.94% of Heineken Holding N.V.'s outstanding capital, resulting in our 20% economic interest in the Heineken Group. The principal terms of the Heineken transaction documents are summarized below in **Item 10. Additional Information Material Contracts.**

In January 2013, as part of Coca-Cola FEMSA's efforts to expand its geographic reach, it acquired a 51% non-controlling majority stake in CCFPI from The Coca-Cola Company. Coca-Cola FEMSA has an option to acquire the remaining 49% stake in CCFPI at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in CCFPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Coca-Cola FEMSA currently manages the day-to-day operations of the business; however, pursuant to its shareholders' agreement with The Coca-Cola Company (a) during a four-year period ending January 25, 2017 all decisions must be approved jointly with The Coca-Cola Company, (b) following this four-year period, all decisions related to the annual normal operations plan and any other ordinary matters will be approved only by Coca-Cola FEMSA (c) The Coca-Cola Company has the right to appoint (and may remove) CCFPI's chief financial officer, and (d) Coca-Cola FEMSA has the right to appoint (and may remove) the chief executive officer and all other officers of CCFPI. Coca-Cola FEMSA currently records its investment in CCFPI using the equity method.

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In May 2013, Coca-Cola FEMSA closed its merger with Grupo Yoli, a Mexican bottler operating mainly in the state of Guerrero as well as in parts of the state of Oaxaca.

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

In August 2013, Coca-Cola FEMSA closed its acquisition of Companhia Fluminense, a franchise that operates in parts of the states of Sao Paulo, Minas Gerais and Rio de Janeiro in Brazil.

In October 2013, our Board of Directors agreed to separate the roles of chairman of the Board and Chief Executive Officer, ratifying José Antonio Fernández Carbajal as Executive Chairman of the Board and naming Carlos Salazar Lomelín as Chief Executive Officer of FEMSA.

In October 2013, Coca-Cola FEMSA closed its acquisition of Spaipa, a Brazilian bottler with operations in the state of Parana and in parts of the state of Sao Paulo. For more information on Coca-Cola FEMSA's recent transactions, see **Item 4. Information on the Company Coca-Cola FEMSA Corporate History**.

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

Since 1995, FEMSA Comercio has provided services to retail service stations for fuels, motor oils and other car care products through agreements with third parties that own Petroleos Mexicanos (PEMEX) franchises. In March 2015, following changes to the legal framework and considering the potential expansion and synergies arising from this business as part of Mexico's energy reform, FEMSA Comercio began to acquire PEMEX's service station franchises and to obtain permits from PEMEX to operate such service stations as franchisee.

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

In September 2015, FEMSA Comercio acquired 60% of Grupo Socofar (which we refer to as Socofar), a leading South American drugstore operator based in Santiago, Chile. Socofar operated at that time, directly and through franchises, more than 600 drugstores and 150 beauty stores throughout Chile and over 150 drugstores throughout Colombia. FEMSA Comercio has the right to appoint the majority of the members of Socofar's board of directors and exercises day-to-day operating control over Socofar. As part of the shareholders agreement entered into with the former controlling shareholder, such minority shareholder has the right to appoint two members of the board of directors of Socofar. In connection with the acquisition of 60% of Socofar, FEMSA Comercio entered into option transactions regarding the remaining 40% non-controlling interest not held by FEMSA Comercio. The former controlling shareholders of Socofar may be able to put some or all of that interest to FEMSA Comercio beginning (i) 42 months after the acquisition, upon the occurrence of certain events and (ii) 60 months after the initial acquisition, in any event, FEMSA Comercio can call the remaining 40% non-controlling interest beginning on the seventh anniversary of the initial acquisition date. Both of these options would be exercisable at the then fair value of the interest and shall remain indefinitely.



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

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

**Principal Sub-holding Companies Ownership Structure**

As of March 31, 2016

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

**Operations by Segment Overview**

Year Ended December 31, 2015 and % of growth (decrease) vs. previous year

	Coca-Cola FEMSA		FEMSA Comercio Retail Division		FEMSA Comercio Fuel Division <sup>(4)</sup>		CB Equity <sup>(1)</sup>	
	(in millions of Mexican pesos, except for employees and percentages)							
Total revenues	Ps. 152,360	3%	Ps. 132,891	21%	Ps. 18,510	NA	Ps.	
Gross Profit	72,030	5%	47,291	20%	1,420	NA		
Share of the profit (loss) of associates and joint ventures accounted for using the equity method, net of taxes	155	224% <sup>(2)</sup>	(10)	(127%) <sup>(3)</sup>		NA	5,879	12%
Total assets	210,249	(1%)	67,211	54%	3,230	NA	95,502	11%
Employees	83,712	0.4%	133,748	21%	4,551	NA		

- (1) CB Equity holds our Heineken N.V. and Heineken Holding N.V. shares.
- (2) Reflects the percentage increase between the gain of Ps. 155 million recorded in 2015 and the loss of Ps. 125 million recorded in 2014.

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- (3) Reflects the percentage decrease between the loss of Ps. 10 million recorded in 2015 and the gain of Ps. 37 million recorded in 2014.
  
- (4) The operations that compose our FEMSA Comercio Fuel Division were acquired and have been treated as a separate business segment since 2015. As such, no results of operations are available for this segment for periods prior to 2015.

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

	2015	Year Ended December 31,	
		2014	2013
(in millions of Mexican pesos)			
Coca-Cola FEMSA	Ps. 152,360	Ps. 147,298	Ps. 156,011
FEMSA Comercio Retail Division	132,891	109,624	97,572
FEMSA Comercio Fuel Division	18,510		
Other	22,774	20,069	17,254
Consolidated total revenues	Ps. 311,589	Ps. 263,449	Ps. 258,097

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

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

	2015	Year Ended December 31,	
		2014	2013
(in millions of Mexican pesos)			
Mexico and Central America <sup>(2)</sup>	Ps. 228,563	Ps. 186,736	Ps. 171,726
South America <sup>(3)</sup>	74,928	69,172	55,157
Venezuela	8,904	8,835	31,601
Consolidated total revenues	Ps. 311,589	Ps. 263,449	Ps. 258,097

- (1) The sum of the financial data for each geographic area differs from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation.
- (2) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico-only) revenues were Ps. 218,809 million, Ps. 178,125 million and Ps. 163,351 million for the years ended December 31, 2015, 2014 and 2013, respectively.
- (3) South America includes Brazil, Colombia, Argentina and Chile. South America revenues include revenues from our operations in Brazil of Ps. 39,749 million, Ps. 45,799 million and Ps. 31,138 million; revenues from our operations in Colombia of Ps. 14,283 million, Ps. 14,207 million and Ps. 13,354 million; revenues from our operations in Argentina of Ps. 14,004 million, Ps. 9,714 million and Ps. 10,729 million, for the years ended December 31, 2015, 2014 and 2013, respectively and revenues from our operations in Chile of Ps. 7,586 million for the year ended December 31, 2015.

**Significant Subsidiaries**

The following table sets forth our significant subsidiaries as of December 31, 2015:

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

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

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### **Business Strategy**

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

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

We believe that the competencies that our businesses have developed can be replicated in other geographic regions. This underlying principle guided our consolidation and growth efforts, which led to our current continental footprint. We have presence in Mexico, Central and South America and the Philippines including some of the most populous metropolitan areas in Latin America which has provided us with opportunities to create value through both an improved ability to execute our strategies in complex markets and the use of superior marketing tools. We have also increased our capabilities to operate and succeed in other geographic regions by improving management skills in order to obtain a precise understanding of local consumer needs. Going forward, we intend to use those capabilities to continue our international expansion of both Coca-Cola FEMSA and FEMSA Comercio, expanding both our geographic footprint and our presence in the non-alcoholic beverage industry and small box retail formats, as well as taking advantage of potential opportunities across markets to leverage our skill set and key competencies. One such opportunity is our recent entry into the retail service station business for fuels, motor oils and other car care products in Mexico, through FEMSA Comercio Fuel Division, where we are applying our retail and operational capabilities to develop an attractive value proposition for consumers, while creating synergies with our OXXO stores.

### **Coca-Cola FEMSA**

#### **Overview**

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

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

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

Colombia most of the country.

Venezuela nationwide.

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

Argentina Buenos Aires and surrounding areas.

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

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Coca-Cola FEMSA was incorporated 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

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corporation with variable capital (*sociedad anónima bursátil de capital variable*). Coca-Cola FEMSA's legal name is Coca-Cola FEMSA, S.A.B. de C.V. Coca-Cola FEMSA's principal executive offices are located at Calle Mario Pani No. 100, Colonia Santa Fe Cuajimalpa, Delegación Cuajimalpa de Morelos, 05348, Mexico City, Mexico. 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 2015.

**Operations by Consolidated Reporting Segment Overview****Year Ended December 31, 2015**

	Revenues		Gross Profit	
	(in millions of Mexican pesos, except percentages)			
Mexico and Central America <sup>(1)</sup>	Ps. 78,709	51.7%	Ps. 40,130	55.7%
South America <sup>(2)</sup> (excluding Venezuela)	64,752	42.5%	27,532	38.2%
Venezuela	8,899	5.8%	4,368	6.1%
Consolidated	Ps. 152,360	100.0%	Ps. 72,030	100.0%

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

(2) Includes Colombia, Brazil and Argentina.

**Corporate History**

Coca-Cola FEMSA commenced operations in 1979, when one of our subsidiaries acquired certain sparkling beverage bottlers in Mexico City and surrounding areas. In 1991, we transferred our ownership in the bottlers to FEMSA Refrescos, S.A. de C.V., the corporate predecessor to Coca-Cola FEMSA.

In June 1993, a subsidiary of The Coca-Cola Company subscribed for 30% of Coca-Cola FEMSA's capital stock in the form of Series D shares. In September 1993, we sold Series L shares that represented 19% of Coca-Cola FEMSA's capital stock to the public, and Coca-Cola FEMSA listed these shares on the Mexican Stock Exchange and, in the form of ADSs, on the NYSE.

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

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

In November 2007, Coca-Cola FEMSA acquired together with The Coca-Cola Company 100% of the shares of capital stock of Jugos del Valle, S.A.P.I. de C.V., or Jugos del Valle. In 2008, Coca-Cola FEMSA, The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle.

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

In May 2008, Coca-Cola FEMSA entered into a transaction with The Coca-Cola Company to acquire its wholly owned bottling franchise Refrigerantes Minas Gerais, Ltda., or REMIL, located in the State of Minas Gerais in Brazil.





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

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

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

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

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

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

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

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

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

In January 2013, Coca-Cola FEMSA acquired a 51% non-controlling majority stake in CCFPI from The Coca-Cola Company.

In May 2013, Coca-Cola FEMSA merged with Grupo Yoli, a Mexican bottler with operations mainly in the state of Guerrero as well as in parts of the state of Oaxaca. As part of its merger with Grupo Yoli, Coca-Cola FEMSA also acquired an additional 10.1% equity interest in PIASA, for a total ownership as of April 8, 2016 of 36.3%.

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

In October 2013, Coca-Cola FEMSA acquired Spaipa a Brazilian bottler with operations in the state of Parana and in parts of the state of Sao Paulo. As part of its acquisition of Spaipa, Coca-Cola FEMSA also acquired an additional 5.8% equity interest in Leão Alimentos, for a total ownership as of April 8, 2016 of 24.4%, and a 50% stake in Fountain Água Mineral Ltda., a joint venture to develop the water category together with The Coca-Cola Company.

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### **Capital Stock**

As of April 15, 2016, we indirectly owned Series A shares equal to 47.9% of Coca-Cola FEMSA's capital stock (63% of Coca-Cola FEMSA's capital stock with full voting rights). As of April 15, 2016, The Coca-Cola Company indirectly owned Series D shares equal to 28.1% of the capital stock of Coca-Cola FEMSA (37% of the capital stock with full voting rights). Series L shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the NYSE, constitute the remaining 24% of Coca-Cola FEMSA's capital stock.

### **Business Strategy**

Coca-Cola FEMSA operates with a large geographic footprint in Latin America. In January 2015, Coca-Cola FEMSA restructured the management of its operations as follows: (i) Mexico (covering certain territories in Mexico); (ii) Latin America (covering certain territories in Guatemala, and all of Nicaragua, Costa Rica and Panama, certain territories in Argentina, most of Colombia and all of Venezuela); (iii) Brazil (covering a major part of the states of Sao Paulo and Minas Gerais, the states of Parana and Mato Grosso do Sul and part of the states of Rio de Janeiro and Goias), and (iv) Asia (covering all of the Philippines through a joint venture with The Coca-Cola Company). Through this restructuring, Coca-Cola FEMSA created a more flexible organizational structure to execute its strategies and continue with its track record of growth. Coca-Cola FEMSA has also aligned its business strategies more efficiently, ensuring a faster introduction of new products and categories, and a more rapid and effective design and deployment of commercial models.

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

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

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

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

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

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

replicating its best practices throughout the value chain;

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

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

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

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

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

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

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

Sustainable development is a comprehensive part of Coca-Cola FEMSA's strategic framework for business operation and growth. Coca-Cola FEMSA bases its efforts in its core foundation, its ethics and values. Coca-Cola FEMSA focuses on three main



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areas, (i) its people, by encouraging the comprehensive development of its employees and their families; (ii) its communities, by promoting the generation of sustainable communities in which it serves, an attitude of health, self-care, adequate nutrition and physical activity, and evaluating the impact of its value chain; and (iii) the planet, by establishing guidelines that it believes will result in efficient use of natural resources to minimize the impact that its operations might have on the environment and create a broader awareness of caring for the environment.

### **CCFPI Joint Venture**

On January 25, 2013, as part of Coca-Cola FEMSA's efforts to expand its geographic reach, it acquired a 51% non-controlling majority stake in CCFPI from The Coca-Cola Company. Coca-Cola FEMSA has an option to acquire the remaining 49% stake in CCFPI at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in CCFPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Coca-Cola FEMSA currently manages the day-to-day operations of the business; however, pursuant to its shareholders' agreement with The Coca-Cola Company (a) during a four-year period ending January 25, 2017 all decisions must be approved jointly with The Coca-Cola Company, (b) following this four-year period, all decisions related to the annual normal operations plan and any other ordinary matters will be approved only by Coca-Cola FEMSA, (c) The Coca-Cola Company has the right to appoint (and may remove) CCFPI's chief financial officer and (d) Coca-Cola FEMSA has the right to appoint (and may remove) the chief executive officer and all other officers of CCFPI.

As of December 31, 2015, Coca-Cola FEMSA's investment under the equity method in CCFPI was Ps. 9,996 million. See Notes 10 and 26 to our audited consolidated financial statements. CCFPI's product portfolio in the Philippines consists of *Coca-Cola* trademark beverages and its total sales volume in 2015 reached 522.5 million unit cases. The operations of CCFPI are comprised of 19 production plants and serve close to 806,369 customers.

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

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**Coca-Cola FEMSA s Territories**

The following map shows Coca-Cola FEMSA s territories, including CCFPI, our joint venture in the Philippines with The Coca-Cola Company, giving estimates in each case of the population to which it offers products and the number of retailers its beverages as of December 31, 2015:

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

Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters and still beverages (including juice drinks, coffee, teas, milk, value-added dairy and isotonic drinks). The following table sets forth Coca-Cola FEMSA's main products as of December 31, 2015:

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

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

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

(2) Includes Colombia, Brazil and Argentina.

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

(4) Juice-based beverage.

(5) Juice-based beverage in Central America.

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

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

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

(9) Ready to drink tea.

(10) Isotonic drinks.

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

**Sales 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



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terms of unit cases.

The following table illustrates Coca-Cola FEMSA's historical sales volume for each of its consolidated territories.

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013<sup>(1)</sup></b>
	<b>(millions of unit cases)</b>		
<b>Mexico and Central America</b>			
Mexico	1,784.5	1,754.9	1,798.0
Central America <sup>(2)</sup>	167.8	163.6	155.6
<b>South America (excluding Venezuela)</b>			
Colombia	320.0	298.4	275.7
Brazil <sup>(3)</sup>	693.6	733.5	525.2
Argentina	233.9	225.8	227.1
Venezuela	235.6	241.1	222.9
<b>Consolidated Volume</b>	<b>3,435.6</b>	<b>3,417.3</b>	<b>3,204.5</b>

(1) Includes volume from the operations of Grupo Yoli from June 2013, Companhia Fluminense from September 2013 and Spaipa from November 2013.

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

(3) Excludes beer sales volume.

The total number of transactions reported by Coca-Cola FEMSA in 2015 grew 0.7% to 20,279.6 million transactions as compared to 2014. Excluding Coca-Cola FEMSA's Venezuelan operations, the number of transactions reported by Coca-Cola FEMSA in 2015 would have grown 1.1% to 18,961.5 million as compared to 2014. On the same basis, total transactions reported by Coca-Cola FEMSA's sparkling beverage portfolio in 2015 would have grown 0.4% as compared to 2014, mainly driven by the positive performance in Mexico, Colombia, Argentina and Central America; total transactions reported for Coca-Cola FEMSA's still beverage category would have grown 6% as compared to 2014, mainly driven by Colombia, Mexico and Argentina; and transactions reported for bottled water, including bulk water, would have grown 1.6% as compared to 2014, driven by the performance in Colombia and Argentina.

The number of transactions reported by Coca-Cola FEMSA in 2015 in its Mexico and Central America division grew 2.4% to 10,877.1 million transactions as compared to 2014. The number of transactions reported for its sparkling beverage portfolio in 2015 in this division grew 2.8% as compared to 2014, mainly driven by a 2.9% growth in Mexico; transactions reported for its still beverage category in 2015 in this division increased by 6.1% as compared to 2014; and transactions reported for bottled water, including bulk water, decreased 6.4% as compared to 2014, driven by a 7.4% contraction in Mexico. In 2015, the total number of transactions in its Mexican operations and its Central American operations grew 2.3% and 2.8%, respectively, in each case as compared to 2014.

The number of transactions reported by Coca-Cola FEMSA in 2015 in its South America division, excluding Venezuela, decreased 0.7% to 8,084.3 million transactions as compared to 2014. The number of transactions reported for its sparkling beverage portfolio in 2015 in this division decreased 2.7% as compared to 2014, driven by a contraction of 6.4% in Brazil which was partially offset by the positive performance in Colombia and Argentina; transactions reported for its still beverage category in 2015 in this division increased 5.9% as compared to 2014; and transactions reported for bottled water, including bulk water, grew 10% as compared to 2014. In 2015, the total number of transactions in its Brazilian operations decreased 6.6%, in its Colombian operation grew 9.6% and in its Argentine operations grew 5.5%, in each case as compared to 2014.

The number of transactions reported by Coca-Cola FEMSA in 2015 in its Venezuela division decreased 3.6% to 1,318.1 million transactions as compared to 2014. The number of transactions reported for its sparkling beverage portfolio in 2015 in this division decreased 3.2% as compared to 2014, mainly driven by a contraction of 8.7% in its flavored sparkling beverage category; transactions reported for its still beverage category in 2015 in this division decreased 12.5% as compared to 2014; and transactions reported for bottled water, including bulk water, grew 5.3% as compared to 2014.

**Product and Packaging Mix**

From the more than 113 brands and line extensions of beverages that Coca-Cola FEMSA sells and distributes, Coca-Cola FEMSA's most important brand, Coca-Cola, together with its line extensions, Coca-Cola Light, Coca-Cola Life and Coca-Cola Zero, accounted for 60.8% of total sales volume in 2015. Coca-Cola FEMSA's next largest brands, *Ciel* (a water brand from Mexico and its line extensions), *Fanta* (and its line extensions), *Sprite* (and its line extensions) and *ValleFrut* (and its line extensions) accounted for 11.1%, 4.7%, 2.9% and 2.9%, respectively, of total sales volume in 2015. Coca-Cola FEMSA uses the term line extensions to refer to the different flavors and low-calorie versions in which it offers its brands. Coca-Cola FEMSA produces, markets, sells and distributes Coca-Cola trademark beverages in each of its territories in containers authorized by The Coca-Cola Company, which consist of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles mainly made of polyethylene terephthalate, which we refer to as PET.

Coca-Cola FEMSA uses the term presentation to refer to the packaging unit in which it sells its products. Presentation sizes for Coca-Cola FEMSA's Coca-Cola trademark beverages range from a 6.5-ounce personal size to a 3-liter multiple serving size. For all of Coca-Cola FEMSA's products excluding water, Coca-Cola FEMSA considers a multiple serving size as equal to, or larger than, 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. Coca-Cola FEMSA offers both returnable and non-returnable presentations, which allow it to offer portfolio alternatives based on convenience and affordability to implement

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revenue management strategies and to target specific distribution channels and population segments in its territories. In addition, Coca-Cola FEMSA sells some Coca-Cola trademark beverage syrups in containers designed for soda fountain use, which we refer to as fountain. Coca-Cola FEMSA also sells bottled water products in bulk sizes, which refer to presentations equal to or larger than 5.0 liters, which have a much lower average price per unit case than its other beverage products.

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

The following discussion analyzes Coca-Cola FEMSA's product and packaging mix by its consolidated reporting segments. The volume data presented is for the years 2015, 2014 and 2013.

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

The following table highlights historical sales volume and mix in Mexico and Central America for Coca-Cola FEMSA's products:

	Year Ended December 31,		
	2015	2014	2013 <sup>(1)</sup>
	(in percentages, except for total sales volumes)		
<b>Total Sales Volume</b>			
Total (millions of unit cases)	1,952.4	1,918.5	1,953.6
Growth	1.8	(1.8)	4.4
<b>Unit Case Volume Mix by Category</b>			
Sparkling beverages	74.0	73.2	73.1
Water <sup>(2)</sup>	20.2	21.3	21.2
Still beverages	5.8	5.5	5.7
Total	100.0	100.0	100.0

(1) Includes volume from the operations of Grupo Yoli from June 2013.

(2) Includes bulk water volumes.

In 2015, multiple serving presentations represented 64.6% of total sparkling beverages sales volume in Mexico, a 10 basis points increase compared to 2014; and 55% of total sparkling beverages sales volume in Central America, a 30 basis points decrease compared to 2014. Coca-Cola FEMSA's strategy is to foster consumption of single serve presentations while maintaining multiple serving volumes. In 2015, returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 36.5% in Mexico, a 140 basis points decrease as compared to 2014; and 37.6% in Central America, a 280 basis points increase as compared to 2014.

In 2015, Coca-Cola FEMSA's sparkling beverages volume as a percentage of total sales volume in its Mexico and Central America division increased marginally to 74% as compared with 2014.

Total sales volume in Coca-Cola FEMSA's Mexico and Central America division reached 1,952.4 million unit cases in 2015, an increase of 1.8% compared to 1,918.5 million unit cases in 2014. The sales volume for Coca-Cola FEMSA's sparkling beverage category increased 3%, mainly driven by the performance of *Coca-Cola* brand products. Coca-Cola FEMSA's bottled water portfolio, including bulk water, decreased 3.5% mainly driven by a contraction of the *Ciel* brand in Mexico. Coca-Cola FEMSA's still beverage category grew 5.8% mainly due to the performance of the Jugos del Valle portfolio, the *Powerade* brand and our Santa Clara dairy business in Mexico.



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In 2014, multiple serving presentations represented 64.5% of total sparkling beverages sales volume in Mexico, a 170 basis points decrease compared to 2013; and 54.7% of total sparkling beverages sales volume in Central America, a 16 basis points decrease compared to 2013. Coca-Cola FEMSA's strategy is to foster consumption of single serve presentations while maintaining multiple serving volumes. In 2014, returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 37.9% in Mexico, a 290 basis points increase as compared to 2013; and 34.8% in Central America, a 150 basis points increase as compared to 2013.

In 2014, Coca-Cola FEMSA's sparkling beverages volume as a percentage of total sales volume in its Mexico and Central America division increased marginally to 73.2% as compared with 2013.

Total sales volume in Coca-Cola FEMSA's Mexico and Central America division (including Grupo Yoli) reached 1,918.5 million unit cases in 2014, a decrease of 1.8% compared to 1,953.6 million unit cases in 2013. The sales volume for Coca-Cola FEMSA's sparkling beverage category decreased 1.6%, mainly driven by the impact of price increase to compensate the excise tax to sweetened beverages. Coca-Cola FEMSA's bottled water portfolio, excluding bulk water, grew 4.2%, mainly driven by the performance of the *Ciel* brand in Mexico. Coca-Cola FEMSA's still beverage category decreased 5.5% mainly due to the performance of the Jugos del Valle portfolio in the division. Organically, excluding the non-comparable effect of Grupo Yoli in 2014, total sales volume for Mexico and Central America division reached 1,878.9 million unit cases in 2014, a decrease of 3.8% as compared to 2013. On the same basis, Coca-Cola FEMSA's sparkling beverage category decreased 3.9%, its bottled water portfolio, excluding bulk water, remained flat, and its still beverage category decreased 7.1%.

In 2013, multiple serving presentations represented 66.2% of total sparkling beverages sales volume in Mexico (including Grupo Fomento Queretano and Grupo Yoli), a 10 basis points decrease compared to 2012; and 56.3% of total sparkling beverages sales volume in Central America, a 50 basis points increase compared to 2012. In 2013, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 35% in Mexico (including Grupo Fomento Queretano and Grupo Yoli), a 160 basis points increase compared to 2012; and 33.3% in Central America, a 30 basis points decrease compared to 2012.

In 2013, Coca-Cola FEMSA's sparkling beverages volume as a percentage of total sales volume in its Mexico and Central America division (including Grupo Fomento Queretano and Grupo Yoli) increased marginally to 73.1% as compared with 2012.

Total sales volume in Coca-Cola FEMSA's Mexico and Central America division (including Grupo Fomento Queretano and Grupo Yoli) reached 1,953.6 million unit cases in 2013, an increase of 4.4% compared to 1,871.5 million unit cases in 2012. The integration of Grupo Fomento Queretano and Grupo Yoli in Mexico contributed 89.3 million unit cases in 2013 of which sparkling beverages were 72.2%, water was 9.9%, bulk water was 13.4% and still beverages were 4.5%. Excluding the integration of these territories, volume decreased 0.4% to 1,864.2 million unit cases. Organically, Coca-Cola FEMSA's bottled water portfolio grew 5.1%, mainly driven by the performance of the *Ciel* brand in Mexico. On the same basis, Coca-Cola FEMSA's still beverage category grew 3.7% mainly due to the performance of the Jugos del Valle portfolio in the division. These increases partially compensated for the flat volumes in sparkling beverages and a 3.5% decline in the bulk water business.

***South America (Excluding Venezuela).*** Coca-Cola FEMSA's product portfolio in South America consists mainly of *Coca-Cola* trademark beverages, including the Jugos del Valle line of juice-based beverages in Colombia and Brazil, and the *Heineken* beer brands, including *Kaiser* beer brands, in Brazil, which Coca-Cola FEMSA sells and distributes.

During 2013, as part of Coca-Cola FEMSA's efforts to foster sparkling beverage consumption in Brazil, Coca-Cola FEMSA reinforced the 2.0-liter returnable plastic bottle for the *Coca-Cola* brand and introduced two single-serve 0.2 and 0.3 liter presentations. During 2014, in an effort to increase sales in its still beverage portfolio in the region, Coca-Cola FEMSA reinforced its Jugos del Valle line of business and *Powerade* brand.

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The following table highlights historical total sales volume and sales volume mix in South America (excluding Venezuela), not including beer:

	Year Ended December 31,		
	2015	2014	2013 <sup>(1)</sup>
	(in percentages, except for total sales volume)		
<b>Total Sales Volume</b>			
Total (millions of unit cases)	1,247.6	1,257.7	1,028.1
Growth	(0.8)	22.6	6.3
<b>Unit Case Volume Mix by Category</b>			
Sparkling beverages	82.8	84.1	84.1
Water <sup>(2)</sup>	10.4	9.7	10.1
Still beverages	6.8	6.2	5.8
Total	100.0	100.0	100.0

(1) Includes volume from the operations of Companhia Fluminense from September 2013 and Spaipa from November 2013.

(2) Includes bulk water volumes.

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

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

Total sales volume in Coca-Cola FEMSA's South America division, excluding Venezuela, increased 22.6% to 1,257.7 million unit cases in 2014 as compared to 2013, as a result of stronger sales volumes in its recently integrated territories in Brazil and better volume performance in Colombia. The still beverage category grew 31.8%, mainly driven by the Jugos del Valle line of business in Colombia and Brazil and the performance of *FUZE tea* and *Leão tea* in the division. Coca-Cola FEMSA's sparkling portfolio increased 22.6% mainly driven by the performance of the *Coca-Cola* brand and other core products in its operations. Coca-Cola FEMSA's bottled water portfolio, including bulk water, increased 16.9% driven by performance of the *Bonaqua* brand in Argentina and the *Crystal* brand in Brazil. Organically, excluding the non-comparable effect of Companhia Fluminense and Spaipa in 2014, total sales volume in South America division excluding Venezuela, increased 3.7% as compared to 2013. On the same basis, Coca-Cola FEMSA's still beverage category grew 15.3% mainly driven by the Jugos del Valle line of business in the region, its bottled water portfolio, including bulk water, increased 6.9% mainly driven by the performance of the *Crystal* brand in Brazil, and its sparkling beverage category increased 2.5%.

In 2014, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 32% in Colombia, a decrease of 520 basis points as compared to 2013; 19.7% in Argentina, a decrease of 230 basis points; and 15.5% in Brazil a 50 basis points decrease compared to 2013. In 2014, multiple serving presentations represented 69.8%, 85.3% and 75% of total sparkling beverages sales volume in Colombia, Argentina and Brazil, respectively.

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Total sales volume in Coca-Cola FEMSA's South America division, excluding Venezuela, increased 6.3% to 1,028.1 million unit cases in 2013 as compared to 2012, as a result of growth in Colombia and Argentina and the integration of Companhia Fluminense and Spaipa in its Brazilian territories. These effects compensated for an organic volume decline in Brazil. Organically, excluding the non-comparable effect of Companhia Fluminense and Spaipa, volumes remained flat as compared with the previous year. On the same basis, the still beverage category grew 14.3%, mainly driven by the Jugos del Valle line of business in Colombia and Brazil and the performance of *FUZE* tea in the division. Coca-Cola FEMSA's bottled water portfolio, including bulk water, increased 3.8% mainly driven by the *Bonaqua* brand in Argentina and the *Brisa* brand in Colombia. These increases compensated for a 1.2% decline in the sparkling beverage portfolio.

In 2013, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 37.2% in Colombia, a decrease of 320 basis points as compared to 2012; 22% in Argentina, a decrease of 690 basis points; and 16% in Brazil, excluding the non-comparable effect of Companhia Fluminense and Spaipa, a 170 basis points increase compared to 2012. In 2013, multiple serving presentations represented 66.7%, 85.2% and 72.9% of total sparkling beverages sales volume in Colombia, Argentina and Brazil on an organic basis, respectively.

Coca-Cola FEMSA continues to distribute and sell the *Heineken* beer portfolio, including *Kaiser* beer brands, in its Brazilian territories through the 20-year term, consistent with the arrangements in place since 2003 with Cervejarias Kaiser, a subsidiary of the Heineken Group. Beginning in the second quarter of 2005, Coca-Cola FEMSA ceased including beer that it distributes in Brazil in its reported sales volumes.

**Venezuela.** Coca-Cola FEMSA's product portfolio in Venezuela consists of *Coca-Cola* trademark beverages.

The following table highlights historical total sales volume and sales volume mix in Venezuela:

	Year Ended December 31,		
	2015	2014	2013
	(in percentages, except for total sales volume)		
<b>Total Sales Volume</b>			
Total (millions of unit cases)	235.6	241.1	222.9
Growth	(2.3)	8.2	7.3
<b>Unit Case Volume Mix by Category</b>			
Sparkling beverages	86.2	85.7	85.6
Water <sup>(1)</sup>	6.8	6.5	6.9
Still beverages	7.0	7.8	7.5
Total	100.0	100.0	100.0

(1) Includes bulk water volumes.

Coca-Cola FEMSA has implemented a product portfolio rationalization strategy that allows it to minimize the impact of certain operating disruptions that have been recurrent in Venezuela over the last several years related to difficulties in accessing raw materials due to the delay in obtaining the corresponding import authorizations and the Venezuelan exchange controls. In addition, from time to time, Coca-Cola FEMSA experiences operating disruptions due to prolonged negotiations of collective bargaining agreements.

Total sales volume decreased 2.3% to 235.6 million unit cases in 2015, as compared to 241.1 million unit cases in 2014. The sales volume in the sparkling beverage category decreased 2.1%, driven by a contraction in our flavored sparkling beverage portfolio, which was partially compensated by the positive performance of the *Coca-Cola* brand, which grew 3.4%. The bottled water business, including bulk water, grew 6.1% mainly driven by the *Nevada* brand. The still beverage category decreased 11.3%.

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

Total sales volume increased 8.2% to 241.1 million unit cases in 2014, as compared to 222.9 million unit cases in 2013. The sales volume in the sparkling beverage category grew 8.3%, driven by the strong performance of the *Coca-Cola* brand, which grew 15.3%. The bottled water business, including bulk water, grew 1.6% mainly driven by the *Nevada* brand. The still beverage category increased 10.8%, due to the performance of the *Del Valle Fresh* orangeade and *Powerade* brand.

In 2014, multiple serving presentations represented 81.9% of total sparkling beverages sales volume in Venezuela, a 100 basis points increase as compared to 2013. In 2014, returnable presentations represented 6.9% of total sparkling beverages sales volume in Venezuela, a 20 basis points increase as compared to 2013.

Total sales volume increased 7.3% to 222.9 million unit cases in 2013, as compared to 207.7 million unit cases in 2012. The sales volume in the sparkling beverage category grew 4.5%, driven by the strong performance of the *Coca-Cola* brand, which grew 10%. The bottled water business, including bulk water, grew 33.2% mainly driven by the *Nevada* brand. The still beverage category increased 23.5%, due to the performance of the *Del Valle Fresh* orangeade and *Kapo*.

In 2013, multiple serving presentations represented 80.9% of total sparkling beverages sales volume in Venezuela, a 100 basis points increase compared to 2012. In 2013, returnable presentations represented 6.8% of total sparkling beverages sales volume in Venezuela, an 80 basis points decrease compared to 2012.

## **Seasonality**

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

## **Marketing**

Coca-Cola FEMSA, in conjunction with The Coca-Cola Company, has developed a marketing strategy to promote the sale and consumption of its products. Coca-Cola FEMSA relies extensively on advertising, sales promotions and retailer support programs to target the particular preferences of its consumers. Coca-Cola FEMSA's consolidated marketing expenses in 2015, net of contributions by The Coca-Cola Company, were Ps. 3,447 million. The Coca-Cola Company contributed an additional Ps. 3,749 million in 2015, which mainly includes contributions for coolers, bottles and cases. Through the use of advanced information technology, Coca-Cola FEMSA has collected customer and consumer information that allow it to tailor its marketing strategies to target different types of customers located in each of its territories and to meet the specific needs of the various markets it serves.

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

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

**Advertising.** Coca-Cola FEMSA advertises in all major communications media. Coca-Cola FEMSA focuses its advertising efforts on increasing brand recognition by consumers and improving its customer relations.



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National advertising campaigns are designed and proposed by The Coca-Cola Company's local affiliates in the countries where Coca-Cola FEMSA operates, with Coca-Cola FEMSA's input at the local or regional level. Point-of-sale merchandising and advertising efforts are proposed and implemented by Coca-Cola FEMSA, with a focus on increasing its connection with customers and consumers.

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

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

**Client Value Management.** Coca-Cola FEMSA continues transforming its commercial models to focus on its customers' value potential using a value-based segmentation approach to capture the industry's potential. Coca-Cola FEMSA started the rollout of this new model in its Mexico, Central America, Colombia and Brazil operations in 2009. At the end of 2015, Coca-Cola FEMSA had successfully transformed the commercial models in all of its territories.

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

**Centers of Excellence.** Coca-Cola FEMSA's centers of excellence focus on manufacturing, distribution and logistics, commercial, and IT innovation areas. These centers not only enable centralized collaboration and knowledge sharing, but also drive standards of excellence and best practices in its key strategic capabilities.

**Manufacturing Center of Excellence.** This center focuses on developing industry-leading operating models, practices and processes mainly by reducing operating costs, increasing efficiency and productivity of Coca-Cola FEMSA's manufacturing assets, minimizing waste disposal by optimizing the materials used in Coca-Cola FEMSA's manufacturing processes, and promoting high industrial quality and product safety. We are in the process of developing a Manufacturing Execution System, a new digital platform that will enable us to map and monitor performance at Coca-Cola FEMSA's plants, including critical data from Coca-Cola FEMSA's production equipment and processes.

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

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

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

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

	As of December 31, 2015		
	Mexico and Central America <sup>(1)</sup>	South America <sup>(2)</sup>	Venezuela
Distribution centers	174	67	33
Retailers <sup>(3)</sup>	966,773	829,703	176,503

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

(2) Includes Colombia, Brazil and Argentina.

(3) Estimated.

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

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

Coca-Cola FEMSA's distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to Coca-Cola FEMSA's 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 Coca-Cola FEMSA's territories, it retains third parties to transport its finished products from the bottling plants to the distribution centers.

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

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

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**Brazil.** In Brazil, Coca-Cola FEMSA sold 33.4% of its total sales volume through modern distribution channels in 2015. Modern distribution channels in Brazil include large and organized chain retail outlets such as wholesale supermarkets, discount stores and convenience stores that sell fast-moving consumer goods, where retailers can buy large volumes of products from various producers. Also in Brazil, Coca-Cola FEMSA distributes finished products to retailers through a combination of its own fleet of trucks and third party distributors, while Coca-Cola FEMSA maintains control over the selling function. In designated zones in Brazil, third-party distributors purchase Coca-Cola FEMSA's products at a discount from the wholesale price and resell the products to retailers.

**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, with low supermarket penetration.

### **Competition**

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

While competitive conditions are different in each of 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 technique that allows it 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 Product and Packaging Mix.**

**Mexico and Central America.** Coca-Cola FEMSA's principal competitors in Mexico are bottlers of Pepsi products, whose territories overlap but are not co-extensive with its own. Coca-Cola FEMSA competes with Organización Cultiba, S.A.B. de C.V., a joint venture formed by Grupo Embotelladoras Unidas, S.A.B. de C.V., the former Pepsi bottler in central and southeast Mexico, a subsidiary of PepsiCo, and Empresas Polar, S.A., the leading beer distributor and Pepsi bottler in Venezuela. Coca-Cola FEMSA's main competition in the juice category in Mexico is Grupo Jumex. In the water category, Bonafont, a water brand owned by Grupo Danone, is Coca-Cola FEMSA's main competition. In addition, Coca-Cola FEMSA competes with Cadbury Schweppes in sparkling beverages and with other local brands in its Mexican territories, as well as B brand producers, such as Ajemex, S.A. de C.V. and Consorcio AGA, S.A. de C.V., 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 Cervecería Nacional, S.A. Coca-Cola FEMSA also faces competition from B brands offering multiple serving size presentations in some Central American countries.

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

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

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

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

## **Raw Materials**

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

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

In addition to concentrate, Coca-Cola FEMSA purchases sweeteners, carbon dioxide, resin and preforms to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for most of Coca-Cola FEMSA's beverages. Coca-Cola FEMSA's bottler agreements provide that, with respect to Coca-Cola trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company, including certain of our affiliates. Prices for certain raw materials, including those used in the bottling of Coca-Cola FEMSA's products, mainly resin, preforms to make plastic bottles, finished plastic bottles, aluminum cans, HFCS and certain sweeteners, are paid in or determined with reference to the U.S. dollar, and therefore local prices in a particular country may increase based on changes in the applicable exchange rates. Coca-Cola FEMSA's most significant packaging raw material costs arise from the purchase of resin and plastic preforms to make plastic bottles from the purchase of finished plastic bottles, the prices of which are related to crude oil prices and global resin supply. The average prices that Coca-Cola FEMSA paid for resin and plastic preforms in U.S. dollars in 2015 decreased 24%, as compared to 2014, in all its territories; however, given that high currency volatility has affected and continues to affect most of Coca-Cola FEMSA's territories, the average prices for resin and plastic preforms in local currencies were higher in 2015 in Mexico, Colombia, Venezuela and Brazil.

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Under Coca-Cola FEMSA's agreements with The Coca-Cola Company, it may use raw or refined sugar or HFCS as sweeteners in its products. Sugar prices in all of the countries where Coca-Cola FEMSA operates, other than Brazil, are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay for sugar in excess of international market prices for sugar in certain countries. In recent years, international sugar prices experienced significant volatility. Across Coca-Cola FEMSA's territories, its average price for sugar in U.S. dollars decreased approximately 28% (12% excluding Venezuela) in 2015 as compared to 2014; however, the average price for sugar in local currency was higher in all of Coca-Cola FEMSA's operations, except for Guatemala.

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

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

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

Coca-Cola FEMSA purchases all its cans from Fábricas de Monterrey, S.A. de C.V., or FAMOSA, and Envases Universales de México, S.A.P.I. de C.V., through Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of Coca-Cola bottlers, in which, as of April 8, 2016, Coca-Cola FEMSA held a 35% equity interest. Coca-Cola FEMSA mainly purchases its glass bottles from Vitro America, S. de R.L. de C.V. (formerly Compañía Vidriera, S.A. de C.V., or VITRO), FEVISA Industrial, S.A. de C.V., known as FEVISA, and Glass & Silice, S.A. de C.V., or SIVESA.

Coca-Cola FEMSA purchases sugar from, among other suppliers, PIASA and Beta San Miguel, S.A. de C.V., both sugar cane producers in which, as of April 8, 2016, Coca-Cola FEMSA held a 36.3% and 2.7% equity interest, respectively. Coca-Cola FEMSA purchases HFCS from Ingredion México, S.A. de C.V., Almidones Mexicanos, S.A. de C.V., known as Almex, and Cargill de México, S.A. de C.V.

Sugar prices in Mexico are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay higher prices than those paid in the international market. As a result, prices in Mexico have no correlation to international market prices. In 2015, sugar prices in local currency in Mexico increased approximately 9% as compared to 2014.

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

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

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Sugar is available in Brazil at local market prices, which historically have been similar to international prices. During 2015, sugar prices in Brazil decreased approximately 12% in U.S. dollars and increased 26% in local currency, as compared to 2014. Coca-Cola FEMSA purchases glass bottles, plastic bottles and cans from several domestic and international suppliers.

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, plastic cases and other raw materials from several domestic sources. Coca-Cola FEMSA purchases plastic preforms, as well as returnable plastic bottles, at competitive prices from Andina Empaques S.A., a local subsidiary of Embotelladora Andina S.A., a Coca-Cola bottler with operations in Chile, Argentina, Brazil and Paraguay, and other local suppliers. Coca-Cola FEMSA also acquires plastic preforms from Alpa Avellaneda, S.A. and other suppliers, such as AMCOR Argentina.

**Venezuela.** In Venezuela, Coca-Cola FEMSA uses sugar as a sweetener in most of its products, which it purchase mainly from the local market. Since 2003, from time to time, Coca-Cola FEMSA has experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permission to import in a timely manner. While sugar distribution to the food and beverages industry and to retailers is controlled by the government, Coca-Cola FEMSA did not experience any material disruptions during 2015 with respect to access to sufficient sugar supply. However, we cannot assure you that Coca-Cola FEMSA will not experience disruptions in its ability to meet its sugar requirements in the future should the Venezuelan government impose restrictive measures. Coca-Cola FEMSA buys glass bottles from one local supplier, Productos de Vidrio, C.A., the only supplier authorized by The Coca-Cola Company. Coca-Cola FEMSA acquires most of its plastic non-returnable bottles from Alpa de Venezuela, S.A. and most of its aluminum cans from a local producer, Dominguez Continental, C.A.

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

## **FEMSA Comercio**

### **Overview and Background**

FEMSA Comercio, through its Retail Division, operates the largest chain of small-format stores in Mexico, measured in terms of number of stores as of December 31, 2015, mainly under the trade name OXXO. As of December 31, 2015, FEMSA Comercio Retail Division operated 14,061 OXXO stores, of which 14,015 are located throughout Mexico and the remaining 46 stores are located in Bogota, Colombia.

FEMSA Comercio Retail Division was established by FEMSA in 1978 with the opening of two OXXO stores in Monterrey, Nuevo Leon, one store in Mexico City and another store in Guadalajara, Jalisco. The motivating factor behind FEMSA's entrance into the retail industry was to enhance beer sales through company-owned retail outlets as well as to gather information on customer preferences. In 2015, a typical OXXO store carried 2,954 different stock keeping units (SKUs) in 31 main product categories.

In recent years, FEMSA Comercio Retail Division has represented an effective distribution channel for our beverage products, as well as a rapidly growing point of contact with our consumers. Based on the belief that location plays a major role in the long-term success of a retail operation such as a small-format store, as well as a role in our ability to accelerate and streamline the new-store development process, FEMSA Comercio Retail Division has focused on a strategy of rapid, profitable growth. FEMSA Comercio Retail Division opened 1,208, 1,132 and 1,120 net new OXXO stores in 2015, 2014 and 2013, respectively. The accelerated expansion in the number of OXXO stores and the inorganic expansion in the drugstore markets in Mexico and Chile yielded total revenue growth of 21.2% to reach Ps. 132,891 million in 2015. OXXO same-store sales increased an average of 6.9%, driven by an increased average customer ticket and an increase in same-store traffic. OXXO stores performed approximately 3.7 billion transactions in 2015 compared to 3.4 billion transactions in 2014.

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FEMSA Comercio Fuel Division operates retail service stations for fuels, motor oils and other car care products. As of December 31, 2015, FEMSA Comercio Fuel Division operates 307 service stations, concentrating mainly in the northern part of the country with a presence in 14 different states throughout Mexico.

Since 1995, FEMSA Comercio has provided services and operated retail service stations for fuels, motor oils and other car care products through agreements with third parties that own PEMEX franchises, using the commercial brand OXXO GAS. Over time, this brand has become synonymous with quality service among our customers, and revenues per gas pump have consistently grown.

Historically, Mexican legislation precluded FEMSA Comercio from participating in the retail of gasoline, and therefore from owning PEMEX franchises, due to FEMSA's foreign institutional investor base. In March 2015, following changes to the legal framework and considering the potential expansion and synergies arising from this business as part of Mexico's energy reform, FEMSA Comercio began to acquire PEMEX's service station franchises and to obtain permits to operate each of the franchises.

### **FEMSA Comercio Retail Division**

#### **Business Strategy**

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

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

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

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

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

Finally, to further increase customer traffic into our stores, FEMSA Comercio Retail Division is incorporating additional services, such as utility bill payment, remittances and prepayment of mobile phone fees and charges.



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**Store Locations**

With 14,015 OXXO stores in Mexico and 46 OXXO stores in Colombia as of December 31, 2015, FEMSA Comercio Retail Division operates the largest small-format store chain in Latin America measured by number of stores. FEMSA Comercio Retail Division has expanded its operations by opening five net new OXXO stores in Bogota, Colombia in 2015.

**OXXO Stores**

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

**as of December 31, 2015**

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

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Total OXXO stores	14,061	12,853	11,721	10,601	9,561
Store growth (% change over previous year)	9.4%	9.7%	10.6%	10.9%	13.5%

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

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

The identification of locations and pre-opening planning in order to optimize the results of new OXXO stores are important elements in FEMSA Comercio Retail Division's growth plan. FEMSA Comercio Retail Division continuously reviews store performance against certain operating and financial benchmarks to optimize the overall performance of the chain. FEMSA Comercio Retail Division stores unable to maintain benchmark standards are generally closed. Between December 31, 2011 and 2015, the total number of OXXO stores increased by 4,500, which resulted from the opening of 4,638 new stores and the closing of 138 stores.

**Competition**

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

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

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

Approximately 65.6% of OXXO stores' customers are between the ages of 15 and 35. FEMSA Comercio Retail Division also segments the market according to demographic criteria, including income level.

*OXXO Store Characteristics*

The average size of an OXXO store is approximately 104 square meters of selling space, excluding space dedicated to refrigeration, storage or parking. The average constructed area of a store is approximately 187 square meters and, when parking areas are included, the average store size is approximately 418 square meters.

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

		2015	Year Ended December 31, (percentage increase compared to previous year)			2011
			2014	2013	2012	
Total FEMSA Comercio Retail Division revenue <sup>(1)</sup>		21.2%	12.4%	12.9%	16.6%	19.0%
OXXO same-store sales <sup>(2)</sup>		6.9%	2.7%	2.4%	7.7%	9.2%

(1) Includes revenues of Farmacias Farmacon S.A. from June 2015 and Socofar from October 2015. See **Item 4. Information on the Company Corporate Background** and Note 4 to our audited consolidated financial statements.

(2) Same-store sales growth is calculated by comparing the sales of stores for each year that have been in operation for more than 12 months with the sales of those same stores during the previous year.

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

Approximately 58% of OXXO stores are operated by independent managers responsible for all aspects of store operations. The store managers are commission agents and are not employees of FEMSA Comercio Retail Division. Each store manager is the legal employer of the store's staff, which typically numbers six people per store. FEMSA Comercio Retail Division continually invests in on-site operating personnel, with the objective of promoting loyalty, customer service and low personnel turnover in the stores.

*Advertising and Promotion*

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

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

**Inventory and Purchasing**

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

Management believes that the OXXO store chain's scale of operations provides FEMSA Comercio Retail Division with a competitive advantage in its ability to realize strategic alliances with suppliers. General category offerings are determined on a national level, although purchasing decisions are implemented on a local, regional or national level, depending on the nature of the product category. Given the fragmented nature of the retail industry in Mexico in general, Mexican producers of beer, soft drinks, bread, dairy products, snacks, cigarettes and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 62% of the OXXO store chain's total sales consist of products that are



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delivered directly to the stores by suppliers. Other products with longer shelf lives are distributed to stores by FEMSA Comercio Retail Division's distribution system, which includes 16 regional warehouses located in Monterrey, Guadalajara, Mexicali, Merida, Leon, Obregon, Puebla, Queretaro, Chihuahua, Reynosa, Saltillo, Tijuana, Toluca, Villahermosa and two in Mexico City. The distribution centers operate a fleet of approximately 897 trucks that make deliveries to each store approximately twice per week.

### **Seasonality**

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

### **Drugstore Market**

During 2013, FEMSA Comercio Retail Division entered the drugstore market in Mexico through two transactions. FEMSA Comercio Retail Division through CCF, closed the acquisition of Farmacias YZA, a leading drugstore operator in Southeast Mexico, headquartered in Merida, Yucatan. The founding shareholders of Farmacias YZA hold a 25% stake in CCF. Following this transaction, on May 13, 2013, CCF acquired Farmacias Moderna, a leading drugstore operator in the western state of Sinaloa.

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

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

The rationale for entering this new market is anchored in our belief that FEMSA Comercio Retail Division has developed certain capabilities and skills that should be applicable and useful in the operation of other small retail formats. These capabilities include site selection, logistics, business processes, human resources, inventory and supplier management. The drugstore market in Mexico is very fragmented and FEMSA Comercio believes it is well equipped to create value by entering this market and pursuing a growth strategy that maximizes the opportunity. Furthermore, the acquisition in South America gives FEMSA Comercio the opportunity to pursue a regional strategy from a solid platform anchored in the Chilean market and with compelling growth opportunities in Colombia and beyond.

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

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

### **Other Stores**

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

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### **FEMSA Comercio Fuel Division**

#### **Business Strategy**

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

FEMSA Comercio Fuel Division's business strategy aims to strengthen its services in its retail gas stations in Mexico to fulfill consumers' needs and increase traffic in those service stations it operates while developing and maintaining an attractive value proposition to draw potential customers and face the future entry of new competitors in the industry.

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

#### **Service Station Locations and Characteristics**

As of December 31, 2015, FEMSA Comercio Fuel Division operates 307 service stations, concentrated mainly in the northern part of the country but with a presence in 14 different states throughout Mexico.

Since March 2015, FEMSA Comercio Fuel Division has leased 76 additional service stations and built four brand new service stations.

Each service station under the OXXO GAS trade name comprises offices, parking lots, maneuvering vehicles area, a fuel service dispatch area and an area for storage of gasoline in underground tanks. The average size of the fuel service dispatch area is 250 square meters. On average each service station has 15 employees.

#### **Products and Services**

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

Past law restrictions prevented FEMSA Comercio Fuel Division, as a franchisee of PEMEX, to have a different supplier of gasoline. However, the current law allows other suppliers to operate in Mexico in the medium term.

#### **Market Characteristics**

The retail service station market in Mexico is highly fragmented. There are currently more than 11,000 service stations; however, with less than 3% of the total number of stations, FEMSA Comercio Fuel Division is the largest participant in this market. The majority of retail service stations in the country are owned by small regional family businesses.

#### **Seasonality**

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

#### **Marketing**

Through promotional activities, FEMSA Comercio 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, a form of advertising now also used by FEMSA Comercio Fuel Division's competitors.

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### **Competition**

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

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

As of December 31, 2015, FEMSA owned a non-controlling interest in the Heineken Group, one of the world's leading brewers. As of December 31, 2015, our 20% economic interest in the Heineken Group comprised 43,018,320 shares of Heineken Holding N.V. and 72,182,203 shares of Heineken N.V. For 2015, FEMSA recognized equity income of Ps. 5,879 million regarding its 20% economic interest in the Heineken Group; see Note 10 to our audited consolidated financial statements.

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

### **Other Businesses**

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

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

Our refrigeration business produces vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 546,934 units at December 31, 2015. In 2015, this business sold 429,464 refrigeration units, 31.1% of which were sold to Coca-Cola FEMSA, and the remainder of which were sold to other clients.

### **Description of Property, Plant and Equipment**

As of December 31, 2015, Coca-Cola FEMSA owned all of its manufacturing facilities and distribution centers, consisting primarily of production and distribution facilities for its soft drink operations and office space. In addition, FEMSA Comercio Retail Division owns approximately 12% of the OXXO store locations, while the other stores are located in leased properties and substantially almost all of its warehouses are under long-term lease arrangements with third parties.

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

**Bottling Facility Summary**

As of December 31, 2015

Country	Installed Capacity (thousands of unit cases)	Utilization <sup>(1)</sup> (%)
Mexico	2,786,295	62%
Guatemala	37,931	77%
Nicaragua	66,847	71%
Costa Rica	70,587	66%
Panama	49,646	69%
Colombia	572,978	57%
Venezuela	290,391	81%
Brazil	1,228,126	55%
Argentina	328,441	71%

(1) Annualized rate.

The table below summarizes by country the location and facility area of each of Coca-Cola FEMSA's production facilities.

**Bottling Facility by Location**

As of December 31, 2015

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	San Cristobal de las Casas, Chiapas	45
	Cuautitlan, Estado de Mexico	35
	Los Reyes la Paz, Estado de Mexico	50
	Toluca, Estado de Mexico	317
	Leon, Guanajuato	124
	Morelia, Michoacan	50
	Ixtacomitan, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	La Pureza Altamira, Tamaulipas	300
	Poza Rica, Veracruz	42
	Pacifico, Estado de Mexico	89
	Cuernavaca, Morelos	37
	Toluca, Estado de Mexico (Ojuelos)	41
	San Juan del Rio, Queretaro	84
	Queretaro, Queretaro	80
Cayaco, Acapulco	104	
Guatemala	Guatemala City	46
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San Jose	52





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Country	Plant	Facility Area (thousands of sq. meters)
Panama	Panama City	29
Colombia	Barranquilla	37
	Bogota, DC	105
	Bucaramanga	26
	Cali	76
	Manantial, Cundinamarca	67
	Tocancipa	298
	Medellin	47
Venezuela	Antimano	15
	Barcelona	141
	Maracaibo	68
	Valencia	100
Brazil	Campo Grande	36
	Jundiai	191
	Mogi das Cruzes	119
	Porto Real	108
	Maringa	160
	Marilia	159
	Curitiba	119
	Bauru	39
Itabirito	320	
Argentina	Alcorta, Buenos Aires	73
	Monte Grande, Buenos Aires	32

**Insurance**

We maintain an all risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disaster, including hurricane, hail, earthquake and damages caused by human acts, including explosion, fire, vandalism and riot. We also maintain a freight transport insurance policy that covers damages to goods in transit. In addition, we maintain a liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. In 2015, the policies for all risk property insurance and liability insurance were issued by Mapfre Tepeyac Seguros, S.A., and the policy for freight transport insurance was issued by ACE Seguros, S.A. 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.

**Table of Contents****Capital Expenditures and Divestitures**

Our consolidated capital expenditures, net of disposals, for the years ended December 31, 2015, 2014 and 2013 were Ps. 18,885 million, Ps. 18,163 million and Ps. 17,882 million respectively, and were for the most part financed from cash from operations generated by our subsidiaries. These amounts were invested in the following manner:

	Year Ended December 31,		
	2015	2014	2013
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	Ps.11,484	Ps.11,313	Ps.11,703
FEMSA Comercio Retail Division	6,048	5,191	5,683
FEMSA Comercio Fuel Division	228		
Other	1,125	1,659	496
<b>Total</b>	<b>Ps.18,885</b>	<b>Ps.18,163</b>	<b>Ps.17,882</b>

**Coca-Cola FEMSA**

In 2015, 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 Retail Division**

FEMSA Comercio Retail Division's principal investment activity is the construction and opening of new stores, which are mostly OXXO Stores. During 2015, FEMSA Comercio opened 1,208 net new OXXO stores. FEMSA Comercio Retail Division invested Ps. 6,048 million in 2015 in the addition of new stores, warehouses and improvements to leased properties.

**FEMSA Comercio Fuel Division**

In 2015, FEMSA Comercio Fuel Division's business addressed its investments on capital expenditure mainly to the addition of new retail service stations. Since March 2015, FEMSA Comercio Fuel Division has leased and enhanced 76 additional retail stations and built four brand new stations, investing Ps. 228 million during 2015.

**Regulatory Matters****Antitrust Legislation**

The *Ley Federal de Competencia Económica* (Federal Antitrust Law) became effective on June 22, 1993, regulating monopolistic practices and requiring Mexican government approval of certain mergers and acquisitions. The Federal Antitrust Law subjects the activities of certain Mexican companies, including us, to regulatory scrutiny.

In June 2013, following a comprehensive reform to the Mexican Constitution, a new antitrust authority with constitutional autonomy was created: the *Comisión Federal de Competencia Económica* (Federal Antitrust Commission, or the COFECE). As a result of these amendments, new antitrust and telecommunications specialized courts were created and commenced hearing cases in August 2013. In July 2014, a new Federal Antitrust Law came into effect based on the amended constitutional provisions.

These amendments granted more power to the COFECE, including 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. Management believes that we are currently in compliance in all material respects with Mexican antitrust legislation.



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

### **Mexican Tax Reform**

In December of 2013, the Mexican government enacted a package of tax reforms (the 2014 Tax Reform ) which includes several significant changes to tax laws, discussed in further detail below, that entered into effect on January 1, 2014. The most significant changes are as follows:

The introduction of a new withholding tax at the rate of 10% for dividends and/or distributions of earnings generated in 2014 and beyond;

The elimination of the exemption on gains from the sale of shares through a stock exchange recognized under applicable Mexican tax law. The gain will be taxable at the rate of 10% and will be paid by the shareholder based on the information provided by the financial intermediary. Transferors that are residents of a country with which Mexico has entered into a tax treaty for the avoidance of double taxation will be exempt;

A fee of one Mexican peso per liter on the sale and import of flavored beverages with added sugar, and an excise tax of 8% on food with caloric content equal to, or greater than 275 kilocalories per 100 grams of product;

The prior 11% value added tax (VAT) rate that applied to transaction in the border region was raised to 16%, matching the general VAT rate applicable in the rest of Mexico;

The elimination of the tax on cash deposits (IDE) and the business flat tax (IETU);

Deductions on exempt payroll items for workers are limited to 53%;

The income tax rate in 2013 and 2012 was 30%. Scheduled decreases to the income tax rate that would have reduced the rate to 29% in 2014 and 28% in 2015 and thereafter, were canceled in connection with the 2014 Tax Reform;

The repeal of the existing tax consolidation regime, which is effective as of January 1, 2014, modified the payment term of a tax on assets payable of Ps. 180, which will be paid over the following five years instead of an indefinite term; and

The introduction of a new optional tax integration regime (a modified form of tax consolidation), which replaces the previous tax consolidation regime. The new optional tax integration regime requires an equity ownership of at least 80% for qualifying subsidiaries and would allow us to defer the annual tax payment of our profitable participating subsidiaries for a period equivalent to 3 years to the extent their individual tax expense exceeds the integrated tax expense of the Company.

### **Other Recent Tax Reforms**

On January 1, 2015, a general tax reform became effective in Colombia. This reform included the imposition of a new temporary tax on net equity through 2017 to Colombian residents and non-residents who own property in Colombia directly or indirectly through branches or permanent establishments. The relevant taxable base will be determined annually based on a formula. For net equity that exceeds 5.0 billion Colombian pesos (approximately US\$ 2.1 million) the rate will be 1.15% in 2015, 1.00% in 2016 and 0.40% in 2017. In addition, the tax reform in Colombia imposed that the supplementary income tax at a rate of 9% as contributions to social programs, which was previously scheduled to decrease to 8% by 2015, will remain indefinitely. Additionally, this tax reform included the imposition of a temporary contribution to social

programs at a rate of 5%, 6%, 8% and

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9% for the years 2015, 2016, 2017 and 2018, respectively. Finally, this reform establishes an income tax deduction of 2% of value-added tax paid in the acquisition or import of hard assets, such as tangible and amortizable assets that are not sold or transferred in the ordinary course of business and that are used for the production of goods or services.

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

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

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

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

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

In addition, as of January 1, 2016, the Brazilian federal production tax rates will be reduced and the rates of the federal sales tax will increase. We expect the average of these taxes will range between 14.4% and 15.5% over net sales.

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### **Taxation of Sparkling Beverages**

All the countries where Coca-Cola FEMSA operates, except for Panama, impose a value-added tax on the sale of sparkling beverages, with a rate of 16% in Mexico, 12% in Guatemala, 15% in Nicaragua, an average percentage of 15.8% in Costa Rica, 16% in Colombia (applied only to the first sale in the supply chain), 12% in Venezuela, 21% in Argentina, and in Brazil 17% in the states of Mato Grosso do Sul and Goiás and 18% in the states of Sao Paulo, Minas Gerais, Parana and Rio de Janeiro. The state of Rio de Janeiro also charges an additional 1% as a contribution to a poverty eradication fund. In Brazil the value-added tax is grossed-up and added, along with federal sales tax, at the taxable basis. In addition, Coca-Cola FEMSA is responsible for charging and collecting the value-added tax from each of its retailers in Brazil, based on average retail prices for each state where it operates, defined primarily through a survey conducted by the government of each state, which in 2015 represented an average taxation of approximately 9.7% over net sales.

In addition, several of the countries where Coca-Cola FEMSA operates impose the following excise or other taxes:

Mexico imposes an excise tax of Ps. 1.00 per liter on the production, sale and importation of beverages with added sugar and HFCS as of January 1, 2014. This tax is applied only to the first sale and Coca-Cola FEMSA is responsible for charging and collecting this excise tax.

Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.41 as of December 31, 2015) per liter of sparkling beverage.

Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, currently assessed at 18.11 colones (Ps. 0.57 as of December 31, 2015) per 250 ml, and an excise tax currently assessed at 6.313 colones (approximately Ps. 0.20 as of December 31, 2015) per 250 ml.

Nicaragua imposes a 9% tax on consumption, and municipalities impose a 1% tax on our Nicaraguan gross income.

Panama imposes a 5% tax based on the cost of goods produced and a 10% selective consumption tax on syrups, powders and concentrates.

Argentina imposes an excise tax of 8.7% on sparkling beverages containing less than 5% lemon juice or less than 10% fruit juice, and an excise tax of 4.2% on sparkling water and flavored sparkling beverages with 10% 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 approximately 4.2% and an average sales tax of approximately 10.2% over net sales. Until April 30, 2015, these taxes were fixed by the federal government based on national average retail prices obtained through surveys. The national average retail price of each product and presentation was multiplied by a fixed rate combined with specific multipliers for each presentation, to obtain a fixed tax per liter, per product and presentation. These taxes were applied only to the first sale and Coca-Cola FEMSA was responsible for charging and collecting these taxes from each of its retailers. Beginning on May 1, 2015, these federal taxes were applied based on the price sold, as detailed in Coca-Cola FEMSA's invoices, instead of an average retail price combined with a fixed tax rate and multiplier per presentation. Except for sales to wholesalers, these production and sales taxes apply only to the first sale and Coca-Cola FEMSA is responsible for charging and collecting these taxes from each of its retailers. For sales to wholesalers, they are entitled to recover the sales tax and charge this tax again upon the resale of Coca-Cola FEMSA's products to retailers.



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

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

### **Price Controls**

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where Coca-Cola FEMSA operates. Currently, there are no price controls on Coca-Cola FEMSA's products in any of the territories where it has operations, except for those in Argentina, where authorities directly supervise five products sold through supermarkets as a measure to control inflation, and Venezuela, where the government has imposed price controls on certain products, including bottled water. In addition, in January 2014, the Venezuelan government passed the *Ley Orgánica de Precios Justos* (Fair Prices Law), which was amended in November 2014 and once again in November 2015, mainly to increase applicable fines and penalties. The purpose of this law is to establish regulations and administrative proceedings to impose a limit on profits earned on the sale of goods, including Coca-Cola FEMSA's products, seeking to maintain price stability of, and equal access to, goods and services. A ruling derived from this law imposes an obligation to manufacturing companies to label products with the fair or maximum sales price for each product. This law also creates the National Office of Costs and Prices, whose main role is to oversee price controls and set maximum retail prices on certain consumer goods and services. We cannot assure you that Coca-Cola FEMSA will be in compliance at all times with these laws based on changes, market dynamics in these two countries and the lack of clarity of certain basic aspects of the applicable law in Venezuela. Any such changes and potential violations may have an adverse impact on Coca-Cola FEMSA. **See Risk Factors Risks Related to Our Company Coca-Cola FEMSA - Regulatory developments may adversely affect Coca-Cola FEMSA's business.**

### **Environmental Matters**

In all of our territories, our operations are subject to federal and state laws and regulations relating to the protection of the environment.

#### *Mexico*

The Mexican federal authority in charge of overseeing compliance with the federal environmental laws is the *Secretaría del Medio Ambiente y Recursos Naturales* or Secretary of Environment and Natural Resources, which we refer to as SEMARNAT. An agency of SEMARNAT, the *Procuraduría Federal de Protección al Ambiente* or Federal Environmental Protection Agency, which we refer to as PROFEPA, has the authority to enforce the Mexican federal environmental laws. As part of its enforcement powers, PROFEPA can bring administrative, civil and criminal proceedings against companies and individuals that violate environmental laws, regulations and Mexican Official Standards and has the authority to impose a variety of sanctions. These sanctions may include, among other things, monetary fines, revocation of authorizations, concessions, licenses, permits or registrations, administrative arrests, seizure of contaminating equipment, and in certain cases, temporary or permanent closure of facilities. Additionally, as part of its inspection authority, PROFEPA is entitled to periodically inspect the facilities of companies whose activities are regulated by the Mexican environmental legislation and verify compliance therewith. Furthermore, in special situations or certain areas where federal jurisdiction is not applicable or appropriate, the state and municipal authorities can administer and enforce certain environmental regulations of their respective jurisdictions.

In Mexico, the principal legislation relating to environmental matters is the *Ley General de Equilibrio Ecológico y Protección al Ambiente* (Federal General Law for Ecological Equilibrium and Environmental Protection, or the Mexican Environmental Law) and the *Ley General para la Prevención y Gestión Integral de los Residuos* (General Law for the Prevention and Integral Management of Waste). Under the Mexican Environmental Law, rules have been promulgated concerning water and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to air and water emissions and hazardous wastes and set forth standards for waste water discharge that apply to our operations. We are also subject to certain minimal restrictions on the operation of delivery trucks in Mexico City. We have 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 our operations in Mexico City.

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In March 2015, the *Ley General de Cambio Climático* (General Law of Climate Change), 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 Coca-Cola FEMSA is not required to report these emissions, since it does not exceed this threshold. We cannot assure you that we will not be required to comply with this reporting requirement in the future.

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

Additionally, several of our subsidiaries have entered into long-term wind power purchase agreements with wind park developers in Mexico to receive electrical energy for use at production and distribution facilities of FEMSA and Coca-Cola FEMSA throughout Mexico, as well as for a significant number of OXXO stores.

### *Central America*

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

### *Colombia*

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

### *Venezuela*

Coca-Cola FEMSA's Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the *Ley Orgánica del Ambiente* (Organic Environmental Law), the *Ley Sobre Sustancias, Materiales y Desechos Peligrosos* (Substance, Material and Dangerous Waste Law),

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the *Ley Penal del Ambiente* (Criminal Environmental Law) and the *Ley de Aguas* (Water Law). Since the enactment of the Organic Environmental Law in 1995, Coca-Cola FEMSA's Venezuelan subsidiary has presented the corresponding authorities with plans to bring their production facilities and distribution centers into compliance with applicable laws, which mainly consist of building or expanding the capacity of water treatment plants in Coca-Cola FEMSA's bottling facilities. Coca-Cola FEMSA currently has water treatment plants in its bottling facilities located in the city of Barcelona, Valencia and in its Antimano bottling plant in Caracas and Coca-Cola FEMSA is still under construction and expansion of its current water treatment plant in its bottling facility in Maracaibo.

*Brazil*

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

Coca-Cola FEMSA's production plant located in Jundiai has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by the law. The plant of Jundiai has been certified for GAO-Q and GAO-E. In addition, the plants of Jundiai, Mogi das Cruzes, Campo Grande, Marilia, Maringa, Curitiba and Bauru have been certified for (i) ISO 9001: 2008; (ii) ISO 14001: 2004 and (iii) norm OHSAS 18001: 2007. In 2012, the Jundiai, Campo Grande, Bauru, Marilia, Curitiba, Maringa, Porto Real and Mogi das Cruzes plants were certified in standard FSSC22000.

In Brazil, a municipal regulation of the City of Sao Paulo, implemented pursuant to Law 13.316/2002, came into effect requiring us to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the City of Sao Paulo. Beginning in May 2011, Coca-Cola FEMSA was required to collect for recycling 90% of PET bottles sold. Currently, Coca-Cola FEMSA is not able to collect the entire required volume of PET bottles Coca-Cola FEMSA sells in the City of Sao Paulo for recycling. Since Coca-Cola FEMSA does not meet the requirements of this regulation, which Coca-Cola FEMSA believes to be more onerous than those imposed by the countries with the highest recycling standards, Coca-Cola FEMSA could be fined and be subject to other sanctions, such as the suspension of operations in any of its plants and/or distribution centers located in the City of Sao Paulo. In May 2008, when the law came into effect, Coca-Cola FEMSA and other bottlers in the City of Sao Paulo, through the Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR (*Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas*), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In addition, in November 2009, in response to a municipal authority request for us to demonstrate the destination of the PET bottles sold in Sao Paulo, Coca-Cola FEMSA filed a motion presenting all of its recycling programs and requesting a more practical timeline to comply with the requirements of the law. In October 2010, the municipal authority of Sao Paulo levied a fine on its Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps. 1.1 million as of December 31, 2015) on the grounds that the report submitted by its Brazilian operating subsidiary did not comply with the 75% proper disposal requirement for the period from May 2008 to May 2010. Coca-Cola FEMSA filed an appeal against this fine, which was denied by the municipal authority in May 2013. This resolution is final and non-appealable and, therefore, the administrative stage is closed. In July 2012, the State Appellate Court of Sao Paulo rendered a decision admitting an interlocutory appeal filed on behalf of ABIR suspending the fines and other sanctions to ABIR's associated companies, including its Brazilian subsidiary, for alleged noncompliance with the recycling municipal regulation up to the final resolution of the lawsuit. Coca-Cola FEMSA is still awaiting final resolution of the lawsuit filed on behalf of ABIR. Coca-Cola FEMSA cannot assure you that these measures will have the desired effect or that Coca-Cola FEMSA will prevail in its judicial challenge.

In August 2010, Law No. 12.305/2010 established the Brazilian National Solid Waste Policy. This policy is based on the principle of shared responsibility between the government, companies and the public, and provides for the post-consumption return of products to companies and requires public authorities to implement waste management programs. This law is regulated by Federal Decree No. 7.404/2010, and was published in December 2010. In response to the Brazilian National Solid Waste Policy, in December 2012, a proposal of agreement was provided to the Ministry of the Environment by almost 30 associations involved in the packaging sector, including ABIR in its capacity as representative for The Coca-Cola Company, Coca-Cola FEMSA's Brazilian subsidiary, and other bottlers. This agreement proposed the creation of a coalition to implement systems for reverse logistics

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packaging non-dangerous waste that makes up the dry portion of municipal solid waste or its equivalent. The goal of the proposal is to create methodologies for sustainable development, and protect the environment, society, and the economy. The Ministry of Environment approved and signed this agreement in November 2015.

### *Argentina*

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

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

Coca-Cola FEMSA has expended, and may be required to expend in the future, funds for compliance with and remediation under local environmental laws and regulations. Currently, we do not believe that such costs will have a material adverse effect on Coca-Cola FEMSA's results or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly more 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 it operates, changes in current regulations may result in an increase in costs, which may have an adverse effect on Coca-Cola FEMSA's future results or financial condition. Coca-Cola FEMSA is 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**

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

In addition, the 1992 Water Law provides that plants located in Mexico that use deep water wells to supply their water requirements must pay a fee to the local governments for the discharge of residual waste water to drainage. Pursuant to this law, certain local authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed

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certain standards published by the National Water Commission. In the case of non-compliance with the law, penalties, including closures, may be imposed. All of Coca-Cola FEMSA's bottling plants located in Mexico meet these standards. In addition, Coca-Cola FEMSA's plants in Apizaco and San Cristóbal are certified with ISO 14001.

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

In Argentina, a state water company provides water to Coca-Cola FEMSA's Alcorta plant on a limited basis; however, we believe the authorized amount meets Coca-Cola FEMSA's requirements for this plant. In Coca-Cola FEMSA's Monte Grande plant in Argentina, it pumps water from wells, in accordance with Law 25.688.

In Colombia, in addition to natural spring water for Manantial, Coca-Cola FEMSA obtains water directly from wells and from utility companies. Coca-Cola FEMSA is required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees 2811 of 1974 and No. 3930 of 2010. In addition, Decree No. 303 requires Coca-Cola FEMSA to apply for water concessions and for authorization to discharge its water into public waterways. The Ministry of Environment and Sustainable Development and Regional Autonomous Corporations supervises companies that use water as a raw material for their business.

In Nicaragua, the use of water is regulated by the Ley General de Aguas Nacionales (National Water Law), and Coca-Cola FEMSA obtains water directly from wells. In Costa Rica, the use of water is regulated by the Ley de Aguas (Water Law). In both of these countries, Coca-Cola FEMSA exploits water from wells granted to it through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in Coca-Cola FEMSA's own plants. In Panama, Coca-Cola FEMSA acquires water from a state water company, and the use of water is regulated by the Reglamento de Uso de Aguas de Panamá (Panama Use of Water Regulation). In Venezuela, Coca-Cola FEMSA uses private wells in addition to water provided by the municipalities, and it has taken the appropriate actions, including actions to comply with water regulations, to have water supply available from these sources, regulated by the Ley de Aguas (Water Law).

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

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

## **Other Regulations**

In December 2009, the Venezuelan government issued a decree requiring a reduction in energy consumption by at least 20% for industrial companies whose consumption is greater than two megawatts per hour and to submit an energy-usage reduction plan. Some of Coca-Cola FEMSA's bottling operations in Venezuela outside of Caracas met this threshold and they submitted a plan, which included the purchase of generators for its plants. Since then, Coca-Cola FEMSA has installed electrical generators in its Antimano, Barcelona, Maracaibo and Valencia bottling facilities to mitigate any such risks and filed the respective energy usage reduction plans with the authorities. In addition, since January 2010, the Venezuelan government has implemented and continues to implement power cuts and other measures for all industries in Caracas whose consumption is above 35 kilowatts per hour.

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In August 2013, the current Mexican president, Enrique Peña Nieto, proposed a constitutional reform to provide for modernization and growth of the Mexican energy sector (the Mexican Energy Reform). Following intense review of and debate on the proposal, in December 2013 the Mexican government approved a decree containing amendments and additions to the Mexican Constitution in matters of energy. The Mexican Energy Reform provides for the opening of the Mexican energy market to the participation of private parties including companies with foreign investment, allowing for FEMSA Comercio to participate directly in the retail of fuel products. However, secondary legislation and regulation of the approved Mexican Energy Reform is in transition, and deregulation of fuel prices will be conducted gradually; starting January 1, 2015, until December 31, 2017, gasoline and diesel prices shall be established by the Mexican executive power by decree, taking into account transportation cost differences between regions and other factors, and starting January 1, 2018, retail prices for gasoline and diesel will be freely determined by market conditions.

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

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

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

In November 2014, the Venezuelan government amended the Foreign Investment Law. As part of the amendments made, the law now provides that at least 75% of the value of foreign investment must be composed of assets located in Venezuela, which may include equipment, supplies or other goods or tangible assets required at the early stages of operations. By the end of the first fiscal year after commencement of operations in Venezuela, investors will be authorized to repatriate up to 80% of the profits derived from their investment. Any profits not otherwise repatriated in a fiscal year, may be accumulated and be repatriated the following fiscal year, together with profits generated during such year. In the event of liquidation, a company may repatriate up to 85% of the value of the foreign investment. Currently, the scope of this law is not entirely clear with respect to the liquidation process.

In December 2015, the Venezuelan Ministry of Health issued a resolution which imposes an obligation to label certain products, including sparkling beverages and still beverages that contain sugar with health warnings. Recently, the Venezuelan Ministry of Health granted a nine-month extension for the enforcement of this resolution. We, together with other companies in the industry and the corresponding authorities, are currently discussing a new resolution with a different scope, which would amend or supersede the resolution issued in December 2015.

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

In June 2014, the Brazilian government issued Law No. 12,997 (Law of Motorcycle Drivers) which imposes a risk premium of 30% of the base salary payable to all employees who drive motorcycles in their job. This risk premium became enforceable in October 2014, when the related rules and regulations were issued by the Ministry of Labor and Employment. Coca-Cola FEMSA believes that these rules and regulations (Decree No. 1.565/2014) were unduly issued by such Ministry since it did not comply with all the essential requirements established in Decree No. 1.127/2003. In November 2014, Coca-Cola FEMSA, in conjunction with other bottlers of the Coca-Cola system in Brazil and through the ABIR, filed an action against the Ministry of Labor and Employment to suspend the effects of such decree. ABIR's associated companies, including Coca-Cola FEMSA's Brazilian subsidiary, were issued a preliminary injunction suspending the effects of the decree and exempting Coca-Cola FEMSA from paying the risk 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, which was denied. Coca-Cola FEMSA is currently awaiting final resolution of the lawsuit filed on behalf of ABIR. In the meantime, the Ministry of Labor and Employment in December 2015 started a new discussion with that participation of all interested parties seeking to reissue Decree No. 1.565/2014, in order to comply with the essential requirements.

In January 2014, a new Anti-Corruption Law in Brazil came into effect, which regulates bribery, corruption practices and fraud in connection with agreements entered into with governmental agencies. The main purpose of this law is to impose liability on companies carrying out such practices, establishing fines that can reach up to 20% of a company's gross revenues in the previous fiscal year. Although Coca-Cola FEMSA believes it is in compliance with this law, if it was found liable for any of these practices, this law would have an adverse effect on Coca-Cola FEMSA's business.

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

None.

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

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

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

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

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

FEMSA Comercio Retail Division has maintained high rates of store openings across formats and continues to grow at solid rates in terms of total revenues. FEMSA Comercio Retail Division has lower operating margins than our beverage business. Given that FEMSA Comercio Retail Division has lower operating margins and given its fixed cost structure, it is more sensitive to changes in sales which could negatively affect operating margins. In addition, the integration of the new small-format retail businesses could also affect margins at the FEMSA Comercio Retail Division level, given that these businesses have lower margins than the OXXO stores.





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FEMSA Comercio Fuel Division has expanded its retail service stations since March 2015. Such division has the lowest operating margins in FEMSA Comercio business portfolio.

Our consolidated results of operations are also significantly affected by the performance of the Heineken Group, as a result of our 20% economic interest. Our consolidated net income for 2015 included Ps. 5,879 million related to our non-controlling interest in the Heineken Group, as compared to Ps. 5,244 million for 2014.

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

### **Recent Developments**

Effective January 18, 2016, Miguel Eduardo Padilla Silva replaced Daniel Rodriguez Cofré as our Chief Financial and Corporate Officer, and Mr. Rodriguez Cofré replaced Mr. Padilla Silva as Chief Executive Officer of FEMSA Comercio.

In February 2016, the Venezuelan government announced a 37% devaluation of the official exchange rate and changed the existing three-tier exchange rate system into a dual system. The official exchange rate (6.30 bolivars per US\$ 1.00 as of December 31, 2015) and the SICAD exchange rate (13.50 bolivars per US\$ 1.00 as of December 31, 2015) were merged into a single official exchange rate of 10.00 bolivars per US\$ 1.00. The decision was part of a package of economic policies intended to mitigate the economic crisis of the member countries of the Organization of the Petroleum Exporting Countries (OPEC).

In March 2016, the Venezuelan government announced that it was replacing the SIMADI exchange rate with a new market-based exchange rate known as *Divisas Complementarias*, or DICOM, and the official exchange rate with a preferential exchange rate denominated *Divisa Protegida*, or DIPRO. The DIPRO exchange rate is determined by the Venezuelan government and may be used to settle imports of a list of goods and raw materials, which has not been published as of the date of this annual report. The DICOM exchange rate is determined based on supply and demand of U.S. dollars. As of April 15, 2016, the DIPRO and DICOM exchange rates were 10 bolivars and 339.45 bolivars per U.S. dollar, respectively.

Coca-Cola FEMSA will closely monitor any further developments in Venezuela that may affect the exchange rates to translate the financial statements of its Venezuelan subsidiary in the future.

In March 2016, we issued EUR 1,000 million aggregate principal amount of 1.75% fixed rate Senior Notes due 2023 with a total yield of 1.824%.

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

Our results are affected by changes in economic conditions in Mexico, Brazil and in the other countries where we operate. For the years ended December 31, 2015, 2014, and 2013, 70%, 68% and 63%, respectively, of our total sales were attributable to Mexico. As a result, we have significant exposure to the economic conditions of certain countries, particularly those in Central America, Colombia, Venezuela, Brazil and Argentina, although we continue to generate a substantial portion of our total sales from Mexico. Other than Venezuela, the participation of these other countries as a percentage of our total sales has not changed significantly during the last five years.

The Mexican economy is gradually recovering from a downturn as a result of the impact of the global financial crisis on many

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emerging economies in 2009. According to the *Instituto Nacional de Estadística y Geografía* of Mexico (National Institute of Statistics and Geography, which we refer to as INEGI), Mexican GDP expanded by 2.5% in 2015 and by approximately 2.1% and 1.4% in 2014 and 2013, respectively. According to the *Banco Nacional de México* survey regarding the economic expectations of specialists, Mexican GDP is expected to increase by 2.40% in 2016, as of the latest estimate, published on April 1, 2016. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery in Mexico.

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

Beginning in the fourth quarter of 2013 and through 2015, the exchange rate between the Mexican peso and the U.S. dollar fluctuated from a low of Ps. 12.77 per US\$ 1.00, to a high of Ps. 17.36 per US\$ 1.00. At December 31, 2015, the exchange rate (noon buying rate) was Ps. 17.1950 per US\$ 1.00. On April 15, 2016, this exchange rate was Ps. 17.5580 per US\$ 1.00. **See Item 3. Key Information Exchange Rate Information.** A depreciation of the Mexican peso or local currencies in the countries where we operate relative to the U.S. dollar increases our cost of raw materials priced in U.S. dollars, including raw materials whose prices are set with reference to the U.S. dollar. In addition, a depreciation of the Mexican peso or local currencies in the countries where we operate relative to the U.S. dollar will increase our U.S. dollar-denominated debt obligations, which could negatively affect our financial position and results. However, this effect could be offset by a corresponding appreciation of our U.S. dollar-denominated cash position.

## **Operating Leverage**

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

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

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

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

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

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

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

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

Intangible assets with indefinite lives including goodwill are subject to annual impairment tests. Impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in 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 initially calculate an estimation of the value in use of the cash-generating units to which such assets have been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. We review annually the carrying value of our intangible assets with indefinite lives and goodwill for impairment based on recognized valuation techniques. While we believe that our estimates are reasonable, different assumptions regarding such estimates could materially affect our evaluations. Impairment losses are recognized in current earnings in the period the related impairment is determined. The key assumptions used to determine the recoverable amount for our CGUs, including a sensitivity analysis, are further explained in Notes 3.16 and 12 to our audited consolidated financial statements.

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

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

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

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### *Post-employment and other long-term employee benefits*

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

### *Income taxes*

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

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

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

### *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. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 20 to our audited consolidated financial statements.

### *Business combinations*

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

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

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

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

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

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Management's judgment must be exercised to determine the fair value of assets acquired and liabilities assumed.

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

For each business combination, with respect to the non-controlling present ownership interests in the acquiree that entitle their holders to a proportionate share of net assets in liquidation, we elect whether to measure such interests at fair value or at the proportionate share of the acquiree's identifiable net assets.

### *Investments in associates*

If we hold, directly or indirectly, 20 percent or more of the voting power of the investee, it is presumed that we have significant influence, unless it can be clearly demonstrated that this is not the case. If we hold, directly or indirectly, less than 20 percent of the voting power of the investee, it is presumed that we do not have significant influence, unless such influence can be clearly demonstrated. Decisions regarding the propriety of utilizing the equity method of accounting for a less than 20 percent-owned corporate investee require a careful evaluation of voting rights and their impact on our ability to exercise significant influence. Management considers 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.

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

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

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

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

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

### *Joint arrangements*

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When we are



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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. 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:

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

Whether decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties. As mentioned in Note 10 to our audited consolidated financial statements, Coca-Cola FEMSA accounts for its 51% investment at CCFPI as a joint venture using the equity method based on the facts that (i) during a four-year period ending January 25, 2017, all decisions must be approved jointly with The Coca-Cola Company, (ii) following this four-year period, all decisions related to the annual normal operations plan and any other ordinary matters will be approved only by Coca-Cola FEMSA, and (iii) potential voting rights to acquire the remaining 49% of CCFPI are not likely to be executed in the foreseeable future due to the fact the call option was out of the money as of December 31, 2015 and 2014.

### *Venezuela exchange rates and consolidation*

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

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

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

We have not applied the following new and revised IFRS and IAS that have been issued but were not yet effective up to the date of issuance of our consolidated financial statements. We intend to adopt these standards, if applicable, when they become effective:

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

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The transition to IFRS 9 differs by requirements and is partly retrospective and partly prospective. We have not early adopted this IFRS, and we have yet to complete our evaluation of whether it will have a material impact on our consolidated financial statements.

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

IFRS 15, Revenue from Contracts with Customers, was originally issued in May 2014, and applies to annual reporting periods beginning on or after January 1, 2018, earlier application is permitted. Revenue is recognized as control is passed, either over time or at a point in time.

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The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when (or as) the entity satisfies a performance obligation. Also, an entity needs to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We have yet to complete our evaluation of whether there will be a significant impact as a consequence of this standard's adoption; nonetheless most of our operations would recognize revenue at a single point in time, which is when we transfer goods or services to a customer. We do not expect a potential significant impact on our consolidated financial statements and we expect to complete our evaluation during 2017.

### **IFRS 16, Leases**

IFRS 16 Leases was issued in January 2016 and supersedes IAS 17 Leases and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers has also been applied.

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

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis). We have yet to complete our evaluation of whether we will have a potential impact as a consequence of this standard's adoption, although given the nature of the Company's operations, we will expect a significant impact on our consolidated financial statements.

### **Amendments to IAS 7, Disclosure Initiative**

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

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition. These amendments are effective for annual periods beginning on or after January 1, 2017 with earlier application permitted, and entities need not provide comparative information when they first apply them. We are in the process of assessing the potential impacts from the adoption of these amendments in our financial statements.



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The following table sets forth our consolidated income statement under IFRS for the years ended December 31, 2015, 2014, and 2013:

	2015 <sup>(1)</sup>	Year Ended December 31,		
		2015	2014	2013
(in millions of U.S. dollars and Mexican pesos)				
Net sales	\$ 18,078	Ps. 310,849	Ps. 262,779	Ps. 256,804
Other operating revenues	43	740	670	1,293
Total revenues.	18,121	311,589	263,449	258,097
Cost of goods sold	10,957	188,410	153,278	148,443
Gross profit	7,164	123,179	110,171	109,654
Administrative expenses	681	11,705	10,244	9,963
Selling expenses	4,442	76,375	69,016	69,574
Other income	24	423	1,098	651
Other expenses	(159)	(2,741)	(1,277)	(1,439)
Interest expense	(452)	(7,777)	(6,701)	(4,331)
Interest income	59	1,024	862	1,225
Foreign exchange loss, net	(69)	(1,193)	(903)	(724)
Monetary position loss, net	(2)	(36)	(319)	(427)
Market value gain on financial instruments	21	364	73	8
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	1,463	25,163	23,744	25,080
Income taxes	461	7,932	6,253	7,756
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	352	6,045	5,139	4,831
Consolidated net income	\$ 1,354	Ps. 23,276	Ps. 22,630	Ps. 22,155
Controlling interest net income	1,029	17,683	16,701	15,922
Non-controlling interest net income	325	5,593	5,929	6,233
Consolidated net income	\$ 1,354	Ps. 23,276	Ps. 22,630	Ps. 22,155

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 17.19 to US\$ 1.00, provided solely for the convenience of the reader.

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The following table sets forth certain operating results by reportable segment under IFRS for each of our segments for the years ended December 31, 2015, 2014 and 2013.

	Year Ended December 31,				
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in millions of Mexican pesos, except margins)			Percentage Growth (Decrease)	
<b>Net sales</b>					
Coca-Cola FEMSA	Ps. 151,914	Ps. 146,948	Ps. 155,175	3.4%	(5.3%)
FEMSA Comercio Retail Division	132,891	109,624	97,572	21.2%	12.4%
FEMSA Comercio Fuel Division	18,510				
<b>Total revenues</b>					
Coca-Cola FEMSA	152,360	147,298	156,011	3.4%	(5.6%)
FEMSA Comercio Retail Division	132,891	109,624	97,572	21.2%	12.4%
FEMSA Comercio Fuel Division	18,510				
<b>Cost of goods sold</b>					
Coca-Cola FEMSA	80,330	78,916	83,076	1.8%	(5.0%)
FEMSA Comercio Retail Division	85,600	70,238	62,986	21.9%	11.5%
FEMSA Comercio Fuel Division	17,090				
<b>Gross profit</b>					
Coca-Cola FEMSA	72,030	68,382	72,935	5.3%	(6.2%)
FEMSA Comercio Retail Division	47,291	39,386	34,586	20.1%	13.9%
FEMSA Comercio Fuel Division	1,420				
<b>Administrative expenses</b>					
Coca-Cola FEMSA	6,405	6,385	6,487	0.3%	(1.6%)
FEMSA Comercio Retail Division	2,868	2,042	1,883	40.5%	8.4%
FEMSA Comercio Fuel Division	88				
<b>Selling expenses</b>					
Coca-Cola FEMSA	41,879	40,465	44,828	3.5%	(9.7%)
FEMSA Comercio Retail Division	33,305	28,492	24,707	16.9%	15.3%
FEMSA Comercio Fuel Division	1,124				
<b>Depreciation</b>					
Coca-Cola FEMSA	6,310	6,072	6,371	3.9%	(4.7%)
FEMSA Comercio Retail Division	3,182	2,779	2,328	14.5%	19.4%
FEMSA Comercio Fuel Division	56				
<b>Gross margin<sup>(1)(2)</sup></b>					
Coca-Cola FEMSA	47.3%	46.4%	46.7%	0.9p.p.	(0.3p.p.)
FEMSA Comercio Retail Division	35.6%	35.9%	35.4%	(0.3)p.p.	0.5p.p.
FEMSA Comercio Fuel Division	7.7%				
<b>Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes</b>					
Coca-Cola FEMSA	155	(125)	289	224% <sup>(5)</sup>	(143.3%) <sup>(4)</sup>
FEMSA Comercio Retail Division	(10)	37	11	(127%) <sup>(6)</sup>	236.4%
FEMSA Comercio Fuel Division					
CB Equity <sup>(3)</sup>	5,879	5,244	4,587	12.1%	14.3%

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

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

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

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- (4) Reflects the percentage decrease between the gain of Ps. 289 million recorded in 2013 and the loss of Ps. 125 million recorded in 2014.
- (5) Reflects the percentage increase between the loss of Ps. 125 million recorded in 2014 and the gain of Ps. 155 million recorded in 2015.
- (6) Reflects the percentage decrease between the gain of Ps. 37 million recorded in 2014 and the loss of Ps. 10 million recorded in 2015.

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

**FEMSA Consolidated**

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

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

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

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

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

Other income mainly includes gains on sales of property, plant and equipment. During 2015, other income decreased to Ps. 682 million from Ps. 1,098 million in 2014, reflecting a difficult comparable base in 2014, when we registered the write-off of certain contingencies.

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

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

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

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

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

**Coca-Cola FEMSA**

The comparability of Coca-Cola FEMSA's underlying financial and operating performance in 2015 as compared to 2014 was affected by the following factors: (1) translation effects from fluctuations in exchange rates and (2) results of operations in territories that are considered hyperinflationary economies (currently, the only operation that is considered a hyperinflationary economy is Venezuela). To translate the full-year 2015 reported results of Venezuela, we used the SIMADI exchange rate of 198.70 bolivars per US\$ 1.00, as compared to 49.99 bolivars per US\$ 1.00 used to translate our 2014 reported results. In addition, the average depreciations to the U.S. dollar of currencies used in Coca-Cola FEMSA's main operations during 2015, as compared to 2014, were: 41.6% for the Brazilian real, 37% for the Colombian peso, 19.2% for the Mexican peso and 14.1% for the Argentine peso.

Coca-Cola FEMSA's reported consolidated total revenues increased 3.4% to Ps. 152,360 million in 2015 despite the negative translation effect resulting from using the SIMADI exchange rate to translate the results of Coca-Cola FEMSA's Venezuelan operations and the depreciation of the Brazilian real, the Colombian peso, the Mexican peso and the Argentine peso. Excluding the effect of currency fluctuations and the results of Coca-Cola FEMSA's Venezuelan operations, total revenues would have grown 8.6%, driven by the growth of the average price per unit case in all of Coca-Cola FEMSA's operations and volume growth in Mexico, Central America, Colombia and Argentina.

Total reported sales volume increased 0.5% to 3,435.6 million unit cases in 2015, as compared to 2014. Excluding the results of Coca-Cola FEMSA's Venezuelan operations, total volume would have grown 0.7% in 2015, as compared to 2014. Coca-Cola FEMSA's sparkling beverage portfolio grew 0.5% as compared to 2014. Excluding the effect of Coca-Cola FEMSA's Venezuelan operations, the sparkling beverage portfolio would have grown 0.7% as a result of positive performance of the *Coca-Cola* brand in Mexico, Colombia and Central America, and Coca-Cola FEMSA's flavored sparkling beverage portfolio in Mexico, Colombia, Argentina and Central America. The still beverage category grew 4.9% as compared to 2014. Excluding the effects of Coca-Cola FEMSA's Venezuelan operations, the still beverage category would have grown 6.5% driven by the positive performance of *Jugos del Valle* juice in Colombia, Mexico and Central America; *ValleFrut* orangeade in Mexico and Brazil; the *Powerade* brand across most of Coca-Cola FEMSA's territories and the Santa Clara dairy business in Mexico. Bottled water, excluding bulk water, grew 2.3% as compared to 2014. Excluding the effects of Coca-Cola FEMSA's Venezuelan operations, bottled water, excluding bulk water, would have grown 1.8%, driven by growth in Colombia, Argentina, Brazil and Central America. Bulk water decreased 2.8%, as compared to 2014, mainly driven by a contraction of the *Ciel* brand in Mexico.

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

Coca-Cola FEMSA's reported gross profit increased 5.3% to Ps. 72,030 million in 2015 with a gross margin expansion of 90 basis points. Excluding the effect of currency fluctuations and Coca-Cola FEMSA's Venezuelan operations, gross profit would have grown 10.3%, with a gross margin expansion of 70 basis points. In local currency, the benefit of lower sweetener and PET prices, in combination with Coca-Cola FEMSA's currency hedging strategy, was partially offset by the depreciation of the average exchange rate of the Brazilian real, the Colombian peso, the Mexican peso and the Argentine peso as applied to U.S. dollar-denominated raw material costs.

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

Reported administrative and selling expenses as a percentage of total revenues decreased 10 basis points to 31.7% in 2015 as compared to 2014. Reported administrative and selling expenses in absolute terms increased 3.1% as compared to 2014. Excluding the effect of currency fluctuations and the results of Coca-Cola FEMSA's Venezuelan operations, administrative and selling expenses as a percentage of total revenues would have remained flat and absolute administrative and selling expenses would have grown 8.7% as compared to 2014. In local currency, operating expenses as a percentage of revenues decreased in Mexico, Venezuela and Argentina. In 2015, we continued investing across Coca-Cola FEMSA's territories to support marketplace execution, increase cooler coverage and bolster returnable presentation base.

In 2015, Coca-Cola FEMSA recorded a net expense in other operating expenses of Ps. 1,748 million, mainly due to certain restructuring charges and the negative operating currency fluctuation effects across Coca-Cola FEMSA's territories.

As used by Coca-Cola FEMSA, 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. Net financial foreign exchange gains or losses represent the impact of changes in foreign exchange rates on financial assets or liabilities denominated in currencies other than local currencies and gains or losses resulting from derivative financial instruments. A financial foreign exchange loss arises if a liability is denominated in a foreign currency that appreciates relative to the local currency between the date the liability is incurred or the beginning of the period, whichever occurs first, and the date it is repaid or the end of the period, whichever occurs first, as the appreciation of the foreign currency results in an increase in the amount of local currency, which must be exchanged to repay the specified amount of the foreign currency liability.

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

During 2015, reported income tax, as a percentage of income before taxes, was 30.6% as compared to 26% in 2014. The lower effective tax rate registered during 2014 is mainly related to a one-time benefit resulting from the settlement of certain contingent tax liabilities under the tax amnesty program offered by the Brazilian tax authorities, which was not repeated in 2015.

Coca-Cola FEMSA's reported consolidated net controlling interest income reached Ps. 10,235 million in 2015 as compared to Ps. 10,542 million in 2014. Earnings per share in 2015 were Ps. 4.94 (Ps. 49.37 per ADS) computed on the basis of 2,072.9 million shares outstanding (each ADS represents 10 Series L shares).

In 2015, Coca-Cola FEMSA reported a gain of Ps. 155 million in the share of the profits of associates and joint ventures line, mainly due to an equity-method gain from Coca-Cola FEMSA's participation in associated companies and in CCFPI.

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**FEMSA Comercio Retail Division**

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

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

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

**FEMSA Comercio Fuel Division**

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

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

**Results from our Operations for the Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013**

**FEMSA Consolidated**

FEMSA's consolidated total revenues increased 2.1% to Ps. 263,449 million in 2014 compared to Ps. 258,097 million in 2013. Coca-Cola FEMSA's total revenues decreased 5.6% to Ps. 147,298 million, driven by the negative translation effect resulting from using the system known as the *Sistema Complementario de Administración de Divisas II*, or SICAD II exchange rate to translate the Venezuelan operations. FEMSA Comercio's revenues increased 12.4% to Ps. 109,624 million, mainly driven by the opening of 1,132 net new stores combined with an average increase of 2.7% in same-store sales.

Consolidated gross profit increased 0.5% to Ps. 110,171 million in 2014 compared to Ps. 109,654 million in 2013. Gross margin decreased 70 basis points to 41.8% of consolidated total revenues compared to 2013, reflecting margin contraction at Coca-Cola FEMSA.

Consolidated administrative expenses increased 2.8% to Ps. 10,244 million in 2014 compared to Ps. 9,963 million in 2013. As a percentage of total revenues, consolidated administrative expenses remained stable at 3.9% in 2014.

Consolidated selling expenses decreased 0.8% to Ps. 69,016 million in 2014 as compared to Ps. 69,574 million in 2013. As a percentage of total revenues, selling expenses decreased 80 basis points, from 26.9% in 2013 to 26.1% in 2014.

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

Other income mainly includes gains on sales of shares and long-lived assets and the write-off of certain contingencies. During 2014, other income increased to Ps. 1,098 million from Ps. 651 million in 2013, primarily driven by the write-off of certain contingencies.

Other expenses mainly include disposal and impairment of long-lived assets, contingencies, as well as their subsequent interest and penalties, severance payments derived from restructuring programs and donations. During 2014, other expenses decreased to Ps. 1,277 million from Ps. 1,439 million in 2013.

Net financing expenses increased to Ps. 6,988 million from Ps. 4,249 million in 2013, driven by an interest expense of Ps. 6,701 million in 2014 compared to Ps. 4,331 million in 2013 resulting from higher financing expenses related to bonds issued in 2014 by FEMSA and Coca-Cola FEMSA.

Our accounting provision for income taxes in 2014 was Ps. 6,253 million, as compared to Ps. 7,756 million in 2013, resulting in an effective tax rate of 26.3% in 2014, as compared to 30.9% in 2013, mainly driven by a lower effective tax rate registered during 2014 in Coca-Cola FEMSA.

Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, increased 6.4% to Ps. 5,139 million in 2014 compared with Ps. 4,831 million in 2013, mainly driven by an increase in FEMSA's participation in Heineken results.

Consolidated net income was Ps. 22,630 million in 2014 compared to Ps. 22,155 million in 2013, resulting from a lower tax rate combined with an increase in FEMSA's 20% participation in Heineken's results, which more than compensated for higher financing expenses related to bonds issued in 2014 by Coca-Cola FEMSA and FEMSA. Controlling interest amounted to Ps. 16,701 million in 2014 compared to Ps. 15,922 million in 2013. Controlling interest in 2014 per FEMSA Unit was Ps. 4.67 (US\$ 3.16 per ADS).

**Coca-Cola FEMSA**

Coca-Cola FEMSA's reported consolidated total revenues decreased 5.6% to Ps. 147,298 million in 2014, as compared to 2013, mainly due to the negative translation effect resulting from the use of the SICAD II exchange rate to translate the results of its Venezuelan operations to Mexican pesos. Excluding the non-comparable effects of Companhia Fluminense and Spaipa in Brazil and Grupo Yoli in Mexico, total revenues were Ps. 134,088 in 2014, a decrease of 14.1% with respect to 2013. On a currency neutral basis and excluding the non-comparable effects of Companhia Fluminense, Spaipa and Grupo Yoli, total revenues grew 24.7%, driven by average price per unit case increases in most of our territories, and volume growth in Brazil, Colombia, Venezuela and Central America.

Total sales volume increased 6.6% to 3,417.3 million unit cases in 2014, as compared to 2013. Excluding the integration of Grupo Yoli in Mexico and Companhia Fluminense and Spaipa in Brazil, volumes declined 0.7% to 3,182.8 million unit cases in 2014. This decrease was mainly due to a volume decline in Coca-Cola FEMSA's Mexican operation as a result of price increases implemented to offset the effect of the recently imposed excise tax on sweetened beverages. On the same basis, Coca-Cola FEMSA's bottled water portfolio grew 5%, mainly driven by the performance of the *Crystal* brand in Brazil, the *Aquarius* and *Bonaqua* brands in Argentina, the *Nevada* brand in Venezuela and the *Manantial* brand in Colombia. The still beverage category grew 1.9%, mainly driven by the performance of the *Jugos del Valle* line of business in Colombia, Venezuela and Brazil, and the *Powerade* brand across most of Coca-Cola FEMSA's territories. These increases partially compensated for the performance of Coca-Cola FEMSA's sparkling beverage category which declined 0.9% driven by the volume decline in Coca-Cola FEMSA's Mexican operations and a 3.5% volume decline in its bulk water business.

Consolidated average price per unit case decreased 13.2%, reaching Ps. 40.92 in 2014, as compared to Ps. 47.15 in 2013. This decline was driven by the negative translation effect in the results of Coca-Cola FEMSA's Venezuelan operations discussed above. In local currency, average price per unit case increased in all of Coca-Cola FEMSA's territories, except for Colombia.



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Gross profit decreased 6.2% to Ps. 68,382 million in 2014, as compared to 2013, mainly due to the negative translation effect in the results of Coca-Cola FEMSA's Venezuelan operations discussed above. In local currency, lower sweetener and PET prices in most of Coca-Cola FEMSA's operations were offset by the depreciation of the average exchange rate of the Argentine peso, the Brazilian real, the Colombian peso and the Mexican peso as applied to Coca-Cola FEMSA's U.S. dollar-denominated raw material costs. Reported gross margin reached 46.4% in 2014.

For Coca-Cola FEMSA, 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 employment costs associated with the 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 and aluminum, and HFCS, used as a sweetener in some countries, are denominated in U.S. dollars.

Administrative and selling expenses as a percentage of total revenues decreased 110 basis points to 31.8% in 2014 as compared to 2013. Administrative and selling expenses in absolute terms decreased 8.7% mainly as a result of the lower contribution of Coca-Cola FEMSA's Venezuelan operations driven by the negative translation effect discussed above. In local currency, operating expenses decreased as a percentage of revenues in most of Coca-Cola FEMSA's territories, despite the continued marketing investments to support Coca-Cola FEMSA's marketplace execution and bolster its returnable packaging base across its operations, higher labor costs in Venezuela and Argentina, and higher freight costs in Brazil and Venezuela.

In 2014, Coca-Cola FEMSA's other operating expenses totaled Ps.548 million. These expenses were mainly driven by (i) an operating currency fluctuation effect in Venezuela recorded during the second quarter of 2014, (ii) an operating currency fluctuation effect across Coca-Cola FEMSA's territories in the fourth quarter of 2014, (iii) restructuring charges mainly in Coca-Cola FEMSA's Mexican operations and (iv) a loss on the sale of certain fixed assets.

As used by Coca-Cola FEMSA, 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 monetary position from the hyperinflationary countries where Coca-Cola FEMSA operates. Net financial foreign exchange gains or losses represent the impact of changes in foreign-exchange rates on financial assets or liabilities denominated in currencies other than local currencies and gains or losses resulting from derivative financial instruments. A financial foreign exchange loss arises if a liability is denominated in a foreign currency that appreciates relative to the local currency between the date the liability is incurred or the beginning of the period, whichever comes first, and the date it is repaid or the end of the period, whichever comes first, as the appreciation of the foreign currency results in an increase in the amount of local currency, which must be exchanged to repay the specified amount of the foreign currency liability.

Coca-Cola FEMSA's comprehensive financing result in 2014 recorded an expense of Ps. 6,422 million as compared to an expense of Ps. 3,773 million in 2013. This increase was mainly driven by higher interest expense due to a larger debt position and a foreign exchange loss mainly as a result of the depreciation of the end-of-period exchange rate of the Mexican peso during the year as applied to a higher U.S. dollar-denominated net debt position.

Coca-Cola FEMSA's income taxes decreased to Ps.3,861 million, from Ps.5,731 million in 2013. In 2014, income taxes, as a percentage of income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method, were 25.8% as compared to 33.3% in 2013. The lower effective tax rate registered during 2014 was mainly driven by (i) a smaller contribution from Coca-Cola FEMSA's Venezuelan subsidiary (resulting from the use of the SICAD II rate for translation purposes) which carries a higher effective tax rate, (ii) the inflationary tax effects in Venezuela, and (iii) a one-time benefit related to the settlement of certain contingent tax liabilities under the tax amnesty program offered by the Brazilian tax authorities, which was registered during the third quarter of 2014.

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In 2014, Coca-Cola FEMSA reported a loss of Ps.125 million in share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, mainly due to an equity method loss of CCFPI, which was partially compensated by an equity method gain from Coca-Cola FEMSA's non-carbonated joint ventures in Mexico and Brazil.

In January, 2013, as part of Coca-Cola FEMSA's efforts to expand its geographic reach, it acquired a 51% non-controlling majority stake in CCFPI from The Coca-Cola Company. In 2014, Coca-Cola FEMSA recognized an equity loss of Ps.334 million regarding its economic interest in CCFPI. In 2014, Coca-Cola FEMSA reported its equity method investment in CCFPI as a separate reporting segment. For further information see Notes 10 and 26 to our consolidated financial statements.

Coca-Cola FEMSA's consolidated net controlling interest income decreased 8.7% to Ps. 10,542 million in 2014 as compared to 2013, mainly as a result of the lower contribution of its Venezuelan operations driven by the negative translation effect discussed above. Earnings per share in 2014 were Ps.5.09 (Ps. 50.86 per ADS) computed on the basis of 2,072.9 million outstanding shares (each ADS represents 10 Series L shares) as of December 31, 2015.

### **FEMSA Comercio**

FEMSA Comercio total revenues increased 12.4% to Ps. 109,624 million in 2014 compared to Ps. 97,572 million in 2013, primarily as a result of the opening of 1,132 net new stores during 2014, together with an average increase in same-store sales of 2.7%. As of December 31, 2014, there were a total of 12,853 stores. FEMSA Comercio same-store sales increased an average of 2.7% compared to 2013, driven by a 2.7% increase in average customer ticket while store traffic remained stable.

Cost of goods sold increased 11.5% to Ps. 70,238 million in 2014, below total revenue growth, compared with Ps. 62,986 million in 2013. Gross margin expanded 50 basis points to reach 35.9% of total revenues. This increase reflects a more effective collaboration and execution with our key supplier partners, including higher and more efficient joint use of promotion-related resources, as well as objective-based incentives.

Administrative expenses increased 8.4% to Ps. 2,042 million in 2014, compared with Ps. 1,883 million in 2013; however, as a percentage of sales, they remained stable at 1.9%. Selling expenses increased 15.3% to Ps. 28,492 million in 2014 compared with Ps. 24,707 million in 2013. The increase in operating expenses was driven by (i) the strong growth in new stores, (ii) expenses related to the incorporation of the drugstore and quick-service restaurant operations and (iii) the strengthening of FEMSA Comercio's business and organizational structure in preparation for the growth of new operations, particularly drugstores.

### **Liquidity and Capital Resources**

#### **Liquidity**

Each of our sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2015, 78% of our outstanding consolidated total indebtedness was at the level of our sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA. Anticipating liquidity needs for general corporate purposes, in May 2013 we issued US\$ 300 million aggregate principal amount of 2.875% Senior Notes due 2023 and US\$ 700 million aggregate principal amount of 4.375% Senior Notes due 2043. In May 2013, Coca-Cola FEMSA issued Ps. 7,500 million aggregate principal amount of 10-year fixed rate Mexican peso-denominated bonds (*certificados bursatiles*) bearing a 5.46% coupon. In April 2011, Coca-Cola FEMSA issued (i) Ps. 2,500 million in aggregate principal amount of 5-year floating rate *certificados bursatiles* priced at the 28-day TIIE plus 13 basis points, which matured and were repaid in full on April 11, 2016 and (ii) Ps. 2,500 million of 10-year fixed rate *certificados bursatiles* bearing an 8.27% coupon. In March 2016, we issued EUR 1,000 million aggregate principal amount of 1.750% fixed rate Senior Notes due 2023 with a total yield of 1.824%.

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In addition, in November 2013 and January 2014, Coca-Cola FEMSA issued US\$ 1.0 billion aggregate principal amount of 2.375% Senior Notes due 2018, US\$ 750 million aggregate principal amount of 3.875% Senior Notes due 2023 and US\$ 400 million aggregate principal amount of 5.250% Senior Notes due 2043. Also in January 2014, Coca-Cola FEMSA issued US\$ 150 million aggregate principal amount of 3.875% Senior Notes due 2023 and US\$ 200 million in aggregate principal amount of 5.250% Senior Notes due 2043. In February 2010, Coca-Cola FEMSA issued US\$ 500 million aggregate amount of 4.625% Senior Notes due 2020. 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, 2015, 2014 and 2013, from our consolidated statement of cash flows:

**Principal Sources and Uses of Cash****Years ended December 31, 2015, 2014 and 2013****(in millions of Mexican pesos)**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net cash flows provided by operating activities	Ps. 36,742	Ps. 37,364	Ps. 28,758
Net cash flows (used in) investing activities	(28,359)	(15,608)	(55,231)
Net cash flows (used in) provided by financing activities	(13,741)	(9,288)	20,584
Dividends paid	(10,701)	(3,152)	(16,493)

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

Our net cash generated by operating activities was Ps. 36,742 million for the year ended December 31, 2015 compared to Ps. 37,364 million generated by operating activities for the year ended December 31, 2014, a decrease of Ps. 622 million. This decrease was the result of a decrease in the cash provided by the changes in other current financial assets of Ps. 1,418 million due to restricted cash payments compared to last year, which was partially offset by a net increase in cash provided by accounts receivable and other current assets of Ps. 583 million compared to last year. Also, there was an increase in the amount of cash provided because of the changes in other long-term liabilities of Ps. 3,130 million due to a decrease in contingencies payments over the prior year, which was offset by a decrease in cash provided of Ps. 3,208 because of the changes in inventories. Finally, there was a decrease in cash provided by changes in suppliers and other accounts payable and other current financial liabilities of Ps. 2,717 million, besides there was a decrease in cash provided in income taxes paid of Ps. 2,833 million due to the increase of taxable income over the prior year, which were offset by an increase of Ps. 5,611 million in our cash flow from operating activities before changes in operating accounts due to our increased sales on a cash basis.

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Our net cash used in investing activities was Ps. 28,359 million for the year ended December 31, 2015 compared to Ps. 15,608 million for the year ended December 31, 2014, an increase of Ps. 12,751 million. This was primarily the result of an increase in acquisition-related costs in the amount of Ps. 12,711 million, given by FEMSA Comercio and our other business acquisitions.

Our net cash used in financing activities was Ps. 13,741 million for the year ended December 31, 2015 compared to Ps. 9,288 million generated by financing activities for the year ended December 31, 2014, an increase of Ps. 4,453 million. This increase was primarily due to higher payments of bank loans in 2015 of Ps. 15,520 million as compared to Ps. 5,721 million in 2014, offset by proceeds from bank borrowings of Ps. 8,442 million in 2015 compared to Ps. 5,354 million in 2014, as well as higher dividend payments of Ps. 10,701 million compared to Ps. 3,152 million in 2014, finally, all these payments were partially offset by a net increase in cash provided by derivative financial instruments of Ps. 10,612 million due to the liquidation of cross currency swaps.

### **Principal Sources and Uses of Cash for the Year ended December 31, 2014 Compared to the Year Ended December 31, 2013**

Our net cash generated by operating activities was Ps. 37,364 million for the year ended December 31, 2014 compared to Ps. 28,758 million generated by operating activities for the year ended December 31, 2013, an increase of Ps. 8,606 million. This increase was mainly the result of increased financing from suppliers in the amount of Ps. 6,393 million, which was partially offset by increased other long-term liabilities of Ps. 2,199 million due to contingencies payments. Also, there was a decrease of income taxes paid of Ps. 3,039 million due to the decline of taxable income over the prior year, a decrease of Ps. 419 in inventories, and finally, there was an increase in accounts receivable of Ps. 3,014 which was offset by other current financial assets in the amount of Ps. 3,244 million. The increase was also partially driven by an increase of Ps. 604 million in our cash flow from operating activities before changes in operating accounts due to our increased sales on a cash basis.

Our net cash used in investing activities was Ps. 15,608 million for the year ended December 31, 2014 compared to Ps. 55,231 million used in investing activities for the year ended December 31, 2013, a decrease of Ps. 39,623 million. This was primarily the result of a decrease in acquisition-related costs in the amount of Ps. 40,675 million, given that Coca-Cola FEMSA did not allocate a significant part of its cash to acquire bottling operations as compared to the prior year. This was partially offset by a decrease of Ps. 1,388 million in 2014 of cash inflows, because of fewer cash inflows from our held to maturity investments.

Our net cash used in financing activities was Ps. 9,288 million for the year ended December 31, 2014 compared to Ps. 20,584 million generated by financing activities for the year ended December 31, 2013, a decrease of Ps. 29,872 million. This decrease was primarily due to lower proceeds from bank borrowings in 2014 of Ps. 5,354 million as compared to Ps. 78,907 million in 2013, offset by payments on bank loans of Ps. 5,721 million in 2014 compared to Ps. 39,962 million in 2013 as well as lower dividend payments of Ps. 3,152 million compared to Ps. 16,493 million in 2013. Finally, this was partially offset by an increase of derivative financial instruments costs of Ps. 2,964 million.

### **Consolidated Total Indebtedness**

Our consolidated total indebtedness as of December 31, 2015 was Ps. 91,864 million compared to Ps. 84,488 million in 2014 and Ps. 76,748 million as of December 31, 2013. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 5,895 million and Ps. 85,969 million, respectively, as of December 31, 2015, as compared to Ps. 1,553 million and Ps. 82,935 million, respectively, as of December 31, 2014, and Ps. 3,827 million and Ps. 72,921 million, respectively, as of December 31, 2013. Cash and cash equivalents were Ps. 29,396 million as of December 31, 2015, as compared to Ps. 35,497 million as of December 31, 2014 and Ps. 27,259 million as of December 31, 2013.

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

**Contractual Obligations**

The table below sets forth our contractual obligations as of December 31, 2015.

	Maturity				Total
	Less than 1 year	1 - 3 years	3 - 5 years	In excess of 5 years	
(in millions of Mexican pesos)					
<b>Long-Term Debt</b>					
Mexican pesos	Ps. 2,496	Ps. 3,385	Ps. 377	Ps. 9,989	Ps. 15,870
Brazilian reais	363	552	377	111	1,403
Colombian pesos	280	738	106	52	1,176
U.S. dollars		17,158	8,566	42,352	68,076
Argentine pesos	100	41			141
Chilean pesos	336	769	907	395	2,407
<b>Capital Leases</b>					
Brazilian reais	67	131	113	149	460
Chilean pesos	14	31	35	12	92
<b>Interest payments<sup>(1)</sup></b>					
Mexican pesos	783	1,359	1,231	1,021	4,394
Brazilian reais	126	228	184	112	650
Colombian pesos	105	64	47	19	235
U.S. dollars	2,595	5,151	4,026	25,905	37,677
Argentine pesos	47	18			65
Chilean pesos	161	282	260	76	779
<b>Interest Rate Swaps and Cross Currency Swaps<sup>(2)</sup></b>					
Mexican pesos	1,861	4,112	2,891	16,046	24,910
Brazilian reais	5,978	10,368	1,513	16,946	34,805
Colombian pesos	73	17			90
U.S. dollars	1,138	3,916	2,050	9,583	16,686
Argentine pesos	50	6			56
Chilean pesos	2	3	3	1	9
<b>Operating leases</b>					
Mexican pesos	3,768	7,030	6,232	16,742	33,772
U.S. dollars	200	387	395	330	1,312
Others	1	8	5	2	16
<b>Commodity price contracts</b>					
Sugar <sup>(3)</sup>	1,497				1,497
Aluminum <sup>(3)</sup>	436				436
<b>Expected benefits to be paid for pension and retirement plans, seniority premiums, post-retirement medical services and post-employment</b>					
	534	739	863	2,197	4,333
<b>Other long-term liabilities<sup>(4)</sup></b>					
				5,795	5,795

- (1) Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2015 without considering interest rate swap agreements. The debt and applicable interest rates in effect are shown in Note 18 to our audited consolidated financial statements. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 17.2065 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, 2015.

- (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, 2015, and the market value of the unhedged cross currency swaps (the amount of debt used in the calculation of the interest was obtained by converting only the units of investment debt for the related cross currency swap, and it also includes the effect of related interest rate swaps).

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(3) Reflects the notional amount of the futures and forward contracts used to hedge sugar and aluminum cost with a fair value liability of Ps. 274 million; see Note 20.6 to our audited consolidated financial statements.

(4) Other long-term liabilities include provisions and others, but not deferred taxes. Other long-term liabilities additionally reflects 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, 2015, Ps. 5,895 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

As of December 31, 2015, our consolidated average cost of borrowing, after giving effect to the cross currency and interest rate swaps, was approximately 7.5% (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, 2014 our consolidated average cost of borrowing, after giving effect to the cross currency swaps, was 7.7%. As of December 31, 2015, after giving effect to cross currency swaps, approximately 39.4% of our total consolidated indebtedness was denominated and payable in Mexican pesos, 24.6% in U.S. dollars, 1.9% in Colombian pesos, 0.4% in Argentine pesos, 29.1% in Brazilian reais and the remaining 4.6% in Chilean pesos.

## Overview of Debt Instruments

The following table shows the allocations of total debt of our company as of December 31, 2015:

	Total Debt Profile of the Company				Total Debt
	FEMSA and Others	Coca-Cola FEMSA (in millions of Mexican pesos)	FEMSA Comercio Retail Division		
<b>Short-term Debt</b>					
<i>Argentine pesos:</i>					
Notes Payable	Ps.	Ps. 165	Ps.	Ps.	165
<i>Brazilian reais:</i>					
Bank loans	168				168
<i>Colombian pesos:</i>					
Bank loans		219	235		454
<i>Chilean pesos:</i>					
Bank loans			1,442		1,442
Capital leases			10		10
<b>Long-term Debt<sup>(1)</sup></b>					
<i>Mexican pesos:</i>					
Units of Investment (UDIs)	3,385				3,385
Domestic Senior notes		12,485			12,485
<i>U.S. dollars:</i>					
Senior Notes	16,743	51,333			68,076
<i>Brazilian reais:</i>					
Bank loans	350	1,053			1,403
Capital leases		460			460
<i>Colombian pesos:</i>					
Bank loans		874	302		1,176
<i>Argentine pesos:</i>					
Bank loans		141			141
<i>Chilean pesos:</i>					
Bank loans			2,407		2,407
Capital leases			92		92
<b>Total Debt</b>	<b>Ps. 20,646</b>	<b>Ps. 66,730</b>	<b>Ps. 4,488</b>		<b>Ps. 91,864</b>
<b>Average Cost<sup>(2)</sup></b>					

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Mexican pesos	6.6%	5.0%		5.7%
U.S. dollars		4.7%		4.7%
Brazilian reais	9.7%	13.4%		13.3%
Argentine pesos		28.0%		28.0%
Colombian pesos		6.5%	4.9%	6.0%
Chilean pesos			5.9%	5.9%
<b>Total</b>	<b>6.7%</b>	<b>8.2%</b>	<b>5.7%</b>	<b>7.5%</b>

- (1) Includes the Ps. 3,656 million current portion of long-term debt.
- (2) Includes the effect of cross currency and interest rate swaps (the total amount of the debt used in the calculation of this percentage considers converting only the units of investments debt for the related cross currency swap, and it also includes the effect of related interest rate swaps). Average cost is determined based on interest rates as of December 31, 2015.



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### **Restrictions Imposed by Debt Instruments**

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

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

### **Summary of Debt**

The following is a summary of our indebtedness by sub-holding company and for FEMSA as of December 31, 2015:

#### *Coca-Cola FEMSA*

Coca-Cola FEMSA's total indebtedness was Ps. 66,730 million as of December 31, 2015. Short-term debt (including the current portion of long-term debt) and long-term debt were Ps. 3,470 million and Ps. 63,260 million, respectively. As of December 31, 2015, cash and cash equivalents were Ps. 15,989 million and consisted of 66.4% U.S. dollars, 21.2% Mexican pesos, 6.4% Brazilian reais, 2.3% Venezuelan bolivars, 1.1% Argentine pesos, 1.3% Colombian pesos, 0.7% Costa Rican colones and 0.6% other legal currencies.

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

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

*FEMSA Comercio*

As of December 31, 2015, FEMSA Comercio Retail Division had total outstanding debt of Ps. 4,488 million. Short-term debt (including the current portion of long-term debt) and long-term debt were Ps. 1,687 million and Ps. 2,801 million, respectively. As of December 31, 2015, cash and cash equivalents were Ps. 4,030 million.

*FEMSA and others*

As of December 31, 2015, FEMSA and others had total outstanding debt of Ps. 20,646 million, which is composed of Ps. 3,385 million of *unidades de inversión* (inflation indexed units, or UDIs), which mature in November 2017, Ps. 518 million of bank debt (of which Ps. 277 million is held by our logistics services subsidiary and Ps. 241 million is held by our refrigeration business) in other legal currencies, and Ps. 5,068 million of Senior Notes due 2023 and Ps. 11,675 million of Senior Notes due 2043 that we issued in May 2013. **See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Liquidity.** FEMSA and others' average cost of debt, after giving effect to interest rate swaps and cross currency swaps, as of December 31, 2015, was 6.6% in Mexican pesos (the amount of debt used in the calculation of this percentage was obtained by converting only the units of investments debt for the related cross currency swap, and it also includes the effect of related interest rate swaps).

**Contingencies**

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

The following table presents the nature and amount of loss contingencies recorded as of December 31, 2015:

	<b>Loss Contingencies</b>	
	<b>As of December 31, 2015</b>	
	<b>(in millions of Mexican pesos)</b>	
Taxes, primarily indirect taxes	Ps.	1,725
Legal		318
Labor		1,372
Total	Ps.	3,415

As is customary in Brazil, we have been asked by the tax authorities to collateralize tax contingencies currently in litigation amounting to Ps. 3,569 million, Ps. 3,026 and Ps. 2,248 million as of December 31, 2015, 2014 and 2013, respectively, by pledging fixed assets or providing bank guarantees.

We have other contingencies that, based on a legal assessment of their risk of loss, have been classified by our legal counsel as more than remote but less than probable. These contingencies have a financial impact that is disclosed as loss contingencies in the notes of the audited consolidated financial statements. These contingencies, or our assessment of them, may change in the future, and we may record reserves or be required to pay amounts in respect of these contingencies. As of December 31, 2015, the aggregate amount of such contingencies for which we had not recorded a reserve was Ps. 29,502 million.

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### **Capital Expenditures**

For the past five years, we have had significant capital expenditure programs, which for the most part were financed with cash from operations. Capital expenditures reached Ps. 18,885 million in 2015 compared to Ps. 18,163 million in 2014, an increase of 4%. This was driven by additional investments at FEMSA Comercio, mainly related to expansion of the Retail Division and Fuel Division through the opening of new stores and retail service stations. The principal components of our capital expenditures have been investments in equipment, market-related investments, investments in production capacity and distribution network expansion at Coca-Cola FEMSA and expansion of the Retail Division and Fuel Division at FEMSA Comercio, as mentioned above. See **Item 4. Information on the Company Capital Expenditures and Divestitures.**

### **Expected Capital Expenditures for 2016**

Our capital expenditure budget for 2016 is expected to be approximately US\$ 1,284 (Ps. 22,277) million. The following discussion is based on each of our sub-holding companies' internal 2015 budgets. The capital expenditure plan for 2016 is subject to change based on market and other conditions and the subsidiaries' results and financial resources.

Coca-Cola FEMSA's capital expenditures in 2016 are expected to reach US\$ 690 million, approximately. Coca-Cola FEMSA's capital expenditures in 2016 are primarily intended for:

investments in production capacity;

market investments;

returnable bottles and cases;

improvements throughout its distribution network; and

investments in information technology.

Coca-Cola FEMSA estimates that of its projected capital expenditures for 2016, approximately 36% will be for its Mexican territories and the remainder will be for its non-Mexican territories. Coca-Cola FEMSA believes that internally generated funds will be sufficient to meet its budgeted capital expenditures for 2016. Coca-Cola FEMSA's capital expenditure plan for 2016 may change based on market and other conditions and on its results and financial resources.

FEMSA Comercio Retail Division's capital expenditures budget in 2016 is expected to total approximately US\$ 460 million, and will be allocated to the opening of new OXXO stores and to a lesser extent to the refurbishing of existing OXXO stores. In addition, investments are planned in FEMSA Comercio's IT, ERP software updates and transportation equipment.

FEMSA Comercio Fuel Division's capital expenditures in 2016 is expected to total approximately US\$ 20 million, and will be allocated to the opening of new service stations and, to a lesser extent, to the refurbishing of existing OXXO GAS service stations.

### **Hedging Activities**

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



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The following table provides a summary of the fair value of derivative financial instruments as of December 31, 2015. 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, 2015				Fair Value Asset
	Maturity less than 1 year	Maturity 1 - 3 years	Maturity 3 - 5 years	Maturity in excess of 5 years	
	(in millions of Mexican pesos)				
Derivative financial instruments position	Ps. 166	Ps. 3,340	Ps. (119)	Ps. 4,876	Ps. 8,263

**Table of Contents****ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****Directors**

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

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

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

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

Our board of directors was elected at the AGM held on March 8, 2016, and currently comprises 19 directors and 16 alternate directors. The following table sets forth the current members of our board of directors:

**Series B Directors**

José Antonio	Born:	February 1954
Fernández	First elected (Chairman):	2001
Carbajal <sup>(1) (2)</sup>	First elected (Director):	1984
<i>Executive Chairman of the Board</i>	Term expires:	2017
	Principal occupation:	Executive Chairman of the board of directors of FEMSA
	Other directorships:	Chairman of the boards of directors of Coca-Cola FEMSA, Fundación FEMSA A.C., Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM); Chairman Emeritus of the US Mexico Foundation; vice-chairman of the Heineken Supervisory Board and member of the Heineken Holding Board, Industrias Peñoles, S.A.B. de C.V. (Peñoles), Grupo Televisa, S.A.B. (Televisa) and Co-chairman of the advisory board of Woodrow Wilson Center, Mexico Institute; member of the preparatory, and selection and appointment committees of Heineken N.V.
	Business experience:	Joined FEMSA's strategic planning department in 1988, after which he held managerial positions at FEMSA Cerveza's commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991, and Chief Executive Officer in 1995, a position he held until December 31, 2013. On January 1, 2014, he was appointed Executive Chairman of our board of directors
	Education:	Holds an industrial engineering degree and an MBA from ITESM
	Alternate director:	Federico Reyes García

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<p>Mariana Garza Lagüera Gonda<sup>(3)</sup></p> <p><i>Director</i></p>	<p>Born: April 1970 First elected: 1998 Term expires: 2017 Principal occupation: Private investor Other directorships: Member of the boards of directors of Coca-Cola FEMSA, ITESM, Museo de Historia Mexicana, Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V., Controladora Pentafem, S.A.P.I. de C.V. and Monte Serena, S.A. de C.V. Education: Holds an industrial engineering degree from ITESM and a Master of International Management from the Thunderbird American Graduate School of International Management Alternate director: Eva María Garza Lagüera Gonda<sup>(1)(3)</sup></p>
<p>Paulina Garza Lagüera Gonda<sup>(3)</sup></p> <p><i>Director</i></p>	<p>Born: March 1972 First elected: 1999 Term expires: 2017 Principal occupation: Private investor Other directorships: Alternate member of the board of directors of Coca-Cola FEMSA and member of the boards of directors of Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V. and Controladora Pentafem, S.A.P.I. de C.V. Education: Holds a business administration degree from ITESM Alternate director: Othón Páez Garza</p>
<p>José Fernando Calderón Rojas</p> <p><i>Director</i></p>	<p>Born: July 1954 First elected: 1984 Term expires: 2017 Principal occupation: Chief Executive Officer and chairman of the boards of directors of Franca Servicios, S.A. de C.V., Servicios Administrativos de Monterrey, S.A. de C.V., Regio Franca, S.A. de C.V., and Franca Industrias, S.A. de C.V. Other directorships: Member of the boards of directors of Alfa, S.A.B. de C.V. (Alfa), and member of the regional consulting board of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer (Bancomer) and member of the audit and corporate practices committees of Alfa; member of Fundación UANL, A.C.; founder of Centro Integral Down A.C.; President of Patronato del Museo del Obispado A.C. and member of the external advisory board of Facultad de Derecho y Criminología of Universidad Autónoma de Nuevo León (UANL) Education: Holds a law degree from UANL and completed specialization studies in tax at UANL Alternate director: Francisco José Calderón Rojas<sup>(4)</sup></p>

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<p>Alfonso Garza Garza<sup>(5)(6)</sup></p> <p><i>Director</i></p>	<p>Born: July 1962 First elected: 2001 Term expires: 2017 Principal occupation: Vice President of Strategic Businesses of FEMSA Other directorships: Member of the boards of directors of ITESM, Grupo Nutec, S.A. de C.V., American School Foundation of Monterrey, A.C. and Club Campestre de Monterrey, A.C.; vice-chairman of the executive commission of Confederación Patronal de la República Mexicana, S.P. (COPARMEX) and alternate member of the board of directors of Coca-Cola FEMSA 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<sup>(5)(6)</sup></p>
<p>Max Michel González</p> <p><i>Director</i></p>	<p>Born: June 1968 First elected: 1996 Term expires: 2017 Principal occupation: Operations Manager at Servicios Liverpool, S.A. de C.V. Other directorships: Member of the board of directors and audit committee of Grupo Lamosa, S.A.B. de C.V. (Lamosa). Member of the board of directors of El Puerto de Liverpool, S.A.B. de C.V. (Liverpool) and Afianzadora Sofimex, S.A.B. de C.V.; as well as alternate board member of Coca-Cola FEMSA Education: Holds a business administration degree from Universidad Iberoamericana Alternate director: Bertha Michel González<sup>(7)</sup></p>
<p>Alberto Bailleres González</p> <p><i>Director</i></p>	<p>Born: August 1931 First elected: 1989 Term expires: 2017 Principal occupation: Chairman of the boards of directors of the following companies which are part of Grupo BAL, S.A. de C.V.: Peñoles, Grupo Nacional Provincial, S.A.B. (GNP), Fresnillo plc (Fresnillo), Grupo Palacio de Hierro, S.A.B. de C.V., Grupo Profuturo, S.A.B. de C.V., Petrobal, S.A.P.I. de C.V. and Valores Mexicanos Casa de Bolsa S.A. de C.V., chairman of the governance board of Instituto Tecnológico Autónomo de México (ITAM) and founding member of Fundación Alberto Bailleres, A.C.</p>



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	Other directorships:	Member of the boards of directors of Grupo Financiero BBVA Bancomer, S.A. de C.V. (BBVA Bancomer), Bancomer, Dine, S.A.B. de C.V., Televisa, Grupo Kuo, S.A.B. de C.V. (Kuo), and member of the advisory board of JP Morgan International Council and Consejo Mexicano de Hombres de Negocios
	Education:	Holds an economics degree and an Honorary Doctorate from ITAM
	Alternate director:	Arturo Fernández Pérez
Francisco Javier Fernández Carbajal <sup>(2)</sup>	Born:	April 1955
	First elected:	2004
	Term expires:	2017
<i>Director</i>	Principal occupation:	Chief Executive Officer of Servicios Administrativos Contry, S.A. de C.V.
	Other directorships:	Member of the boards of directors of Visa, Inc., Alfa, Cemex, S.A.B. de C.V., Frisa Forjados, S.A. de C.V., Corporación EG, S.A. de C.V., and alternate member of the board of directors of Peñoles
	Education:	Holds a mechanical and electrical engineering degree from ITESM and an MBA from Harvard University Business School
	Alternate director:	Javier Astaburuaga Sanjines
Ricardo Guajardo Touché	Born:	May 1948
	First elected:	1988
	Term expires:	2017
<i>Director</i>	Principal occupation:	Chairman of the board of directors of Solfi, S.A. de C.V. (Solfi)
	Other directorships:	Member of the boards of directors of Coca-Cola FEMSA, Grupo Valores Operativos Monterrey, S.A.P.I. de C.V., Liverpool, Alfa, BBVA Bancomer, Grupo Aeroportuario del Sureste, S.A. de C.V., Grupo Bimbo, S.A.B. de C.V. (Bimbo), Coppel, S.A. de C.V. (Coppel), ITESM and Vitro, S.A.B. de C.V.
	Education:	Holds an electrical engineering degree from ITESM and the University of Wisconsin and a master's degree from the University of California at Berkeley
	Alternate director:	Alfonso González Migoya

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<p>Alfredo Livas Cantú <i>Director</i></p>	<p>Born: July 1951                      First elected: 1995                      Term expires: 2017                      Principal occupation: President of Praxis Financiera, S.C.                      Other directorships: Member of the boards of directors of Coca-Cola FEMSA, Grupo Senda Autotransporte, S.A. de C.V., Grupo Acosta Verde, S.A. de C.V., Evox, Grupo Industrial Saltillo, S.A.B. de C.V.; alternate member of the boards of directors of Grupo Financiero Banorte, S.A.B. de C.V. (Banorte) and Gruma, S.A.B. de C.V.; and member of the governance committee of Grupo Proeza, S.A.P.I. de C.V. (Proeza)                      Education: Holds an economics degree from UANL and an MBA and master's degree in economics from the University of Texas                      Alternate Director: Sergio Deschamps Ebergenyi</p>
<p>Bárbara Garza Lagüera Gonda<sup>(3)</sup> <i>Director</i></p>	<p>Born: December 1959                      First elected: 1998                      Term expires: 2017                      Principal occupation: Private Investor and President of the acquisitions committee of Colección FEMSA                      Other directorships: Alternate member of the board of directors of Coca-Cola FEMSA; vice-chairman of the board of directors of ITESM Campus Mexico City and member of the boards of directors of Fresnillo, Solfi, Fondo para la Paz, Museo Franz Mayer, Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V., Controladora Pentafem, S.A.P.I. de C.V., BECL, S.A. de C.V. and Supervision Commission: FONCA Fondo Nacional Cultural y Artes                      Education: Holds a business administration degree from ITESM                      Alternate director: Juan Guichard Michel<sup>(8)</sup></p>
<p>Carlos Salazar Lomelín <i>Director</i></p>	<p>Born: April 1951                      First elected: 2014                      Term expires: 2017                      Principal occupation: Chief Executive Officer of FEMSA                      Other directorships: Member of the boards of directors of Coca-Cola FEMSA, BBVA Bancomer, and Fundación FEMSA; member of the advisory board of Premio Eugenio Garza Sada, Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), Asociación Promotora de Exposiciones, A.C. and the ITESM's EGADE Business School; Executive Chairman of the Strategic Planning Board of the State of Nuevo León, Mexico</p>

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Business experience: In addition, Mr. Salazar has held managerial positions in several subsidiaries of FEMSA, including Grafo Regia, S.A. de C.V. and Plásticos Técnicos Mexicanos, S.A. de C.V., served as Chief Executive Officer of FEMSA Cerveza, where he also held various management positions in the Commercial Planning and Export divisions; in 2000 he was appointed as Chief Executive Officer of Coca-Cola FEMSA, a position he held until December 31, 2013; on January 1, 2014 he was appointed Chief Executive Officer of FEMSA

Education: Holds an economics degree from ITESM and performed postgraduate studies in business administration at ITESM and economic development in Italy

Alternate director: Miguel Eduardo Padilla Silva

Ricardo Saldívar  
Escajadillo

*Director*

Born: November 1952  
 First elected: 2006  
 Term expires: 2017  
 Principal Occupation: President of the board of directors and Chief Executive Officer of The Home Depot Mexico  
 Other directorships: Member of the boards of directors of Asociación Nacional de Tiendas de Autoservicio y Departamentales, A.C., Cluster de Vivienda y Desarrollo Sustentable, American Chamber of Commerce of Mexico Monterrey Chapter, Axtel, S.A.B. de C.V. and ITESM  
 Education: Holds a mechanical and administration engineering degree from ITESM, a Master's degrees in systems engineering from Georgia Tech Institute and executive studies from IPADE

Alfonso de Angoitia  
Noriega

*Director*

Born: January 1962  
 First elected: 2015  
 Term expires: 2017  
 Principal Occupation: Executive vice-chairman and chairman of the finance committee of Televisa  
 Other directorships: Member of the boards of directors of Univision Communications, Inc., Banorte, Empresas Cablevisión, S.A. de C.V., Innova, S. de R.L. de C.V. (Sky), The Americas Society and The Paley Center for Media  
 Education: Holds a law degree from Universidad Nacional Autónoma de México

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***Series D Directors***

Armando Garza Sada  <i>Director</i>	Born: First elected: Term expires: Principal occupation:  Other directorships: Business experience: Education: Alternate director:	June 1957 2003 2017 Chairman of the board of directors of Alfa, Alpek, S.A.B. de C.V. and Nemak, S.A.B. de C.V. Member of the boards of directors of Banorte, Liverpool, Lamosa, Proeza, ITESM, and Frisa Industrias, S.A. de C.V. He has a long professional career in Alfa, including as Executive Vice President of Corporate Development Holds a BS in management from the Massachusetts Institute of Technology and an MBA from Stanford University Graduate School of Business Enrique F. Senior Hernández
Moisés Naim  <i>Director</i>	Born: First elected: Term expires: Principal occupation:  Business experience: Other directorships: Education: Alternate director:	July 1952 2011 2017 Distinguished Fellow Carnegie Endowment for International Peace; producer and host of Efecto Naim; author and journalist Former Editor in Chief of Foreign Policy Magazine Member of the board of directors of AES Corporation Holds a degree from the Universidad Metropolitana de Venezuela and a Master of Science and PhD from the Massachusetts Institute of Technology Francisco Zambrano Rodríguez
José Manuel Canal Hernando  <i>Director</i>	Born: First elected: Term expires: Principal occupation: Business experience:  Other directorships:  Education:	February 1940 2003 2017 Independent consultant Former managing partner at Ruiz, Urquiza y Cía, S.C. from 1981 to 1999, acted as statutory examiner of FEMSA from 1984 to 2002, was chairman of the CINIF ( <i>Consejo Mexicano de Normas de Información Financiera, A.C.</i> ) and has extensive experience in financial auditing for holding companies, banks and financial brokers Member of the boards of directors of Coca-Cola FEMSA, Kuo, Grupo Industrial Saltillo, S.A.B. de C.V., Estafeta Mexicana, S.A. de C.V., member of the risk committee of Gentera, S.A.B. de C.V. (Gentera), and Statutory Auditor of BBVA Bancomer Holds a CPA degree from Universidad Nacional Autónoma de México

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Michael Larson  <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships:  Education: Alternate Director:	October 1959 2010 2017 Chief Investment Officer of William H. Gates III Member of the boards of directors of AutoNation, Inc, Republic Services, Inc, Ecolab, Inc., Televisa and chairman of the board of trustees of Western Asset/Claymore Inflation-Linked Securities & Income Fund and Western Asset/Claymore Inflation-Linked Opportunities & Income Fund  Holds an MBA from the University of Chicago and a BA from Claremont McKenna College Daniel Alberto Rodríguez Cofré
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Robert E. Denham  <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships:  Education: Alternate Director:	August 1945 2001 2017 Partner of Munger, Tolles & Olson LLP, law firm Member of the boards of directors of New York Times Co., Oaktree Capital Group, LLC and Chevron Corp  Magna cum laude graduate from the University of Texas, holds a JD from Harvard Law School and an MA in Government from Harvard University Ernesto Cruz Velázquez de León
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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) Juan Guichard Michel, Max Michel González and Bertha Michel González are cousins.

**Senior Management**

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

***FEMSA***

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José Antonio	Born:	February 1954
	Joined FEMSA:	1987
Fernández Carbajal	Appointed to current position:	
<i>Executive Chairman</i>		2001
<i>of the Board</i>	Principal occupation:	Executive Chairman of the board of directors of FEMSA

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	Directorships:	Chairman of the boards of directors of Coca-Cola FEMSA, Fundación FEMSA A.C., Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM); Chairman Emeritus of the US Mexico Foundation; vice-chairman of the Heineken Supervisory Board and member of the Heineken Holding Board, Industrias Peñoles, S.A.B. de C.V. (Peñoles), Grupo Televisa, S.A.B. (Televisa) and Co-chairman of the advisory board of Woodrow Wilson Center, Mexico Institute; member of the preparatory, and selection and appointment committees of Heineken N.V.
	Business experience within FEMSA:	Joined FEMSA's strategic planning department in 1988, after which he held managerial positions at FEMSA Cerveza's commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991, and Chief Executive Officer in 1995, a position he held until December 31, 2013. On January 1, 2014, he was appointed Executive Chairman of our board of directors
	Education:	Holds an industrial engineering degree and an MBA from ITESM
Carlos Salazar Lomelín	Born:	April 1951
<i>Chief Executive Officer</i>	Joined FEMSA:	1973
	Appointed to current position:	2014
	Principal occupation:	Chief Executive Officer of FEMSA
	Directorships:	Member of the boards of directors of Coca-Cola FEMSA, BBVA Bancomer, and Fundación FEMSA; member of the advisory board of Premio Eugenio Garza Sada, Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), Asociación Promotora de Exposiciones, A.C. and the ITESM's EGADE Business School; Executive Chairman of the Strategic Planning Board of the State of Nuevo León, Mexico
	Business experience within FEMSA:	Mr. Salazar has held managerial positions in several subsidiaries of FEMSA, including Grafo Regia, S.A. de C.V. and Plásticos Técnicos Mexicanos, S.A. de C.V., served as Chief Executive Officer of FEMSA Cerveza, where he also held various management positions in the Commercial Planning and Export divisions; in 2000 he was appointed as Chief Executive Officer of Coca-Cola FEMSA, a position he held until December 31, 2013; on January 1, 2014 he was appointed Chief Executive Officer of FEMSA
	Education:	Holds an economics degree from ITESM and performed postgraduate studies in business administration at ITESM and economic development in Italy

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Miguel Eduardo	Born:	January 1955
Padilla Silva	Joined FEMSA:	1997
<i>Chief Financial and Corporate Officer</i>	Appointed to current position:	2016
	Business experience within FEMSA:	Director of Planning and Control of FEMSA from 1997 to 1999, Chief Executive Officer of the Strategic Procurement Business Division of FEMSA from 2000 until 2003 and Chief Executive Officer of FEMSA Comercio, S.A. de C.V. from 2004 until 2016
	Other business experience:	Had a 20-year career in Alfa, culminating with a ten-year tenure as Chief Executive Officer of Terza, S.A. de C.V., major areas of expertise include operational control, strategic planning and financial restructuring
	Directorships:	Member of the boards of directors of Coca-Cola FEMSA, Lamosa, Club Industrial, A.C., Universidad Tec Milenio and Coppel, and alternate member of the board of directors of FEMSA
	Education:	Holds a mechanical engineering degree from ITESM, an MBA from Cornell University and executive management studies at IPADE
Javier Gerardo Astaburuaga Sanjines	Born:	July 1959
<i>Vice President of Corporate Development</i>	Joined FEMSA:	1982
	Appointed to current position:	2015
	Business experience within FEMSA:	Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance, held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer, and for two years was FEMSA Cerveza's Director of Sales for the north region of Mexico until 2003, in which year he was appointed FEMSA Cerveza's Co-Chief Executive Officer; held the position of Chief Financial and Corporate Officer of FEMSA from 2006-2015
	Directorships:	Member of the boards of directors of Coca-Cola FEMSA and the Heineken Supervisory Board, alternate member of the board of directors of FEMSA, and member of the audit committee of Heineken N.V.
	Education:	Holds a CPA degree from ITESM
José González Ornelas	Born:	April 1951
<i>Vice President of Administration and Corporate Control</i>	Joined FEMSA:	1973
	Appointed to current position:	2001
	Business experience within FEMSA:	Has held several managerial positions in FEMSA including Chief Financial Officer of FEMSA Cerveza, Director of Planning and Corporate Development of FEMSA and Chief Executive Officer of FEMSA Logística
	Directorships:	Member of the board of directors of Productora de Papel, S.A.
	Education:	Holds a CPA degree from UANL and has post-graduate studies in business administration from IPADE



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Alfonso Garza Garza	Born:	July 1962
<i>Vice President of Strategic Businesses</i>	Joined FEMSA:	1985
	Appointed to current position:	2009
	Directorships:	Member of the boards of directors of ITESM, Grupo Nutec, S.A. de C.V., American School Foundation of Monterrey, A.C. and Club Campestre de Monterrey, A.C.; vice-chairman of the executive commission of Confederación Patronal de la República Mexicana, S.P. (COPARMEX) and alternate member of the board of directors of Coca-Cola FEMSA
	Business experience:	Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Cerveza and as Chief Executive Officer of FEMSA Empaques
	Education:	Holds an industrial engineering degree from ITESM and an MBA from IPADE
Genaro Borrego Estrada	Born:	February 1949
<i>Vice President of Corporate Affairs</i>	Joined FEMSA:	2008
	Appointed to current position:	2008
	Professional experience:	Constitutional Governor of the Mexican State of Zacatecas from 1986 to 1992, General Director of the Mexican Social Security Institute from 1993 to 2000, and Senator in Mexico for the State of Zacatecas from 2000 to 2006
	Directorships:	Chairman of the board of directors of GB y Asociados and member of the boards of directors of Fundación Mexicanos Primero, Fundación IMSS and CEMEFI
	Education:	Holds an industrial relations degree from the Universidad Iberoamericana
Carlos Eduardo Aldrete Ancira	Born:	August 1956
<i>General Counsel and Secretary of the Board of Directors</i>	Joined FEMSA:	1979
	Appointed to current position:	1996
	Directorships:	Secretary of the board of directors of FEMSA, Coca-Cola FEMSA and all other sub-holding companies of FEMSA
	Business experience within FEMSA:	Extensive experience in international business and financial transactions, debt issuances and corporate restructurings and expertise in securities and private mergers and acquisitions
	Education:	Holds a law degree from UANL and a master's degree in Comparative Law from the College of Law of the University of Illinois

**Table of Contents****Coca-Cola FEMSA**

John Anthony Santa Maria Otazua	Born:	August 1957
	Joined FEMSA:	1995
<i>Chief Executive Officer of Coca-Cola FEMSA</i>	Appointed to current position:	2014
	Business experience within FEMSA:	Has served as Strategic Planning and Business Development Officer and Chief Operating Officer of the Mexican operations of Coca-Cola FEMSA. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of the South America division. As Strategic Planning Officer, he led the integration of the Panamco acquisition with Coca-Cola FEMSA's operations. 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 and member of the board of directors and commercial committee of Gentera
	Education:	Holds a degree in Business Administration and an MBA with a major in Finance from Southern Methodist University

Héctor Treviño Gutiérrez	Born:	August 1956
	Joined FEMSA:	1981
<i>Chief Financial Officer of Coca-Cola FEMSA</i>	Appointed to current position:	1993
	Business experience within FEMSA:	At FEMSA, was in charge of the International Financing department, served as Manager of Financial Planning and Manager of International Financing, Chief Officer of Strategic Planning and Chief Officer of Business Development and headed the Corporate Development department
	Directorships:	Member of the board of directors of Vinte Viviendas Integrales, S.A.P.I. de C.V. and Seguros y Pensiones BBVA Bancomer, and member of the technical committee of Capital i-3; alternate member of the board of directors of Coca-Cola FEMSA
	Education:	Holds a degree in chemical engineering from ITESM and an MBA from the Wharton School of Business

**FEMSA Comercio**

Daniel Alberto Rodríguez Cofré	Born:	June 1965
<i>Chief Executive Officer of FEMSA Comercio</i>	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

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Directorships: was appointed as Chief Financial Officer of CENCOSUD (Centros Comerciales Sudamericanos S.A.), and from 2009 to 2014 he held the position of Chief Executive Officer at the same company. He was Chief Financial and Corporate Officer of FEMSA during 2015  
Education: Alternate member of the boards of directors of Coca-Cola FEMSA and FEMSA  
Holds a forest engineering degree from Austral University of Chile and an MBA from Adolfo Ibañez University

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### **Compensation of Directors and Senior Management**

The compensation of Directors is approved at the AGM. For the year ended December 31, 2015, the aggregate compensation paid to our directors by the Company was approximately Ps. 32 million. In addition, in the year ended December 31, 2015, Coca-Cola FEMSA paid approximately Ps. 10 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, 2015, the aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries was approximately Ps. 1,625 million. Aggregate compensation includes bonuses we paid to certain members of senior management and payments in connection with the EVA stock incentive plan described in Note 17 to our audited consolidated financial statements. Our senior management and executive officers participate in our benefit plan and post-retirement medical services plan on the same basis as our other employees. Members of our board of directors do not participate in our benefit plan and post-retirement medical services plan, unless they are retired employees of our company. As of December 31, 2015, amounts set aside or accrued for all employees under these retirement plans were Ps. 6,457 million, of which Ps. 2,228 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 Stewart & Co., a compensation consulting firm. Under the EVA stock incentive plan, eligible employees are entitled to receive a special cash bonus, which will be used to purchase shares of FEMSA (in the case of employees of FEMSA) or of both FEMSA and Coca-Cola FEMSA (in the case of employees of Coca-Cola FEMSA). Under the plan it is also possible to provide stock options of FEMSA or Coca-Cola FEMSA to employees, however since the plan's inception only shares have been granted.

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

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

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

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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 15, 2016, the trust that manages the EVA stock incentive plan held a total of 3,752,878 BD Units of FEMSA and 1,148,310 Series L Shares of Coca-Cola FEMSA, each representing 0.10% and 0.06% 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 8, 2016, 6,922,159,485 Series B Shares representing 74.86% of the outstanding Series B Shares were deposited in the voting trust. See **Item 7. Major Shareholders and Related-Party Transactions.**

The following table shows the Series B Shares, Series D-B Shares and Series D-L Shares as of March 8, 2016 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 Garza Lagüera Gonda	2,769,980	0.03%	5,539,960	0.13%	5,539,960	0.13%
Mariana Garza Lagüera Gonda	2,912,485	0.03%	5,824,970	0.13%	5,824,970	0.13%
Bárbara Garza Lagüera Gonda	2,665,480	0.03%	5,330,960	0.12%	5,330,960	0.12%
Paulina Garza Lagüera Gonda	2,665,480	0.03%	5,330,960	0.12%	5,330,960	0.12%
Alberto Bailleres González	9,610,577	0.10%	19,221,154	0.44%	19,221,154	0.44%
Alfonso Garza Garza	827,090	0.01%	1,654,180	0.04%	1,654,180	0.04%
Juan Carlos Garza Garza	18,200	0%	36,400	0%	36,400	0%
Max Michel González	5,675	0%	11,350	0%	11,350	0%
Francisco José Calderón Rojas and José Fernando Calderón Rojas <sup>(1)</sup>	8,317,369	0.09%	16,634,738	0.38%	16,634,738	0.38%
Juan Guichard Michel	9,117,131	0.10%	18,234,262	0.42%	18,234,262	0.42%

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

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

**Board Practices**

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

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Under our bylaws, directors serve one-year terms although they continue in office even after the term for which they were appointed ends for up to 30 calendar days, as set forth in article 24 of Mexican Securities Law.

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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 the committees to address management issues. Each committee has a non-member 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 8, 2016:

*Audit Committee.* The Audit Committee is responsible for (1) reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements, (2) the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee and (3) identifying and following-up on contingencies and legal proceedings. The Audit Committee has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters. Pursuant to the Mexican Securities Law, the chairman of the audit committee is elected by the shareholders at the AGM. The chairman of the Audit Committee submits a quarterly and an annual report to the board of directors of the Audit Committee's activities performed during the corresponding fiscal year, and the annual report is submitted at the AGM for approval. To carry out its duties, the Audit Committee may hire independent counsel and other advisors. As necessary, the company compensates the independent auditor and any outside advisor hired by the Audit Committee and provides funding for ordinary administrative expenses incurred by the Audit Committee in the course of its duties. The current Audit Committee members are: José Manuel Canal Hernando (chairman and financial expert), Francisco Zambrano Rodríguez, Alfonso González Migoya and Ernesto Cruz Velázquez de León. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Law and applicable U.S. Securities Laws and NYSE listing standards. The secretary of the Audit Committee is José González Ornelas, head of FEMSA's internal audit department.

*Finance and Planning Committee.* The Finance and Planning Committee's responsibilities include (1) evaluating the investment and financing policies proposed by the Chief Executive Officer; and (2) evaluating risk factors to which the corporation is exposed, as well as evaluating its management policies. The current Finance and Planning Committee members are: Ricardo Guajardo Touché (chairman), Federico Reyes García, Robert E. Denham, Francisco Javier Fernández Carbajal and Alfredo Livas Cantú. The secretary of the Finance and Planning Committee is Miguel Eduardo Padilla Silva.

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*Corporate Practices Committee.* The Corporate Practices Committee is responsible for preventing or reducing the risk of performing operations that could damage the value of our company or that benefit a particular group of shareholders. The committee may call a shareholders meeting and include matters on the agenda for that meeting that it may deem appropriate, approve policies on the use of our company's assets or related-party transactions, approve the compensation of the Chief Executive Officer and relevant officers and support our board of directors in the elaboration of reports on accounting practices. Pursuant to the Mexican Securities Law, the chairman of the Corporate Practice Committee is elected by the shareholders at the AGM. The chairman of the Corporate Practices Committee submits a quarterly and an annual report to the board of directors of the Corporate Practices Committee's activities performed during the corresponding fiscal year, and the annual report is submitted at the AGM for approval. The members of the Corporate Practices Committee are: Alfredo Livas Cantú (chairman), Robert E. Denham, Ricardo Saldivar Escajadillo and Moises Naim. Each member of the Corporate Practices Committee is an independent director. The secretary of the Corporate Practices Committee is Miguel Eduardo Padilla Silva.

**Employees**

As of December 31, 2015, our headcount by geographic region was as follows: 187,642 in Mexico, 6,553 in Central America, 8,769 in Colombia, 7,500 in Venezuela, 21,765 in Brazil, 3,021 in Argentina, 7 in the United States, 30 in Ecuador, 148 in Peru and 10,723 in Chile. We include in headcount employees of third-party distributors and non-management store employees. The table below sets forth headcount for the years ended December 31, 2015, 2014 and 2013:

**Headcount for the Year Ended December 31,**

	2015			2014			2013		
	Non-Union	Union	Total	Non-Union	Union	Total	Non-Union	Union	Total
<b>Sub-holding company:</b>									
Coca-Cola FEMSA <sup>(1)</sup>	33,857	49,855	83,712	34,221	49,150	83,371	33,846	51,076	84,922
FEMSA Comercio Retail Division <sup>(2)</sup>	77,072	56,676	133,748	66,699	43,972	110,671	64,186	38,803	102,989
FEMSA Comercio Fuel Division	625	3,926	4,551						
Other	11,070	13,077	24,147	10,896	11,802	22,698	9,424	10,322	19,746
<b>Total</b>	<b>122,624</b>	<b>123,534</b>	<b>246,158</b>	<b>111,816</b>	<b>104,924</b>	<b>216,740</b>	<b>107,456</b>	<b>100,201</b>	<b>207,657</b>

(1) Includes employees of third-party distributors whom we do not consider to be our employees, amounting to 9,859,8,681 and 7,837 in 2015, 2014 and 2013.

(2) Includes non-management store employees, whom we do not consider to be our employees, amounting to 55,464, 51,585 and 50,862 in 2015, 2014 and 2013.

As of December 31, 2015, our subsidiaries had entered into 628 collective bargaining or similar agreements with personnel employed at our operations. Each of the labor unions in Mexico is associated with one of eight different national Mexican labor organizations. In general, we have a good relationship with the labor unions throughout our operations except in Colombia, Venezuela and Guatemala, which are or have been the subjects of significant labor-related litigation. The agreements applicable to our Mexican operations generally have an indefinite term and provide for an annual salary review and for review of other terms and conditions, such as fringe benefits, every two years.



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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, 2015**

<b>Sub-holding Company</b>	<b>2015</b>	
	<b>Collective Bargaining Agreements</b>	<b>Labor Unions</b>
Coca-Cola FEMSA	260	110
FEMSA Comercio <sup>(1)</sup>	133	11
Others	235	102
Total	628	223

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

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The following table identifies each owner of more than 5% of any class of our shares known to the company as of March 8, 2016. 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 8, 2016**

Shareholder	Series B Shares <sup>(1)</sup>		Series D-B Shares <sup>(2)</sup>		Series D-L Shares <sup>(3)</sup>		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 <sup>(4)</sup>	6,922,159,485	74.86%					38.69%
William H. Gates III <sup>(5)</sup>	278,873,490	3.02%	557,746,980	12.9%	557,746,980	12.9%	7.79%
Aberdeen Asset Management PLC <sup>(6)</sup>	196,341,480	2.1%	392,682,960	9.1%	392,682,960	9.1%	5.5%

(1) As of March 8, 2016, there were 2,161,177,770 Series B Shares outstanding.

(2) As of March 8, 2016, there were 4,322,355,540 Series D-B Shares outstanding.

(3) As of March 8, 2016, there were 4,322,355,540 Series D-L Shares outstanding.

(4) As a consequence of the voting trust's internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power over those same deposited shares: BBVA Bancomer, S.A., as Trustee under Trust No. F/25078-7 (controlled by the estate of Max Michel Suberville), J.P. Morgan Trust Company (New Zealand) Limited as Trustee under a trust controlled by Paulina Garza Lagüera Gonda, Bárbara Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Eva Maria Garza Lagüera Gonda, Eva Gonda Rivera, Consuelo Garza Lagüera de Garza, Alfonso Garza Garza, Patricio Garza Garza, Juan Carlos Garza Garza, Eduardo Garza Garza, Eugenio Garza Garza, Alberto Bailleres González, Maria Teresa Gual Aspe de Bailleres, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by the Garza Lagüera family), Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), Magdalena Michel de David, Alepage, S.A. (controlled by Consuelo Garza Lagüera de Garza), BBVA Bancomer, S.A. as Trustee under Trust No. F/29013-0 (controlled by the Calderón Rojas family), the estate of Max Michel Suberville, Max David Michel, Juan David Michel, Monique David de VanLathem, Renee Michel de Guichard, Magdalena Guichard Michel, Rene Guichard Michel, Miguel Guichard Michel, Graciano Guichard Michel, Juan Guichard Michel, Franca Servicios, S.A. de C.V. (controlled by the Calderón Rojas family), BBVA Bancomer, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres), BBVA Bancomer, S.A., as Trustee under Trust No. F/710004 (controlled by Magdalena Michel de David) and BBVA Bancomer, S.A., as Trustee under Trust No. F/700005 (controlled by Renee Michel de Guichard).

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

(6) As reported on Schedule 13F filed on February 2, 2016 by Aberdeen Asset Management PLC/UK.

As of March 31, 2016, there were 46 holders of record of ADSs in the United States, which represented approximately 50.8% 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 principal shareholders, agreed on May 6, 1998 to deposit a majority of their shares, which we refer to as the trust assets, of FEMSA into the voting trust, and later entered into an amended agreement on August 8, 2005, following the substitution by Banco Invex, S.A. as trustee to the voting trust, which agreement was subsequently renewed on March 15, 2013. The primary purpose of the voting trust is to permit the trust assets to be voted as a block, in accordance with the instructions of the technical committee of the voting trust. The trust participants are separated into seven trust groups and the technical committee comprises one representative appointed by each trust group. The number of B Units corresponding with each trust group (the proportional share of the shares deposited in the trust of such group) determines the number of votes that each trust representative has on the technical committee. Most matters are decided by a simple majority of the trust assets.

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The trust participants agreed to certain transfer restrictions with respect to the trust assets. The trust is irrevocable, for a term that will conclude on January 17, 2020 (subject to additional five-year renewal terms), during which time, trust assets may be transferred by trust participants to spouses and immediate family members and, subject to certain conditions, to companies that are 100% owned by trust participants, which we refer to as the permitted transferees, provided in all cases that the transferee agrees to be bound by the terms of the voting trust. In the event that a trust participant wishes to sell part of its trust assets to someone other than a permitted transferee, the other trust participants have a right of first refusal to purchase the trust assets that the trust participant wishes to sell. If none of the trust participants elects to acquire the trust assets from the selling trust participant, the technical committee will have a right to nominate (subject to the approval of technical committee members representing 75% of the trust assets, excluding trust assets that are the subject of the sale) a purchaser for such trust assets. In the event that none of the trust participants or a nominated purchaser elects to acquire trust assets, the selling trust participant will have the right to sell the trust assets to a third-party on the same terms and conditions that were offered to the trust participants. Acquirors of trust assets will only be permitted to become parties to the voting trust upon the affirmative vote by the technical committee of at least 75% of the trust shares, which must include trust shares represented by at least three trust group representatives. In the event that a trust participant holding a majority of the trust assets elects to sell its trust assets, the other trust participants have tag along rights that will enable them to sell their trust assets to the acquiror of the selling trust participant's trust assets.

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

**Interest of Management in Certain Transactions**

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

José Antonio Fernández Carbajal, our Executive Chairman of the Board, serves as a member of the Heineken Holding Board and the Heineken Supervisory Board. Javier Astaburuaga Sanjines, our Vice President of Corporate Development, also serves on the Heineken Supervisory Board. We made purchases of beer and raw materials in the ordinary course of business from the Heineken Group in the amount of Ps. 11,865 million in 2013, Ps. 15,133 million in 2014 and Ps. 14,467 million in 2015. We also supplied logistics and administrative services to subsidiaries of Heineken for a total of Ps. 2,412 million in 2013, Ps. 3,544 million in 2014 and Ps. 3,396 million in 2015. As of the end of December 31, 2015, 2014 and 2013, our net balance due to Heineken amounted to Ps. 1,834, Ps. 1,597 and Ps. 1,885 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 BBVA Bancomer, a financial services holding company of which Alberto Bailleres González, Ricardo Guajardo Touché, Carlos Salazar Lomelín and Arturo Fernández Pérez who are also directors or alternate directors of FEMSA, are directors, and for which José Manuel Canal Hernando, also a director of FEMSA, serves as Statutory Auditor. We made interest expense payments and fees paid to BBVA Bancomer in respect of these transactions of Ps. 68 million, Ps. 99 million and Ps. 77 million as of December 31, 2015, 2014 and 2013, respectively. The total amount due to BBVA Bancomer as of the end of December 31, 2015, 2014 and 2013 was Ps. 292 million, Ps. 149 million and Ps. 1,080 million, respectively, and we also had a receivable balance with BBVA Bancomer of Ps. 2,683 million, Ps. 4,083 million and Ps. 2,357 million, respectively, as of December 31, 2015, 2014 and 2013.

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We maintain an insurance policy covering medical expenses for executives issued by GNP, an insurance company of which Alberto Bailleres González, director of FEMSA, and Arturo Fernández Pérez, alternate director of FEMSA, are directors. The aggregate amount of premiums paid under these policies was approximately Ps. 58 million, Ps. 131 million and Ps. 67 million in 2015, 2014 and 2013, respectively.

We, along with certain of our subsidiaries, spent Ps. 175 million, Ps. 158 million, Ps. 92 million in the ordinary course of business in 2015, 2014 and 2013, respectively, in publicity and advertisement purchased from Televisa, a media corporation in which our Executive Chairman of the Board, José Antonio Fernández Carbajal, two of our directors, Alberto Bailleres González and Alfonso de Angoitia Noriega, and our alternate director, Enrique F. Senior Hernández, serve as directors.

FEMSA Comercio, in its ordinary course of business, purchased Ps. 3,740 million, Ps. 3,674 million and Ps. 2,860 million in 2015, 2014 and 2013, respectively, in baked goods and snacks for its stores from subsidiaries of Bimbo, of which Ricardo Guajardo Touché, one of FEMSA's directors, Arturo Fernández Pérez, one of FEMSA's alternate directors and Daniel Servitje Montull, one of Coca-Cola FEMSA's directors, are directors. FEMSA Comercio also purchased Ps. 947 million, Ps. 780 million and Ps. 808 million in 2015, 2014 and 2013, 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, Alfonso González Migoya, Ricardo Saldívar Escajadillo and Armando Garza Sada, who are directors or alternate directors of FEMSA, are also members of the board of directors of ITESM, which is a prestigious university system with headquarters in Monterrey, Mexico that routinely receives donations from FEMSA and its subsidiaries. For the years ended December 31, 2014 and 2013, donations to ITESM amounted to Ps. 42 million and Ps. 78 million, respectively.

José Antonio Fernández Carbajal, Carlos Salazar Lomelín, Alfonso Garza Garza, Federico Reyes Garcia, Javier Astaburuaga Sanjines, Miguel Eduardo Padilla Silva, Genaro Borrego Estrada and Daniel Alberto Rodríguez Cofré, who are directors, alternate directors and senior officers of 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, 2015 and 2013, donations to Fundación FEMSA, A.C. amounted to Ps. 30 million and Ps. 27 million, respectively.

Coca-Cola FEMSA, in its ordinary course of business, purchased Ps. 2,135 million, Ps. 1,803 million and Ps. 1,814 million in 2015, 2014 and 2013, respectively, in juices from subsidiaries of Jugos del Valle.

In October 2011, Coca-Cola FEMSA executed certain agreements with affiliates of Grupo Tampico to acquire specific products and services, such as plastic cases, certain trucks and car brands, as well as auto parts, exclusively for the territories of Grupo Tampico. The agreements provide for certain preferences to be elected as suppliers in Coca-Cola FEMSA's suppliers' bidding processes.

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

Coca-Cola FEMSA regularly engages in transactions with The Coca-Cola Company and its affiliates. Coca-Cola FEMSA purchases all of its concentrate requirements for *Coca-Cola* trademark beverages from The Coca-Cola Company. Total costs charged to Coca-Cola FEMSA by The Coca-Cola Company for concentrates were approximately Ps. 27,330 million, Ps. 28,084 million and Ps. 25,985 million in 2015, 2014 and 2013, respectively. Coca-Cola FEMSA and The Coca-Cola Company pay and reimburse each other for marketing expenditures. The Coca-Cola Company also contributes to Coca-Cola FEMSA's coolers, bottles and case investment program. Coca-Cola FEMSA received contributions to its marketing expenses of Ps. 3,749 million, Ps. 4,118 million and Ps. 4,206 million in 2015, 2014 and 2013, respectively.

In December 2007 and May 2008, Coca-Cola FEMSA sold most of its proprietary brands to The Coca-Cola Company. The proprietary brands are licensed back to Coca-Cola FEMSA by The Coca-Cola Company pursuant to its bottler agreements. The December 2007 transaction was valued at US\$ 48 million and the May 2008 transaction was valued at US\$ 16 million. Revenues in prior years from the sale of proprietary brands were deferred and amortized against the related costs of future sales over the estimated sales period.

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

In November 2007, Coca-Cola FEMSA together with The Coca-Cola Company acquired 100% of the shares of capital stock of Jugos del Valle, S.A.P.I. de C.V., or Jugos del Valle. Jugos del Valle sells fruit juice-based beverages and fruit derivatives. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In 2008, Coca-Cola FEMSA, The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle. As of April 8, 2016, Coca-Cola FEMSA held an interest of 26.3% in the Mexican joint business. In August 2010, Coca-Cola FEMSA acquired from The Coca-Cola Company, along with other Brazilian Coca-Cola bottlers, Leão Alimentos, manufacturer and distributor of the *Matte Leão* tea brand. In January 2013, Coca-Cola FEMSA's Brazilian joint business of Jugos del Valle merged with Leão Alimentos. As of April 8, 2016, Coca-Cola FEMSA held a 24.4% indirect interest in the *Matte Leão* business in Brazil.

In February 2009, Coca-Cola FEMSA together with The Coca-Cola Company acquired the *Brisa* bottled water business in Colombia from Bavaria, S.A., a subsidiary of SABMiller plc. Coca-Cola FEMSA acquired the production assets and the distribution territory, and The Coca-Cola Company acquired the *Brisa* brand. Coca-Cola FEMSA and The Coca-Cola Company equally shared in paying the purchase price of US\$ 92 million. Following a transition period, in June 2009, Coca-Cola FEMSA started to sell and distribute the *Brisa* portfolio of products in Colombia.

In May 2009, Coca-Cola FEMSA completed a transaction to develop the *Crystal* trademark water business in Brazil with The Coca-Cola Company.

In March 2011, Coca-Cola FEMSA, together with The Coca-Cola Company and through Compañía Panameña de Bebidas, S.A.P.I. de C.V., acquired Estrella Azul, a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. Coca-Cola FEMSA continues to develop this business with The Coca-Cola Company.

In March 2011, Coca-Cola FEMSA entered along with The Coca-Cola Company, through Compañía Panameña de Bebidas, S.A.P.I. de C.V., into several credit agreements, or the Credit Facilities, the proceeds of which were used to lend an aggregate amount of US\$ 112.3 million to Estrella Azul. Subject to certain events which could have led to an acceleration of payments, the principal balance of the Credit Facilities was payable in one installment on March 24, 2021. In March 2014, these Credit Facilities were paid in full.

In August 2012, Coca-Cola FEMSA acquired, through Jugos del Valle, an indirect participation in Santa Clara, a producer of milk and dairy products in Mexico. As of April 8, 2016, Coca-Cola FEMSA held an indirect participation of 26.3% in Santa Clara.

On January 25, 2013, as part of its efforts to expand our geographic reach, Coca-Cola FEMSA acquired a 51% non-controlling majority stake in CCFPI from The Coca-Cola Company. Coca-Cola FEMSA has an option to acquire the remaining 49% stake in CCFPI at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in CCFPI to The Coca-Cola commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Coca-Cola FEMSA currently manages the day-to-day operations of the business; however, pursuant to Coca-Cola FEMSA's shareholders' agreement with The Coca-Cola Company (a) during a four-year period ending January 25, 2017, all decisions must be approved jointly with The Coca-Cola Company, (b) following this four-year period, all decisions related to the annual normal operations plan and any other ordinary matters will be approved only by us, (c) The Coca-Cola Company has the right to appoint (and may remove) CCFPI's chief financial officer, and (d) Coca-Cola FEMSA has the right to appoint (and may remove) the chief executive officer and all other officers of CCFPI. Coca-Cola FEMSA currently recognizes the results of CCFPI in its financial statements using the equity method.

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### **ITEM 8. FINANCIAL INFORMATION**

#### **Consolidated Financial Statements**

See pages F-1 through F-117, incorporated herein by reference.

#### **Dividend Policy**

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

#### **Legal Proceedings**

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

#### **Coca-Cola FEMSA**

##### **Mexico**

###### *Antitrust Matters*

During 2000, the COFECE, motivated by complaints filed by PepsiCo and certain of its bottlers in Mexico, began an investigation of The Coca-Cola Company Export Corporation and the Mexican Coca-Cola bottlers for alleged monopolistic practices through exclusivity arrangements with certain retailers. Nine of our Mexican subsidiaries, including those acquired through our merger with Grupo Tampico, Grupo CIMS A and Grupo Fomento Queretano, were involved in this matter. After the corresponding legal proceedings in 2008, a Mexican Federal Court rendered an adverse judgment against three of our nine Mexican subsidiaries involved in the proceedings, upholding a fine of approximately Ps. 10.5 million imposed by the COFECE on each of the three subsidiaries and ordering the immediate suspension of such practices of alleged exclusivity arrangements and conditional dealings. On August 7, 2012, a Federal Court dismissed and denied an appeal that we filed on behalf of one of our subsidiaries after the merger with Grupo Fomento Queretano, which had received an adverse judgment. Coca-Cola FEMSA filed a motion for reconsideration on September 12, 2012, which was resolved on March 22, 2013 confirming the Ps. 10.5 million fine imposed by the COFECE. With respect to the complaints against the remaining six subsidiaries, a favorable resolution was issued in the Mexican Federal Courts and, consequently, the COFECE withdrew the fines and ruled in favor of six of Coca-Cola FEMSA's subsidiaries on the grounds of insufficient evidence to prove individual and specific liability in the alleged antitrust violations.

In addition, among the companies involved in the 2000 complaint filed by PepsiCo and other bottlers in Mexico, were some of Coca-Cola FEMSA's less significant subsidiaries acquired with the Grupo Yoli merger. On June 30, 2005, the COFECE imposed a fine on one of Coca-Cola FEMSA's subsidiaries for approximately Ps. 10.5 million. A motion for reconsideration on this matter was filed on September 21, 2005, which was resolved by the COFECE confirming the original resolution on December 1, 2005. An *amparo* was filed against said resolution and a Federal Court issued a favorable resolution in our benefit. Both the COFECE and PepsiCo filed appeals against said resolution and a Circuit Court in Acapulco, Guerrero resolved to request the COFECE to issue a new resolution regarding the Ps. 10.5 million fine. The COFECE then fined Coca-Cola FEMSA's subsidiary again, for the same amount. A new *amparo* claim was filed against said resolution. On May 17, 2012, such new *amparo* claim was resolved, again in

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favor of one of Coca-Cola FEMSA's subsidiaries, requesting the COFECE to recalculate the amount of the fine. The COFECE maintained the amount of the fine in a new resolution which we challenged through a new *amparo* claim filed on July 31, 2013 before a District Judge in Acapulco, Guerrero and are still awaiting final resolution.

In February 2009, the COFECE began a new investigation of alleged monopolistic practices filed by PepsiCo consisting of sparkling beverage sales subject to exclusivity agreements and the granting of discounts and/or benefits in exchange for exclusivity arrangements with certain retailers. In December 2011, the COFECE closed this investigation on the grounds of insufficient evidence of monopolistic practices by The Coca-Cola Company and some of its bottlers, including Coca-Cola FEMSA. On February 9, 2012, PepsiCo appealed the decision of the COFECE. The COFECE confirmed its decision on May 3, 2012.

In June and July 2010, Ajemex, S.A. de C.V., or Ajemex, filed two complaints with the COFECE against The Coca-Cola Export Corporation and certain *Coca-Cola* bottlers, including Coca-Cola FEMSA, for alleged monopolistic practices in breach of COFECE's resolution dated June 30, 2005. On January 23, 2015, The Coca-Cola Export Corporation and the *Coca-Cola* bottlers provided evidence to COFECE against these allegations. The COFECE ruled upon these proceedings in favor of The Coca-Cola Export Corporation and the *Coca-Cola* bottlers. On April 6, 2015, Ajemex filed an *amparo* claim against said resolution, which was dismissed and denied by a Federal District Judge. No further action was pursued by Ajemex, and the resolution became final.

## **Significant Changes**

Except as disclosed under **Recent Developments** in Item 5, no significant changes have occurred since the date of the annual financial statements included in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **Description of Securities**

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

Series B Shares ( Series B Shares );

Series D-B Shares ( Series D-B Shares ); and

Series D-L Shares ( Series D-L Shares ).

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

B Units, consisting of five Series B Shares; and

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

At our AGM held on March 29, 2007, our shareholders approved a three-for-one stock split in respect all of our outstanding capital stock, which became effective in May 2007. Following the stock split, our total capital stock consists of 2,161,177,770 BD Units and 1,417,048,500 B Units. Our stock split also resulted in a three-for-one stock split of our ADSs. The stock-split was conducted on a pro-rata basis in respect of all holders of our shares and all ADS holders of record as of May 25, 2007, and the ratio of voting and non-voting shares was maintained, thereby preserving our ownership structure as it was prior to the stock-split.



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On April 22, 2008, FEMSA shareholders approved a proposal to amend our bylaws in order to preserve the unit structure for our shares that has been in place since May 1998, and to maintain our existing share structure beyond May 11, 2008, absent further shareholder action.

Previously, our bylaws provided that on May 11, 2008, each Series D-B Share would automatically convert into one Series B Share with full voting rights, and each Series D-L Share would automatically convert into one Series L Share with limited voting rights. At that time:

the BD Units and the B Units would cease to exist and the underlying Series B Shares and Series L Shares would be separate; and

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the Series B Shares and Series L Shares would be entitled to share equally in any dividend, and the dividend preferences of the Series D-B Shares and Series D-L Shares of 125% of any amount distributed in respect of each Series B Share existing prior to May 11, 2008, would be terminated.

However, following the April 22, 2008 shareholder approvals, these changes will no longer occur and instead our share and unit structure will remain unchanged, absent shareholder action, as follows:

the BD Units and the B Units will continue to exist; and

the dividend preferences of the Series D-B Shares and Series D-L Shares of 125% of any amount distributed in respect of each Series B Share will continue to exist.

The following table sets forth information regarding our capital stock as of March 31, 2016:

Class	Number	Percentage of Capital	Percentage of Full Voting Rights
Series B Shares (no par value)	9,246,420,270	51.68%	100%
Series D-B Shares (no par value)	4,322,355,540	24.16%	0%
Series D-L Shares (no par value)	4,322,355,540	24.16%	0%
Total Shares	17,891,131,350	100%	100%
<b>Units</b>			
BD Units	2,161,177,770	60.40%	23.47%
B Units	1,417,048,500	39.60%	76.63%
Total Units	3,578,226,270	100%	100%

**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, 2016, approximately 50.8% of BD Units traded in the form of ADSs.

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

Fluctuations in the exchange rate between the Mexican peso and the U.S. dollar have affected the U.S. dollar equivalent of the Mexican peso price of our shares on the Mexican Stock Exchange and, consequently, have also affected the market price of our ADSs. See **Item 3. Key Information Exchange Rate Information**.

**Table of Contents****Trading on the Mexican Stock Exchange**

The Mexican Stock Exchange, located in Mexico City, is the only stock exchange in Mexico. Founded in 1907, it is organized as a *sociedad anónima bursátil*. 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*, or CNBV. Most securities traded on the Mexican Stock Exchange, including ours, are on deposit with *S.D. Indeval Instituto para el Depósito de Valores S.A. de C.V.*, which we refer to as Indeval, a privately owned securities depository that acts as a clearinghouse for Mexican Stock Exchange transactions.

**Price History**

The following tables set forth, for the periods indicated, the reported high, low and closing sale prices and the average daily trading volumes for the B Units and BD Units on the Mexican Stock Exchange and the reported high, low and closing sale prices and the average daily trading volumes for the ADSs on the NYSE.

	B Units <sup>(1)</sup>				Average Daily Trading Volume (Units)
	Nominal pesos		Close US\$ <sup>(4)</sup>		
	High <sup>(2)</sup>	Low <sup>(2)</sup>	Close <sup>(3)</sup>	Close US\$ <sup>(4)</sup>	
<b>2011</b>	81.00	50.00	78.05	5.59	1,500
<b>2012</b>	99.00	75.00	99.00	7.65	6,004
<b>2013</b>	126.00	99.00	106.00	8.09	47,136
<b>2014</b>					
First Quarter	106.90	103.00	106.00	8.12	1,286
Second Quarter	110.00	104.00	104.00	8.02	3,650
Third Quarter	116.00	109.00	112.00	8.34	1,956
Fourth Quarter	125.00	109.00	122.50	8.31	1,525
<b>2015</b>					
First Quarter	131.50	121.00	131.49	8.63	1,775
Second Quarter	142.66	133.00	139.41	8.89	10,134
Third Quarter	136.50	135.00	136.50	8.08	1,876
Fourth Quarter	154.00	137.91	145.80	8.48	2,759
October	153.00	138.75	152.00	9.20	1,959
November	154.00	150.00	154.00	9.28	683
December	154.00	137.91	145.80	8.48	5,881
<b>2016</b>					
January	148.50	144.50	148.50	8.15	4,036
February	150.00	139.50	148.17	8.20	1,532
March	149.50	147.00	147.00	8.54	8,730
First Quarter	150.00	139.50	147.00	8.54	4,834

(1) The prices and average daily trading volume for the B Units were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.

(2) High and low closing prices for the periods presented.

- (3) Closing price on the last day of the periods presented.
  
- (4) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the B Units on the last day of the periods presented based on the noon buying rate for the purchase of U.S. dollars, as reported by the U.S. Federal Reserve Board using the period-end exchange rate.

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	Nominal pesos		BD Units <sup>(1)</sup>		Average Daily Trading Volume (Units)
	High <sup>(2)</sup>	Low <sup>(2)</sup>	Close <sup>(3)</sup>	Close US\$ <sup>(4)</sup>	
<b>2011</b>	97.80	64.01	97.02	6.95	2,709,323
<b>2012</b>	130.64	88.64	129.31	9.99	2,135,503
<b>2013</b>	151.72	117.05	126.40	9.65	3,082,463
<b>2014</b>					
First Quarter	126.17	109.62	121.61	9.31	3,063,251
Second Quarter	129.52	118.34	121.59	9.38	2,771,898
Third Quarter	129.65	121.11	123.63	9.21	2,403,749
Fourth Quarter	134.71	117.39	130.88	8.87	2,290,740
<b>2015</b>					
First Quarter	143.54	123.68	143.11	9.39	2,560,379
Second Quarter	147.73	136.36	139.97	8.92	2,598,477
Third Quarter	154.36	140.26	151.27	8.95	2,297,879
Fourth Quarter	168.78	149.68	161.63	9.40	2,242,941
October	168.78	149.68	163.17	9.87	2,076,294
November	167.44	160.43	160.43	9.66	2,490,418
December	164.16	157.79	161.63	9.40	2,277,197
<b>2016</b>					
January	171.81	152.61	171.81	9.43	3,241,701
February	176.27	164.42	169.91	9.40	2,703,903
March	172.12	160.15	166.80	9.69	3,661,743
First Quarter	176.27	152.61	166.80	9.69	3,160,365

- (1) The prices and average daily trading volume for the BD Units were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.
- (2) High and low closing prices for the periods presented.
- (3) Closing price on the last day of the periods presented.
- (4) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the BD Units on the last day of the periods presented based on the noon buying rate for the purchase of U.S. dollars, as reported by the U.S. Federal Reserve Board using the period-end exchange rate.

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	ADSs <sup>(1)</sup>			Average Daily Trading Volume (ADSs)
	U.S. dollars			
	High <sup>(2)</sup>	Low <sup>(2)</sup>	Close <sup>(3)</sup>	
<b>2011</b>	73.00	52.67	69.71	553,338
<b>2012</b>	101.70	52.95	100.70	537,000
<b>2013</b>	124.96	88.66	97.87	604,552
<b>2014</b>				
First Quarter	96.94	82.59	93.24	658,259
Second Quarter	100.22	90.57	93.65	379,657
Third Quarter	100.26	92.03	92.05	301,778
Fourth Quarter	98.28	81.94	88.03	339,972
<b>2015</b>				
First Quarter	95.74	82.97	93.50	426,634
Second Quarter	98.88	87.52	89.09	338,531
Third Quarter	93.83	81.90	89.25	373,119
Fourth Quarter	101.96	88.43	92.35	377,262
October	101.86	88.43	99.09	449,999
November	101.96	96.18	96.38	362,102
December	98.10	91.00	92.35	318,307
<b>2016</b>				
January	94.82	85.25	94.82	418,209
February	96.51	87.25	93.59	460,486
March	96.60	89.44	96.31	555,516
First Quarter	96.60	85.25	96.31	481,591

- (1) Each ADS comprises 10 BD Units. Prices and average daily trading volume were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.
- (2) High and low closing prices for the periods presented.
- (3) Closing price on the last day of the periods presented.

**ITEM 10. ADDITIONAL INFORMATION****Bylaws**

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

**Organization and Registry**

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

**Voting Rights and Certain Minority Rights**

Each Series B Share entitles its holder to one vote at any of our ordinary or extraordinary general shareholders meetings. Our bylaws state that the board of directors must be composed of no more than 21 members, at least 25% of whom must be independent. Holders of Series B Shares are entitled to elect at least 11 members of our board of directors. Holders of Series D Shares are entitled to elect five members of our board of

directors. Our bylaws also contemplate that, should a conversion of the Series D-L Shares to Series L Shares occur pursuant to the vote of our Series D-B and Series D-L shareholders at special and extraordinary shareholders meetings, the holders of Series D-L shares (who would become holders of newly-issued Series L Shares) will be entitled to elect two members of the board of directors. None of our shares has cumulative voting rights, which is a right not regulated under Mexican law.

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

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

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

To agree to the unbundling of their share Units.

This conversion and/or unbundling of shares would become effective two (2) 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 Law, the Mexican General Corporations Law and our bylaws provide for certain minority shareholder protections. These minority protections include provisions that permit:

holders of at least 10% of our outstanding capital stock entitled to vote, including in a limited or restricted manner, to require the chairman of the board of directors or of the Audit or Corporate Practices Committees to call a shareholders meeting;

holders of at least 5% of our outstanding capital stock, including limited or restricted vote, may bring an action for liabilities against our directors, the secretary of the board of directors or certain key officers;

holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, at any shareholders meeting to request that resolutions with respect to any matter on which they considered they were not sufficiently informed be postponed;

holders of 20% of our outstanding capital stock to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote, including limited or restricted vote, and file a petition for a court order to suspend the resolution temporarily within 15 days following the adjournment of the meeting at which the action was taken, provided that (1) the challenged resolution violates Mexican law or our bylaws, (2) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution and (3) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder; and



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holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, to appoint one member of our board of directors and one alternate member of our board of directors.

### **Shareholders Meetings**

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

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

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

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

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

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### ***Dividend Rights***

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

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

### ***Change in Capital***

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

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

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

### ***Preemptive Rights***

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

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

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### ***Limitations on Share Ownership***

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

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

### ***Management of the Company***

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

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

### ***Surveillance***

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

### ***Authority of the Board of Directors***

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

any related-party transactions which are deemed to be outside the ordinary course of our business;

significant asset transfers or acquisitions;

material guarantees or collateral;

internal policies; and

other material transactions.

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



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### ***Redemption***

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

### ***Repurchase of Shares***

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

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

### ***Forfeiture of Shares***

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

### ***Duration***

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

### ***Appraisal Rights***

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

### ***Delisting of Shares***

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

### ***Liquidation***

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



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### ***Actions Against Directors***

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

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

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

### ***Fiduciary Duties Duty of Care***

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

request information about us or our subsidiaries that is reasonably necessary to fulfill its duties;

require our officers and certain other persons, including the external auditors, to appear at board of directors' meetings to report to the board of directors;

postpone board of directors' meetings for up to three days when a director has not been given sufficient notice of the meeting or in the event that a director has not been provided with the information provided to the other directors; and

require a matter be discussed and voted upon by the full board of directors in the presence of the secretary of the board of directors.

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

### ***Fiduciary Duties Duty of Loyalty***

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

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

vote at a board of directors' meeting or take any action on a matter involving our assets where there is a conflict of interest;

fail to disclose a conflict of interest during a board of directors meeting;



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enter into a voting arrangement to support a particular shareholder or group of shareholders against the other shareholders;

approve of transactions without complying with the requirements of the Mexican Securities Law;

use company property in violation of the policies approved by the board of directors;

unlawfully use material non-public information; and

usurp a corporate opportunity for their own benefit or the benefit of third parties, without the prior approval of the board of directors.

***Limited Liability of Shareholders***

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

**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 by 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, whom we refer to as a U.S. holder, 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. 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, or investors who have a functional currency other than the U.S. dollar. This summary deals only with U.S. holders that will hold our ADSs as capital assets and does not address the tax treatment of a U.S. holder that owns or is treated as owning 10% or more of the voting shares (including ADSs) of the company.

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

***Mexican Taxation***

For purposes of this summary, the term "non-resident holder" means a holder that is not a resident of Mexico for tax purposes and that does not hold our ADSs in connection with the conduct of a trade or business through a permanent establishment for tax purposes in Mexico. For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her home in Mexico, or if he or she has another home outside Mexico, but his or her *Centro de Intereses Vitales* (Center of Vital Interests) (as defined in the Mexican Tax Code) is located in Mexico and, among other circumstances, more than 50% of that person's total income during a calendar year comes from within Mexico. A legal entity is a resident of Mexico if it has either its principal place of business or its place of effective management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless he or she can demonstrate that the contrary is true. If a legal entity or an individual is deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to the permanent establishment will be subject to Mexican taxes, in accordance with applicable tax laws.

***Taxation of Dividends.*** Under Mexican income tax law, dividends, either in cash or in kind, paid with respect to our shares represented by our ADSs are not subject to Mexican withholding tax if such dividends were distributed from the net taxable profits generated before 2014. Dividends distributed from the net taxable profits generated after or during 2014 will be subject to Mexican withholding tax at a rate of 10%.

**See Item 4. Information on the Company Regulatory Matters Mexican Tax Reform.**



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*Taxation of Dispositions of ADSs.* Gains from the sale or disposition of ADSs by non-resident holders will not be subject to Mexican tax, if the disposition is carried out through a stock exchange recognized under applicable Mexican tax law and the transferor is resident of a country with which Mexico has entered into a tax treaty for the avoidance of double taxation; if the transferor is not a resident of such a country, the gain will be taxable at the rate of 10%, in which case the tax will be withheld by the financial intermediary.

In compliance with certain requirements, gains on the sale or other disposition of ADSs made in circumstances different from those set forth in the prior paragraph generally would be subject to Mexican tax, at the general rate of 25% of the gross income, regardless of the nationality or residence of the transferor. However, under the Tax Treaty, a holder that is eligible to claim the benefits of the Tax Treaty will be exempt from Mexican tax on gains realized on a sale or other disposition of our ADSs in a transaction that is not carried out through the Mexican Stock Exchange or other approved securities markets, so long as the holder did not own, directly or indirectly, 25% or more of our outstanding capital stock (including shares represented by our ADSs) within the 12-month period preceding such sale or other disposition. Deposits of shares in exchange for ADSs and withdrawals of shares in exchange for our ADSs will not give rise to Mexican tax.

*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***

*Taxation of Dividends.* The gross amount of any dividends paid with respect to our shares represented by our ADSs 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. 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. 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 is subject to taxation at the reduced rate applicable to long-term capital gains if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules, or the dividends are paid with respect to ADSs that are readily tradable on an established U.S. securities market and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company. The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2015 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 2016 taxable year. Dividends generally will constitute foreign source passive income for U.S. foreign tax credit purposes.

Distributions to holders of additional shares with respect to our ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

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A holder of ADSs that is, with respect to the United States, a foreign corporation or non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on dividends received on ADSs unless such income is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States.

*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 a 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.

A non-U.S. holder of ADSs will not be subject to U.S. federal income or withholding tax on any gain realized on the sale of ADSs, unless (1) such gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States, or (2) in the case of a gain realized by an individual non-U.S. holder, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

*United States Backup Withholding and Information Reporting.* A U.S. holder of ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain payments to such U.S. holder, such as dividends, interest or the proceeds of a sale or disposition of ADSs, unless such holder (1) is a corporation or comes within certain exempt categories, and demonstrates this fact when so required, or (2) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules does not constitute a separate tax and will be creditable against the holder's U.S. federal income tax liability. 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 The Coca-Cola Company and certain of its subsidiaries. This agreement, together with Coca-Cola FEMSA's bylaws, sets forth the basic rules pursuant to which Coca-Cola FEMSA operates.

In February 2010, Coca-Cola FEMSA's main shareholders, FEMSA and The Coca-Cola Company, amended the shareholders agreement, and Coca-Cola FEMSA's bylaws were amended accordingly. The amendment mainly related to changes in the voting requirements for decisions on: (1) ordinary operations within an annual business plan and (2) appointment of the chief executive officer and all officers reporting to him, all of which now may be taken by the board of directors by simple majority voting. Also, the amendment provided that payment of dividends, up to an amount equivalent to 20% of the preceding years' retained earnings, may be approved by a simple majority of the shareholders. Any decision on extraordinary matters, as they are defined in Coca-Cola FEMSA's bylaws and which include, among other things, any new business acquisition, business combinations, or

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any change in the existing line of business, shall require the approval of the majority of the members of the board of directors, with the vote of two of the members appointed by The Coca-Cola Company. Also, any decision related to such extraordinary matters or any payment of dividends above 20% of the preceding years' retained earnings shall require the approval of a majority of the shareholders of Coca-Cola FEMSA's Series A and Series D Shares voting together as a single class.

Under Coca-Cola FEMSA's bylaws and shareholders agreement, its Series A Shares and Series D Shares are the only shares with full voting rights and, therefore, control actions by its shareholders. The shareholders agreement also sets forth the principal shareholders' understanding as to the effect of adverse actions of The Coca-Cola Company under the bottler agreements. Coca-Cola FEMSA's bylaws and shareholders agreement provide that a majority of the directors appointed by the holders of its Series A Shares, upon making a reasonable, good faith determination that any action of The Coca-Cola Company under any bottler agreement between The Coca-Cola Company and Coca-Cola FEMSA or any of its subsidiaries is materially adverse to Coca-Cola FEMSA's business interests and that The Coca-Cola Company has failed to cure such action within 60 days of notice, may declare a simple majority period, as defined in Coca-Cola FEMSA's bylaws, at any time within 90 days after giving notice. During the simple majority period certain decisions, namely the approval of material changes in Coca-Cola FEMSA's business plans, the introduction of a new, or termination of an existing, line of business, and related-party transactions outside the ordinary course of business, to the extent the presence and approval of at least two Coca-Cola FEMSA Series D directors would otherwise be required, can be made by a simple majority vote of its entire board of directors, without requiring the presence or approval of any Coca-Cola FEMSA Series D director. A majority of the Coca-Cola FEMSA Series A directors may terminate a simple majority period but, once having done so, cannot declare another simple majority period for one year after the termination. If a simple majority period persists for one year or more, the provisions of the shareholders agreement for resolution of irreconcilable differences may be triggered, with the consequences outlined in the following paragraph.

In addition to the rights of first refusal provided for in Coca-Cola FEMSA's bylaws regarding proposed transfers of its Series A Shares or Series D Shares, the shareholders agreement contemplates three circumstances under which one principal shareholder may purchase the interest of the other in Coca-Cola FEMSA: (1) a change in control in a principal shareholder; (2) the existence of irreconcilable differences between the principal shareholders; or (3) the occurrence of certain specified events of default.

In the event that (1) one of the principal shareholders buys the other's interest in Coca-Cola FEMSA in any of the circumstances described above or (2) the ownership of Coca-Cola FEMSA's shares of capital stock other than the Series L Shares of the subsidiaries of The Coca-Cola Company or FEMSA is reduced below 20% and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement requires that Coca-Cola FEMSA's bylaws be amended to eliminate all share transfer restrictions and all special-majority voting and quorum requirements, after which the shareholders agreement would terminate.

The shareholders agreement also contains provisions relating to the principal shareholders' understanding as to Coca-Cola FEMSA's growth. It states that it is The Coca-Cola Company's intention that Coca-Cola FEMSA will be viewed as one of a small number of its anchor bottlers in Latin America. In particular, the parties agree that it is desirable that Coca-Cola FEMSA expands by acquiring additional bottler territories in Mexico and other Latin American countries in the event any become available through horizontal growth. In addition, The Coca-Cola Company has agreed, subject to a number of conditions, that if it obtains ownership of a bottler territory that fits with Coca-Cola FEMSA's operations, it will give Coca-Cola FEMSA the option to acquire such territory. The Coca-Cola Company has also agreed to support reasonable and sound modifications to Coca-Cola FEMSA's capital structure to support horizontal growth. The Coca-Cola Company's agreement as to horizontal growth expires upon either the elimination of the super-majority voting requirements described above or The Coca-Cola Company's election to terminate the agreement as a result of a default.

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***The Coca-Cola Memorandum***

In connection with the acquisition of Panamco, in 2003, Coca-Cola FEMSA established certain understandings primarily relating to operational and business issues with both The Coca-Cola Company and our company that were memorialized in writing prior to completion of the acquisition. Although the memorandum has not been amended, Coca-Cola FEMSA continues to develop its relationship with The Coca-Cola Company (through, *inter alia*, acquisitions and taking on new product categories), and Coca-Cola FEMSA therefore believes that the memorandum should be interpreted in the context of subsequent events, some of which have been noted in the description below. The principal terms are as follows:

The shareholder arrangements between our company and The Coca-Cola Company and certain of its subsidiaries will continue in place. On February 1, 2010, FEMSA amended its shareholders agreement with The Coca-Cola Company. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Shareholders Agreement.**

We will continue to consolidate Coca-Cola FEMSA's financial results under IFRS.

The Coca-Cola Company and our company will continue to discuss in good faith the possibility of implementing changes to Coca-Cola FEMSA's capital structure in the future.

There will be no changes in concentrate pricing or marketing support by The Coca-Cola Company up to May 2004. After such time, The Coca-Cola Company has complete discretion to implement any changes with respect to these matters, but any decision in this regard will be discussed with Coca-Cola FEMSA and will take Coca-Cola FEMSA's operating condition into consideration.

The Coca-Cola Company may require the establishment of a different long-term strategy for Brazil. If, after taking into account our performance in Brazil, The Coca-Cola Company does not consider us to be part of this long-term strategic solution for Brazil, then we will sell our Brazilian franchise to The Coca-Cola Company or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures. Coca-Cola FEMSA currently believes the likelihood of this term applying is remote.

We, The Coca-Cola Company and Coca-Cola FEMSA will meet to discuss the optimal Latin American territorial configuration for the Coca-Cola bottler system. During these meetings, Coca-Cola FEMSA will consider all possible combinations and any asset swap transactions that may arise from these discussions. In addition, Coca-Cola FEMSA will entertain any potential combination as long as it is strategically sound and done at fair market value.

Coca-Cola FEMSA would like to keep open strategic alternatives that relate to the integration of sparkling beverages and beer. The Coca-Cola Company, our company and Coca-Cola FEMSA would explore these alternatives on a market-by-market basis at the appropriate time.

The Coca-Cola Company agreed to sell to us sufficient shares to permit us to beneficially own 51% of Coca-Cola FEMSA outstanding capital stock (assuming that we do not sell any shares and that there are no issuances of Coca-Cola FEMSA stock other than as contemplated by the acquisition). As a result of this understanding, in November 2006, we acquired, through a subsidiary, 148,000,000 of Coca-Cola FEMSA Series D shares from certain subsidiaries of The Coca-Cola Company, representing 9.4% of the total outstanding voting shares and 8% of the total outstanding equity of Coca-Cola FEMSA, at a price of US\$ 2.888 per share for an aggregate amount of US\$ 427.4 million. Pursuant to our bylaws, the acquired shares were converted from Series D shares to Series A shares.

## Edgar Filing: MEXICAN ECONOMIC DEVELOPMENT INC - Form 20-F

Coca-Cola FEMSA may be entering some markets where significant infrastructure investment may be required. The Coca-Cola Company and our company will conduct a joint study that will outline strategies for these markets, as well as the investment levels required to execute these strategies. Subsequently, it is intended that our company and The Coca-Cola Company will reach an agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome for either partner.

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Coca-Cola FEMSA entered into a stand-by credit facility in December 2003 with The Coca-Cola Export Corporation, which expired in December 2006 and was never used.

***Cooperation Framework with The Coca-Cola Company***

In September 2006, Coca-Cola FEMSA and The Coca-Cola Company reached a comprehensive cooperation framework for a new stage of collaboration going forward. This new framework includes the main aspects of Coca-Cola FEMSA's relationship with The Coca-Cola Company and defines the terms for the new collaborative business model. The framework is structured around three main objectives, which have been implemented as outlined below.

*Sustainable growth of sparkling beverages, still beverages and waters:* Together with The Coca-Cola Company, Coca-Cola FEMSA has defined a platform to jointly pursue incremental growth in the sparkling beverage category, as well as accelerated development of still beverages and water across Latin America. To this end, The Coca-Cola Company will provide a relevant portion of the funds derived from the concentrate increase for marketing support of the entire portfolio. In addition, the framework contemplates a new, all-encompassing business model for the development, organically and through acquisitions, of still beverages and water that further aligns Coca-Cola FEMSA's and The Coca-Cola Company's objectives and should contribute to incremental long-term value creation at both companies. With this objective in mind, Coca-Cola FEMSA has jointly acquired the *Brisa* bottled water business in Colombia, it has a joint venture with respect to the *Jugos del Valle* products in Mexico and Brazil, and has agreements to develop the *Crystal* water business and the *Matte Leão* business in Brazil jointly with other bottlers and the business of *Estrella Azul* in Panama. During 2011, Coca-Cola FEMSA and The Coca-Cola Company entered into a joint venture to develop certain coffee products in Coca-Cola FEMSA's territories. In addition, during 2012 Coca-Cola FEMSA acquired, through *Jugos del Valle*, an indirect participation in *Santa Clara*, producer of milk and dairy products in Mexico.

*Horizontal growth:* The framework includes The Coca-Cola Company's endorsement of Coca-Cola FEMSA's aspiration to continue being a leading participant in the consolidation of the Coca-Cola system in Latin America, as well as the exploration of potential opportunities in other markets where Coca-Cola FEMSA's operating model and strong execution capabilities could be leveraged. For example, in 2008 Coca-Cola FEMSA entered into a transaction with The Coca-Cola Company to acquire from it REMIL, which was The Coca-Cola Company's wholly-owned bottling franchise in the majority of the State of Minas Gerais of Brazil. On January 25, 2013, Coca-Cola FEMSA closed the acquisition of a 51% non-controlling stake in the outstanding shares of CCFPI from The Coca-Cola Company. From 2011 to 2013, Coca-Cola FEMSA closed four mergers in Mexico and two acquisitions in Brazil. See

**Item. 4 Information on the Company Coca-Cola FEMSA Corporate History.**

*Long-term vision in relationship economics:* Coca-Cola FEMSA and The Coca-Cola Company understand each other's business objectives and growth plans, and the new framework provides long-term perspective on the economics of their relationship. This will allow Coca-Cola FEMSA and The Coca-Cola Company to focus on continuing to drive the business forward and generating profitable growth.

***Bottler Agreements***

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers. Pursuant to its bottler agreements, Coca-Cola FEMSA is authorized to manufacture, sell, and distribute *Coca-Cola* trademark beverages within specific geographic areas, and is required to purchase concentrate for all *Coca-Cola* trademark beverages in all of its territories from companies designated by The Coca-Cola Company, and sweeteners and other raw materials from companies authorized by The Coca-Cola Company.

These bottler agreements also provide that Coca-Cola FEMSA will purchase its entire requirement of concentrate for *Coca-Cola* trademark beverages at prices, terms of payment and on other terms and conditions of supply as determined from time to time by The



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Coca-Cola Company at its sole discretion. Concentrate prices for *Coca-Cola* trademark beverages are determined as a percentage of the weighted average retail price in local currency, net of applicable taxes. Although the price multipliers used to calculate the cost of concentrate and the currency of payment, among other terms, are set by The Coca-Cola Company at its sole discretion, Coca-Cola FEMSA sets the price of products sold to customers at its discretion, subject to the applicability of price restraints imposed by authorities in certain territories. Coca-Cola FEMSA has the exclusive right to distribute *Coca-Cola* trademark beverages for sale in its territories in authorized containers of the nature approved by the bottler agreements and currently used by Coca-Cola FEMSA. These containers include various configurations of cans and returnable and non-returnable bottles made of glass, aluminum and plastic and fountain containers.

The bottler agreements include an acknowledgment by Coca-Cola FEMSA that The Coca-Cola Company is the sole owner of the trademarks that identify the *Coca-Cola* trademark beverages and of the secret formulas with which The Coca-Cola Company's concentrates are made. Subject to Coca-Cola FEMSA's exclusive right to distribute *Coca-Cola* trademark beverages in its territories, The Coca-Cola Company reserves the right to import and export *Coca-Cola* trademark beverages to and from each of its territories. Coca-Cola FEMSA's bottler agreements do not contain restrictions on The Coca-Cola Company's ability to set the price of concentrates and do not impose minimum marketing obligations on The Coca-Cola Company. The prices at which Coca-Cola FEMSA purchases concentrates under the bottler agreements may vary materially from the prices it has historically paid. However, under Coca-Cola FEMSA's bylaws and the shareholders agreement among our company and The Coca-Cola Company and certain of its subsidiaries, an adverse action by The Coca-Cola Company under any of the bottler agreements may result in a suspension of certain voting rights of the directors appointed by The Coca-Cola Company. This provides Coca-Cola FEMSA with limited protection against The Coca-Cola Company's ability to raise concentrate prices to the extent that such increase is deemed detrimental to Coca-Cola FEMSA pursuant to such shareholders agreement and the Coca-Cola FEMSA's bylaws. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Shareholders Agreement.**

The Coca-Cola Company has the ability, at its sole discretion, to reformulate any of the *Coca-Cola* trademark beverages and to discontinue any of the *Coca-Cola* trademark beverages, subject to certain limitations, so long as all *Coca-Cola* trademark beverages are not discontinued. The Coca-Cola Company may also introduce new beverages in Coca-Cola FEMSA's territories in which case Coca-Cola FEMSA has a right of first refusal with respect to the manufacturing, packaging, distribution and sale of such new beverages subject to the same obligations as then exist with respect to the *Coca-Cola* trademark beverages under the bottler agreements. The bottler agreements prohibit Coca-Cola FEMSA from producing, bottling or handling beverages other than those of The Coca-Cola Company trademark beverages, or other products or packages that would imitate, infringe upon, or cause confusion with the products, trade dress, containers or trademarks of The Coca-Cola Company, except under the authority of, or with the consent of, The Coca-Cola Company. The bottler agreements also prohibit Coca-Cola FEMSA from acquiring or holding an interest in a party that engages in such restricted activities. The bottler agreements impose restrictions concerning the use of certain trademarks, authorized containers, packaging and labeling of The Coca-Cola Company so as to conform to policies approved by The Coca-Cola Company. In particular, Coca-Cola FEMSA is obligated to:

maintain plant and equipment, staff and distribution facilities capable of manufacturing, packaging and distributing the *Coca-Cola* trademark beverages in authorized containers in accordance with Coca-Cola FEMSA bottler agreements and in sufficient quantities to satisfy fully the demand in its territories;

undertake adequate quality control measures established by The Coca-Cola Company;

develop, stimulate and satisfy fully the demand for *Coca-Cola* trademark beverages using all approved means, which includes the investment in advertising and marketing plans;

maintain a sound financial capacity as may be reasonably necessary to assure performance by Coca-Cola FEMSA and its subsidiaries of their obligations to The Coca-Cola Company; and

submit annually, to The Coca-Cola Company, Coca-Cola FEMSA's marketing, management, promotional and advertising plans for the ensuing year.

The Coca-Cola Company contributed a significant portion of Coca-Cola FEMSA's total marketing expenses in its territories



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during 2015 and has reiterated its intention to continue providing such support as part of its cooperation framework. Although Coca-Cola FEMSA believes that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. See **Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Shareholders Agreement.**

Coca-Cola FEMSA has separate bottler agreements with The Coca-Cola Company for each of the territories where it operates, on substantially the same terms and conditions. These bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement.

As of December 31, 2015, we had:

nine bottler agreements in Mexico: (i) two agreements for the Valley of Mexico territory, which are up for renewal in May 2016 and June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) three agreements for the Central territory, which are up for renewal in May 2016, July 2016 and May 2025, (iv) the agreement for the Northeast territory, which is up for renewal in May 2016, and (v) two agreements for the Bajio territory, which are up for renewal in May 2016 and May 2025;

four bottler agreements in Brazil, which are up for renewal in October 2017 (two agreements) and April 2024 (two agreements); and

one bottler agreement in each of Argentina, which is up for renewal in September 2024, Colombia, which is up for renewal in June 2024; Venezuela, which is up for renewal in August 2016; Guatemala, which is up for renewal in March 2025; Costa Rica, which is up for renewal in September 2017; Nicaragua, which is up for renewal in May 2016 and Panama, which is up for renewal in November 2024.

The bottler agreements are subject to termination by The Coca-Cola Company in the event of default by Coca-Cola FEMSA. The default provisions include limitations on the change in ownership or control of Coca-Cola FEMSA and the assignment or transfer of the bottler agreements and are designed to preclude any person not acceptable to The Coca-Cola Company from obtaining an assignment of a bottler agreement or from acquiring Coca-Cola FEMSA independently of other rights set forth in the shareholders agreement. These provisions may prevent changes in Coca-Cola FEMSA's principal shareholders, including mergers or acquisitions involving sales or dispositions of Coca-Cola FEMSA's capital stock, which will involve an effective change of control without the consent of The Coca-Cola Company. See **Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Shareholders Agreement.**

Coca-Cola FEMSA has also entered into tradename license agreements with The Coca-Cola Company pursuant to which Coca-Cola FEMSA is authorized to use certain trademark names of The Coca-Cola Company with its corporate name. These agreements have a ten-year term and are automatically renewed for ten-year terms, but are terminated if Coca-Cola FEMSA ceases to manufacture, market, sell and distribute *Coca-Cola* trademark products pursuant to the bottler agreements or if the shareholders agreement is terminated. The Coca-Cola Company also has the right to terminate a license agreement if Coca-Cola FEMSA uses its trademark names in a manner not authorized by the bottler agreements.

### **Material Contracts Relating to our Holding of Heineken Shares**

#### ***Share Exchange Agreement***

On January 11, 2010, FEMSA and certain of our subsidiaries entered into a share exchange agreement, which we refer to as the Share Exchange Agreement, with Heineken Holding N.V. and Heineken N.V. The Share Exchange Agreement required Heineken N.V., in consideration for 100% of the shares of EMPREX Cerveza, S.A. de C.V. (now Heineken Mexico Holding, S.A. de C.V.), which we refer to as EMPREX Cerveza, to deliver at the closing of the Heineken transaction 86,028,019 newly-issued Heineken N.V. shares to FEMSA with a commitment to deliver, pursuant to the ASDI, 29,172,504 Allotted Shares over a period of not more than five years from the date of the closing of the Heineken transaction. As of October 5, 2011, we had received the totality of the Allotted Shares.



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The Share Exchange Agreement provided that, simultaneously with the closing of the transaction, Heineken Holding N.V. would swap 43,018,320 Heineken N.V. shares with FEMSA for an equal number of newly issued Heineken Holding N.V. shares. After the closing of the Heineken transaction, we owned 7.5% of Heineken N.V. s shares. This percentage increased to 12.53% upon full delivery of the Allotted Shares and, together with our ownership of 14.94% of Heineken Holding N.V. s shares, represents an aggregate 20% economic interest in the Heineken Group.

Under the terms of the Share Exchange Agreement, in exchange for such economic interest in the Heineken Group, FEMSA delivered 100% of the shares representing the capital stock of EMPREX Cerveza, which owned 100% of the shares of FEMSA Cerveza. As a result of the transaction, EMPREX Cerveza and FEMSA Cerveza became wholly-owned subsidiaries of Heineken.

The principal provisions of the Share Exchange Agreement are as follows:

delivery to Heineken N.V., by FEMSA, of 100% of the outstanding share capital of EMPREX Cerveza, which together with its subsidiaries, constitutes the entire beer business and operations of FEMSA in Mexico and Brazil (including the United States and other export business);

delivery to FEMSA by Heineken N.V. of 86,028,019 new Heineken N.V. shares;

simultaneously with the closing of the Heineken transaction, a swap between Heineken Holding N.V. and FEMSA of 43,018,320 Heineken N.V. shares for an equal number of newly issued shares in Heineken Holding N.V.;

the commitment by Heineken N.V. to assume indebtedness of EMPREX Cerveza and subsidiaries amounting to approximately US\$ 2.1 billion;

the provision by FEMSA to the Heineken Group of indemnities customary in transactions of this nature concerning FEMSA and FEMSA Cerveza and its subsidiaries and their businesses;

FEMSA s covenants to operate the EMPREX Cerveza business in the ordinary course consistent with past practice until the closing of the transaction, subject to customary exceptions, with the economic risks and benefits of the EMPREX Cerveza business transferring to Heineken as of January 1, 2010;

the provision by Heineken N.V. and Heineken Holding N.V. to FEMSA of indemnities customary in transactions of this nature concerning the Heineken Group; and

FEMSA s covenants, subject to certain limitations, to not engage in the production, manufacture, packaging, distribution, marketing or sale of beer and similar beverages in Latin America, the United States, Canada and the Caribbean.

### ***Corporate Governance Agreement***

On April 30, 2010, FEMSA, CB Equity (as transferee of the Heineken N.V. & 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;

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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. Our nominees for appointment to the Heineken Supervisory Board were José Antonio Fernández Carbajal, our Executive Chairman of the Board, and Javier Astaburuaga Sanjines, our Vice President of Corporate Development, who were both approved by Heineken N.V.'s general meeting of shareholders. Mr. Fernández Carbajal was also approved to the Heineken Holding N.V. Board of Directors by the general meeting of shareholders of Heineken Holding N.V.

In addition, the Heineken Supervisory Board has created an Americas committee to oversee the strategic direction of the business in the American continent and assess new business opportunities in that region. The Americas committee consists of two existing members of the Heineken Supervisory Board and one FEMSA representative, who acts as the chairman. The chairman of the Americas committee is José Antonio Fernández Carbajal, our Executive Chairman of the Board.

The Corporate Governance Agreement has no fixed term, but certain provisions cease to apply if FEMSA ceases to have the right to nominate a representative to the Heineken Holding N.V. Board of Directors and the Heineken N.V. Supervisory Board. For example, in certain circumstances, FEMSA would be entitled to only one representative on the Heineken Supervisory Board, including in the event that FEMSA's economic interest in the Heineken Group were to fall below 14%, the current FEMSA control structure were to change or FEMSA were to be subject to a change of control. In the event that FEMSA's economic interest in Heineken falls below 7% or a beer producer acquires control of FEMSA, all of FEMSA's corporate governance rights would end pursuant to the Corporate Governance Agreement.

## **Documents on Display**

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its public reference rooms in Washington, D.C., at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Filings we make electronically with the SEC are also available to the public over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov).

**Table of Contents****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, 2015, we had outstanding total debt of Ps. 91,864 million, of which 7.6% bore interest at variable interest rates and 92.4% bore interest at fixed interest rates. Swap contracts held by us effectively switch a portion of our variable rate indebtedness into fixed-rate indebtedness. After giving effect to these contracts, as of December 31, 2015, 79.6% of our total debt was fixed rate and 20.4% of our total debt was variable rate (the total amount of debt and of variable rate debt and fixed rate debt used in the calculation of this percentage was obtained by converting only the units of investment debt for the related cross currency swap, and it also includes the effect of related interest rate swaps). The interest rate on our variable rate debt is determined by reference to the London Interbank Offered Rate, or LIBOR, (a benchmark rate used for Eurodollar loans), the *Tasa de Interés Interbancaria de Equilibrio* (Equilibrium Interbank Interest Rate, or TIIE), and the *Certificados de la Tesorería* (Treasury Certificates, or CETES) rate. If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our derivative financial instruments that are sensitive to changes in interest rates and exchange rates. The table presents notional amounts and weighted average interest rates by expected contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on the reference rates on December 31, 2015, 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, 2015 exchange rate of Ps. 17.2065 per U.S. dollar.

The table below also includes the estimated fair value as of December 31, 2015 of:

short and long-term debt, based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities;

long-term notes payable and capital leases, based on quoted market prices; and

cross currency swaps and interest rate swaps, based on quoted market prices to terminate the contracts as of December 31, 2015. As of December 31, 2015, the fair value represents a decrease in total debt of Ps. 313 million less than book value.



**Table of Contents****Principal by Year of Maturity**

(in millions of Mexican pesos)	At December 31, <sup>(1)</sup>							Carrying Value at December 31, 2015	Fair Value at December 31, 2015	Carrying Value at December 31, 2014 <sup>(1)</sup>
	2016	2017	2018	2019	2020	2021 and Thereafter				
<b>Short-term debt:</b>										
<b>Fixed rate debt:</b>										
<b>Colombian pesos</b>										
Bank loans	Ps. 219	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 219	Ps. 220	Ps.	
Interest rate	6.5%						6.5%			
<b>Argentine pesos</b>										
Notes payable	165						165	164	301	
Interest rate	26.2%						26.2%		30.9%	
<b>Chilean pesos</b>										
Bank loans	1,442						1,442	1,442		
Interest rate	4.2%						4.2%			
Finance leases	10						10	10		
Interest rate	2.4%						2.4%			
<b>Variable rate debt:</b>										
<b>Colombian pesos</b>										
Bank loans	235						235	235		
Interest rate	8.2%						8.2%			
<b>Brazilian reais</b>										
Bank loans	168						168	168	148	
Interest rate	14.8%						14.8%		12.6%	
<b>Total short-term debt</b>	Ps. 2,239	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 2,239	Ps. 2,239	Ps. 449	
<b>Long-term debt:</b>										
<b>Fixed rate debt:</b>										
<b>U.S. dollars</b>										
Yankee bond	Ps.	Ps.	Ps. 17,158	Ps.	Ps. 8,566	Ps. 25,609	Ps. 51,333	Ps. 52,990	Ps. 43,893	
Interest rate			2.4%		4.6%	4.4%	3.8%		3.8%	
Bank of NY (FEMSA USD 2023)						5,068	5,068	4,852	4,308	
Interest rate						2.9%	2.9%		2.9%	
Bank of NY (FEMSA USD 2043)						11,675	11,675	10,737	9,900	
Interest rate						4.4%	4.4%		4.4%	
Bank loans									30	
Interest rate									3.9%	
<b>Mexican pesos</b>										
Units of investment (UDIs)		3,385					3,385	3,385	3,599	
Interest rate		4.2%					4.2%		4.2%	
Domestic senior notes						9,989	9,989	9,527	9,988	
Interest rate						6.2%	6.2%		6.2%	
<b>Brazilian reais</b>										
Bank loans	174	187	151	116	80	111	819	653	601	
Interest rate	5.4%	5.7%	6.3%	6.6%	6.7%	5.6%	6.0%		4.6%	
Finance leases	67	66	65	62	51	149	460	356	762	
Interest rate	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%		4.6%	
<b>Argentine pesos</b>										
Bank loans	18						18	17	309	
Interest rate	15.3%						15.3%		26.8%	
<b>Chilean pesos</b>										
Bank loans	120	82	30				232	232		
Interest rate	7.3%	7.6%	7.9%				7.5%			
Finance leases	14	15	16	17	18	12	92	92		
Interest rate	3.6%	3.6%	3.5%	3.5%	3.3%	3.2%	3.4%			

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Subtotal	Ps. 393	Ps. 3,735	Ps. 17,420	Ps. 195	Ps. 8,715	Ps. 52,613	<b>Ps. 83,071</b>	<b>Ps. 82,841</b>	Ps. 73,390
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(1) All interest rates shown in this table are weighted average contractual annual rates.

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(in millions of Mexican pesos)	At December 31, <sup>(1)</sup>						Carrying Value at December 31, 2015	Fair Value at December 31, 2015	Carrying Value at December 31, 2014 <sup>(1)</sup>
	2016	2017	2018	2019	2020	2021 and Thereafter			
<b>Variable rate debt:</b>									
<b>U.S. dollars</b>									
Bank loans	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 6,956
Interest rate									0.9%
<b>Mexican pesos</b>									
Domestic senior notes	2,496						2,496	2,500	2,473
Interest rate	3.6%						3.6%		3.4%
<b>Argentine pesos</b>									
Bank loans	82	41					123	120	232
Interest rate	32.2%	32.2%					32.2%		21.5%
<b>Brazilian reais</b>									
Bank loans	189	107	107	107	74		584	511	156
Interest rate	11.9%	9.2%	9.2%	9.2%	9.2%		10.1%		6.7%
Finance leases									63
Interest rate									10.0%
<b>Colombian pesos</b>									
Bank loans	280	684	54	53	53	52	1,176	1,165	769
Interest rate	6.9%	6.5%	8.0%	8.0%	8.0%	8.2%	6.9%		5.9%
Finance leases	0.04	0.04	0.05	0.05	0.01		0.19	0.19	
Interest rate	8.4%	8.4%	8.4%	8.4%	8.4%		8.4%		
<b>Chilean pesos</b>									
Bank loans	216	283	374	358	549	395	2,175	2,175	
Interest rate	6.2%	6.3%	6.2%	6.2%	5.7%	5.9%	6.0%		
Subtotal	Ps. 3,263	Ps. 1,115	Ps. 535	Ps. 518	Ps. 676	Ps. 447	Ps. 6,554	Ps. 6,471	Ps. 10,649
<b>Total long-term debt</b>	Ps. 3,656	Ps. 4,850	Ps. 17,955	Ps. 713	Ps. 9,391	Ps. 53,060	Ps. 89,625	Ps. 89,312	Ps. 84,039

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

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Hedging Derivative Financial Instruments <sup>(1)</sup>	2016	2017	2018	2019	2020	2021 and Thereafter	Total 2015	Total 2014
	(notional amounts in millions of Mexican pesos)							
<b>Interest rate swaps:</b>								
<b>Mexican pesos</b>								
Variable to fixed rate:				76		1,197	1,273	
Interest pay rate				6.5%		7.1%	7.0%	
Interest receive rate				4.5%		5.5%	5.5%	
Variable to fixed rate <sup>(2)</sup>								
Interest pay rate		5.2%					5.2%	5.0%
Interest receive rate		3.4%					3.4%	3.2%
Variable to fixed rate <sup>(3)</sup>								
Interest pay rate						7.2%	7.2%	7.2%
Interest receive rate						4.8%	4.8%	4.6%
<b>Cross currency swaps:</b>								
<b>Units of investments to Mexican pesos and variable rate:</b>								
Fixed to variable <sup>(2)</sup>	Ps.	Ps. 2,500	Ps.	Ps.	Ps.	Ps.	Ps. 2,500	Ps. 2,500
Interest pay rate		3.4%					3.4%	3.1%
Interest receive rate		4.2%					4.2%	4.2%
<b>U.S. dollars to Mexican pesos</b>								
Fixed to variable <sup>(3)</sup>						11,403	11,403	11,403
Interest pay rate						4.8%	4.8%	4.6%
Interest receive rate						4.0%	4.0%	4.0%
Variable to fixed			7,571				7,571	6,476
Interest pay rate			3.5%				3.5%	3.2%
Interest receive rate			2.4%				2.4%	2.4%
Fixed to fixed						1,267	1,267	1,267
Interest pay rate						5.7%	5.7%	5.7%
Interest receive rate						2.9%	2.9%	2.9%
<b>U.S. dollars to Brazilian reais</b>								
Fixed to variable			5,592				5,592	6,653
Interest pay rate			12.7%				12.7%	11.3%
Interest receive rate			2.7%				2.7%	2.7%
Variable to variable			17,551				17,551	20,311
Interest pay rate			12.6%				12.6%	11.3%
Interest receive rate			2.1%				2.1%	1.5%
<b>Chilean pesos</b>								
Variable to fixed					1,097		1,097	
Interest pay rate					6.9%		6.9%	
Interest receive rate					6.8%		6.8%	

- (1) All interest rates shown in this table are weighted average contractual annual rates.
- (2) Interest rate swaps with a notional amount of Ps. 1,250 that receive a variable rate of 3.4% and pay a fixed rate of 5.2%; joined with a cross currency swap of the same notional amount, which covers units of investments to Mexican pesos, that receives a fixed rate of 4.2% and pays a variable rate of 3.4%.
- (3) Interest rate swaps with a notional amount of Ps. 11,403 that receive a variable rate of 4.8% and pay a fixed rate of 7.2%; joined with a cross currency swap of the same notional amount, which covers U.S. dollars to Mexican pesos, that receives a fixed rate of 4% and pay a variable rate of 4.8%.

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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, 2015 would increase our interest expense by approximately Ps. 192 million, or 2.5%, over the 12-month period of 2016, 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 2015, the percentage of our consolidated total revenues was denominated as follows:

**Total Revenues by Currency At December 31, 2015**

Region	Currency	% of Consolidated Total Revenues
Mexico and Central America <sup>(1)</sup>	Mexican peso and others	73%
Venezuela <sup>(2)</sup>	Bolívar fuerte	3%
South America	Brazilian reais, Argentine peso, Colombian peso, Chilean peso	24%

(1) Mexican peso, Quetzal, Balboa, Colón and U.S. dollar.

(2) We have translated the revenues for the entire year using SIMADI exchange rate. As of December 31, 2015, this rate was 198.70 bolivars per US\$ 1.00 (0.09 Mexican pesos per bolivar).

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, 2015, after giving effect to all cross currency swaps and interest rate swaps, 39.2% of our long-term indebtedness was denominated in Mexican pesos, 26.4% was denominated in U.S. dollars, 1.1% was denominated in Colombian pesos, 0.1% was denominated in Argentine pesos, 30.5% was denominated in Brazilian reais and 2.7% was denominated in Chilean pesos. We also have short-term indebtedness, which mostly consists of bank loans in Colombian pesos, Argentine pesos, Chilean pesos and Brazilian reais. 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-denominated debt obligations as shown in the interest risk table above. We occasionally utilize financial derivative instruments to hedge our exposure to the U.S. dollar relative to the Mexican peso and other currencies.

As of December 31, 2015, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and Euros. The notional amount of these forward agreements was Ps. 6,735 million, for which we have recorded a fair value asset of Ps. 299 million. The maturity date of these forward agreements is in 2016. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2015, a gain of Ps. 180 million on expired forward agreements was recorded in our consolidated results.

As of December 31, 2014, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and Euros. The notional amount of these forward agreements was Ps. 5,603 million, for which we have recorded a fair value asset of Ps. 272 million. The maturity date of these forward agreements is in 2015 and 2016. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2014, a loss of Ps. 38 million was recorded in our consolidated results.



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As of December 31, 2013, 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. 3,616 million, for which we have recorded a fair value liability of Ps. 16 million. The maturity date of these forward agreements was in 2014 and 2015. 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, 2013, a gain of Ps. 1,710 million was recorded in our consolidated results.

As of December 31, 2015, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations. The notional amount of these options was Ps. 1,612 million, for which we have recorded a net fair value asset of Ps. 65 million as part of cumulative other comprehensive income. The maturity date of these options is in 2016.

As of December 31, 2014, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations. The notional amount of these options was Ps. 402 million, for which we have recorded a net fair value asset of Ps. 56 million as part of cumulative other comprehensive income. The maturity date of these options was in 2015.

As of December 31, 2013, the Company had no outstanding options to purchase U.S. dollars.

The following table illustrates the effects that hypothetical fluctuations in the exchange rates of the U.S. dollar and the Euro relative to the Mexican peso, and the U.S. dollar relative to the Brazilian reais and Colombian peso, would have on our equity and profit or loss:

Foreign Currency Risk <sup>(1)</sup>	Change in Exchange Rate	Effect on Equity	Effect on Profit or Loss
<b>2015</b>			
FEMSA <sup>(2)</sup>	+14%MXN/EUR	Ps. (319)	Ps.
	-14% MXN/EUR	319	
	+10%CLP/USD	(9)	
	-10% CLP/USD		
Coca-Cola FEMSA	+11%MXN/USD	(197)	
	+21%BRL/USD	(387)	
	+17%COP/USD	(113)	
	+36%ARS/USD	(231)	
	-11%MXN/USD	197	
	-21%BRL/USD	387	
	-17%COP/USD	113	
	-36%ARS/USD	231	
<b>2014</b>			
FEMSA <sup>(2)</sup>	+9%MXN/EUR	Ps. (278)	Ps.
	-9% MXN/EUR	278	
Coca-Cola FEMSA	+7%MXN/USD	119	
	+14%BRL/USD	96	
	+9%COP/USD	42	
	+11%ARS/USD	22	
	-7%MXN/USD	(119)	
	-14%BRL/USD	(96)	
	-9%COP/USD	(42)	
	-11%ARS/USD	(22)	
<b>2013</b>			
FEMSA <sup>(2)</sup>	+7%MXN/EUR	Ps. (157)	Ps.
	-7% MXN/EUR	157	
Coca-Cola FEMSA	+11%MXN/USD	67	
	+13%BRL/USD	86	
	+6%COP/USD	19	
	-11%MXN/USD	(67)	
	-13%BRL/USD	(86)	

- (1) Includes the sensitivity analysis effects of all derivative financial instruments related to foreign exchange risk.
- (2) The sensitivity analysis effects include all subsidiaries of the Company, except Coca-Cola FEMSA.



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As of December 31, 2015, we had (i) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,711 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 1,159 million; (ii) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 30,714 million that expire in 2018, for which we have recorded a net fair value asset of Ps. 2,216 million; (iii) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 4,034 million that expire in 2020, for which we have recorded a net fair value liability of Ps. 116 million; and (iv) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 12,670 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 4,859 million.

As of December 31, 2014, we had (i) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 30 million that expire in 2015, for which we have recorded a net fair value asset of Ps. 6 million; (ii) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,711 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 1,209 million; (iii) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 33,410 million that expire in 2018, for which we have recorded a net fair value asset of Ps. 3,002 million; (iv) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 369 million that expire in 2019, for which we have recorded a net fair value asset of Ps. 15 million; (v) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 12,670 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 2,060 million.

As of December 31, 2013, we had (i) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 50 million that expire in 2014, for which we have recorded a net fair value asset of Ps. 5 million; (ii) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 83 million that expire in 2015, for which we have recorded a net fair value asset of Ps. 11 million; (iii) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,500 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 1,142 million; (iv) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 5,884 million that expire in 2018, for which we have recorded a net fair value asset of Ps. 156 million; (v) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 11,403 million that expire in 2023, for which we have recorded a net fair value liability of Ps. 394 million. As of December 31, 2013, we had (i) cross currency swaps designated as cash flow hedges under contracts with an aggregate notional amount of Ps. 1,308 million that expire in 2014, for which we have recorded a net fair value asset of Ps. 13 million; (ii) cross currency swaps designated as cash flow hedges under contracts with an aggregate notional amount of Ps. 211 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 38 million; (iii) cross currency swaps designated as cash flow hedges under contracts with an aggregate notional amount of Ps. 18,046 million that expire in 2018, for which we have recorded a net fair value liability of Ps. 981 million; (iv) cross currency swaps designated as cash flow hedges under contracts with an aggregate notional amount of Ps. 1,267 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 44 million.

For the years ended December 31, 2015, 2014, and 2013, certain cross currency swap instruments did not meet the hedging criteria for accounting purposes; consequently, changes in the estimated fair value were recorded in the income statement. The changes in fair value of these contracts represented a loss of Ps. 20 million in 2015 and a gain of Ps. 59 million in 2014 and Ps. 33 million in 2013.

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A hypothetical, instantaneous and unfavorable 10% devaluation of the Mexican peso relative to the U.S. dollar occurring on December 31, 2015 would result in a foreign exchange loss decreasing our consolidated net income by approximately Ps. 927 million over the 12-month period of 2016, 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 15, 2016, 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, 2015, were as follows:

Country	Currency	Exchange Rate as of April 15, 2016	(Devaluation) / Revaluation
Mexico	Mexican peso	17.49	1.6%
Brazil	Brazilian reais	3.53	(9.7)%
Venezuela	Bolívar fuerte	339.45 <sup>(1)</sup>	70.8%
Colombia	Colombian peso	3,000.78	(4.7)%
Argentina	Argentine peso	14.30	9.6%
Costa Rica	Colón	541.79	(0.6)%
Guatemala	Quetzal	7.74	1.5%
Nicaragua	Cordoba	28.33	1.4%
Panama	U.S. dollar	1.00	0.0%
Euro Zone	Euro	0.88	(2.8)%
Peru	Nuevo sol	3.28	(3.9)%
Chile	Chilean peso	668.38	(5.5)%

(1) DICOM exchange rate.

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A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the currencies in each of the countries where we operate, relative to the U.S. dollar, occurring on December 31, 2015, 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	693
Brazil	Brazilian reais	1,795
Venezuela	Bolívar fuerte	268
Colombia	Colombian peso	884
Costa Rica	Colón	357
Argentina	Argentine peso	123
Guatemala	Quetzal	86
Nicaragua	Cordoba	83
Panama	U.S. dollar	228
Peru	Nuevo sol	22
Chile	Chilean peso	558
Euro Zone	Euro	8,300

**Equity Risk**

As of December 31, 2015, 2014 and 2013, we did not have any equity derivative agreements, other than as described in Notes 4.1 and 20.7 of our audited consolidated financial statements.

**Commodity Price Risk**

We entered into various derivative contracts to hedge the cost of certain raw materials that are exposed to variations of commodity price exchange rates. As of December 31, 2015, we had various derivative instruments contracts with maturity dates through 2016, notional amounts of Ps. 1,933 million and a fair value liability of Ps. 274 million. The results of our commodity price contracts for the years ended December 31, 2015, 2014, and 2013, were a loss of Ps. 619 million, Ps. 291 million, and Ps. 362 million, respectively, which were recorded in the results of each year.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****ITEM 12A. DEBT SECURITIES**

Not applicable.

**ITEM 12B. WARRANTS AND RIGHTS**

Not applicable.

**ITEM 12C. OTHER SECURITIES**

Not applicable.

**ITEM 12D. AMERICAN DEPOSITARY SHARES**

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The Bank of New York Mellon serves as the 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.

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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.

<b>Depositary service</b>	<b>Fee payable by ADS holders</b>
Issuance and delivery of ADSs, including in connection with share distributions, stock splits	Up to US\$ 5.00 per 100 ADSs (or portion thereof)
Distribution of dividends <sup>(1)</sup>	Up to US\$ 0.02 per ADS
Withdrawal of shares underlying ADSs	Up to US\$ 5.00 per 100 ADSs (or portion thereof)

(1) As of the date of this annual report, holders of our ADSs were not required to pay additional fees with respect to this service.

**Direct and indirect payments by the 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, 2015, this amount was US\$ 493,005.50.

**ITEMS 13-14. NOT APPLICABLE**

**ITEM 15. CONTROLS AND PROCEDURES**

**(a) Disclosure Controls and Procedures**

We have evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2015. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (or the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**(b) Management's annual report on internal control over financial reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework, as issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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



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fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the 2013 framework in Internal Controls Integrated Framework, as issued by the Committee of Sponsoring Organizations of the Treadway Commission, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

Our management's assessment and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2015 excludes, in accordance with applicable guidance provided by the SEC, an assessment of the internal control over financial reporting of Grupo Socofar, which we acquired in September 2015 and other businesses acquired in 2015 by us. These acquisitions collectively represented 4.2% and 1.6% of our total and net assets, respectively, as of December 31, 2015, and 8.6% and 2% of our revenues and net income, respectively, for the year ended December 31, 2015. No material changes in our internal control over financial reporting were identified as a result of these transactions.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Mancera, S.C., a member practice of Ernst & Young Global, an independent registered public accounting firm, as stated in its report included herein.

**(c) Attestation Report of the Registered Public Accounting Firm**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING**

The Board of Directors and Shareholders of

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

We have audited Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the 2013 Framework) (the COSO criteria). Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standard Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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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 Socofar S.A. and its subsidiaries (collectively Grupo Socofar) which was acquired on September 2015 and other businesses acquired in 2015, which are included in the 2015 consolidated financial statements of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries, and constituted 4.2% and 1.6% of Fomento Económico Mexicano, S.A.B. de C.V.'s total and net assets respectively, as of December 31, 2015 and 8.6% and 2.0% of revenues and net income respectively, for the year then ended. Our audit of internal control over financial reporting of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries, also did not include an evaluation of the internal control over financial reporting of Grupo Socofar and these other businesses.

In our opinion, Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015 and our report dated April 20, 2016 expressed an unqualified opinion thereon.

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

/s/ Agustín Aguilar Laurents

Monterrey, N.L., México

April 20, 2016

### **(d) Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our shareholders and our board of directors have designated José Manuel Canal Hernando, an independent director under the Mexican Securities Law and applicable U.S. Securities Laws and NYSE listing standards, as an audit committee financial expert within the meaning of this Item 16A. See **Item 6. Directors, Senior Management and Employees Directors**.

### **ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics, within the meaning of this Item 16B of Form 20-F. Our code of ethics applies to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at [www.femsa.com](http://www.femsa.com). If we amend the provisions of our code of ethics that apply to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**Table of Contents****ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Audit and Non-Audit Fees**

For the fiscal years ended December 31, 2015, 2014 and 2013, 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 2015, 2014 and 2013 by Mancera, S.C., which is an independent registered public accounting firm, during the fiscal years ended December 31, 2015, 2014 and 2013:

	Year ended December 31,		
	2015	2014	2013
	(in millions of Mexican pesos)		
Audit fees	Ps. 101	Ps. 101	Ps. 101
Audit-related fees	2	3	10
Tax fees	7	15	12
Other fees	36	5	6
<b>Total</b>	<b>Ps. 146</b>	<b>Ps. 124</b>	<b>Ps. 129</b>

*Audit fees.* Audit fees in the above table represent the aggregate fees billed in connection with the audit of our annual financial statements, as well as to other limited procedures in connection with our quarterly financial information and other statutory and regulatory audit activities.

*Audit-related fees.* Audit-related fees in the above table are the aggregate fees billed for assurance and other services related to the performance of the audit, mainly in connection with bond issuance processes and other special audits and reviews.

*Tax fees.* Tax fees in the above table are fees billed for services based upon existing facts and prior transactions in order to document, compute, and obtain government approval for amounts included in tax filings such as value-added tax return assistance and transfer pricing documentation.

*Other fees.* Other fees in the above table include mainly fees billed for due diligence services.

**Audit Committee Pre-Approval Policies and Procedures**

We have adopted pre-approval policies and procedures under which all audit and non-audit services provided by our external auditors must be pre-approved by the audit committee as set forth in the Audit Committee's charter. Any service proposals submitted by external auditors need to be discussed and approved by the Audit Committee during its meetings, which take place at least four times a year. Once the proposed service is approved, we or our subsidiaries formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our Audit Committee. In addition, the members of our board of directors are briefed on matters discussed by the different committees of our board of directors.

**Table of Contents****ITEM 16D. NOT APPLICABLE****ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

We did not purchase any of our equity securities in 2015. 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 2015	1,491,330	Ps. 129.76		

**ITEM 16F. NOT APPLICABLE****ITEM 16G. CORPORATE GOVERNANCE**

Pursuant to Rule 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Mexican corporation with shares listed on the Mexican Stock Exchange. Our corporate governance practices are governed by our bylaws, the Mexican Securities Law and the regulations issued by the CNBV. We also disclose the extent of compliance with the *Código de Mejores Prácticas Corporativas* (Mexican Code of Best Corporate Practices), which was created by a group of Mexican business leaders and was endorsed by the *Bolsa Mexicana de Valores*, or BMV.

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The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

**NYSE Standards**

**Directors independence:** A majority of the board of directors must be independent.

**Executive sessions:** Non-management directors must meet at regularly scheduled executive sessions without management.

**Nominating/Corporate Governance Committee:** A nominating/corporate governance committee composed entirely of independent directors is required.

**Our Corporate Governance Practices**

**Directors independence:** Pursuant to the Mexican Securities Law, we are required to have a board of directors with a maximum of 21 members, 25% of whom must be independent.

The Mexican Securities Law sets forth, in article 26, the definition of independence, which differs from the one set forth in Section 303A.02 of the Listed Company Manual of the NYSE. Generally, under the Mexican Securities Law, a director is not independent if such director: (i) is an employee or a relevant officer of the company or its subsidiaries; (ii) is an individual with significant influence over the company or its subsidiaries; (iii) is a shareholder or participant of the controlling group of the company; (iv) is a client, supplier, debtor, creditor, partner or employee of an important client, supplier, debtor or creditor of the company; or (v) is a family member of any of the aforementioned persons.

In accordance with the Mexican Securities Law, our shareholders are required to make a determination as to the independence of our directors at an ordinary meeting of our shareholders, though the CNBV may challenge that determination. Our board of directors is not required to make a determination as to the independence of our directors.

**Executive sessions:** Under our bylaws and applicable Mexican law, our non-management and independent directors are not required to meet in executive sessions.

Our bylaws state that the board of directors will meet at least four times a year, following the end of each quarter, to discuss our operating results and progress in achieving strategic objectives. Our board of directors can also hold extraordinary meetings.

**Nominating/Corporate Governance Committee:** We are not required to have a nominating committee, and the Mexican Code of Best Corporate Practices does not provide for a nominating committee.

However, Mexican law requires us to have a Corporate Practices Committee. Our Corporate Practices Committee is composed of three members, and as required by the Mexican Securities Law and our bylaws, the three members are independent, and its chairman is elected at the shareholders meeting.

**Compensation Committee:** A compensation committee composed entirely independent directors is required.

**Compensation Committee:** We do not have a committee that exclusively oversees compensation issues. Our Corporate Practices Committee, composed entirely of independent directors, reviews and recommends management compensation programs in order to ensure that they are aligned with shareholders' interests and corporate performance.

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**NYSE Standards**

**Audit Committee:** Listed companies must have an audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the NYSE independence standards.

**Equity compensation plan:** Equity compensation plans require shareholder approval, subject to limited exemptions.

**Code of business conduct and ethics:** Corporate governance guidelines and a code of conduct and ethics are required, with disclosure of any waiver for directors or executive officers.

**Our Corporate Governance Practices**

**Audit Committee:** We have an Audit Committee of four members, as required by the Mexican Securities Law. Each member of the Audit Committee is an independent director, and its chairman is elected at the shareholders' meeting.

**Equity compensation plan:** Shareholder approval is not required under Mexican law or our bylaws for the adoption and amendment of an equity compensation plan. Such plans should provide for general application to all executives. Our current equity compensation plans have been approved by our board of directors.

**Code of business conduct and ethics:** We have adopted a code of ethics, within the meaning of Item 16B of SEC Form 20-F. Our code of ethics applies to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at [www.femsa.com](http://www.femsa.com). If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**ITEM 16H. NOT APPLICABLE**

**ITEM 17. NOT APPLICABLE**

**ITEM 18. FINANCIAL STATEMENTS**  
**See pages F-1 through F-106, incorporated herein by reference.**

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**ITEM 19. EXHIBITS**

- 1.1 Bylaws (estatutos sociales) of Fomento Económico Mexicano, S.A.B. de C.V., approved on April 22, 2008, together with an English translation thereof (incorporated by reference to Exhibit 1.1 of FEMSA's Annual Report on Form 20-F filed on June 30, 2008 (File No. 333-08752)).
- 1.2 Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Emprex and FEMSA dated as of January 11, 2010 (incorporated by reference to Exhibit 1.2 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 (File No. 333-08752)).
- 1.3 First Amendment to Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Emprex and FEMSA dated as of April 26, 2010 (incorporated by reference to Exhibit 1.3 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 (File No. 333-08752)).
- 1.4 Corporate Governance Agreement, dated April 30, 2010, between Heineken Holding N.V., Heineken N.V., L Arche Green N.V., FEMSA and CB Equity. (incorporated by reference to Exhibit 1.4 of FEMSA's Annual Report on Form 20-F filed on April 27, 2012 (File No. 333-08752)).
- 2.1 Deposit Agreement, as further amended and restated as of May 11, 2007, among FEMSA, The Bank of New York Mellon (formerly The Bank of New York), and all owners and holders from time to time of any American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to FEMSA's registration statement on Form F-6 filed on April 30, 2007 (File No. 333-142469)).
- 2.2 Specimen certificate representing a BD Unit, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, together with an English translation (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- 2.3 Indenture dated as of February 5, 2010 among Coca-Cola FEMSA and The Bank of New York Mellon (incorporated by reference to Exhibit 2.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- 2.4 First Supplemental Indenture dated as of February 5, 2010 among Coca-Cola FEMSA and The Bank of New York Mellon and the Bank of New York Mellon (Luxembourg) S.A. (incorporated by reference to Exhibit 2.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- 2.5 Second Supplemental Indenture dated as of April 1, 2011 among Coca-Cola FEMSA, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), as Guarantor, and The Bank of New York Mellon (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 17, 2011 (File No. 001-12260)).
- 2.6 Indenture dated as of April 8, 2013 between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent, and Transfer Agent (incorporated by reference to Exhibit 4.1 of FEMSA's registration statement on Form F-3 filed on April 9, 2013 (File No. 333-187806)).
- 2.7 First Supplemental Indenture, dated as of May 10, 2013, between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent and Transfer Agent, and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish Paying Agent, including the form of global note therein (incorporated by reference to Exhibit 1.4 to FEMSA's registration statement on Form 8-A filed on May 17, 2013 (File No. 001-35934)).
- 2.8 Third Supplemental Indenture dated as of September 6, 2013 among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), as existing guarantor, Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S.A. de C.V., as additional guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 (File No.333-187275)).

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- 2.9 Fourth Supplemental Indenture dated as of October 18, 2013 among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S.A. de C.V., as existing guarantors, Controladora Interamericana de Bebidas, S. de R.L. de C.V., as additional guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 (File No. 333-187275)).
- 2.10 Fifth Supplemental Indenture dated as of November 26, 2013 among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S.A. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on December 5, 2013 (File No.1-2260)).
- 2.11 Sixth Supplemental Indenture dated as of January 21, 2014 among Coca-Cola FEMSA, as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S.A. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on January 27, 2014 (File No.1-2260)).
- 2.12 Seventh Supplemental Indenture dated as of November 23, 2015 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V., as successor guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 2.9 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 15, 2016 (File No. 1-12260)).
- 2.13 Second Supplemental Indenture, dated as of March 18, 2016, between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent and Transfer Agent, and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish Paying Agent, including the form of global note therein.
- 3.1 Amended Voting Trust Agreement among certain principal shareholders of FEMSA together with an English translation (incorporated by reference to FEMSA's Schedule 13D as amended filed on August 11, 2005 (File No. 005-54705)).
- 4.1 Amended and Restated Shareholders' Agreement, dated as of July 6, 2002, by and among CIBSA, Emprex, The Coca-Cola Company and Inmex (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).
- 4.2 Amendment, dated May 6, 2003, to the Amended and Restated Shareholders' Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. (incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).
- 4.3 Second Amendment, dated February 1, 2010, to the Amended and Restated Shareholders' Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex and Dulux CBAI 2003 B.V. (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).



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- 4.4 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- 4.5 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
- 4.6 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- 4.7 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
- 4.8 Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.9 Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.10 Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.11 Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.12 Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- 4.13 Supply Agreement, dated June 21, 1993, between Coca-Cola FEMSA and FEMSA Empaques (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- 4.14 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico (English translation) (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
- 4.15 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Bajio, S.A. de C.V., and The Coca-Cola Company with respect to operations in Bajio, Mexico (English translation). (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
- 4.16 Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to FEMSA's Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).

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- 4.17 Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administración de Marcas, S.A. de C.V., as proprietor, and The Coca-Cola Export Corporation Mexico branch, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).
- 4.18 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo, S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.19 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajio, S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.20 Supply Agreement dated April 3, 1998, between ALPLA Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).
- 4.21 Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA and FEMSA Logística (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- 4.22 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajio, S.A. de C.V. (with English translation) (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.23 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo, S.A. de C.V. (with English translation) (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.24 Memorandum of Understanding, dated as of March 11, 2003, by and among Panamco, as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.25 Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
- 4.26 Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
- 4.27 The Coca-Cola Company Memorandum to Steve Heyer from Jose Antonio Fernández, dated December 22, 2002 (incorporated by reference to Exhibit 10.1 to FEMSA's Registration Statement on Amendment No. 1 to the Form F-3 filed on September 20, 2004 (File No. 333-117795)).
- 4.28 Shareholders Agreement dated as of January 25, 2013, by and among CCFPI, Coca-Cola South Asia Holdings, Inc., Coca-Cola Holdings (Overseas) Limited and Controladora de Inversiones en Bebidas Refrescantes, S.L. (incorporated by reference to Exhibit 4.27 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on March 15, 2013 (File No. 1-12260)).
- 8.1 Significant Subsidiaries.
- 12.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 20, 2016.
- 12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 20, 2016.
- 13.1 Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 20, 2016.

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**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 20, 2016

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

By: /s/ Miguel Eduardo Padilla Silva  
Miguel Eduardo Padilla Silva

Chief Financial and Corporate Officer

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**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES**

**MONTERREY, N.L., MÉXICO**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of

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

We have audited the accompanying consolidated statements of financial position of Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries as of December 31, 2015 and 2014, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Heineken N.V. (a corporation in which the Company has a 12.53% interest) which is majority owned by Heineken Holding N.V. (a corporation in which the Company has a 14.94% interest) (collectively "Heineken"). In the consolidated financial statements, the Company's investment in Heineken includes Ps. 51,265 ( . 2,707) and Ps. 44,491 ( . 2,482) million at December 31, 2015 and 2014, respectively, and equity in the net income of Heineken of Ps. 6,567 ( . 378) Ps. 5,362 ( . 303) and Ps. 4,680 ( . 273) million for the three years in the period ended December 31, 2015, which are exclusive of the impact of goodwill and other adjustments recorded by the Company. The financial statements of Heineken N.V., which reflect the amounts listed above, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts specified above, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries' internal control over financial reporting as of December 31, 2015, 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 20, 2016 expressed an unqualified opinion thereon.

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

/s/ Agustin Aguilar Laurents

Monterrey, N.L., México

April 20, 2016

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As of December 31, 2015 and 2014.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

	Note	December 2015 (*)	December 2015	December 2014
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	5	\$ 1,710	Ps. 29,396	Ps. 35,497
Investments	6	1	19	144
Accounts receivable, net	7	1,047	18,012	13,842
Inventories	8	1,435	24,680	17,214
Recoverable taxes		497	8,544	8,030
Other current financial assets	9	141	2,418	2,597
Other current assets	9	213	3,654	1,788
Total current assets		5,044	86,723	79,112
Investments in associates and joint ventures	10	6,498	111,731	102,159
Property, plant and equipment, net	11	4,670	80,296	75,629
Intangible assets, net	12	6,301	108,341	101,527
Deferred tax assets	24	482	8,293	6,278
Other financial assets	13	521	8,955	6,551
Other assets, net	13	289	4,993	4,917
<b>TOTAL ASSETS</b>		<b>\$ 23,805</b>	<b>Ps. 409,332</b>	<b>Ps. 376,173</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities:</b>				
Bank loans and notes payable	18	\$ 130	Ps. 2,239	Ps. 449
Current portion of long-term debt	18	213	3,656	1,104
Interest payable		35	597	482
Suppliers		2,080	35,773	26,467
Accounts payable		537	9,236	7,778
Taxes payable		531	9,136	8,177
Other current financial liabilities	25	274	4,709	4,862
Total current liabilities		3,800	65,346	49,319
<b>Long-Term Liabilities:</b>				
Bank loans and notes payable	18	5,000	85,969	82,935
Post-employment and other long-term employee benefits	16	246	4,229	4,207
Deferred tax liabilities	24	362	6,230	3,643
Other financial liabilities	25	29	495	328
Provisions and other long-term liabilities	25	303	5,207	5,619
Total long-term liabilities		5,940	102,130	96,732

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Total liabilities		<b>9,740</b>	<b>167,476</b>	146,051
<b>Equity:</b>				
Controlling interest:				
Capital stock		<b>195</b>	<b>3,348</b>	3,347
Additional paid-in capital		<b>1,501</b>	<b>25,807</b>	25,649
Retained earnings		<b>9,103</b>	<b>156,532</b>	147,122
Cumulative other comprehensive (loss)		<b>(243)</b>	<b>(4,163)</b>	(5,645)
Total controlling interest		<b>10,556</b>	<b>181,524</b>	170,473
Non-controlling interest in consolidated subsidiaries	21	<b>3,509</b>	<b>60,332</b>	59,649
Total equity		<b>14,065</b>	<b>241,856</b>	230,122
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 23,805</b>	<b>Ps. 409,332</b>	Ps. 376,173

(\*) 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.**

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Income Statements*

For the years ended December 31, 2015, 2014 and 2013.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.), except per share amounts.

	Note	2015 (*)	2015	2014	2013
Net sales		\$ 18,078	Ps. 310,849	Ps. 262,779	Ps. 256,804
Other operating revenues		43	740	670	1,293
<b>Total revenues</b>		<b>18,121</b>	<b>311,589</b>	263,449	258,097
Cost of goods sold		10,957	188,410	153,278	148,443
<b>Gross profit</b>		<b>7,164</b>	<b>123,179</b>	110,171	109,654
Administrative expenses		681	11,705	10,244	9,963
Selling expenses		4,442	76,375	69,016	69,574
Other income	19	24	423	1,098	651
Other expenses	19	(159)	(2,741)	(1,277)	(1,439)
Interest expense	18	(452)	(7,777)	(6,701)	(4,331)
Interest income		59	1,024	862	1,225
Foreign exchange loss, net		(69)	(1,193)	(903)	(724)
Monetary position loss, net		(2)	(36)	(319)	(427)
Market value gain on financial instruments		21	364	73	8
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method		1,463	25,163	23,744	25,080
Income taxes	24	461	7,932	6,253	7,756
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	10	352	6,045	5,139	4,831
<b>Consolidated net income</b>		<b>\$ 1,354</b>	<b>Ps. 23,276</b>	Ps. 22,630	Ps. 22,155
Attributable to:					
Controlling interest		1,029	17,683	16,701	15,922
Non-controlling interest		325	5,593	5,929	6,233
<b>Consolidated net income</b>		<b>\$ 1,354</b>	<b>Ps. 23,276</b>	Ps. 22,630	Ps. 22,155
Basic net controlling interest income:					
Per series B share	23	\$ 0.05	Ps. 0.88	Ps. 0.83	Ps. 0.79
Per series D share	23	0.06	1.10	1.04	1.00
Diluted net controlling interest income:					
Per series B share	23	0.05	0.88	0.83	0.79
Per series D share	23	0.06	1.10	1.04	0.99



(\*) Convenience translation to U.S. dollars (\$) See Note 2.2.3

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

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**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Statements of Comprehensive Income*

For the years ended December 31, 2015, 2014 and 2013.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

	Note	2015 (*)	2015	2014	2013
Consolidated net income		\$ 1,354	Ps. 23,276	Ps. 22,630	Ps. 22,155
Other comprehensive income:					
Items that may be reclassified to consolidated net income, net of tax:					
Unrealized loss on available for sale securities					(2)
Valuation of the effective portion of derivative financial instruments		7	122	493	(246)
Exchange differences on the translation of foreign operations and associates		(129)	(2,234)	(12,256)	1,151
Share of other comprehensive income (loss) of associates and joint ventures	10	16	282	1,322	(3,120)
Total items that may be reclassified		(106)	(1,830)	(10,441)	(2,217)
Items that will not be reclassified to consolidated net income in subsequent periods, net of tax:					
Remeasurements of the net defined benefit share of other comprehensive income (loss) of associates and joint ventures		10	169	(881)	491
Remeasurements of the net defined benefit liability		8	144	(361)	(112)
Total items that will not be reclassified		18	313	(1,242)	379
Total other comprehensive loss, net of tax		(88)	(1,517)	(11,683)	(1,838)
Consolidated comprehensive income, net of tax		\$ 1,266	Ps. 21,759	Ps. 10,947	Ps. 20,317
Controlling interest comprehensive income		1,115	19,165	11,283	15,030
Reattribution to non-controlling interest of other comprehensive income by acquisition of Grupo YOLI					(36)
Controlling interest, net of reattribution		\$ 1,115	Ps. 19,165	Ps. 11,283	Ps. 14,994
Non-controlling interest comprehensive income		151	2,594	(336)	5,287
Reattribution from controlling interest of other comprehensive income by acquisition of Grupo YOLI					36
Non-controlling interest, net of reattribution		\$ 151	Ps. 2,594	Ps. (336)	Ps. 5,323
Consolidated comprehensive income, net of tax		\$ 1,266	Ps. 21,759	Ps. 10,947	Ps. 20,317

(\*) 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.**

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**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Statements of Changes in Equity*

For the years ended December 31, 2015, 2014 and 2013.

Amounts expressed in millions of Mexican pesos (Ps.)

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Available for sale Securities	Valuation of the Effective Portion of Derivative Financial Instrument	Exchange Differences on the Translation of Foreign Operations and Associates	Remeasurements of the Net Defined Benefit Liability	Total Controlling Interest	Non-Controlling Interest	Total Equity
<b>Balances at January 1, 2013</b>	Ps. 3,346	Ps. 22,740	Ps. 128,508	Ps. 2	Ps. 349	Ps. 1,961	Ps. (1,647)	Ps. 155,259	Ps. 54,902	Ps. 210,161
Net income			15,922					15,922	6,233	22,155
Other comprehensive income, net of tax				(2)	(170)	(1,214)	458	(928)	(910)	(1,838)
Comprehensive income			15,922	(2)	(170)	(1,214)	458	14,994	5,323	20,317
Dividends declared			(13,368)					(13,368)	(3,125)	(16,493)
Repurchase of shares associated with share-based payment plans		(172)						(172)	(7)	(179)
Acquisition of Grupo Yoli through issuance of Coca-Cola FEMSA shares (see Note 4)		2,865			2	32	2	2,901	5,120	8,021
Other acquisitions (see Note 4)									430	430
Increase in share of non-controlling interest									515	515
Other movements of equity method of associates, net of taxes			(222)					(222)		(222)
<b>Balances at December 31, 2013</b>	<b>3,346</b>	<b>25,433</b>	<b>130,840</b>		<b>181</b>	<b>779</b>	<b>(1,187)</b>	<b>159,392</b>	<b>63,158</b>	<b>222,550</b>
Net income			16,701					16,701	5,929	22,630
Other comprehensive income, net of tax					126	(4,412)	(1,132)	(5,418)	(6,265)	(11,683)
			16,701		126	(4,412)	(1,132)	11,283	(336)	10,947

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Comprehensive income										
Dividends declared								(3,152)		(3,152)
Issuance (repurchase) of shares associated with share-based payment plans	1	216					217	(21)		196
Other movements of equity method of associates, net of taxes							(419)			(419)
<b>Balances at December 31, 2014</b>	3,347	25,649	147,122		307	(3,633)	(2,319)	170,473	59,649	230,122
Net income			17,683					17,683	5,593	23,276
Other comprehensive income, net of tax					299	945	238	1,482	(2,999)	(1,517)
Comprehensive income			17,683		299	945	238	19,165	2,594	21,759
Dividends declared			(7,350)					(7,350)	(3,351)	(10,701)
Issuance of shares associated with share-based payment plans	1	158						159	57	216
Acquisition of Grupo Socofar (see Note 4)									1,133	1,133
Contributions from non-controlling interest									250	250
Other movements of equity method of associates, net of taxes			(923)					(923)		(923)
<b>Balances at December 31, 2015</b>	Ps. 3,348	Ps. 25,807	Ps. 156,532	Ps.	Ps. 606	Ps. (2,688)	Ps. (2,081)	Ps. 181,524	Ps. 60,332	Ps. 241,856

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

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Statements of Cash Flows*

For the years ended December 31, 2015, 2014 and 2013.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

	2015 (*)	2015	2014	2013
<b>Cash flows from operating activities:</b>				
<b>Income before income taxes</b>	<b>\$ 1,815</b>	<b>Ps. 31,208</b>	Ps. 28,883	Ps. 29,911
<b>Adjustments for:</b>				
Non-cash operating expenses	167	2,873	209	752
Employee profit sharing	72	1,243	1,138	1,936
Depreciation	568	9,761	9,029	8,805
Amortization	62	1,064	985	891
(Gain) loss on sale of long-lived assets	(14)	(249)	7	(41)
(Gain) on sale of shares	(1)	(14)		
Disposal of long-lived assets	24	416	153	122
Impairment of long-lived assets	8	134	145	
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	(352)	(6,045)	(5,139)	(4,831)
Interest income	(59)	(1,024)	(862)	(1,225)
Interest expense	452	7,777	6,701	4,331
Foreign exchange loss, net	69	1,193	903	724
Monetary position loss, net	2	36	319	427
Market value (gain) on financial instruments	(21)	(364)	(73)	(8)
Cash flow from operating activities before changes in operating accounts and employee profit sharing	2,792	48,009	42,398	41,794
Accounts receivable and other current assets	(255)	(4,379)	(4,962)	(1,948)
Other current financial assets	18	318	1,736	(1,508)
Inventories	(252)	(4,330)	(1,122)	(1,541)
Derivative financial instruments	26	441	245	402
Suppliers and other accounts payable	323	5,556	6,910	517
Other long-term liabilities	48	822	(2,308)	(109)
Other current financial liabilities	(33)	(570)	793	417
Post-employment and other long-term employee benefits	(22)	(382)	(416)	(317)
Cash generated from operations	2,645	45,485	43,274	37,707
Income taxes paid	(508)	(8,743)	(5,910)	(8,949)
<b>Net cash generated by operating activities</b>	<b>2,137</b>	<b>36,742</b>	37,364	28,758
<b>Cash flows from investing activities:</b>				
Acquisition of Grupo Socofar, net of cash acquired (see Note 4)	(401)	(6,890)		
Acquisition of Grupo Yoli, net of cash acquired (see Note 4)				(1,046)
Acquisition of Companhia Fluminense de Refrigerantes, net of cash acquired (see Note 4)				(4,648)
Acquisition of Spaipa S.A. Industria Brasileira de Bebidas, net of cash acquired (see Note 4)				(23,056)
Other acquisitions, net of cash acquired (see Note 4)	(339)	(5,821)		(3,021)

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Investment in shares of Coca-Cola FEMSA Philippines, Inc. CCFPI (see Note 10)				(8,904)
Other investments in associates and joint ventures	(17)	(291)	90	(335)
Purchase of investments			(607)	(118)
Proceeds from investments	7	126	589	1,488
Interest received	60	1,024	863	1,224
Derivative financial instruments	13	232	(25)	119
Dividends received from associates and joint ventures	139	2,394	1,801	1,759
Property, plant and equipment acquisitions	(1,017)	(17,485)	(16,985)	(16,380)
Proceeds from the sale of property, plant and equipment	37	630	209	252
Acquisition of intangible assets	(56)	(971)	(706)	(1,077)
Investment in other assets	(87)	(1,502)	(796)	(1,436)
Collections of other assets	13	223		
Investment in other financial assets	(2)	(28)	(41)	(52)
<b>Net cash used in investing activities</b>	<b>(1,650)</b>	<b>(28,359)</b>	<b>(15,608)</b>	<b>(55,231)</b>
<b>Cash flows from financing activities:</b>				
Proceeds from borrowings	490	8,422	5,354	78,907
Payments of bank loans	(903)	(15,520)	(5,721)	(39,962)
Interest paid	(265)	(4,563)	(3,984)	(3,064)
Derivative financial instruments	485	8,345	(2,267)	697
Dividends paid	(622)	(10,701)	(3,152)	(16,493)
Contributions from non-controlling interest	15	250		
Increase in shares of non-controlling interest				515
Other financing activities	2	26	482	(16)
<b>Net cash (used in) generated by financing activities</b>	<b>(798)</b>	<b>(13,741)</b>	<b>(9,288)</b>	<b>20,584</b>
(Decrease) increase in cash and cash equivalents	(311)	(5,358)	12,468	(5,889)
Initial balance of cash and cash equivalents	2,064	35,497	27,259	36,521
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies	(43)	(743)	(4,230)	(3,373)
Ending balance of cash and cash equivalents	\$ 1,710	Ps.29,396	Ps. 35,497	Ps. 27,259

(\*) Convenience translation to U.S. dollars (\$) see Note 2.2.3

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

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Notes to the Consolidated Financial Statements*

As of December 31, 2015, 2014 and 2013.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

**Note 1. Activities of the Company**

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

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

Subholding Company	% Ownership		Activities
	December 31, 2015	December 31, 2014	
Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries( Coca-Cola FEMSA )	47.9% <sup>(1)</sup>	47.9% <sup>(1)</sup>	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil, Argentina and Philippines (see Note 10). At December 31, 2015, The Coca-Cola Company (TCCC) indirectly owns 28.1% of Coca-Cola FEMSA's capital stock. In addition, shares representing 24.0% of Coca-Cola FEMSA's capital stock are traded on the Bolsa Mexicana de Valores (Mexican Stock Exchange BMV ) and on the New York Stock Exchange, Inc (NYSE) in the form of American Depositary Shares ( ADS ).
FEMSA Comercio, S.A. de C.V. and subsidiaries ( FEMSA Comercio Retail Division )	100%	100%	Small-box retail chain format operations in Mexico, Colombia and the United States, mainly under the trade name OXXO ; drugstore operations in Chile and Colombia, mainly under the trademark Cruz Verde and Mexico under different brands such as Farmacon, YZA and Moderna.
FEMSA Comercio, S.A. de C.V. and subsidiaries ( FEMSA Comercio Fuel Division )	100%		Retail service stations for fuels, motor oils, lubricants and car care products under the trade name OXXO GAS with operations in Mexico.
CB Equity, LLP ( CB Equity )	100%	100%	This Company holds Heineken N.V. and Heineken Holding N.V. shares, which represents in the aggregate a 20% economic interest in both entities ( Heineken Company ).
Other companies	100%	100%	Companies engaged in the production and distribution of coolers, commercial refrigeration equipment and plastic cases; as well as transportation logistics and maintenance services to FEMSA's



subsidiaries and to third parties.

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

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### **Note 2. Basis of Preparation**

#### *2.1 Statement of compliance*

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

The Company s consolidated financial statements and notes were authorized for issuance by the Company s Chief Executive Officer Carlos Salazar Lomelín and Chief Financial and Corporate Officer Eduardo Padilla Silva on February 19, 2016. Those consolidated financial statements and notes were then approved by the Company s Board of Directors on February 23, 2016 and by the Shareholders on March 8, 2016. The accompanying consolidated financial statements were approved for issuance in the Company s annual report on Form 20-F by the Company s Chief Executive Officer and Chief Financial and Corporate Officer on April 20, 2016, and subsequent events have been considered through that date (See Note 28).

#### *2.2 Basis of measurement and presentation*

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

Available-for-sale investments.

Derivative financial instruments.

Long-term notes payable on which fair value hedge accounting is applied.

Trust assets of post-employment and other long-term employee benefit plans.

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

##### *2.2.1 Presentation of consolidated income statement*

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

##### *2.2.2 Presentation of consolidated statements of cash flows*

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

##### *2.2.3 Convenience translation to U.S. dollars (\$)*

The consolidated financial statements are stated in millions of Mexican pesos ( Ps. ) and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial

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position as of December 31, 2015, the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2015 were converted into U.S. dollars at the exchange rate of 17.1950 Mexican pesos per U.S. dollar as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates as of that date. This arithmetic conversion should not be construed as representation that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate. As explained in Note 2.1 above, as of February 23, 2016 (the issuance date of these financial statements) such exchange rate was Ps. 18.2762 per U.S. dollar, a devaluation of 6.2% since December 31, 2015.

### *2.3 Critical accounting judgments and estimates*

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

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

#### *2.3.1 Key sources of estimation uncertainty*

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

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

Intangible assets with indefinite lives including goodwill are subject to annual impairment tests. An impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. In order to determine whether such assets are impaired, the Company initially calculates an estimation of the value in use of the cash-generating units to which such assets have been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The Company reviews annually the carrying value of its intangible assets with indefinite lives and goodwill for impairment based on recognized valuation techniques. While the Company believes that its estimates are reasonable, different assumptions regarding such estimates could materially affect its evaluations. Impairment losses are recognized in current earnings in the period the related impairment is determined. The key assumptions used to determine the recoverable amount for the Company's CGUs, including a sensitivity analysis, are further explained in Notes 3.16 and 12.

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are

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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.

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

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

### *2.3.1.3 Post-employment and other long-term employee benefits*

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

### *2.3.1.4 Income taxes*

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

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

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

### *2.3.1.6 Valuation of financial instruments*

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

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

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### *2.3.1.7 Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities assumed by the Company to the former owners of 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 at their fair value, except that:

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

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

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

Management's judgment must be exercised to determine the fair value of assets acquired and liabilities assumed.

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

For each business combination, with respect to the non-controlling present ownership interests in the acquiree that entitle their holders to a proportionate share of net assets in liquidation, the Company elects whether to measure such interests at fair value or at the proportionate share of the acquiree's identifiable net assets.

### *2.3.1.8 Investments in associates*

If the Company holds, directly or indirectly, 20 per cent or more of the voting power of the investee, it is presumed that it has significant influence, unless it can be clearly demonstrated that this is not the case. If the Company holds, directly or indirectly, less than 20 per cent of the voting power of the investee, it is presumed that the Company does not have significant influence, unless such influence can be clearly demonstrated. Decisions regarding the propriety of utilizing the equity method of accounting for a less than 20 per cent-owned corporate investee 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;

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Material transactions between the Company and the investee;

Interchange of managerial personnel; or

Provision of essential technical information.

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

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

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

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

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

### *2.3.1.9 Joint arrangements*

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

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

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

As mentioned in Note 10, Coca-Cola FEMSA accounts for its 51% investment at Coca-Cola FEMSA Philippines, Inc. (CCFPI) as a joint venture. This is based on the facts that Coca-Cola FEMSA and TCCC: (i) during the initial four-year period all decisions are taken jointly by Coca-Cola FEMSA and TCCC; and (ii) potential voting rights to acquire the remaining 49% of CCFPI are not probable to be executed in the foreseeable future due to the fact the call option was out of the money as of December 31, 2015 and 2014.

### *2.3.1.10 Venezuela exchange rates and consolidation*

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

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



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### *2.4 Changes in accounting policies*

The Company has adopted the following amendments to IFRS, during 2015:

#### Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements, such as:

The materiality requirements in IAS 1;

That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;

That entities have flexibility as to the order in which they present the notes to financial statements; and

That the share of OCI of associates and joint ventures accounted for using the equity method must be classified as either those items that will be subsequently reclassified to profit or loss and those that will not, and be presented as a single line item within each of those categories.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company adopted these amendments and the only impact on the Company's consolidated financial statements was presentation and disclosure.

### **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;





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Rights arising from other contractual arrangements; and

The Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements of income and comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Consolidated net income and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intercompany assets and liabilities, equity, income, expenses and cash flows have been eliminated in full on consolidation.

### *3.1.1 Acquisitions of non-controlling interests*

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

### *3.2 Business combinations*

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Company. In assessing control, the Company takes into consideration substantive potential voting rights.

The Company measures goodwill at the acquisition date as the fair value of the consideration transferred plus the fair value of any previously-held equity interest in the acquiree and the recognized amount of any non-controlling interests in the acquiree (if any), less the net recognized amount of the identifiable assets acquired and liabilities assumed. If after reassessment, the excess is negative, a bargain purchase gain is recognized in consolidated net income at the time of the acquisition.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts that differ from amounts previously recognized are recognized in consolidated net income of the Company.

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for 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), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

In preparing the financial statements of each individual subsidiary and accounting for investments in associates and joint ventures, transactions in currencies other than the individual entity's functional currency (foreign currencies) are

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recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not remeasured.

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

The variations in the net investment in foreign subsidiaries generated by exchange rate fluctuation which are included as part of the exchange differences on translation of foreign operations within the cumulative other comprehensive income (loss) item, which is recorded in equity.

Intercompany financing balances with foreign subsidiaries are considered as long-term investments when there is no plan to pay such financing in the foreseeable future. Monetary position and exchange rate fluctuation regarding this financing is recorded in the exchange differences on translation of foreign operations within the cumulative other comprehensive income (loss) item, which is recorded in equity.

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

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

For hyperinflationary economic environments, the inflation effects of the origin country are recognized, and subsequently translated into Mexican pesos using the year-end exchange rate for the consolidated statements of financial position and consolidated income statement and comprehensive income; and

For non-hyperinflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month only if the exchange rate does not fluctuate significantly.

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<u>Country or Zone</u>	<u>Functional / Recording Currency</u>	Exchange Rates of Local Currencies Translated to Mexican Pesos				
		Average Exchange Rate for			Exchange Rate as of	
		2015	2014	2013	December 31, 2015	December 31, 2014
Guatemala	Quetzal	<b>2.07</b>	1.72	1.62	<b>2.25</b>	1.94
Costa Rica	Colon	<b>0.03</b>	0.02	0.03	<b>0.03</b>	0.03
Panama	U.S. dollar	<b>15.85</b>	13.30	12.77	<b>17.21</b>	14.72
Colombia	Colombian peso	<b>0.01</b>	0.01	0.01	<b>0.01</b>	0.01
Nicaragua	Cordoba	<b>0.58</b>	0.51	0.52	<b>0.62</b>	0.55
Argentina b)	Argentine peso	<b>1.71</b>	1.64	2.34	<b>1.32</b>	1.72
Venezuela a)	Bolivar	<b>a)</b>	a)	a)	<b>a)</b>	a)
Brazil	Reai	<b>4.81</b>	5.66	5.94	<b>4.41</b>	5.54
Chile	Chilean peso	<b>0.02</b>	0.02	0.03	<b>0.02</b>	0.02
Euro Zone	Euro ( )	<b>17.60</b>	17.66	16.95	<b>18.94</b>	17.93
Philippines	Philippine peso	<b>0.35</b>	0.30	0.30	<b>0.36</b>	0.33

**a) Venezuela**

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

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

As of December 31, 2015 and 2014, the companies in Venezuela were able to convert bolivars to U.S. dollars at one of the following legal exchange rates:

- i) The official exchange rate. Used for transactions involving what the Venezuelan government considers to be essential goods and services. Certain of Coca-Cola FEMSA concentrate purchases from The Coca-Cola Company and other strategic suppliers qualify for such treatment. As of December 31, 2015 and 2014, the official exchange rate was 6.30 bolivars per U.S. dollar.
- ii) SICAD. Used for certain transactions, including payment of services and payments related to foreign investments in Venezuela, determined by the state-run system known as Sistema Complementario de Administración de Divisas or SICAD exchange rate. The SICAD determined this alternative exchange rate based on limited periodic sales of U.S. dollars through auctions. As of December 31, 2015 the SICAD exchange rate was 13.50 bolivars per U.S. dollar (1.27 mexican peso per bolivar) and as of December 31, 2014 the SICAD exchange rate was 12.00 bolivars per U.S. dollar (1.23 mexican peso per bolivar).
- iii) SICAD II. The Venezuelan government enacted a new law in 2014 that authorized an additional method of exchanging Venezuelan bolivars to U.S. dollars. During 2014 and part of 2015 SICAD-II was used for certain types of

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transactions not covered by the official exchange rate or the SICAD exchange rate. The SICAD-II exchange rate as of December 31, 2014 was 49.99 bolivars per U.S. dollar (0.29 mexican peso per bolivar). In February 2015, this exchange rate was eliminated.

- iv) SIMADI. In February 2015, the Venezuelan government enacted a new market-based exchange rate determined by the system known as the Sistema Marginal de Divisas, or SIMADI. The SIMADI determines the exchange rates based on supply and demand of U.S. dollars. The SIMADI exchange rate as of December 31, 2015 was 198.70 bolivars per U.S. dollar (0.09 mexican peso per bolivar).

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

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

As of December 31, 2014, Coca-Cola FEMSA had U.S. \$449 million in monetary liabilities recorded using the official exchange rate, as Coca-Cola FEMSA believes that such items qualify as essential goods and services as explained above. As of December 31, 2015, Coca-Cola FEMSA had U.S. \$418.5 million in monetary liabilities recorded using the official exchange rate and U.S. \$138.7 recorded at SICAD.

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

Step-two.- In order to integrate the results of the Venezuelan operations into the consolidated figures of Coca-Cola FEMSA, such Venezuelan results are translated from Venezuelan bolivars into Mexican pesos. During 2015, Coca-Cola FEMSA used SIMADI exchange rate based on the expectations that this would have been the exchange rate to what dividends will be settled. During 2014, the Company decided to use the SICAD II exchange rate to better reflect the economic conditions in Venezuela at the time. Prior to 2014, the Company used the official exchange rate (6.30 bolivars per U.S. dollar).

**b) Argentina**

Official exchange rates for Argentina are published by the Argentine Central Bank. The Argentine peso has experienced significant devaluation over the past several years and the government has adopted various rules and regulations since late 2011 that established new restrictive controls on capital flows into the country. These enhanced exchange controls have practically closed the foreign exchange market to retail transactions. It is widely reported that the Argentine peso/U.S. dollar exchange rate in the unofficial market substantially differs from the official foreign exchange rate. The Argentine government could impose further exchange controls or restrictions on the movement of capital and take other measures in the future in response to capital flight or a significant depreciation of the Argentine peso.

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On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in other comprehensive income in respect of that operation attributable to the owners of the Company are recognized in the consolidated income statement. The Company continues to monitor all of its foreign operations, but most notably its Venezuela operations for the reasons explained herein. Over the past few years, the Company has accumulated significant amounts of accumulated other comprehensive loss (approximating Ps. 15,536 million) related to such Venezuela operations. To the extent that economic and/or operational conditions were to worsen in the future resulting in a conclusion that the Company no longer controls such operations, such would involve both deconsolidation and an income statement charge for accumulated amounts. There can be no assurances that such might not happen in the future.

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

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

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

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

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

Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, intangible assets, including related costs and expenses when such assets are consumed or depreciated;

Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, net income, retained earnings and items of other comprehensive income by the necessary amount to maintain the purchasing power equivalent in the currency of Venezuela on the dates such capital was contributed or income was generated up to the date of these consolidated financial statements are presented; and

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Including the monetary position gain or loss in consolidated net income. The Company restates the financial information of subsidiaries that operate in a hyperinflationary economic environment (Venezuela) using the consumer price index of that country. The Venezuelan economy's cumulative inflation rate for the period 2013-2015, 2012-2014 and 2011-2013 was 562.9%, 210.2% and 139.3%; respectively.

During 2014, the International Monetary Fund (IMF) issued a declaration of censure and called on Argentina to adopt remedial measures to address the quality of its official inflation data. The IMF noted that alternative data sources have shown considerably higher inflation rates than the official data since 2008. Consumer price data reported by Argentina from January 2014 onwards reflect the new national Consumer Price Index (CPI) which means Índice de Precios al Consumidor Nacional Urbano (IPCNU), which differs substantively from the preceding CPI. Because of the differences in geographical coverage, weights, sampling, and methodology, the IPCNU data cannot be directly compared to the earlier CPI-GBA data.

### *3.5 Cash and cash equivalents and restricted cash*

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

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

### *3.6 Financial assets*

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

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

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

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

#### *3.6.1 Effective interest rate method*

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

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### *3.6.2 Investments*

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

*3.6.2.1* Available-for-sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. These investments are carried at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. Interest and dividends on investments classified as available-for-sale are included in interest income. The fair values of the investments are readily available based on quoted market prices. The exchange effects of securities available for sale are recognized in the consolidated income statement in the period in which they arise.

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

### *3.6.3 Loans and receivables*

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

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. For the years ended December 31, 2015, 2014 and 2013 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 53, Ps. 47 and Ps. 127, respectively.

### *3.6.4 Other financial assets*

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

### *3.6.5 Impairment of financial assets*

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

Evidence of impairment may include indicators as follows:

Significant financial difficulty of the issuer or counterparty; or



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Default or delinquent in interest or principal payments; or

It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

The disappearance of an active market for that financial asset because of financial difficulties.

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

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

No impairment was recognized for the years ended December 31, 2015, 2014 and 2013.

### *3.6.6 Derecognition*

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

The rights to receive cash flows from the financial asset have expired, or

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

### *3.6.7 Offsetting of financial instruments*

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

Currently has an enforceable legal right to offset the recognized amounts; and

Intends to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### *3.7 Derivative financial instruments*

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

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



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### *3.7.1 Hedge accounting*

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

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

### *3.7.2 Cash flow hedges*

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

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

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

### *3.7.3 Fair value hedges*

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

For items which had been accounted for as fair value hedges, and subsequently accounted for as a cash flow hedge and now carried at amortized cost, the adjustment to carrying value to its principal amount 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.

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

### *3.8 Fair value measurement*

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

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

In the principal market for the asset or liability; or

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

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

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

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

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

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

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

### *3.9 Inventories and cost of goods sold*

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

Inventories represent the acquisition or production cost which is incurred when purchasing or producing a product, and are based on the weighted average cost formula. 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 and retail method in FEMSA Comercio Retail Division and FEMSA Comercio Fuel Division.

Cost of goods sold is based on average cost of the inventories at the time of sale.

Cost of goods sold in Coca-Cola FEMSA 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.

Cost of goods sold in FEMSA Comercio Retail Division includes expenses related to the purchase of goods and services used in the sale process of the Company's products.

Cost of goods sold in FEMSA Comercio Fuel Division includes expenses related to the purchase of gasoline, diesel and all engine lubricants used in the sale process of the Company.

### *3.10 Other current assets*

Other current assets, which will be realized within a period of less than one year from the reporting date, are comprised of prepaid assets and 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 paid in advance. These expenses are generally amortized over the period based on the transmission of the television and radio spots. The related production costs are recognized in consolidated net income as incurred.

Coca-Cola FEMSA has agreements with customers for the right to sell and promote Coca-Cola FEMSA's products over a certain period. The majority of these agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract, with amortization presented as a reduction of net sales. During the years ended December 31, 2015, 2014 and 2013, such amortization aggregated to Ps. 317, Ps. 338 and Ps. 696, respectively.

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### *3.11 Investments in associates and joint arrangements*

#### *3.11.1 Investments in associates*

Associates are those entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Investments in associates are accounted for using the equity method and initial recognition comprises the investment's purchase price and any directly attributable expenditure necessary to acquire it.

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

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

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

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

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

#### *3.11.2 Joint arrangements*

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

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method, as described in Note 3.11.1. As of December 31, 2015 and 2014 the Company does not have an interest in joint operations.

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

*3.12 Property, plant and equipment*

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

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

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

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

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

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

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

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

### *Returnable and non-returnable bottles:*

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

Non returnable: Are recorded in consolidated net income at the time of the sale of the product.

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

There are two types of returnable bottles:

Those that are in Coca-Cola FEMSA's control within its facilities, plants and distribution centers; and

Those that have been placed in the hands of customers, and still belong to Coca-Cola FEMSA.

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

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

### *3.13 Borrowing costs*

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

Interest expense; and

Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

### *3.14 Intangible assets*



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Intangible assets are identifiable non monetary assets without physical substance and represent payments whose benefits will be received in future years. Intangible assets acquired separately are measured on initial recognition at cost. The cost of

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intangible assets acquired in a business combination is their fair value as at the date of acquisition (see Note 3.2). Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite, in accordance with the period over which the Company expects to receive the benefits.

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

Information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over their expected useful lives, with a range in useful lives from 3 to 10 years. Expenses that do not fulfill the requirements for capitalization are expensed as incurred.

Long-term alcohol licenses are amortized using the straight-line method over their estimated useful lives, which range between 12 and 15 years, and are presented as part of intangible assets with finite useful lives.

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

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

The Company's intangible assets with an indefinite life mainly consist of rights to produce and distribute Coca-Cola trademark products in the Company's territories. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers.

As of December 31, 2015, Coca-Cola FEMSA had nine bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in May 2016 and June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) three agreements for the Central territory, which are up for renewal in May 2016, July 2016 and May 2025, (iv) the agreement for the Northeast territory, which is up for renewal in May 2016, and (v) two agreements for the Bajío territory, which are up for renewal in May 2016 and May 2025.

As of December 31, 2015, Coca-Cola FEMSA had four bottler agreements in Brazil, which are up for renewal in October 2017 (two agreements) and April 2024 (two agreements); and one bottler agreement in each of Argentina, which is up for renewal in September 2024; Colombia, which is up for renewal in June 2024; Venezuela, which is up for renewal in August 2016; Guatemala, which is up for renewal in March 2025; Costa Rica, which is up for renewal in September 2017; Nicaragua, which is up for renewal in May 2016 and Panama, which is up for renewal in November 2024.

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

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### *3.15 Non-current assets held for sale*

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

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

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

### *3.16 Impairment of non financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest CGUs for which a reasonable and consistent allocation basis can be identified.

For goodwill and other indefinite lived intangible assets, the Company tests for impairment on an annual basis and whenever certain circumstances indicate that the carrying amount of the cash generating unit 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.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in consolidated net income. Impairment losses related to goodwill are not reversible.

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For the year ended December 31, 2015 and 2014, the Company recognized impairment of Ps. 134 and Ps. 145, respectively (see Note 19). No impairment was recognized for the year ended December 31, 2013.

### *3.17 Leases*

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

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

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

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

### *3.18 Financial liabilities and equity instruments*

#### *3.18.1 Classification as debt or equity*

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

#### *3.18.2 Equity instruments*

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

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

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### *3.18.3 Financial liabilities*

#### *Initial recognition and measurement*

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

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

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

#### *Subsequent measurement*

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

### *3.18.4 Loans and borrowings*

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

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

### *3.18.5 Derecognition*

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

### *3.19 Provisions*

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

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

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

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

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

### *3.20 Post-employment and other long-term employee benefits*

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

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

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

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

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

- a) When it can no longer withdraw the offer of those benefits; or
- b) When it recognizes costs for a restructuring that is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits.

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

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

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

### *3.21 Revenue recognition*

Sales of products are recognized as revenue upon delivery to the customer, and once all the following conditions are satisfied:

The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

The amount of revenue can be measured reliably;

It is probable that the economic benefits associated with the transaction will flow to the Company; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

### *Rendering of services and other*

Revenue arising from services of sales of waste material and packing of raw materials are recognized in the other operating revenues caption in the consolidated income statement.





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

- a) The amount of revenue can be measured reliably;
  - b) It is probable that the economic benefits associated with the transaction will flow to the entity.
- Interest income*

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

The amount of the revenue can be measured reliably; and

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

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

### *3.22 Administrative and selling expenses*

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

Selling expenses include:

Distribution: labor costs (salaries and other related benefits), outbound freight costs, warehousing costs of finished products, write off of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2015, 2014 and 2013, these distribution costs amounted to Ps. 20,205, Ps. 19,236 and Ps. 17,971, respectively;

Sales: labor costs (salaries and other benefits, including PTU) and sales commissions paid to sales personnel; and

Marketing: promotional expenses and advertising costs.

PTU is paid by the Company's Mexican subsidiaries to its eligible employees. In Mexico, employee profit sharing is computed at the rate of 10% of the individual company taxable income, except for considering cumulative dividends received from resident legal persons in Mexico, depreciation of historical rather tax restated values, foreign exchange gains and losses, which are not included until the asset is disposed of or the liability is due and other effects of inflation are also excluded. As of January 1, 2014, PTU in Mexico will be 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.



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### *3.23 Income taxes*

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

#### *3.23.1 Current income taxes*

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

#### *3.23.2 Deferred income taxes*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized and if any, future benefits from tax loss carry forwards and certain tax credits. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from initial recognition of goodwill (no recognition of deferred tax liabilities) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, except in the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

In Mexico, the income tax rate is 30% for 2013, 2014 and 2015, and as result of Mexican Tax Reform for 2014, it will remain at 30% for the following years (see Note 24).

### *3.24 Share-based payments arrangements*

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

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

### *3.25 Earnings per share*

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

### *3.26 Issuance of subsidiary stock*

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

## **Note 4. Mergers and Acquisitions**

### *4.1 Mergers and acquisitions*

The Company has had certain mergers and acquisitions for the years 2015, 2014 and 2013; which were recorded using the acquisition method of accounting. The results of the acquired operations have been included in the consolidated financial statements since the date on which the Company obtained control of the business, as disclosed below. Therefore, the consolidated income statements and the consolidated statements of financial position in the years of such acquisitions are

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not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2015 and 2013 show the cash outflow for the merged and acquired operations net of the cash acquired related to those mergers and acquisitions. For the year ended December 31, 2014, the Company did not have any acquisitions or mergers.

While the acquired companies disclosed below, from Note 4.1.2 to Note 4.1.4, represent bottlers of Coca-Cola trademarked beverages, such entities were not under common ownership control prior to their acquisition.

*4.1.1 Acquisition of Grupo Socofar*

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

FEMSA Comercio Retail Division is currently in the process of allocating to all assets acquired and liabilities assumed in the acquisition the consideration transferred as the sum of the acquisition-date fair values of the net assets acquired because it is conducting a detailed review process. FEMSA Comercio Retail Division expects to finish the allocation during the following year but before the measurement period allowed by IFRS; preliminary estimate of fair value of Socofar's net assets acquired is as follows.

	<b>2015</b>
Total current assets (including cash acquired of Ps. 795)	<b>Ps. 10,499</b>
Total non-current assets	<b>3,875</b>
<b>Total assets</b>	<b>14,374</b>
Total liabilities	<b>(11,555)</b>
<b>Net assets acquired</b>	<b>2,819</b>
Goodwill	<b>5,994</b>
Non-controlling interest <sup>(1)</sup>	<b>(1,128)</b>
<b>Total consideration transferred</b>	<b>Ps. 7,685</b>

(1) Measured at the proportionate share of the acquiree's identifiable net assets.

FEMSA Comercio Retail Division expects to recover the amount recorded as goodwill through synergies related to the implementation of successful practices from its existing Mexican operations such as speed and quality in execution of the customer's value proposition and growth. Goodwill has been allocated to FEMSA Comercio's Pharma & Beauty cash generating unit.

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

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

FEMSA Comercio entered into option transactions regarding the remaining 40% non-controlling interest not held by FEMSA Comercio. The former controlling shareholders of Socofar may be able to put some or all of that interest to FEMSA Comercio beginning (i) 42-months after the initial acquisition, upon the occurrence of certain events and (ii) 60 months after the initial acquisition. In any event, FEMSA Comercio can call the remaining 40% non-controlling interest beginning on the seventh anniversary of the initial acquisition date. Both of these options would be exercisable at the then fair value of the interest and shall remain indefinitely. Given that these options are exercisable at the then fair value on exercise date, their value is not significant at the acquisition date and at December 31, 2015.

**4.1.2 Acquisition of Grupo Spaipa**

On October 29, 2013, Coca-Cola FEMSA through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Grupo Spaipa and three holding companies (collectively Spaipa) and was acquired for Ps. 26,856 in an all cash transaction. Spaipa was a bottler of Coca-Cola trademark products which operated mainly in Sao Paulo and Paraná, Brazil. This acquisition was made to reinforce Coca-Cola FEMSA's leadership position in Brazil. Transaction related costs of Ps. 8 were expensed by the Company as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Spaipa was included in operating results from November 2013.

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

Total current assets (including cash acquired of Ps. 3,800)	<b>Ps. 5,918</b>
Total non-current assets	<b>5,090</b>
Distribution rights	<b>11,872</b>
Total assets	<b>22,880</b>
Total liabilities	<b>(6,807)</b>
Net assets acquired	<b>16,073</b>
Goodwill	<b>10,783</b>
Total consideration transferred	<b>Ps. 26,856</b>

Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to Coca-Cola FEMSA's cash generating unit in Brazil. The goodwill recognized and expected to be deductible for income tax purposes according to Brazil tax law, is Ps. 22,202.

Selected income statement information of Spaipa for the period from the acquisition date through December 31, 2013 is as follows:

<b>Income Statement</b>	<b>2013</b>
Total revenues	<b>Ps. 2,466</b>
Income before income taxes	<b>354</b>



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*4.1.3 Acquisition of Companhia Fluminense de Refrigerantes*

On August 22, 2013, Coca-Cola FEMSA through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Companhia Fluminense de Refrigerantes ( Companhia Fluminense ) for Ps. 4,657 in an all cash transaction. Companhia Fluminense was a bottler of Coca-Cola trademark products which operated in the states of Minas Gerais, Rio de Janeiro and Sao Paulo, Brazil. This acquisition was made to reinforce Coca-Cola FEMSA's leadership position in Brazil. Transaction related costs of Ps. 11 were expensed by Coca-Cola FEMSA as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Companhia Fluminense was included in operating results from September 2013.



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The fair value of Companhia Fluminense's net assets acquired is as follows:

Total current assets (including cash acquired of Ps. 9)	<b>Ps. 515</b>
Total non-current assets	<b>1,721</b>
Distribution rights	<b>2,077</b>
 Total assets	 <b>4,313</b>
 Total liabilities	 <b>(1,963)</b>
 Net assets acquired	 <b>2,350</b>
 Goodwill	 <b>2,307</b>
 Total consideration transferred	 <b>Ps. 4,657</b>

Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to Coca-Cola FEMSA's cash generating unit in Brazil. The goodwill recognized and expected to be deductible for income tax purposes according to Brazil tax law is Ps. 4,581.

Selected income statement information of Companhia Fluminense for the period from the acquisition date through December 31, 2013 is as follows:

<b>Income Statement</b>	<b>2013</b>
Total revenues	Ps. 981
Loss before taxes	(39)
Net loss	Ps. (34)

**4.1.4 Merger with Grupo YOLI**

On May 24, 2013, Coca-Cola FEMSA completed the merger of 100% of Grupo Yoli. Grupo Yoli comprised the bottler entity YOLI de Acapulco, S.A. de C.V. and other nine entities. Grupo Yoli was a bottler of Coca-Cola trademark products which operated mainly in the state of Guerrero, as well as in parts of the state of Oaxaca in Mexico. This merger was made to reinforce Coca-Cola FEMSA's leadership position in Mexico. The transaction involved the issuance of 42,377,925 new L shares of Coca-Cola FEMSA, along with a cash payment immediately prior to closing of Ps. 1,109, in exchange for 100% share ownership of Grupo YOLI, which was accomplished through a merger. The total purchase price was Ps. 9,130 based on a share price of Ps. 189.27 per share on May 24, 2013. Transaction related costs of Ps. 82 were expensed by Coca-Cola FEMSA as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Grupo YOLI was included in operating results from June 2013.

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The fair value of Grupo Yoli net assets acquired is as follows:

	2013
Total current assets (including cash acquired of Ps. 63)	Ps. 837
Total non-current assets	2,144
Distribution rights	3,503
Total assets	6,484
Total liabilities	(1,487)
Net assets acquired	4,997
Goodwill	4,133
Total consideration transferred	Ps. 9,130

Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to Coca-Cola FEMSA's cash generating unit in Mexico. The entire amount of goodwill will not be tax deductible.

Selected income statement information of Grupo YOLI for the period from the acquisition date through December 31, 2013 is as follows:

<b>Income Statement</b>	2013
Total revenues	Ps. 2,240
Income before taxes	70
Net income	Ps. 44

**4.1.5 Other acquisitions**

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

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The preliminary estimation of fair value about these net assets acquired in the aggregate is as follows:

	2015
Total current assets (including cash acquired of Ps. 71)	<b>Ps. 1,411</b>
Total non-current assets	<b>859</b>
<b>Total assets</b>	<b>2,270</b>
Total liabilities	<b>(1,753)</b>
<b>Net assets acquired</b>	<b>517</b>
Goodwill	<b>5,375</b>
<b>Total consideration transferred</b>	<b>Ps. 5,892</b>

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

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

<b>Income Statement</b>	2015
Total revenues	<b>Ps. 20,262</b>
Income before income taxes	<b>176</b>
<b>Net income</b>	<b>Ps. 120</b>

During 2013, other cash payments, net of cash acquired, related to the Company's smaller acquisitions amounted to Ps. 3,021. These payments were primarily related to the following: acquisition of Expresso Jundiá, supplier of logistics services in Brazil, with experience in the service industry breakbulk logistics, warehousing and value added services. Expresso Jundiá operated a network of 42 operating bases as of the date of the agreement, and has presence in six states in South and Southeast Brazil; acquisition of 80% of Doña Tota, brand leader in quick service restaurants in Northeast Mexico, originated in the state of Tamaulipas, Mexico, which operated 204 restaurants in Mexico and 11 in the state of Texas, United States, as of the date of the agreement. This transaction resulted in the acquisition of assets and rights for the production, processing, marketing and distribution of its fast food products, which was treated as business combination according to IFRS 3 Business Combinations; acquisition of Farmacias Moderna, leading pharmacy in the state of Sinaloa, Mexico which operated 100 stores in Mazatlan, Sinaloa as of the date of the agreement; and acquisition of 75% of Farmacias YZA, a leading pharmacy in Southeast Mexico, in the state of Yucatan, which operated 330 stores, as of the date of the agreement.

**Table of Contents****Unaudited Pro Forma Financial Data**

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Grupo Socofar, Farmacias Farmacon, Zimag, Atlas Transportes e Logística and merger of PEMEX franchises, mentioned in the preceding paragraphs as if they occurred on January 1, 2015; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired companies. Unaudited pro forma financial data for all acquisitions and merger included, are as follow.

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

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Below are pro forma 2013 results as if Spaipa, Companhia Fluminense and Grupo Yoli were acquired on January 1, 2013:

	Unaudited pro forma financial information for the year ended December 31, 2013	
Total revenues	Ps.	270,705
Income before income taxes and share of the profit of associates and joint ventures accounting for using the equity method		23,814
Net income		20,730
Basic net controlling interest income per share Series B	Ps.	0.76
Basic net controlling interest income per share Series D		0.95

**Note 5. Cash and Cash Equivalents**

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

	December 31, 2015	December 31, 2014
Cash and bank balances	Ps. 12,530	Ps. 12,654
Cash equivalents (see Note 3.5)	16,866	22,843
	Ps. 29,396	Ps. 35,497

As explained in Note 3.3 above, the Company operates in Venezuela, which has a certain level of exchange control restrictions, which might prevent cash and cash equivalent balances from being available for use elsewhere in the group. At December 31, 2015 and 2014, cash and cash equivalent balances of the Company's Venezuela subsidiaries were Ps. 1,267 and Ps. 1,954, respectively.

**Note 6. Investments**

As of December 31, 2015 and 2014 investments are classified as held-to maturity, the carrying value of the investments is similar to their fair value. The following is a detail of held-to maturity investments:

	2015	2014
<i>Held-to Maturity</i> <sup>(1)</sup>		
<b>Bank Deposits</b>		
Acquisition cost	Ps. 19	Ps. 143
Accrued interest		1
Amortized cost	Ps. 19	Ps. 144
	Ps. 19	Ps. 144

- (1) Denominated in euros at a fixed interest rate. Investments as of December 31, 2015 mature during 2016.

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For the years ended December 31, 2015, 2014 and 2013, the effect of the investments in the consolidated income statements under the interest income item is Ps. 1, Ps. 3 and Ps. 3, respectively.

**Note 7. Accounts Receivable, Net**

	<b>December 31, 2015</b>	December 31, 2014
Trade receivables	<b>Ps. 14,696</b>	Ps. 9,312
Allowance for doubtful accounts	<b>(849)</b>	(456)
The Coca-Cola Company (see Note 14)	<b>1,559</b>	1,584
Loans to employees	<b>151</b>	241
Other related parties (see Note 14)	<b>243</b>	273
Heineken Company (see Note 14)	<b>754</b>	811
Others	<b>1,458</b>	2,077
	<b>Ps. 18,012</b>	Ps. 13,842

*7.1 Trade receivables*

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

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

The carrying value of accounts receivable approximates its fair value as of December 31, 2015 and 2014.

*Aging of past due but not impaired (days outstanding)*

	<b>December 31, 2015</b>	December 31, 2014
60-90 days	<b>Ps. 178</b>	Ps. 65
90-120 days	<b>161</b>	24
120+ days	<b>588</b>	182
Total	<b>Ps. 927</b>	Ps. 271

**Table of Contents***7.2 Changes in the allowance for doubtful accounts*

	2015	2014	2013
Opening balance	<b>Ps. 456</b>	Ps. 489	Ps. 413
Allowance for the year	<b>167</b>	94	154
Charges and write-offs of uncollectible accounts	<b>(99)</b>	(90)	(34)
Effects of changes in foreign exchange rates	<b>325</b>	(37)	(44)
<b>Ending balance</b>	<b>Ps. 849</b>	Ps. 456	Ps. 489

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 unrelated.

*Aging of impaired trade receivables (days outstanding)*

	December 31, 2015	December 31, 2014
60-90 days	<b>Ps. 4</b>	Ps. 13
90-120 days	<b>13</b>	10
120+ days	<b>832</b>	433
<b>Total</b>	<b>Ps. 849</b>	Ps. 456

*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 investment in refrigeration equipment and returnable bottles items. For the years ended December 31, 2015, 2014 and 2013 contributions received were Ps. 3,749, Ps. 4,118 and Ps. 4,206, respectively.

**Note 8. Inventories**

	December 31, 2015	December 31, 2014
Finished products	<b>Ps. 17,631</b>	Ps. 10,989
Raw materials	<b>3,629</b>	3,493
Spare parts	<b>1,661</b>	1,353
Work in process	<b>108</b>	279
Inventories in transit	<b>1,534</b>	929
Other	<b>117</b>	171
	<b>Ps. 24,680</b>	Ps. 17,214

For the years ended at 2015, 2014 and 2013, the Company recognized write-downs of its inventories for Ps. 1,290, Ps. 1,028 and Ps. 1,322 to net realizable value, respectively.





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For the years ended at 2015, 2014 and 2013, changes in inventories are comprised as follows and included in the consolidated income statement under the cost of goods sold caption:

	2015	2014	2013
Changes in inventories of finished goods and work in progress	<b>Ps. 132,835</b>	Ps. 92,390	Ps. 76,163
Raw materials and consumables used	<b>53,514</b>	55,038	49,740
<b>Total</b>	<b>Ps. 186,349</b>	Ps. 147,428	Ps. 125,903

**Note 9. Other Current Assets and Other Current Financial Assets***9.1 Other current assets*

	December 31, 2015	December 31, 2014
Prepaid expenses	<b>Ps. 3,363</b>	Ps. 1,375
Agreements with customers	<b>168</b>	161
Short-term licenses	<b>86</b>	68
Other	<b>37</b>	184
	<b>Ps. 3,654</b>	Ps. 1,788

Prepaid expenses as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Advances for inventories	<b>Ps. 2,291</b>	Ps. 380
Advertising and promotional expenses paid in advance	<b>58</b>	156
Advances to service suppliers	<b>601</b>	517
Prepaid leases	<b>115</b>	80
Prepaid insurance	<b>58</b>	29
Others	<b>240</b>	213
	<b>Ps. 3,363</b>	Ps. 1,375

Advertising and promotional expenses paid in advance recorded in the consolidated income statement for the years ended December 31, 2015, 2014 and 2013 amounted to Ps. 4,613, Ps. 4,460 and Ps. 6,232, respectively.

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## 9.2 Other current financial assets

	December 31, 2015	December 31, 2014
Restricted cash	Ps. 704	Ps. 1,213
Derivative financial instruments (see Note 20)	523	384
Short term note receivable <sup>(1)</sup>	1,191	1,000
	<b>Ps. 2,418</b>	<b>Ps. 2,597</b>

(1) The carrying value approximates its fair value as of December 31, 2015 and 2014.

The Company has pledged part of its short-term deposits in order to fulfill the collateral requirements for the accounts payable in different currencies. As of December 31, 2015 and 2014, the fair value of the short-term deposit pledged were:

	December 31, 2015	December 31, 2014
Venezuelan bolivars	Ps. 344	Ps. 550
Brazilian reais	360	640
Colombian pesos		23
	<b>Ps. 704</b>	<b>Ps. 1,213</b>

**Note 10. Investments in Associates and Joint Ventures**

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

Investee	Ownership Percentage		December 31, 2015	December 31, 2014	Carrying Amount	
	Principal Activity	Place of Incorporation			December 31, 2015	December 31, 2014
Heineken Company <sup>(1)(2)</sup>	Beverages	The Netherlands	20.0%	20.0%	Ps. 92,694	Ps. 83,710
<b>Coca-Cola FEMSA:</b>						
<b>Joint ventures:</b>						
Grupo Panameño de Bebidas	Beverages	Panama	50.0%	50.0%	1,573	1,740
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	50.0%	50.0%	161	190
Estancia Hidromineral Itabirito, L.T.D.A	Bottling and distribution	Brazil	50.0%	50.0%	160	164
Coca-Cola FEMSA Philippines, Inc. ( CCFPI )	Bottling	Philippines	51.0%	51.0%	9,996	9,021
Fountain Agua Mineral, L.T.D.A	Beverages	Brazil	50.0%	50.0%	491	573
<b>Associates:</b>						
Promotora Industrial Azucarera, S.A. de C.V. ( PIASA )	Sugar production	Mexico	36.3%	36.3%	2,187	2,082
Industria Envasadora de Queretaro, S.A. de C.V. ( IEQSA )	Canned bottling	Mexico	26.5%	32.8%	172	194
Industria Mexicana de Reciclaje, S.A. de C.V. ( IMER )	Recycling	Mexico	35.0%	35.0%	100	98

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Jugos del Valle, S.A.P.I. de C.V.	Beverages	Mexico	<b>26.3%</b>	26.3%	<b>1,531</b>	1,470
KSP Participações, L.T.D.A.	Beverages	Brazil	<b>38.7%</b>	38.7%	<b>80</b>	91
Leao Alimentos e Bebidas, L.T.D.A.	Beverages	Brazil	<b>24.4%</b>	24.4%	<b>1,363</b>	1,670
Other investments in Coca-Cola FEMSA s companies	Various	Various	<b>Various</b>	Various	<b>60</b>	33
<b>FEMSA Comercio:</b>						
Café del Pacifico, S.A.P.I. de C.V. (Caffenio) <sup>(1)</sup>	Coffee	Mexico	<b>40.0%</b>	40.0%	<b>467</b>	467
<b>Other investments</b> <sup>(1) (3)</sup>	Various	Various	<b>Various</b>	Various	<b>696</b>	656

**Ps. 111,731** Ps. 102,159

(1) Associate.

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

(3) Joint ventures.

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

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

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

During 2014, Coca-Cola FEMSA converted its account receivable from Compañía Panameña de Bebidas, S.A.P.I. de C.V. in the amount of Ps. 814 into an additional capital contribution in the investee.

During 2014, Coca-Cola FEMSA made capital contributions to Jugos del Valle, S.A.P.I. de C.V. in the amount of Ps. 25.

During 2014, Coca-Cola FEMSA received dividends from Jugos del Valle, S.A.P.I. de C.V., Estancia Hidromineral Itabirito, L.T.D.A., and Fountain Agual Mineral L.T.D.A., in the amount of Ps. 48, Ps. 50 and Ps. 50, respectively.

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

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As mentioned in Note 4, on May 24, 2013, Coca-Cola FEMSA completed the acquisition of 100% of Grupo Yoli. As part of these acquisition, Coca-Cola FEMSA increased its equity interest to 36.3% in Promotora Industrial Azucarera, S.A de C.V. Coca-Cola FEMSA has recorded the incremental interest acquired at its estimated fair value.

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

On April 30, 2010, the Company acquired an economic interest of 20% of Heineken Group. Heineken's main activities are the production, distribution and marketing of beer worldwide. The Company recognized an equity income of Ps. 5,879, Ps. 5,244 and Ps. 4,587, net of taxes regarding its interest in Heineken for the years ended December 31, 2015, 2014 and 2013, respectively. The Company's equity method in the net income attributable to equity holders of Heineken exclusive of amortization of adjustments amounted to Ps. 6,567 ( . 378 million), Ps. 5,362 ( . 303 million), and Ps. 4,680 ( . 273 million), for the years ended December 31, 2015, 2014 and 2013, respectively.

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

	December 31, 2015		December 31, 2014	
	Million of		Million of	
	Peso	Euro	Peso	Euro
Total current assets	Ps. 111,997	.5,914	Ps. 109,101	.6,086
Total non-current assets	602,217	31,800	515,282	28,744
Total current liabilities	161,273	8,516	152,950	8,532
Total non-current liabilities	267,551	14,128	230,285	12,846
Total equity	285,390	15,070	241,148	13,452
Equity attributable to equity holders of Heineken	256,323	13,535	222,453	12,409
Total revenue and other income	Ps. 363,191	20,922	Ps. 342,313	19,350
Total cost and expenses	309,812	17,847	293,134	16,570
Net income	Ps. 37,166	.2,141	Ps. 30,216	.1,708
Net income attributable to equity holders of the company	32,844	1,892	26,819	1,516
Other comprehensive income	4,809	277	4,210	238
Total comprehensive income	Ps. 41,975	.2,418	Ps. 34,426	.1,946
Total comprehensive income attributable to equity holders of the company	37,323	2,150	29,826	1,686

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

	December 31, 2015		December 31, 2014	
	Million of		Million of	
	Peso	Euro	Peso	Euro
Equity attributable to equity holders of Heineken	Ps. 256,323	13,535	Ps. 222,453	12,409
Economic ownership percentage	20%	20%	20%	20%
Investment in Heineken Company exclusive of goodwill and others adjustments	Ps. 51,265	.2,707	Ps. 44,491	.2,482
Effects of fair value determined by Purchase Price Allocation	18,704	988	17,707	988
Goodwill	22,725	1,200	21,512	1,200
Investment in Heineken Company	Ps. 92,694	.4,895	Ps. 83,710	.4,670

As of December 31, 2015 and 2014 fair value of Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 20% of its outstanding shares amounted to Ps. 165,517 ( . 8,740 million) and Ps. 116,327 ( . 6,489 million) based on quoted market prices of those dates. As of April 15, 2016, fair value amounted to . 8,935 million.

During the years ended December 31, 2015, 2014 and 2013, the Company received dividends distributions from Heineken, amounting to Ps. 2,343, Ps. 1,795 and Ps. 1,752, respectively.

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As of December 31, 2015, 2014 and 2013 the total net income corresponding to the immaterial associates of Coca-Cola FEMSA was Ps. 185, Ps. 195 and Ps. 138, respectively.

As of December 31, 2015, 2014 and 2013 the total net (loss) income corresponding to the immaterial joint ventures of Coca-Cola FEMSA was Ps. (30), Ps. (320) and Ps. 151, respectively.

The Company's share of other comprehensive income from equity investees, net of taxes for the year ended December 31, 2015, 2014 and 2013 are as follows:

	<b>2015</b>	2014	2013
<b>Items that may be reclassified to consolidated net income:</b>			
Valuation of the effective portion of derivative financial instruments	<b>Ps. 213</b>	<b>Ps. (257)</b>	Ps. (91)
Exchange differences on translating foreign operations	<b>69</b>	<b>1,579</b>	(3,029)
<b>Total</b>	<b>Ps. 282</b>	<b>Ps. 1,322</b>	Ps. (3,120)
<b>Items that may not be reclassified to consolidated net income in subsequent periods:</b>			
Remeasurements of the net defined benefit liability	<b>Ps. 169</b>	<b>Ps. (881)</b>	Ps. 491



**Table of Contents****Note 11. Property, Plant and Equipment, Net**

Cost	Investments in Fixed								Total
	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Assets in Progress	Leasehold Improvements	Other	
Cost as of January 1, 2013	Ps. 5,769	Ps. 14,377	Ps. 45,082	Ps. 11,991	Ps. 5,814	Ps. 5,357	Ps. 9,618	Ps. 754	Ps. 98,762
Additions	433	167	4,648	1,107	1,435	8,238	11	341	16,380
Additions from business combinations	536	2,278	2,814	428	96	614	36	264	7,066
Transfer of completed projects in progress	389	1,158	992	1,144	785	(6,296)	1,828		
Transfer to/(from) assets classified as held for sale			(216)						(216)
Disposals	(11)	(291)	(2,049)	(749)	(324)	(748)	(697)	(15)	(4,884)
Effects of changes in foreign exchange rates	(250)	(1,336)	(3,678)	(1,135)	(466)	(291)	(103)	(55)	(7,314)
Changes in value on the recognition of inflation effects	228	1,191	2,252	603	46	165		277	4,762
Capitalization of borrowing costs			32						32
Cost as of December 31, 2013	Ps. 7,094	Ps. 17,544	Ps. 49,877	Ps. 13,389	Ps. 7,386	Ps. 7,039	Ps. 10,693	Ps. 1,566	Ps. 114,588

Cost	Investments in Fixed								Total
	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Assets in Progress	Leasehold Improvements	Other	
Cost as of January 1, 2014	Ps. 7,094	Ps. 17,544	Ps. 49,877	Ps. 13,389	Ps. 7,386	Ps. 7,039	Ps. 10,693	Ps. 1,566	Ps. 114,588
Additions	803	54	4,156	32	398	11,209	99	234	16,985
Changes in fair value of past acquisitions	(115)	(610)	891	(57)		(68)	99	(253)	(113)
Transfer of completed projects in progress		1,717	2,823	1,523	1,994	(10,050)	1,990	3	
Transfer to/(from) assets classified as held for sale			(134)						(134)
Disposals	(17)	(144)	(2,243)	(632)	(60)	(5)	(587)	(79)	(3,767)
Effects of changes in foreign exchange rates	(664)	(3,125)	(5,415)	(1,975)	(323)	(545)	(44)	(506)	(12,597)
Changes in value on the recognition of inflation effects	110	355	531	186	7	29		110	1,328
Capitalization of borrowing costs			33			263			296
Cost as of December 31, 2014	Ps. 7,211	Ps. 15,791	Ps. 50,519	Ps. 12,466	Ps. 9,402	Ps. 7,872	Ps. 12,250	Ps. 1,075	Ps. 116,586

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Cost	Investments								Total
	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Assets in Progress	Leasehold Improvements	Other	
<b>Cost as of January 1, 2015</b>	<b>Ps. 7,211</b>	<b>Ps. 15,791</b>	<b>Ps. 50,519</b>	<b>Ps. 12,466</b>	<b>Ps. 9,402</b>	<b>Ps. 7,872</b>	<b>Ps. 12,250</b>	<b>Ps. 1,075</b>	<b>Ps. 116,586</b>
Additions	675	1,688	5,122	851	1,655	6,942	41	511	17,485
Additions from business acquisitions	30	251	870				862		2,013
Transfer of completed projects in progress	59	1,289	3,251	1,168	662	(8,143)	1,714		
Transfer to/(from) assets classified as held for sale			(10)						(10)
Disposals	(56)	(219)	(2,694)	(972)	(103)		(356)	(40)	(4,440)
Effects of changes in foreign exchange rates	(595)	(1,352)	(4,330)	(1,216)	(266)	(1,004)	(23)	(848)	(9,634)
Changes in value on the recognition of inflation effects	245	503	957	295	301	91		229	2,621
Capitalization of borrowing costs						57			57
<b>Cost as of December 31, 2015</b>	<b>Ps. 7,569</b>	<b>Ps. 17,951</b>	<b>Ps. 53,685</b>	<b>Ps. 12,592</b>	<b>Ps. 11,651</b>	<b>Ps. 5,815</b>	<b>Ps. 14,488</b>	<b>Ps. 927</b>	<b>Ps. 124,678</b>

Accumulated Depreciation	Investments								Total
	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Assets in Progress	Leasehold Improvements	Other	
<b>Accumulated Depreciation as of January 1, 2013</b>	<b>Ps.</b>	<b>Ps. (4,451)</b>	<b>Ps. (20,561)</b>	<b>Ps. (6,622)</b>	<b>Ps. (1,988)</b>	<b>Ps.</b>	<b>Ps. (3,176)</b>	<b>Ps. (315)</b>	<b>Ps. (37,113)</b>
Depreciation for the year		(431)	(4,380)	(1,452)	(1,662)		(784)	(96)	(8,805)
Transfer (to)/from assets classified as held for sale			105						105
Disposals		200	1,992	785	33		682	6	3,698
Effects of changes in foreign exchange rates		591	2,061	755	143		8	73	3,631
Changes in value on the recognition of inflation effects		(583)	(996)	(442)	(6)			(122)	(2,149)
<b>Accumulated Depreciation as of December 31, 2013</b>	<b>Ps.</b>	<b>Ps. (4,674)</b>	<b>Ps. (21,779)</b>	<b>Ps. (6,976)</b>	<b>Ps. (3,480)</b>	<b>Ps.</b>	<b>Ps. (3,270)</b>	<b>Ps. (454)</b>	<b>Ps. (40,633)</b>

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Accumulated Depreciation	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets		Other	Total
						Progress	Leasehold Improvements		
Accumulated Depreciation as of January 1, 2014	Ps.	Ps. (4,674)	Ps. (21,779)	Ps. (6,976)	Ps. (3,480)	Ps.	Ps. (3,270)	Ps. (454)	Ps. (40,633)
Depreciation for the year		(466)	(4,525)	(1,181)	(1,879)		(863)	(115)	(9,029)
Transfer (to)/from assets classified as held for sale			62						62
Disposals		77	2,086	602	57		517	1	3,340
Effects of changes in foreign exchange rates		1,512	3,481	1,046	105		2	236	6,382
Changes in value on the recognition of inflation effects		(175)	(707)	(135)	(8)			(54)	(1,079)
Accumulated Depreciation as of December 31, 2014	Ps.	Ps. (3,726)	Ps. (21,382)	Ps. (6,644)	Ps. (5,205)	Ps.	Ps. (3,614)	Ps. (386)	Ps. (40,957)

Accumulated Depreciation	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets		Other	Total
						Progress	Leasehold Improvements		
Accumulated Depreciation as of January 1, 2015	Ps.	Ps. (3,726)	Ps. (21,382)	Ps. (6,644)	Ps. (5,205)	Ps.	Ps. (3,614)	Ps. (386)	Ps. (40,957)
Depreciation for the year		(515)	(4,864)	(1,184)	(1,984)		(1,071)	(143)	(9,761)
Disposals		172	2,001	946	80		270	2	3,471
Effects of changes in foreign exchange rates		498	2,222	1,044	167		22	212	4,165
Changes in value on the recognition of inflation effects		(187)	(426)	(166)	(436)		1	(86)	(1,300)
Accumulated Depreciation as of December 31, 2015		Ps. (3,758)	Ps. (22,449)	Ps. (6,004)	Ps. (7,378)	Ps.	Ps. (4,392)	Ps. (401)	Ps. (44,382)

Ps.

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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, 2013	Ps. 7,094	Ps. 12,870	Ps. 28,098	Ps. 6,413	Ps. 3,906	Ps. 7,039	Ps. 7,423	Ps. 1,112	Ps. 73,955
As of December 31, 2014	Ps. 7,211	Ps. 12,065	Ps. 29,137	Ps. 5,822	Ps. 4,197	Ps. 7,872	Ps. 8,636	Ps. 689	Ps. 75,629
<b>As of December 31, 2015</b>	<b>Ps. 7,569</b>	<b>Ps. 14,193</b>	<b>Ps. 31,236</b>	<b>Ps. 6,588</b>	<b>Ps. 4,273</b>	<b>Ps. 5,815</b>	<b>Ps. 10,096</b>	<b>Ps. 526</b>	<b>Ps. 80,296</b>

During the years ended December 31, 2015, 2014 and 2013 the Company capitalized Ps. 57, Ps. 296 and Ps. 32, respectively of borrowing costs in relation to Ps. 993, Ps. 1,915 and Ps. 790 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were 4.1%, 4.8% and 4.1%, respectively.

For the years ended December 31, 2015, 2014 and 2013 interest expense, interest income and net foreign exchange losses (gains) are analyzed as follows:

	2015	2014	2013
Interest expense, interest income and foreign exchange losses (gains)	<b>Ps. 8,031</b>	Ps. 7,080	Ps. 3,887
Amount capitalized <sup>(1)</sup>	<b>85</b>	338	57
Net amount in consolidated income statements	<b>Ps. 7,946</b>	Ps. 6,742	Ps. 3,830

(1) Amount of interest capitalized in property, plant and equipment and amortized intangible assets. Commitments related to acquisitions of property, plant and equipment are disclosed in Note 25.

**Table of Contents****Note 12. Intangible Assets**

<b>Cost</b>	<b>Rights to Produce and Distribute Coca-Cola Trademark Products</b>	<b>Goodwill</b>	<b>Other Indefinite Lived Intangible Assets</b>	<b>Total Unamortized Intangible Assets</b>	<b>Technology Costs and Management Systems</b>	<b>Systems in Development</b>	<b>Alcohol Licenses</b>	<b>Other</b>	<b>Total Amortized Intangible Assets</b>	<b>Total Intangible Assets</b>
Cost as of January 1, 2013	Ps. 57,270	Ps. 6,972	Ps. 339	Ps. 64,581	Ps. 2,863	Ps. 1,019	Ps. 726	Ps. 384	Ps. 4,992	Ps. 69,573
Purchases					164	644	179	123	1,110	1,110
Acquisition from business combinations	19,868	14,692	1,621	36,181	70			196	266	36,447
Transfer of completed development systems					172	(172)				
Disposals			(163)	(163)			(46)		(46)	(209)
Effect of movements in exchange rates	(1,828)	(356)	(10)	(2,194)	(75)			(13)	(88)	(2,282)
Changes in value on the recognition of inflation effects	417			417		113			113	530
Capitalization of borrowing costs					25				25	25
<b>Cost as of December 31, 2013</b>	<b>Ps. 75,727</b>	<b>Ps. 21,308</b>	<b>Ps. 1,787</b>	<b>Ps. 98,822</b>	<b>Ps. 3,219</b>	<b>Ps. 1,604</b>	<b>Ps. 859</b>	<b>Ps. 690</b>	<b>Ps. 6,372</b>	<b>Ps. 105,194</b>
Cost as of January 1, 2014	Ps. 75,727	Ps. 21,308	Ps. 1,787	Ps. 98,822	Ps. 3,219	Ps. 1,604	Ps. 859	Ps. 690	Ps. 6,372	Ps. 105,194
Purchases			13	13	227	229	168	44	668	681
Change in fair value of past acquisitions	(2,416)	4,117	(205)	1,496				(17)	(17)	1,479
Transfer of completed development systems					278	(278)				
Disposals			(8)	(8)	(387)			(33)	(420)	(428)
Effect of movements in exchange rates	(5,343)	(251)	(10)	(5,604)	(152)	(1)		(13)	(166)	(5,770)
Changes in value on the recognition of inflation effects	2,295			2,295	(2)				(2)	2,293
Capitalization of borrowing costs					42				42	42
<b>Cost as of December 31, 2014</b>	<b>Ps. 70,263</b>	<b>Ps. 25,174</b>	<b>Ps. 1,577</b>	<b>Ps. 97,014</b>	<b>Ps. 3,225</b>	<b>Ps. 1,554</b>	<b>Ps. 1,027</b>	<b>Ps. 671</b>	<b>Ps. 6,477</b>	<b>Ps. 103,491</b>

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Cost	Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	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
<b>Cost as of January 1, 2015</b>	<b>Ps. 70,263</b>	<b>Ps. 25,174</b>	<b>Ps. 1,577</b>	<b>Ps. 97,014</b>	<b>Ps. 3,225</b>	<b>Ps. 1,554</b>	<b>Ps. 1,027</b>	<b>Ps. 671</b>	<b>Ps. 6,477</b>	<b>Ps. 103,491</b>
Purchases					480	458	198	83	1,219	1,219
Acquisitions from business combinations		11,369	1,238	12,607	328			199	527	13,134
Transfer of completed development systems					1,085	(1,085)				
Disposals					(150)	(242)		(77)	(469)	(469)
Effect of movements in exchange rates	(4,992)	(2,693)	(52)	(7,737)	(94)	(2)		(16)	(112)	(7,849)
Changes in value on the recognition of inflation effects	1,121			1,121	(12)				(12)	1,109
Capitalization of borrowing costs					28				28	28
<b>Cost as of December 31, 2015</b>	<b>Ps. 66,392</b>	<b>Ps. 33,850</b>	<b>Ps. 2,763</b>	<b>Ps. 103,005</b>	<b>Ps. 4,890</b>	<b>Ps. 683</b>	<b>Ps. 1,225</b>	<b>Ps. 860</b>	<b>Ps. 7,658</b>	<b>Ps. 110,663</b>

**Amortization and Impairment**

<b>Losses</b>										
Amortization as of January 1, 2013	Ps.	Ps.	Ps. (103)	Ps. (103)	Ps. (1,228)	Ps.	Ps. (150)	Ps. (199)	Ps. (1,577)	Ps. (1,680)
Amortization expense					(271)		(73)	(72)	(416)	(416)
Disposals			103	103	2		46		48	151
Effect of movements in exchange rates					35			9	44	44
Amortization as of December 31, 2013	Ps.	Ps.	Ps.	Ps.	Ps. (1,462)	Ps.	Ps. (177)	Ps. (262)	Ps. (1,901)	Ps. (1,901)
Amortization as of January 1, 2014	Ps.	Ps.	Ps.	Ps.	Ps. (1,462)	Ps.	Ps. (177)	Ps. (262)	Ps. (1,901)	Ps. (1,901)
Amortization expense					(268)		(58)	(97)	(423)	(423)
Impairment losses			(36)	(36)						(36)
Disposals					387				387	387
Effect of movements in exchange rates								9	9	9
Amortization as of December 31, 2014	Ps.	Ps.	Ps. (36)	Ps. (36)	Ps. (1,343)	Ps.	Ps. (235)	Ps. (350)	Ps. (1,928)	Ps. (1,964)

**Amortization and  
Impairment**

<b>Losses</b>										
<b>Amortization as of January 1, 2015</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps. (36)</b>	<b>Ps. (36)</b>	<b>Ps. (1,343)</b>	<b>Ps.</b>	<b>Ps. (235)</b>	<b>Ps. (350)</b>	<b>Ps. (1,928)</b>	<b>Ps. (1,964)</b>
Amortization expense					(461)		(67)	(76)	(604)	(604)
Disposals					126			42	168	168
Effect of movements in exchange rates					59			19	78	78
<b>Amortization as of December 31, 2015</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps. (36)</b>	<b>Ps. (36)</b>	<b>Ps. (1,619)</b>	<b>Ps.</b>	<b>Ps. (302)</b>	<b>Ps. (365)</b>	<b>Ps. (2,286)</b>	<b>Ps. (2,322)</b>
<b>Carrying Amount</b>										
As of December 31, 2013	Ps. 75,727	Ps. 21,308	Ps. 1,787	Ps. 98,822	Ps. 1,757	Ps. 1,604	Ps. 682	Ps. 428	Ps. 4,471	Ps. 103,293
As of December 31, 2014	Ps. 70,263	Ps. 25,174	Ps. 1,541	Ps. 96,978	Ps. 1,882	Ps. 1,554	Ps. 792	Ps. 321	Ps. 4,549	Ps. 101,527
<b>As of December 31, 2015</b>	<b>Ps. 66,392</b>	<b>Ps. 33,850</b>	<b>Ps. 2,727</b>	<b>Ps. 102,969</b>	<b>Ps. 3,271</b>	<b>Ps. 683</b>	<b>Ps. 923</b>	<b>Ps. 495</b>	<b>Ps. 5,372</b>	<b>Ps. 108,341</b>

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During the years ended December 31, 2015, 2014 and 2013 the Company capitalized Ps. 28, Ps. 42 and Ps. 25, respectively of borrowing costs in relation to Ps. 410, Ps. 600 and Ps. 630 in qualifying assets, respectively. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were 4.1%, 4.2% and 4.1%, respectively.

For the years ended 2015, 2014 and 2013, allocation for amortization expense is as follows:

	2015	2014	2013
Cost of goods sold	<b>Ps. 61</b>	Ps. 12	Ps. 10
Administrative expenses	<b>407</b>	156	249
Selling expenses	<b>136</b>	255	157
	<b>Ps. 604</b>	Ps. 423	Ps. 416

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	6
<b>Coca-Cola FEMSA Impairment Tests for Cash-Generating Units Containing Goodwill and Distribution Rights</b>	

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

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

	December 31, 2015	December 31, 2014
Mexico	<b>Ps. 55,137</b>	Ps. 55,137
Guatemala	<b>410</b>	352
Nicaragua	<b>465</b>	418
Costa Rica	<b>1,391</b>	1,188
Panama	<b>1,033</b>	884
Colombia	<b>4,746</b>	5,344
Venezuela	<b>621</b>	823
Brazil	<b>23,557</b>	29,622
Argentina	<b>69</b>	88
Total	<b>Ps. 87,429</b>	Ps. 93,856

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



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

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

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

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

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

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

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

Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. Coca-Cola FEMSA believes that this forecasted period is justified due to the non-current nature of the business and past experiences.

Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.

A per CGU-specific Weighted Average Cost of Capital ( WACC ) was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjusting.

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

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

The key assumptions by CGU for impairment test as of December 31, 2014 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long- Term Inflation 2015-2024	Expected Volume Growth Rates 2015-2024
Mexico	5.5%	5.0%	3.5%	2.3%
Colombia	6.4%	5.9%	3.0%	5.3%
Venezuela	12.9%	12.3%	51.1%	3.9%
Costa Rica	7.7%	7.6%	4.7%	2.7%
Guatemala	10.0%	9.4%	5.0%	4.3%
Nicaragua	12.7%	12.2%	6.0%	2.7%
Panama	7.6%	7.2%	3.8%	4.1%
Argentina	9.9%	9.3%	22.3%	2.5%
Brazil	6.2%	5.6%	6.0%	3.8%

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 WACCs to perform its annual impairment testing.

**Sensitivity to Changes in Assumptions**

At December 31, 2015, 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 <sup>(1)</sup>	Effect on Valuation
Mexico	+0.7%	-1.0%	Passes by 7.53x
Colombia	+0.9%	-1.0%	Passes by 5.16x
Venezuela	+5.8%	-1.0%	Passes by 7.08x
Costa Rica	+2.4%	-1.0%	Passes by 2.27x
Guatemala	+1.2%	-1.0%	Passes by 6.41x
Nicaragua	+2.6%	-1.0%	Passes by 3.53x

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Panama	+0.6%	-1.0%	Passes by 11.89x
Argentina	+5.6%	-1.0%	Passes by 137.35x
Brazil	+1.1%	-1.0%	Passes by 2.29x

(1) Compound Annual Growth Rate (CAGR).

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**Table of Contents****Note 13. Other Assets, Net and Other Financial Assets***13.1 Other assets, net*

	<b>December 31, 2015</b>	December 31, 2014
Agreement with customers, net	<b>Ps. 238</b>	Ps. 239
Long term prepaid advertising expenses	<b>52</b>	87
Guarantee deposits <sup>(1)</sup>	<b>1,870</b>	1,400
Prepaid bonuses	<b>122</b>	92
Advances to acquire property, plant and equipment	<b>370</b>	988
Recoverable taxes	<b>1,181</b>	1,329
Others	<b>1,160</b>	782
	<b>Ps. 4,993</b>	Ps. 4,917

(1) As it is customary in Brazil, the Company is required to collateralize tax, legal and labor contingencies by guarantee deposits (see Note 25.7).

*13.2 Other financial assets*

	<b>December 31, 2015</b>	December 31, 2014
Non-current accounts receivable	<b>Ps. 478</b>	Ps. 155
Derivative financial instruments (see Note 20)	<b>8,377</b>	6,299
Other non-current financial assets	<b>100</b>	97
	<b>Ps. 8,955</b>	Ps. 6,551

As of December 31, 2015 and 2014, the fair value of long term accounts receivable amounted to Ps. 452 and Ps. 69, 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.

**Table of Contents****Note 14. Balances and Transactions with Related Parties and Affiliated Companies**

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

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

	December 31, 2015	December 31, 2014
<b>Balances</b>		
Due from The Coca-Cola Company (see Note 7) <sup>(1) (8)</sup>	<b>Ps. 1,559</b>	Ps. 1,584
Balance with BBVA Bancomer, S.A. de C.V. <sup>(2)</sup>	<b>2,683</b>	4,083
Balance with Grupo Financiero Banorte, S.A. de C.V. <sup>(2)</sup>	<b>1,178</b>	3,653
Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. <sup>(3)</sup>	<b>79</b>	126
Due from Heineken Company <sup>(1) (7)</sup>	<b>754</b>	811
Due from Grupo Estrella Azul <sup>(3)</sup>	<b>69</b>	59
Other receivables <sup>(1) (4)</sup>	<b>1,352</b>	1,209
Due to The Coca-Cola Company <sup>(5) (6) (8)</sup>	<b>Ps. 3,140</b>	Ps. 4,343
Due to BBVA Bancomer, S.A. de C.V. <sup>(5)</sup>	<b>292</b>	149
Due to Caffenio <sup>(6) (7)</sup>	<b>108</b>	111
Due to Heineken Company <sup>(6) (7)</sup>	<b>2,588</b>	2,408
Other payables <sup>(6)</sup>	<b>981</b>	1,206

- (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.
- (6) Recorded within accounts payable.
- (7) Associates.
- (8) Non controlling interest.

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Balances due from related parties are considered to be recoverable. Accordingly, for the years ended December 31, 2015 and 2014, there was no expense resulting from the uncollectibility of balances due from related parties.

Transactions	2015	2014	2013
<b>Income:</b>			
Services to Heineken Company <sup>(1)</sup>	<b>Ps. 3,396</b>	Ps. 3,544	Ps. 2,412
Logistic services to Grupo Industrial Saltillo, S.A. de C.V. <sup>(3)</sup>	<b>407</b>	313	287
Logistic services to Jugos del Valle <sup>(1)</sup>	<b>564</b>	513	471
Other revenues from related parties	<b>644</b>	670	399
<b>Expenses:</b>			
Purchase of concentrate from The Coca-Cola Company <sup>(2)</sup>	<b>Ps. 27,330</b>	Ps. 28,084	Ps. 25,985
Purchases of raw material and beer from Heineken Company <sup>(1)</sup>	<b>14,467</b>	15,133	11,865
Purchase of coffee from Caffenio <sup>(1)</sup>	<b>1,774</b>	1,404	1,383
Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. <sup>(3)</sup>	<b>3,740</b>	3,674	2,860
Purchase of cigarettes from British American Tobacco Mexico <sup>(3)</sup>			2,460
Advertisement expense paid to The Coca-Cola Company <sup>(2) (4)</sup>	<b>1,316</b>	1,167	1,291
Purchase of juices from Jugos del Valle, S.A.P.I. de C.V. <sup>(1)</sup>	<b>3,082</b>	2,592	2,628
Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V. <sup>(1)</sup>	<b>1,236</b>	1,020	956
Interest expense and fees paid to BBVA Bancomer, S.A. de C.V. <sup>(3)</sup>	<b>68</b>	99	77
Purchase of sugar from Beta San Miguel <sup>(3)</sup>	<b>1,264</b>	1,389	1,557
Purchase of sugar, cans and aluminum lids from Promotora Mexicanade Embotelladores, S.A. de C.V. <sup>(3)</sup>	<b>587</b>	567	670
Purchase of canned products from IEQSA <sup>(1)</sup>	<b>731</b>	591	615
Purchase of inventories to Leao Alimentos e Bebidas, L.T.D.A. <sup>(1)</sup>	<b>3,359</b>	2,891	2,123
Advertising paid to Grupo Televisa, S.A.B. <sup>(3)</sup>	<b>175</b>	158	92
Interest expense paid to Grupo Financiero Banamex, S.A. de C.V. <sup>(3)</sup>		2	19
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. <sup>(3)</sup>	<b>58</b>	140	67
Donations to Instituto Tecnológico y de Estudios Superioresde Monterrey, A.C. <sup>(3)</sup>		42	78
Donations to Fundación FEMSA, A.C. <sup>(3)</sup>	<b>30</b>		27
Donations to Difusión y Fomento Cultural, A.C. <sup>(3)</sup>	<b>59</b>	73	
Interest expense paid to The Coca-Cola Company <sup>(2)</sup>	<b>1</b>	4	60
Other expenses with related parties	<b>470</b>	321	299

(1) Associates.

(2) Non controlling interest.

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

(4) Net of the contributions from The Coca-Cola Company of Ps. 3,749, Ps. 4,118 and Ps. 4,206, for the years ended in 2015, 2014 and 2013, respectively.

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Also as disclosed in Note 10, during January 2013, Coca-Cola FEMSA purchased its 51% interest in CCFPI from The Coca-Cola Company. The remainder of CCFPI is owned by The Coca-Cola Company and Coca-Cola FEMSA has currently outstanding certain call and put options related to CCFPI's equity interests.

*Commitments with related parties*

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

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

	2015	2014	2013
Short-term employee benefits paid	Ps. 1,162	Ps. 964	Ps. 1,268
Postemployment benefits	42	45	37
Termination benefits	63	114	25
Share based payments	463	283	306

**Note 15. Balances and Transactions in Foreign Currencies**

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different than the functional currency of the Company. As of the end and for the years ended on December 31, 2015, 2014 and 2013, assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

Balances	Assets		Liabilities	
	Short-Term	Long-Term	Short-Term	Long-Term
<b>As of December 31, 2015</b>				
U.S. dollars	Ps. 10,939	Ps. 630	Ps. 1,672	Ps. 71,123
Euros	3		23	
Other currencies		1,173	152	41
<b>Total</b>	<b>Ps. 10,942</b>	<b>Ps. 1,803</b>	<b>Ps. 1,847</b>	<b>Ps. 71,164</b>
<b>As of December 31, 2014</b>				
U.S. dollars	Ps. 5,890	Ps. 989	Ps. 7,218	Ps. 66,140
Euros	32		27	
Other currencies	27	1,214	50	31
<b>Total</b>	<b>Ps. 5,949</b>	<b>Ps. 2,203</b>	<b>Ps. 7,295</b>	<b>Ps. 66,171</b>

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Transactions	Revenues	Other Revenues	Purchases of Raw Materials	Interest Expense	Consulting Fees	Assets Acquisitions	Other
<b>For the year ended December 31, 2015</b>							
U.S. dollars	Ps. 1,891	Ps. 472	Ps. 11,710	Ps. 1,973	Ps. 34	Ps. 75	Ps. 2,035
Euros		1	2		2		37
Other currencies	20						204
<b>Total</b>	<b>Ps. 1,911</b>	<b>Ps. 473</b>	<b>Ps. 11,712</b>	<b>Ps. 1,973</b>	<b>Ps. 36</b>	<b>Ps. 75</b>	<b>Ps. 2,276</b>
<b>For the year ended December 31, 2014</b>							
U.S. dollars	Ps. 2,817	Ps. 641	Ps. 15,006	Ps. 1,669	Ps. 14	Ps. 478	Ps. 2,068
Euros	7		80	15		5	13
Other currencies	178		10				4
<b>Total</b>	<b>Ps. 3,002</b>	<b>Ps. 641</b>	<b>Ps. 15,096</b>	<b>Ps. 1,684</b>	<b>Ps. 14</b>	<b>Ps. 483</b>	<b>Ps. 2,085</b>
<b>For the year ended December 31, 2013</b>							
U.S. dollars	Ps. 2,013	Ps. 605	Ps. 15,017	Ps. 435	Ps. 11	Ps. 80	Ps. 1,348
Euros	1	3	55	9		2	15
Other currencies							3
<b>Total</b>	<b>Ps. 2,014</b>	<b>Ps. 608</b>	<b>Ps. 15,072</b>	<b>Ps. 444</b>	<b>Ps. 11</b>	<b>Ps. 82</b>	<b>Ps. 1,366</b>

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

	December 31, 2015	December 31, 2014	April 15, 2016
U.S. dollar	17.2065	14.7180	17.4900
Euro	18.7873	17.9182	19.8120

**Note 16. Post-Employment and Other Long-Term Employee Benefits**

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

During 2014, Coca-Cola FEMSA settled its pension plan in Brazil and consequently Coca-Cola FEMSA recognized the corresponding effects of the settlement as disclosed below.



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*16.1 Assumptions*

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

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

Mexico	December 31, 2015	December 31, 2014	December 31, 2013
<b>Financial:</b>			
Discount rate used to calculate the defined benefit obligation	7.00%	7.00%	7.50%
Salary increase	4.50%	4.50%	4.79%
Future pension increases	3.50%	3.50%	3.50%
Healthcare cost increase rate	5.10%	5.10%	5.10%
<b>Biometric:</b>			
Mortality <sup>(1)</sup>	EMSSA 2009	EMSSA 2009	EMSSA 82-89
Disability <sup>(2)</sup>	IMSS-97	IMSS-97	IMSS-97
Normal retirement age	60 years	60 years	60 years
Employee turnover table <sup>(3)</sup>	BMAR 2007	BMAR 2007	BMAR 2007

Measurement date December:

(1) EMSSA. Mexican Experience of social security. Updated due to lower mortality rates.

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

(3) BMAR. Actuary experience.

In Mexico the methodology used to determine the discount rate was the Yield or Internal Rate of Return ( IRR ) which involves a yield curve. In this case, the expected rates of each period were taken from a yield curve of Mexican Federal Government Treasury Bond (known as CETES in Mexico).

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
2016	Ps. 489	Ps. 33	Ps. 12	Ps. 534
2017	347	31	17	395
2018	293	33	18	344
2019	336	36	18	390
2020	413	41	19	473
2021 to 2025	1,809	287	101	2,197

**Table of Contents***16.2 Balances of the liabilities for post-employment and other long-term employee benefits*

	December 31, 2015	December 31, 2014
<b>Pension and Retirement Plans:</b>		
Defined benefit obligation	Ps. 5,308	Ps. 5,270
Pension plan funds at fair value	(2,068)	(2,015)
Net defined benefit liability	Ps. 3,240	Ps. 3,255
<b>Seniority Premiums:</b>		
Defined benefit obligation	Ps. 610	Ps. 563
Seniority premium plan funds at fair value	(103)	(87)
Net defined benefit liability	Ps. 507	Ps. 476
<b>Postretirement Medical Services:</b>		
Defined benefit obligation	Ps. 404	Ps. 338
Medical services funds at fair value	(57)	(56)
Net defined benefit liability	Ps. 347	Ps. 282
<b>Post-employment:</b>		
Defined benefit obligation	Ps. 135	Ps. 194
Post-employment plan funds at fair value		
Net defined benefit liability	Ps. 135	Ps. 194
<b>Total post-employment and other long-term employee benefits</b>	<b>Ps. 4,229</b>	<b>Ps. 4,207</b>

*16.3 Trust assets*

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

Type of Instrument	December 31, 2015	December 31, 2014
<b>Fixed return:</b>		
Traded securities	13%	19%
Bank instruments	6%	8%
Federal government instruments of the respective countries	63%	57%
<b>Variable return:</b>		
Publicly traded shares	18%	16%
	<b>100%</b>	<b>100%</b>

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



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

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

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

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

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

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

	<b>December 31, 2015</b>	December 31, 2014
<b>Debt:</b>		
Cementos Mexicanos, S.A.B. de C.V.	<b>Ps. 7</b>	Ps. 7
Grupo Televisa, S.A.B. de C.V.	<b>45</b>	45
Grupo Financiero Banorte, S.A.B. de C.V.	<b>12</b>	12
El Puerto de Liverpool, S.A.B. de C.V.	<b>5</b>	5
Grupo Industrial Bimbo, S.A.B. de C. V.	<b>3</b>	3
Genera, S.A.B. de C.V.	<b>8</b>	
<b>Capital:</b>		
Fomento Económico Mexicano, S.A.B. de C.V.	<b>113</b>	96
Coca-Cola FEMSA, S.A.B. de C.V.		12
Alfa, S.A.B. de C.V.	<b>13</b>	8
Gruma, S.A.B. de C.V.	<b>5</b>	
Grupo Industrial Bimbo, S.A.B. de C.V.	<b>3</b>	
The Coca-Cola Company		11
Genera, S.A.B. de C.V.		7

During the years ended December 31, 2015, 2014 and 2013, 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.

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

	Income Statement			Net	OCI <sup>(2)</sup>
	Current	Past Service	Gain or	Interest	Remeasurements
	Service	Cost	Loss	on the	of the Net
	Cost		on Settlement	Net	Defined
			or Curtailment	Defined	Benefit
				Benefit	Liability
				Liability	
<b>December 31, 2015</b>					
Pension and retirement plans	Ps. 233	Ps. 3	Ps. (120)	Ps. 212	Ps. 913
Seniority premiums	88		(9)	32	39
Postretirement medical services	16			23	119
Post-employment Venezuela	6			9	
<b>Total</b>	<b>Ps. 343</b>	<b>Ps. 3</b>	<b>Ps. (129)</b>	<b>Ps. 276</b>	<b>Ps. 1,071</b>

	Current	Past	Gain or	Net	Remeasurements
	Service	Service	Loss	Interest	of the Net
	Cost	Cost	on	on the	of the Net
			Settlement	Net	Defined
				Defined	Benefit
				Benefit	Liability
				Liability	
<b>December 31, 2014</b>					
Pension and retirement plans	Ps. 221	Ps. 54	Ps. (193)	Ps. 279	Ps. 998
Seniority premiums	75	9	(27)	28	76
Postretirement medical services	10			16	74
Post-employment Venezuela	24			18	99
<b>Total</b>	<b>Ps. 330</b>	<b>Ps. 63</b>	<b>Ps. (220)</b>	<b>Ps. 341</b>	<b>Ps. 1,247</b>

	Current	Past	Gain or	Net Interest	Remeasurements
	Service	Service	Loss	on the	of the Net
	Cost	Cost	on	Net	of the Net
			Settlement	Defined	Defined
				Benefit	Benefit
				Liability	Liability
				Liability	
<b>December 31, 2013</b>					
Pension and retirement plans	Ps. 220	Ps. 12	Ps. (7)	Ps. 164	Ps. 470
Seniority premiums	55			22	44
Postretirement medical services	11			15	14
Post-employment Venezuela	48			67	312
<b>Total</b>	<b>Ps. 334</b>	<b>Ps. 12</b>	<b>Ps. (7)</b>	<b>Ps. 268</b>	<b>Ps. 840</b>

(1) Interest due to asset ceiling amounted to Ps. 8 in 2013.

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

For the years ended December 31, 2015, 2014 and 2013, current service cost of Ps. 343, Ps. 330 and Ps. 334 has been included in the consolidated income statement as cost of goods sold, administration and selling expenses.



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

	December 31, 2015	December 31, 2014	December 31, 2013
Amount accumulated in other comprehensive income as of the beginning of the period, net of tax	Ps. 951	Ps. 585	Ps. 469
Actuarial losses arising from exchange rates	(12)	(173)	(26)
Remeasurements during the year, net of tax	(46)	318	251
Actuarial gains arising from changes in demographic assumptions		41	
Actuarial gains and (losses) arising from changes in financial assumptions	(77)	171	(109)
Amount accumulated in other comprehensive income as of the end of the period, net of tax	Ps. 816	Ps. 942	Ps. 585

Remeasurements of the net defined benefit liability include the following:

The return on plan assets, excluding amounts included in interest expense.

Actuarial gains and losses arising from changes in demographic assumptions.

Actuarial gains and losses arising from changes in financial assumptions.

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

	December 31, 2015	December 31, 2014	December 31, 2013
<b>Pension and Retirement Plans:</b>			
Initial balance	Ps. 5,270	Ps. 4,866	Ps. 4,495
Current service cost	233	221	220
Past service cost	3	54	
Interest expense	353	353	311
Settlement		(482)	(7)
Effect on curtailment	(120)		
Remeasurements of the net defined benefit obligation	(154)	378	(143)
Foreign exchange loss (gain)	39	42	(60)
Benefits paid	(316)	(162)	(152)
Plan amendments			28
Acquisitions			174
<b>Ending balance</b>	<b>Ps. 5,308</b>	<b>Ps. 5,270</b>	<b>Ps. 4,866</b>

**Seniority Premiums:**

Initial balance	Ps. 563	Ps. 475	Ps. 324
Current service cost	88	75	55
Past service cost		9	
Interest expense	38	33	24
Settlement		(27)	

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Effect on curtailment	(9)		
Remeasurements of the net defined benefit obligation	(34)	29	2
Benefits paid	(45)	(37)	(36)
Acquisitions	9	6	106

**Ending balance** Ps. 610 Ps. 563 Ps. 475

**Postretirement Medical Services:**

Initial balance	Ps. 338	Ps. 267	Ps. 267
Current service cost	16	10	11
Interest expense	26	20	17
Remeasurements of the net defined benefit obligation	44	60	(11)
Benefits paid	(20)	(19)	(17)

**Ending balance** Ps. 404 Ps. 338 Ps. 267

**Post-employment:**

Initial balance	Ps. 194	Ps. 743	Ps. 594
Current service cost	5	24	48
Certain liability cost	73		
Interest expense		18	67
Remeasurements of the net defined benefit obligation		54	238
Foreign exchange (gain)	(137)	(638)	(187)
Benefits paid		(7)	(17)

**Ending balance** Ps. 135 Ps. 194 Ps. 743

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	December 31, 2015	December 31, 2014	December 31, 2013
<b>Total Plan Assets:</b>			
Initial balance	Ps. 2,158	Ps. 2,371	Ps. 2,110
Actual return on trust assets	65	133	29
Foreign exchange loss (gain)	7	(8)	(73)
Life annuities	61	197	88
Benefits paid	(63)		
Acquisitions			201
Plan amendments			16
Effect due to settlement		(535)	
<b>Ending balance</b>	<b>Ps. 2,228</b>	<b>Ps. 2,158</b>	<b>Ps. 2,371</b>

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

*16.7 Variation in assumptions*

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

Discount rate: The rate that determines the value of the obligations over time.

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Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable.

Healthcare cost increase rate: The rate that considers the trends of health care costs which implies an impact on the postretirement medical service obligations and the cost for the year.

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

<b>+0.5%:</b>	<b>Income Statement</b>			<b>OCI <sup>(1)</sup></b>	
	<b>Current Service Cost</b>	<b>Past Service Cost</b>	<b>Gain or Loss on Settlement or Curtailment</b>	<b>Effect of Net Interest on the Net Defined Benefit Liability (Asset)</b>	<b>Remeasurements of the Net Defined Benefit Liability (Asset)</b>
<b>Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability</b>					
Pension and retirement plans	Ps. 218	Ps. 3	Ps. (111)	Ps. 208	Ps. 588
Seniority premiums	82		(9)	31	11
Postretirement medical services Post-employment	14			19	105
<b>Total</b>	<b>Ps. 314</b>	<b>Ps. 3</b>	<b>Ps. (120)</b>	<b>Ps. 258</b>	<b>Ps. 704</b>
<b>Expected salary increase</b>					
Pension and retirement plans	Ps. 249	Ps. 3	Ps. (130)	Ps. 232	Ps. 951
Seniority premiums	90		(10)	33	82
Postretirement medical services Post-employment	16			23	119
<b>Total</b>	<b>Ps. 355</b>	<b>Ps. 3</b>	<b>Ps. (140)</b>	<b>Ps. 288</b>	<b>Ps. 1,152</b>
<b>Assumed rate of increase in healthcare costs</b>					
Postretirement medical services	Ps. 17	Ps.	Ps.	Ps. 23	Ps. 134

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-0.5%:

Discount rate used to calculate the

defined benefit obligation and the

net interest on the net defined

benefit liability

	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or Curtailement	Effect of Net Interest on the Net Defined Benefit Liability (Asset)	Remeasurements of the Net Defined Benefit Liability (Asset)
Pension and retirement plans	Ps. 249	Ps. 3	Ps. (130)	Ps. 216	Ps. 1,001
Seniority premiums	94		(10)	32	80
Postretirement medical services	17			24	136
Post-employment					
<b>Total</b>	<b>Ps. 360</b>	<b>Ps. 3</b>	<b>Ps. (140)</b>	<b>Ps. 272</b>	<b>Ps. 1,217</b>

Expected salary increase

Pension and retirement plans	Ps. 218	Ps. 3	Ps. (111)	Ps. 195	Ps. 609
Seniority premiums	87		(9)	31	10
Postretirement medical services	16			23	119
Post-employment					
<b>Total</b>	<b>Ps. 321</b>	<b>Ps. 3</b>	<b>Ps. (120)</b>	<b>Ps. 249</b>	<b>Ps. 738</b>

Assumed rate of increase in healthcare costs

Postretirement medical services	Ps. 14	Ps.	Ps.	Ps. 20	Ps. 105
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(1) Amounts accumulated in other comprehensive income as of the end of the period.

16.8 Employee benefits expense

For the years ended December 31, 2015, 2014 and 2013, employee benefits expenses recognized in the consolidated income statements are as follows:

	2015	2014	2013
Wages and salaries	Ps. 39,459	Ps. 35,659	Ps. 36,995
Social security costs	6,114	5,872	5,741
Employee profit sharing	1,243	1,138	1,936
Post employment benefits	493	514	607
Share-based payments	463	283	306
Termination benefits	503	431	480
	<b>Ps. 48,275</b>	<b>Ps. 43,897</b>	<b>Ps. 46,065</b>

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### **Note 17. Bonus Programs**

#### *17.1 Quantitative and qualitative objectives*

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

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

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

#### *17.2 Share-based payment bonus plan*

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

The plan is managed by FEMSA's chief executive officer (CEO), with the support of the board of directors, together with the CEO of the respective sub-holding company. FEMSA's Board of Directors is responsible for approving the plan's structure, and the annual amount of the bonus. Each year, FEMSA's CEO in conjunction with the Evaluation and Compensation Committee of the board of directors and the CEO of the respective sub-holding company determine the employees eligible to participate in the plan and the bonus formula to determine the number of shares to be received. Until 2015 the shares were vested ratably over a six year period, beginning with January 01, 2016 onwards they will ratably vest over a four year period, with retrospective effects. Early December 31, 2015, the Company and the eligible employee agree to the share-based payment arrangement, being when it and the counterparty have a shared understanding of the terms and conditions of the arrangement. FEMSA accounts for its share-based payment bonus plan as an equity-settled share based payment transaction as it will ultimately settle its obligations with its employees by issuing its own shares or those of its subsidiary Coca-Cola FEMSA.

The Company contributes the individual employee's special bonus (after taxes) in cash to the Administrative Trust (which is controlled and consolidated by FEMSA), who then uses the funds to purchase FEMSA or Coca-Cola FEMSA shares (as instructed by the Administrative Trust's Technical Committee), which are then allocated to such employee. The Administrative Trust tracks the individual employees' account balance. FEMSA created the Administrative Trust with the objective of administering 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

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Trust assigns to each participant their respective rights. As the trust is controlled and therefore consolidated by FEMSA, shares purchased in the market and held within the Administrative Trust are presented as treasury stock (as it relates to FEMSA's shares) or as a reduction of the noncontrolling interest (as it relates to Coca-Cola FEMSA's shares) in the consolidated statement of changes in equity, on the line issuance (repurchase) of shares associated with share-based payment plans. Should an employee leave prior to their shares vesting, they would lose the rights to such shares, which would then remain within the Administrative Trust and be able to be reallocated to other eligible employees as determined by the Company. The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. For the years ended December 31, 2015, 2014 and 2013, the compensation expense recorded in the consolidated income statement amounted to Ps. 463, Ps. 283 and Ps. 306, 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, 2015 and 2014, the number of shares held by the trust associated with the Company's share based payment plans is as follows:

	Number of Shares			
	FEMSA UBD		KOFL	
	2015	2014	2015	2014
Beginning balance	<b>4,763,755</b>	7,001,428	<b>1,298,533</b>	1,780,064
Shares acquired by the administrative trust to employees	<b>1,491,330</b>	517,855	<b>466,036</b>	330,730
Shares released from administrative trust to employees upon vesting	<b>(2,008,293)</b>	(2,755,528)	<b>(604,258)</b>	(812,261)
Forfeitures				
Ending balance	<b>4,246,792</b>	4,763,755	<b>1,160,311</b>	1,298,533

The fair value of the shares held by the trust as of the end of December 31, 2015 and 2014 was Ps. 830 and Ps. 788, respectively, based on quoted market prices of those dates.

**Table of Contents****Note 18. Bank Loans and Notes Payables**

(in millions of Mexican pesos)	At December 31, <sup>(1)</sup>						Carrying Value at December 31, 2015	Fair Value at December 31, 2015	Carrying Value at December 31, 2014 <sup>(1)</sup>
	2016	2017	2018	2019	2020	2021 and Thereafter			
<b>Short-term debt:</b>									
<b>Fixed rate debt:</b>									
<b>Colombian pesos</b>									
Bank loans	Ps. 219	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 219	Ps. 220	Ps.
Interest rate	6.5%						6.5%		
<b>Argentine pesos</b>									
Notes payable	165						165	164	301
Interest rate	26.2%						26.2%		30.9%
<b>Chilean pesos</b>									
Bank loans	1,442						1,442	1,442	
Interest rate	4.2%						4.2%		
Finance leases	10						10	10	
Interest rate	2.4%						2.4%		
<b>Variable rate debt:</b>									
<b>Colombian pesos</b>									
Bank loans	235						235	235	
Interest rate	8.2%						8.2%		
<b>Brazilian Reais</b>									
Bank loans	168						168	168	148
Interest rate	14.8%						14.8%		12.6%
<b>Total short-term debt</b>	Ps. 2,239	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 2,239	Ps. 2,239	Ps. 449
<b>Long-term debt:</b>									
<b>Fixed rate debt:</b>									
U.S. dollars									
Yankee bond	Ps.	Ps.	Ps. 17,158	Ps.	Ps. 8,566	Ps. 25,609	Ps. 51,333	Ps. 52,990	Ps. 43,893
Interest rate			2.4%		4.6%	4.4%	3.8%		3.8%
Bank of NY (FEMSA USD 2023)						5,068	5,068	4,852	4,308
Interest rate						2.9%	2.9%		2.9%
Bank of NY (FEMSA USD 2043)						11,675	11,675	10,737	9,900
Interest rate						4.4%	4.4%		4.4%
Bank loans									30
Interest rate									3.9%
<b>Mexican pesos</b>									
Units of investment (UDIs)		3,385					3,385	3,385	3,599
Interest rate		4.2%					4.2%		4.2%
Domestic senior notes						9,989	9,989	9,527	9,988
Interest rate						6.2%	6.2%		6.2%
<b>Brazilian reais</b>									
Bank loans	174	187	151	116	80	111	819	653	601
Interest rate	5.4%	5.7%	6.3%	6.6%	6.7%	5.6%	6.0%		4.6%
Finance leases	67	66	65	62	51	149	460	356	762
Interest rate	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%		4.6%
<b>Argentine pesos</b>									
Bank loans	18						18	17	309
Interest rate	15.3%						15.3%		26.8%
<b>Chilean pesos</b>									
Bank loans	120	82	30				232	232	
Interest rate	7.3%	7.6%	7.9%				7.5%		
Finance leases	14	15	16	17	18	12	92	92	
Interest rate	3.6%	3.6%	3.5%	3.5%	3.3%	3.2%	3.4%		

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Subtotal	Ps. 393	Ps. 3,735	Ps.17,420	Ps. 195	Ps. 8,715	Ps. 52,613	<b>Ps. 83,071</b>	<b>Ps. 82,841</b>	Ps. 73,390
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(1) All interest rates shown in this table are weighted average contractual annual rates.

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(in millions of Mexican pesos)	2016	At December 31, <sup>(1)</sup>				2021 and Thereafter	Carrying	Fair	Carrying
		2017	2018	2019	2020		Value at December 31, 2015	Value at December 31, 2015	Value at December 31, 2014 <sup>(1)</sup>
<b>Variable rate debt:</b>									
<b>U.S. dollars</b>									
Bank loans	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.
Interest rate									6,956 0.9%
<b>Mexican pesos</b>									
Domestic senior notes	2,496						2,496	2,500	2,473
Interest rate	3.6%						3.6%		3.4%
<b>Argentine pesos</b>									
Bank loans	82	41					123	120	232
Interest rate	32.2%	32.2%					32.2%		21.5%
<b>Brazilian reais</b>									
Bank loans	189	107	107	107	74		584	511	156
Interest rate	11.9%	9.2%	9.2%	9.2%	9.2%		10.1%		6.7%
Finance leases									63
Interest rate									10.0%
<b>Colombian pesos</b>									
Bank loans	280	684	54	53	53	52	1,176	1,165	769
Interest rate	6.9%	6.5%	8.0%	8.0%	8.0%	8.2%	6.9%		5.9%
Finance leases	0.04	0.04	0.05	0.05	0.01		0.19	0.19	
Interest rate	8.4%	8.4%	8.4%	8.4%	8.4%		8.4%		
<b>Chilean pesos</b>									
Bank loans	216	283	374	358	549	395	2,175	2,175	
Interest rate	6.2%	6.3%	6.2%	6.2%	5.7%	5.9%	6.0%		
Subtotal	Ps. 3,263	Ps. 1,115	Ps. 535	Ps. 518	Ps. 676	Ps. 447	Ps. 6,554	Ps. 6,471	Ps. 10,649
<b>Total long-term debt</b>	Ps. 3,656	Ps. 4,850	Ps. 17,955	Ps. 713	Ps. 9,391	Ps. 53,060	Ps. 89,625	Ps. 89,312	Ps. 84,039
<b>Current portion of long term debt</b>							(3,656)		(1,104)
							<b>Ps. 85,969</b>		Ps. 82,935

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



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Hedging Derivative Financial Instruments <sup>(1)</sup>	2016	2017	2018	2019	2020	2021 and Thereafter	Total 2015	Total 2014
	(notional amounts in millions of Mexican pesos)							
<b>Cross currency swaps:</b>								
<b>Units of investments to Mexican pesos and variable rate:</b>								
Fixed to variable <sup>(2)</sup>	Ps.	Ps. 2,500	Ps.	Ps.	Ps.	Ps.	Ps. 2,500	Ps. 2,500
Interest pay rate			3.4%				3.4%	3.1%
Interest receive rate		4.2%					4.2%	4.2%
<b>U.S. dollars to Mexican pesos</b>								
Fixed to variable <sup>(3)</sup>						11,403	11,403	11,403
Interest pay rate						4.8%	4.8%	4.6%
Interest receive rate						4.0%	4.0%	4.0%
Variable to fixed			7,571				7,571	6,476
Interest pay rate			3.5%				3.5%	3.2%
Interest receive rate			2.4%				2.4%	2.4%
Fixed to fixed						1,267	1,267	1,267
Interest pay rate						5.7%	5.7%	5.7%
Interest receive rate						2.9%	2.9%	2.9%
<b>U.S. dollars to Brazilian reais</b>								
Fixed to variable			5,592				5,592	6,653
Interest pay rate			12.7%				12.7%	11.3%
Interest receive rate			2.7%				2.7%	2.7%
Variable to variable			17,551				17,551	20,311
Interest pay rate			12.6%				12.6%	11.3%
Interest receive rate			2.1%				2.1%	1.5%
<b>Chilean pesos</b>								
Variable to fixed					1,097		1,097	
Interest pay rate					6.9%		6.9%	
Interest receive rate					6.8%		6.8%	
<b>Interest rate swap:</b>								
<b>Mexican pesos</b>								
Variable to fixed rate:				76		1,197	1,273	
Interest pay rate				6.5%		7.1%	7.0%	
Interest receive rate				4.5%		5.5%	5.5%	
Variable to fixed rate <sup>(2)</sup> :								
Interest pay rate		5.2%					5.2%	5.0%
Interest receive rate		3.4%					3.4%	3.2%
Variable to fixed rate <sup>(3)</sup> :								
Interest pay rate						7.2%	7.2%	7.2%
Interest receive rate						4.8%	4.8%	4.6%

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

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- (2) Interest rate swaps with a notional amount of Ps. 1,250 that receive a variable rate of 3.4% and pay a fixed rate of 5.2%; joined with a cross currency swap of the same notional amount, which covers units of investments to Mexican pesos, that receives a fixed rate of 4.2% and pays a variable rate of 3.4%.
- (3) Interest rate swaps with a notional amount of Ps. 11,403 that receive a variable rate of 4.8% and pay a fixed rate of 7.2%; joined with a cross currency swap of the same notional amount, which covers U.S. dollars to Mexican pesos, that receives a fixed rate of 4.0% and pay a variable rate of 4.8%.

For the years ended December 31, 2015, 2014 and 2013, the interest expense is comprised as follows:

	2015	2014	2013
Interest on debts and borrowings	<b>Ps. 4,586</b>	Ps. 3,992	Ps. 3,055
Finance charges payable under capitalized interest	<b>(60)</b>	(117)	(59)
Finance charges for employee benefits	<b>276</b>	341	268
Derivative instruments	<b>2,894</b>	2,413	825
Finance operating charges	<b>79</b>	66	225
Finance charges payable under finance leases	<b>2</b>	6	17
	<b>Ps. 7,777</b>	Ps. 6,701	Ps. 4,331

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

In November, 2013, Coca-Cola FEMSA issued U.S. \$1,000 in aggregate principal amount of 2.375% senior notes due 2018, U.S. \$750 in aggregate principal amount of 3.875% senior notes due 2023 and U.S. \$400 in aggregate principal amount of 5.250% senior notes due 2043, in an SEC registered offering. These notes are guaranteed by its 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., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S.A. de C.V. ( Guarantors ).

On December 4, 2007, the Company obtained the approval from the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores or CNBV ) for the issuance of long-term domestic senior notes ( Certificados Bursátiles ) in the amount of Ps. 10,000 (nominal amount) or its equivalent in investment units. As of December 31, 2014 the Company has issued the following domestic senior notes: i) on December 7, 2007, the Company issued domestic senior notes

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composed of Ps. 3,500 (nominal amount) with a maturity date on November 29, 2013 and a floating interest rate, which was paid at maturity; ii) on December 7, 2007, the Company issued domestic senior notes in the amount of 637,587,000 investment units (Ps. 2,500 nominal amount), with a maturity date on November 24, 2017 and a fixed interest rate.

Coca-Cola FEMSA has the following debt bonds: a) registered with the Mexican stock exchange: i) Ps. 2,500 (nominal amount) with a maturity date in 2016 and a variable interest rate, ii) Ps. 2,500 (nominal amount) with a maturity date in 2021 and fixed interest rate of 8.27% and iii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46%; and b) registered with the SEC: i) Senior notes of U.S. \$500 with interest at a fixed rate of 4.63% and maturity date on February 15, 2020, ii) Senior notes of U.S. \$1,000 with interest at a fixed rate of 2.38% and maturity date on November 26, 2018, iii) Senior notes of U.S. \$900 with interest at a fixed rate of 3.88% and maturity date on November 26, 2023 and iv) Senior notes of U.S. \$600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043 all of which are guaranteed by Coca-Cola FEMSA subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V. (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R.L. de C.V. ( Guarantors ).

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

In January 13, 2014, Coca-Cola FEMSA issued an additional U.S. \$350 million of senior notes comprised of 10 year and 30 year bonds. The interest rates and maturity dates of the new notes are the same as those of the initial 2013 notes offering. These notes are also guaranteed by the same Guarantors.

In February 2014, Coca-Cola FEMSA prepaid in full outstanding Bank loans denominated in pesos for a total amount of Ps. 4,175 (nominal amount).

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

**Table of Contents****Note 19. Other Income and Expenses**

	2015	2014	2013
Gain on sale of shares (see Note 4)	Ps. 14	Ps.	Ps.
Gain on sale of long-lived assets	249		41
Gain on sale of other assets		276	170
Sale of waste material	41	44	43
Write off-contingencies (see Note 25.5)		475	120
Recoveries from previous years	16	89	
Insurance rebates	17	18	
Others	86	196	277
<b>Other income</b>	<b>Ps. 423</b>	<b>Ps. 1,098</b>	<b>Ps. 651</b>
Contingencies associated with prior acquisitions or disposals	Ps. 93	Ps.	Ps. 385
Loss on sale of long-lived assets		7	
Impairment of long-lived assets	134	145	
Disposal of long-lived assets (1)	416	153	122
Foreign exchange losses related to operating activities	917	147	99
Securities taxes from Colombia	30	69	51
Severance payments	285	277	190
Donations	362	172	119
Legal fees and other expenses from past acquisitions	223	31	110
Other	281	276	363
<b>Other expenses</b>	<b>Ps. 2,741</b>	<b>Ps. 1,277</b>	<b>Ps. 1,439</b>

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

**Note 20. Financial Instruments****Fair Value of Financial Instruments**

The Company measures the fair value of its financial assets and liabilities classified as level 2 applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes the Company's financial assets and liabilities measured at fair value, as of December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Level 1	Level 2	Level 1	Level 2
Derivative financial instrument (current asset)		523		384
Derivative financial instrument (non-current asset)		8,377		6,299
Derivative financial instrument (current liability)	270	89	313	34
Derivative financial instrument (non-current liability)		277	112	39

*20.1 Total debt*

The fair value of bank and syndicated 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, 2015 and 2014, which is considered to be level 1 in the fair value hierarchy.

	2015	2014
Carrying value	<b>Ps. 91,864</b>	Ps. 84,488
Fair value	<b>91,551</b>	86,595

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**Table of Contents***20.2 Interest rate swaps*

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

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

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

At December 31, 2014 the Company has the following outstanding interest rate swap agreements:

<b>Maturity Date</b>	<b>Notional Amount</b>	<b>Fair Value Liability December 31, 2014</b>	<b>Fair Value Asset December 31, 2014</b>
2017	Ps. 1,250	Ps. (35)	Ps.
2023	11,403	(4)	12

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

*20.3 Forward agreements to purchase foreign currency*

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

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the

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contracts at the end of the period. The price agreed in the instrument is compared to the current price of the market forward currency and is discounted to present value of the rate curve of the relevant currency. Changes in the fair value of these forwards are recorded as part of cumulative other comprehensive income, net of taxes. Net gain/loss on expired contracts is recognized as part of cost of goods sold when the raw material is included in sale transaction, and as a part of foreign exchange when the inflow in Euros are received.

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

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

At December 31, 2014, the Company had the following outstanding forward agreements to purchase foreign currency:

<b>Maturity Date</b>	<b>Notional Amount</b>	<b>Fair Value Liability December 31, 2014</b>	<b>Fair Value Asset December 31, 2014</b>
2015	Ps. 4,411	Ps.	Ps. 298
2016	1,192	(26)	

*20.4 Options to purchase foreign currency*

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

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

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

<b>Maturity Date</b>	<b>Notional Amount</b>	<b>Fair Value Liability December 31, 2015</b>	<b>Fair Value Asset December 31, 2015</b>
2016	Ps. 1,612	Ps.	Ps. 65

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At December 31, 2014, the Company had the following outstanding collars agreements to purchase foreign currency:

<b>Maturity Date</b>	<b>Notional Amount</b>	<b>Fair Value Liability December 31, 2014</b>	<b>Fair Value Asset December 31, 2014</b>
2015	Ps. 402	Ps.	Ps. 56

*20.5 Cross-currency swaps*

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

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

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

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

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

At December 31, 2014, the Company had the following outstanding cross currency swap agreements:

<b>Maturity Date</b>	<b>Notional Amount</b>	<b>Fair Value Liability December 31, 2014</b>	<b>Fair Value Asset December 31, 2014</b>
2015	Ps. 30	Ps.	Ps. 6
2017	2,711		1,209
2018	33,410		3,002
2019	369		15
2023	12,670		2,060



**Table of Contents***20.6 Commodity price contracts*

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

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

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

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

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

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

At December 31, 2014, Coca-Cola FEMSA had the following sugar price contracts:

<b>Maturity Date</b>	<b>Notional Amount</b>	<b>Fair Value Liability December 31, 2014</b>
2015	Ps. 1,341	Ps. (285)
2016	952	(101)
2017	37	(2)

At December 31, 2014, Coca-Cola FEMSA had the following aluminum price contracts:

<b>Maturity Date</b>	<b>Notional Amount</b>	<b>Fair Value Liability December 31, 2014</b>
2015	Ps. 361	Ps. (12)
2016	177	(9)

**Table of Contents***20.7 Financial Instruments for CCFPI acquisition:*

The Company's call option related to the remaining 49% ownership interest in CCFPI is measured at fair value in its financial statements using a Level 3 concept. The call option had an estimated fair value of approximately Ps. 859 million at inception of the option, and approximately Ps. 456 million and Ps. 755 million as of December 31, 2015 and 2014, respectively. Significant observable inputs into that Level 3 estimate include the call option's expected term (7 years at inception), risk free rate as expected return (LIBOR), a volatility (14.17%) and the underlying enterprise value of the CCFPI. The enterprise value of CCFPI for the purpose of this estimate was based on CCFPI's long-term business plan. The Company uses Black & Scholes valuation technique to measure call option value. The Company acquired its 51% ownership interest in CCFPI in January 2013 and continues to integrate CCFPI into its global operations using the equity method of accounting, and currently believes that the underlying exercise price of the call option is out of the money. The Level 3 fair value of the Company's put option related to its 51% ownership interest approximates zero as its exercise price as defined in the contract adjusts proportionately to the underlying fair value of CCFPI.

The Company estimates that the call option is out of the money as of December 31, 2015 and 2014. As of December 31, 2015 and 2014, the call option is out of the money by approximately 13.89% and 17.71% or U.S. \$90 million and U.S. \$107 million, respectively, with respect to the strike price.

*20.8 Net effects of expired contracts that met hedging criteria*

Type of Derivatives	Impact in Consolidated Income Statement	2015	2014	2013
		Ps.	Ps.	Ps.
Interest rate swaps	Interest expense	Ps.	Ps. 337	Ps. 214
Cross currency swap <sup>(1)</sup>	Interest expense	<b>2,595</b>		
Cross currency swap <sup>(1)</sup>	Foreign exchange	<b>(10,911)</b>		
Forward agreements to purchase foreign currency	Foreign exchange	<b>(180)</b>	38	(1,710)
Commodity price contracts	Cost of goods sold	<b>619</b>	291	362
Options to purchase foreign currency	Cost of goods sold	<b>(21)</b>		
Forward agreements to purchase foreign currency	Cost of goods sold	<b>(523)</b>	22	

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

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

Type of Derivatives	Impact in Consolidated Income Statement	2015	2014	2013
		Ps.	Ps.	Ps.
Interest rate swaps	Market value	Ps.	Ps. 10	Ps. (7)
Cross currency swaps	gain (loss) on	<b>(20)</b>	59	33
Others	financial instruments	<b>56</b>	3	(19)

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

Type of Derivatives	Impact in Consolidated Income Statement	2015	2014	2013
Cross-currency swaps	Market value	<b>Ps. 204</b>	Ps.	Ps.

20.11 *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.

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The following disclosures provide a sensitivity analysis of the market risks management considered to be reasonably possible at the end of the reporting period, which the Company is exposed to as it relates to foreign exchange rates and commodity prices, which it considers in its existing hedging strategy:

Foreign Currency Risk	Change in Exchange Rate	Effect on Equity	Effect on Profit or Loss
<b>2015</b>			
FEMSA <sup>(1)</sup>	+14% MXN/EUR	Ps. (319)	Ps.
	+10% CLP/USD	(9)	
	-10% CLP/USD	9	
	-14% MXN/EUR	319	
Coca-Cola FEMSA	+11% MXN/USD	(197)	
	+21% BRL/USD	(387)	
	+17% COP/USD	(113)	
	+36% ARS/USD	(231)	
	-11% MXN/USD	197	
	-21% BRL/USD	387	
	-17% COP/USD	113	
	-36% ARS/USD	231	
<b>2014</b>			
FEMSA <sup>(1)</sup>	+9% MXN/EUR	Ps. (278)	Ps.
	-9% MXN/EUR	278	
Coca-Cola FEMSA	+7% MXN/USD	119	
	+14% BRL/USD	96	
	+9% COP/USD	42	
	+11% ARS/USD	22	
	-7% MXN/USD	(119)	
	-14% BRL/USD	(96)	
	-9% COP/USD	(42)	
	-11% ARS/USD	(22)	
<b>2013</b>			
FEMSA <sup>(1)</sup>	+7% MXN/EUR	Ps. (157)	Ps.
	-7% MXN/EUR	157	
Coca-Cola FEMSA	+11% MXN/USD	67	
	+13% BRL/USD	86	
	+6% COP/USD	19	
	-11% MXN/USD	(67)	
	-13% BRL/USD	(86)	
	-6% COP/USD	(19)	

(1) Does not include Coca-Cola FEMSA.

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<b>Cross Currency Swaps<sup>(1)(2)</sup></b>	<b>Change in Exchange Rate</b>	<b>Effect on Equity</b>	<b>Effect on Profit or Loss</b>
<b>2015</b>			
FEMSA <sup>(3)</sup>	-11% MXN/USD	Ps.	Ps. (2,043)
	+11% MXN/USD		2,043
Coca-Cola FEMSA	-11% MXN/USD		(938)
	-21% BRL/USD	(4,517)	(1,086)
	+11% MXN/USD		938
	+21% BRL/USD	4,517	1,086
<b>2014</b>			
FEMSA <sup>(3)</sup>	-7% MXN/USD	Ps.	Ps. (1,100)
	+7% MXN/USD		1,100
Coca-Cola FEMSA	-7% MXN/USD		(481)
	-14% BRL/USD		(3,935)
	+7% MXN/USD		415
	+14% BRL/USD		2,990
<b>2013</b>			
FEMSA <sup>(3)</sup>	-11% MXN/USD	Ps.	Ps. (1,581)
Coca-Cola FEMSA	-11% MXN/USD		(392)
	-13% BRL/USD		(3,719)
<b>Net Cash in Foreign Currency<sup>(1)</sup></b>			
<b>2015</b>			
FEMSA <sup>(3)</sup>	+14% EUR/+11% USD	Ps.	504
	-14% EUR/-11% USD		(504)
Coca-Cola FEMSA	+11% USD		(1,112)
	-11% USD		1,112
<b>2014</b>			
FEMSA <sup>(3)</sup>	+9% EUR/+7% USD	Ps.	233
	-9% EUR/-7% USD		(233)
Coca-Cola FEMSA	+7% USD		(747)
	-7% USD		747
<b>2013</b>			
FEMSA <sup>(3)</sup>	+7% EUR/+11% USD	Ps.	335
	-7% EUR/-11% USD		(335)
Coca-Cola FEMSA	+11% USD		(1,090)
	-11% USD		1,090

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

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- (2) Includes the sensitivity analysis effects of all derivative financial instruments related to foreign exchange risk.  
 (3) Does not include Coca-Cola FEMSA.

<b>Commodity Price Contracts <sup>(1)</sup></b>	<b>Change in U.S.\$ Rate</b>	<b>Effect on Equity</b>
<b>2015</b>		
Coca-Cola FEMSA	<b>Sugar - 31%</b>	<b>Ps. (406)</b>
	<b>Aluminum - 18%</b>	<b>(58)</b>
<b>2014</b>		
Coca-Cola FEMSA	Sugar - 27%	Ps. (528)
	Aluminum - 17%	(87)
<b>2013</b>		
Coca-Cola FEMSA	Sugar - 18%	Ps. (298)
	Aluminum - 19%	(36)

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

*20.12 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.

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

Interest Rate Swap <sup>(1)</sup>	Change in Bps.	Effect on Equity
<b>2015</b>		
FEMSA <sup>(2)</sup>	(100 Bps.)	Ps. (542)
Coca-Cola FEMSA		
<b>2014</b>		
FEMSA <sup>(2)</sup>	(100 Bps.)	Ps. (528)
Coca-Cola FEMSA		
<b>2013</b>		
FEMSA <sup>(2)</sup>		
Coca-Cola FEMSA	(100 Bps.)	Ps. (32)

(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	2015	2014	2013
Change in interest rate	<b>+100 Bps.</b>	+100 Bps.	+100 Bps.
Effect on profit loss	<b>Ps. (192)</b>	Ps. (244)	Ps. (332)

*20.13 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, 2015 and 2014, 82.66% and 80.66%, respectively of the Company's outstanding consolidated total indebtedness was at the level of its sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA. Currently, the Company's management expects to continue financing its operations and capital requirements when it is considering domestic funding at the level of its sub-holding companies, otherwise; it is generally more convenient that its foreign operations would be financed directly through the Company because of better market conditions obtained by itself. Nonetheless, sub-holdings companies may decide to incur indebtedness in the future to finance their own operations and capital requirements of the Company's subsidiaries or significant acquisitions, investments or capital expenditures. As a holding company, the Company depends on dividends and other distributions from its subsidiaries to service the Company's indebtedness.

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

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





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

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

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

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

The Company presents the maturity dates associated with its long-term financial liabilities as of December 31, 2015, see Note 18. The Company generally makes payments associated with its long-term financial liabilities with cash generated from its operations.

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected net cash outflows from derivative financial liabilities that are in place as of December 31, 2015. 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, 2015.

	2016	2017	2018	2019	2020	2021 and thereafter
<b>Non-derivative financial liabilities:</b>						
Notes and bonds	<b>Ps.5,929</b>	<b>Ps. 6,760</b>	<b>Ps. 20,286</b>	<b>Ps. 2,763</b>	<b>Ps. 11,024</b>	<b>Ps. 81,339</b>
Loans from banks	<b>3,522</b>	<b>1,763</b>	<b>964</b>	<b>818</b>	<b>869</b>	<b>627</b>
Obligations under finance leases	<b>112</b>	<b>100</b>	<b>96</b>	<b>92</b>	<b>77</b>	<b>172</b>
Derivative financial liabilities	<b>2,615</b>	<b>1,757</b>	<b>(55)</b>	<b>318</b>	<b>292</b>	<b>(4,294)</b>

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

*20.14 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 31 December 2015 and 2014 is the carrying amounts (see Note 7).

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

The Company manages the credit risk related to its derivative portfolio by only entering into transactions with reputable and credit-worthy counterparties as well as by maintaining in some cases a Credit Support Annex (CSA) that establishes margin requirements, which could change upon changes to the credit ratings given to the Company by independent rating agencies. As of December 31, 2015, the Company concluded that the maximum exposure to credit risk related with derivative financial instruments is not significant given the high credit rating of its counterparties.

**Note 21. Non-Controlling Interest in Consolidated Subsidiaries**

An analysis of FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2015 and 2014 is as follows:

	<b>December 31, 2015</b>	December 31, 2014
Coca-Cola FEMSA	<b>Ps. 58,340</b>	Ps. 59,202
Other	<b>1,992</b>	447
	<b>Ps. 60,332</b>	Ps. 59,649

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

	2015	2014	2013
Balance at beginning of the year	<b>Ps. 59,649</b>	Ps. 63,158	Ps. 54,902
Net income of non controlling interest <sup>(1)</sup>	<b>5,593</b>	5,929	6,233
Other comprehensive loss:	<b>(2,999)</b>	(6,265)	(910)
Exchange differences on translation of foreign operation	<b>(3,110)</b>	(6,264)	(664)
Remeasurements of the net defined benefits liability	<b>75</b>	(110)	(80)
Valuation of the effective portion of derivative financial instruments	<b>36</b>	109	(166)
Increase in capital stock			515
Acquisitions effects	<b>1,133</b>		5,550
Contribution from non-controlling interest	<b>250</b>		
Dividends	<b>(3,351)</b>	(3,152)	(3,125)
Share based payment	<b>57</b>	(21)	(7)
Balance at end of the year	<b>Ps. 60,332</b>	Ps. 59,649	Ps. 63,158

- (1) For the years ended at 2015, 2014 and 2013, Coca-Cola FEMSA's net income allocated to non-controlling interest was Ps. 94, Ps. 424 and Ps. 239, respectively.

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Non controlling cumulative other comprehensive loss is comprised as follows:

	December 31, 2015	December 31, 2014
Exchange differences on translation foreign operation	Ps.(9,436)	Ps.(6,326)
Remeasurements of the net defined benefits liability	(241)	(316)
Valuation of the effective portion of derivative financial instruments	(93)	(129)
Cumulative other comprehensive loss	Ps.(9,770)	Ps.(6,771)

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, 2015	December 31, 2014
Total current assets	Ps. 40,717	Ps. 38,128
Total non-current assets	168,536	174,238
Total current liabilities	29,484	28,403
Total non-current liabilities	71,034	73,845
Total revenue	Ps. 152,360	Ps. 147,298
Total consolidated net income	10,329	10,966
Total consolidated comprehensive income	Ps. 5,033	Ps. (1,005)
Net cash flow from operating activities	23,519	24,406
Net cash flow from used in investing activities	(10,945)	(11,137)
Net cash flow from financing activities	(8,567)	(11,350)

**Note 22. Equity***22.1 Equity accounts*

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

As of December 31, 2015 and 2014, the capital stock of FEMSA was comprised 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

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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, 2015 and 2014, FEMSA's capital stock is comprised as follows:

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

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve equals 20% of capital stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company, except as a stock dividend. As of December 31, 2015 and 2014, this reserve amounted to Ps. 596.

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

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. Due to the Mexican Tax Reform, a new Income Tax Law (LISR) went into effect on January 1, 2014. Such law no longer includes the tax consolidation regime which allowed calculating the CUFIN on a consolidated basis; therefore, beginning in 2014, distributed dividends must be taken from the individual CUFIN balance of FEMSA, which can be increased with the subsidiary companies' individual CUFINES through the transfers of dividends. The sum of the individual CUFIN balances of FEMSA and its subsidiaries as of December 31, 2015 amounted to Ps. 91,248.



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

At an ordinary shareholders meeting of FEMSA held on March 15, 2013, the shareholders approved a dividend of Ps. 6,684 that was paid 50% on May 7, 2013 and other 50% on November 7, 2013; and a reserve for share repurchase of a maximum of Ps. 3,000. As of December 31, 2014, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 17.

At an ordinary shareholders meeting of FEMSA held on December 6, 2013, the shareholders approved a dividend of Ps. 6,684 that was paid on December 18, 2013.

At an ordinary shareholders meeting of Coca-Cola FEMSA held on March 5, 2013, the shareholders approved a dividend of Ps. 5,950 that was paid 50% on May 2, 2013 and other 50% on November 5, 2013. The corresponding payment to the non-controlling interest was Ps. 3,073.

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

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

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

For the years ended December 31, 2015, 2014 and 2013 the dividends declared and paid by the Company and Coca-Cola FEMSA were as follows:

	2015	2014	2013
FEMSA	<b>Ps. 7,350</b>	Ps.	Ps. 13,368
Coca-Cola FEMSA (100% of dividend)	<b>6,405</b>	6,012	5,950

For the years ended December 31, 2015 and 2014 the dividends declared and paid per share by the Company are as follows:

Series of Shares	2015	2014
B	<b>Ps. 0.36649</b>	Ps.
D	<b>0.45811</b>	

**Table of Contents***22.2 Capital management*

The Company manages its capital to ensure that its subsidiaries will be able to continue as going concerns while maximizing the return to shareholders through the optimization of its debt and equity balance in order to obtain the lowest cost of capital available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2015 and 2014.

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

The Company's finance committee reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In conjunction with this objective, the Company seeks to maintain the highest credit rating both nationally and internationally and is currently rated AAA in Mexico and BBB+ in the United States, which requires it to have a debt to earnings before interest, taxes, depreciation and amortization ( EBITDA ) ratio lower than 2. As a result, prior to entering into new business ventures, acquisitions or divestures, management evaluates the optimal ratio of debt to EBITDA in order to maintain its credit rating.

**Note 23. Earnings per Share**

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

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

	2015		2014		2013	
	Per Series B Shares	Per Series D Shares	Per Series B Shares	Per Series D Shares	Per Series B Shares	Per Series D Shares
Shares expressed in millions:						
Weighted average number of shares for basic earnings per share	<b>9,241.91</b>	<b>8,626.69</b>	9,240.54	8,621.18	9,238.69	8,613.80
Effect of dilution associated with non-vested shares for share based payment plans	<b>4.51</b>	<b>18.02</b>	5.88	23.53	7.73	30.91
<b>Weighted average number of shares adjusted for the effect of dilution (Shares outstanding)</b>	<b>9,246.42</b>	<b>8,644.71</b>	9,246.42	8,644.71	9,246.42	8,644.71
Dividend rights per series (see note 22.1)	<b>100%</b>	<b>125%</b>	100%	125%	100%	125%
Weighted average number of shares further adjusted to reflect dividend rights	<b>9,246.42</b>	<b>10,805.89</b>	9,246.42	10,805.89	9,246.42	10,805.89
Allocation of earnings, weighted	<b>46.11%</b>	<b>53.89%</b>	46.11%	53.89%	46.11%	53.89%
	<b>Ps. 8,153.84</b>	<b>Ps. 9,529.04</b>	Ps. 7,701.08	Ps. 8,999.92	Ps. 7,341.74	Ps. 8,579.98



**Net Controlling Interest  
Income Allocated**

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**Note 24. Income Taxes**

In December of 2013, the Mexican government enacted a package of tax reforms (the 2014 Tax Reform ) which includes several significant changes to tax laws, discussed in further detail below, entering into effect on January 1, 2014. The following changes are expected to most significantly impact the Company's financial position and results of operations:

The introduction of a new withholding tax at the rate of 10% for dividends and/or distributions of earnings generated in 2014 and beyond;

A fee of one Mexican peso per liter on the sale and import of flavored beverages with added sugar, and an excise tax of 8% on food with caloric content equal to, or greater than 275 kilocalories per 100 grams of product;

The prior 11% value added tax (VAT) rate that applied to transaction in the border region was raised to 16%, matching the general VAT rate applicable in the rest of Mexico;

The elimination of the tax on cash deposits (IDE) and the business flat tax (IETU);

Deductions on exempt payroll items for workers are limited to 53%;

The income tax rate in 2013 was 30%. Scheduled decreases to the income tax rate that would have reduced the rate to 29% in 2014 and 28% in 2015 and thereafter, were canceled in connection with the 2014 Tax Reform;

The repeal of the existing tax consolidation regime, which was effective as of January 1, 2014, modified the payment term of a tax on assets payable of Ps. 180, which will be paid over the following 5 years instead of an indefinite term. Additionally, deferred tax assets and liabilities associated with the Company's subsidiaries in Mexico are no longer offset as of December 31, 2015 and 2014, as the future income tax balances are expected to reverse in periods where the Company is no longer consolidating these entities for tax purposes and the right of offset does not exist; and

The introduction of an new optional tax integration regime (a modified form of tax consolidation), which replaces the previous tax consolidation regime. The new optional tax integration regime requires an equity ownership of at least 80% for qualifying subsidiaries and would allow the Company to defer the annual tax payment of its profitable participating subsidiaries for a period equivalent to 3 years to the extent their individual tax expense exceeds the integrated tax expense of the Company.

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The impacts of the 2014 Tax Reform on the Company's financial position and results of operations as of and for the year ended December 31, 2013, resulted from the repeal of the tax consolidation regime as described above regarding the payable of Ps. 180 and the effects of the changes in tax rates on deferred tax assets and liabilities as disclosed below, which was recognized in earnings in 2013.

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

On December 30, 2015, the Venezuelan government published a tax reform for 2016 which establishes: (i) a new tax on financial transactions that will be effective beginning February 1, 2016, for those identified as special taxpayers at a rate of 0.75% over certain financial transactions, including bank withdraws, transfers of bonds and securities, payments of debts not utilizing a bank account and forgiveness of debt; and (ii) elimination of inflationary effects on calculations of income tax.

In Guatemala, the income tax rate for 2014 was 28.0% and it decreased for 2015 to 25.0%, as scheduled.

In 2009, Nicaragua established rules related with transfer pricing. This obligation originally would be effective on January 1, 2016, but the National Assembly passed an amendment to postpone the measure until June 30, 2017.

In Brazil, since July 2015, all the financial revenues (except exchange variance) have been subjected to Federal Social Contributions at the rate of 4.65%.

Also in Brazil, starting 2016 the rates of value-added tax in certain states will be changed as follows: Mato Grosso do Sul - from 17% to 20%; Minas Gerais - the tax rate will remain at 18% but there will be an additional 2% as a contribution to poverty eradication just for the sales to non-taxpayer (final consumers); Rio de Janeiro - the contribution related to poverty eradication fund will be increased from 1% to 2% effectively in April; Paraná - the rate will be reduced to 16% but a rate of 2% as a contribution to poverty eradication will be charged on sales to non-taxpayers.

Additionally in Brazil, starting on January 1st, 2016, the rates of federal production tax will be reduced and the rates of the federal sales tax will be increased. Coca-Cola FEMSA estimates the average of these taxes over the net sales would move from 14.4% in 2015 to 15.5% in 2016.

**Table of Contents****24.1 Income Tax**

The major components of income tax expense for the years ended December 31, 2015, 2014 and 2013 are:

	2015	2014	2013
Current tax expense	<b>Ps. 9,879</b>	Ps. 7,810	Ps. 7,855
Deferred tax expense:			
Origination and reversal of temporary differences	<b>826</b>	1,303	257
(Recognition) application of tax losses	<b>(2,789)</b>	(2,874)	(212)
Total deferred tax (income) expense	<b>(1,963)</b>	(1,571)	45
Change in the statutory rate <sup>(1)</sup>	<b>16</b>	14	(144)
	<b>Ps. 7,932</b>	Ps. 6,253	Ps. 7,756

(1) Effect in 2013 because of 2014 Mexican Tax Reform.

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

	2015	2014	2013
<b>Income tax related to items charged or recognized directly in OCI during the year:</b>			
Unrealized loss (gain) on cash flow hedges	<b>Ps. 93</b>	Ps. 219	Ps. (128)
Unrealized gain on available for sale securities			(1)
Exchange differences on translation of foreign operations	<b>1,699</b>	(60)	1,384
Remeasurements of the net defined benefit liability	<b>49</b>	(49)	(56)
Share of the other comprehensive income of associates and joint ventures	<b>193</b>	189	(1,203)
Total income tax cost (benefit) recognized in OCI	<b>Ps. 2,034</b>	Ps. 299	Ps. (4)

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, 2015, 2014 and 2013 is as follows:

	2015	2014	2013
Mexican statutory income tax rate	<b>30.0%</b>	30.0%	30.0%
Difference between book and tax inflationary values and translation effects	<b>(1.3%)</b>	(3.1%)	(0.2%)
Annual inflation tax adjustment	<b>(1.5%)</b>	(4.4%)	(1.2%)
Difference between statutory income tax rates	<b>0.4%</b>	0.9%	1.2%
Non-deductible expenses	<b>3.3%</b>	3.7%	1.0%
Taxable (non-taxable) income, net	<b>(0.3%)</b>	(1.1%)	0.7%
Change in the statutory Mexican tax rate	<b>0.1%</b>	0.1%	(0.6%)
Others	<b>0.8%</b>	0.2%	
	<b>31.5%</b>	26.3%	30.9%

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**Deferred Income Tax Related to:**

	Consolidated Statement		Consolidated Statement of Income		
	of Financial Position as of				
	December 31, 2015	December 31, 2014	2015	2014	2013
Allowance for doubtful accounts	<b>Ps. (128)</b>	Ps. (242)	<b>Ps. 93</b>	Ps. (106)	Ps. (24)
Inventories	<b>66</b>	132	<b>(14)</b>	77	(2)
Other current assets	<b>120</b>	114	<b>21</b>	(18)	109
Property, plant and equipment, net	<b>(1,858)</b>	(1,654)	<b>(314)</b>	(968)	(630)
Investments in associates and joint ventures	<b>307</b>	(176)	<b>684</b>	87	115
Other assets	<b>99</b>	226	<b>(52)</b>	422	(2)
Finite useful lived intangible assets	<b>419</b>	246	<b>201</b>	(133)	236
Indefinite lived intangible assets	<b>146</b>	75	<b>84</b>	(195)	88
Post-employment and other long-term employee benefits	<b>(672)</b>	(753)	<b>86</b>	(92)	30
Derivative financial instruments	<b>127</b>	(38)	<b>165</b>	(99)	62
Provisions	<b>(1,209)</b>	(1,318)	<b>(8)</b>	(477)	(164)
Temporary non-deductible provision	<b>2,486</b>	2,534	<b>735</b>	2,450	562
Employee profit sharing payable	<b>(311)</b>	(268)	<b>(43)</b>	(13)	(27)
Tax loss carryforwards	<b>(5,272)</b>	(3,249)	<b>(2,789)</b>	(2,874)	(212)
Cumulative other comprehensive income <sup>(1)</sup>	<b>(171)</b>	(303)			
Exchange differences on translation of foreign operations in OCI	<b>3,834</b>	2,135			
Other liabilities	<b>(46)</b>	(96)	<b>(113)</b>	475	(131)
Deferred tax (income) expense			<b>Ps. (1,264)</b>	Ps. (1,464)	Ps. 10
Deferred tax income net recorded in share of the profit of associates and joint ventures accounted for using the equity method			<b>(683)</b>	(93)	(109)
Deferred tax (income) expense, net			<b>Ps. (1,947)</b>	Ps. (1,557)	Ps. (99)
Deferred income taxes, net	<b>(2,063)</b>	(2,635)			
Deferred tax asset	<b>(8,293)</b>	(6,278)			
Deferred tax liability	<b>Ps. 6,230</b>	Ps. 3,643			

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

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**Deferred tax related to Other Comprehensive Income (OCI)**

<b>Income tax related to items charged or recognized directly in OCI as of the year:</b>	<b>2015</b>	2014
Unrealized loss (gain) on derivative financial instruments	<b>Ps. 105</b>	Ps. 12
Remeasurements of the net defined benefit liability	<b>(275)</b>	(315)
<b>Total deferred tax income related to OCI</b>	<b>Ps. (170)</b>	Ps. (303)

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

	2015	2014	2013
Initial balance	<b>Ps. (2,635)</b>	Ps. (799)	Ps. (1,328)
Deferred tax provision for the year	<b>(1,963)</b>	(1,571)	45
Change in the statutory rate	<b>16</b>	14	(144)
Deferred tax income net recorded in share of the profit of associates and joint ventures accounted for using the equity method	<b>683</b>	93	109
Acquisition of subsidiaries (see Note 4)	<b>(161)</b>	(516)	647
Effects in equity:			
Unrealized loss (gain) on cash flow hedges	<b>184</b>	109	(149)
Unrealized gain on available for sale securities			(1)
Exchange differences on translation of foreign operations	<b>1,729</b>	617	2
Remeasurements of the net defined benefit liability	<b>121</b>	(427)	102
Retained earnings of associates	<b>(396)</b>	(180)	(121)
Restatement effect of beginning balances associated with hyperinflationary economies	<b>359</b>	25	39
Ending balance	<b>Ps. (2,063)</b>	Ps. (2,635)	Ps. (799)

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

**Tax Loss Carryforwards**

The subsidiaries in Mexico and South America have tax loss carryforwards. The tax losses carryforwards and their years of expiration are as follows:

Year	Tax Loss Carryforwards
2020	<b>Ps. 23</b>
2021	<b>8</b>
2022	<b>13</b>
2023 and thereafter	<b>5,529</b>
No expiration (South America)	<b>10,890</b>
	<b>Ps. 16,463</b>

During 2013 Coca-Cola FEMSA completed certain acquisitions in Brazil as disclosed in Note 4. In connection with those acquisition Coca-Cola FEMSA recorded certain goodwill balances that are deductible for Brazilian income tax reporting purposes. The deduction of such goodwill amortization has resulted in the creation of NOLs in Brazil. NOLs in Brazil have no

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expiration, but their usage is limited to 30% of Brazilian taxable income in any given year. As of December 31, 2015, Coca-Cola FEMSA 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 no valuation allowance has been provided.

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

	2015	2014
Balance at beginning of the year	Ps. 8,734	Ps. 558
Additions	8,545	8,199
Additions from acquisitions	825	
Usage of tax losses	(215)	(45)
Translation effect of beginning balances	(1,426)	22
Balance at end of the year	Ps. 16,463	Ps. 8,734

There were no withholding taxes associated with the payment of dividends in either 2015, 2014 or 2013 by the Company to its shareholders.

The Company has determined that undistributed profits of its subsidiaries, joint ventures or associates will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized, aggregate to Ps. 44,082 (December 31, 2014: Ps. 43,394 and December 31, 2013: Ps. 44,920).

*24.2 Other taxes*

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

**Note 25. Other Liabilities, Provisions, Contingencies and Commitments***25.1 Other current financial liabilities*

	December 31, 2015	December 31, 2014
Sundry creditors	Ps. 4,336	Ps. 4,515
Derivative financial instruments	358	347
Others	15	
Total	Ps. 4,709	Ps. 4,862

The carrying value of short-term payables approximates its fair value as of December 31, 2015 and 2014.



**Table of Contents***25.2 Provisions and other long term liabilities*

	December 31, 2015	December 31, 2014
Provisions	<b>Ps. 3,415</b>	Ps. 4,285
Taxes payable	<b>458</b>	444
Others	<b>1,334</b>	890
<b>Total</b>	<b>Ps. 5,207</b>	Ps. 5,619

*25.3 Other financial liabilities*

	December 31, 2015	December 31, 2014
Derivative financial instruments	<b>Ps. 277</b>	Ps. 151
Security deposits	<b>218</b>	177
<b>Total</b>	<b>Ps. 495</b>	Ps. 328

*25.4 Provisions recorded in the consolidated statement of financial position*

The Company has various loss contingencies, and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. Most of these loss contingencies are the result of the Company's business acquisitions. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
Indirect taxes	<b>Ps. 1,725</b>	Ps. 2,271
Labor	<b>1,372</b>	1,587
Legal	<b>318</b>	427
<b>Total</b>	<b>Ps. 3,415</b>	Ps. 4,285

**Table of Contents***25.5 Changes in the balance of provisions recorded**25.5.1 Indirect taxes*

	<b>December 31, 2015</b>	December 31, 2014	December 31, 2013
Balance at beginning of the year	<b>Ps. 2,271</b>	Ps. 3,300	Ps. 1,263
Penalties and other charges	<b>21</b>	220	1
New contingencies	<b>84</b>	38	263
Reclassification in tax contingencies with Heineken		1,349	
Contingencies added in business combination		1,190	2,143
Cancellation and expiration	<b>(205)</b>	(798)	(5)
Payments	<b>(214)</b>	(2,517)	(303)
Current portion			(163)
Brazil amnesty adoption		(599)	
Effects of changes in foreign exchange rates	<b>(232)</b>	88	101
Balance at end of the year	<b>Ps. 1,725</b>	Ps. 2,271	Ps. 3,300

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

*25.5.2 Labor*

	<b>December 31, 2015</b>	December 31, 2014	December 31, 2013
Balance at beginning of the year	<b>Ps. 1,587</b>	Ps. 1,063	Ps. 934
Penalties and other charges	<b>210</b>	107	139
New contingencies	<b>44</b>	145	187
Contingencies added in business combination		442	157
Cancellation and expiration	<b>(102)</b>	(53)	(226)
Payments	<b>(114)</b>	(57)	(69)
Effects of changes in foreign exchange rates	<b>(253)</b>	(60)	(59)
Balance at end of the year	<b>Ps. 1,372</b>	Ps. 1,587	Ps. 1,063

A roll forward for legal contingencies is not disclosed because the amounts are not considered to be material.

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

*25.6 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, 2015 is Ps. 29,502. Such contingencies were classified by legal counsel as less than probable but more than remote of being settled against the Company. However, the Company believes that the ultimate resolution of such several proceedings will not have a material effect on its consolidated financial position or result of operations.



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Included in this amount Coca-Cola FEMSA has tax contingencies, amounting to approximately Ps. 19,133, with loss expectations assessed by management and supported by the analysis of legal counsel which it considers possible. Among these possible contingencies, are Ps. 5,770 in various tax disputes related primarily to credits for ICMS (VAT) and Tax credits over raw materials acquired from Free Trade Zone Manaus (IPI). Possible claims also include Ps. 11,613 related to the disallowance of IPI credits on the acquisition of inputs from the Manaus Free Trade Zone. Cases related to these matters are pending final decision at the administrative level. Possible claims also include Ps. 1,348 related to compensation of federal taxes not approved by the IRS (Tax authorities). Cases related to these matters are pending final decision in the administrative and judicial spheres. Finally, possible claims include Ps. 402 related to the requirement by the Tax Authorities of State of São Paulo for ICMS (VAT), interest and penalty due to the alleged underpayment of tax arrears for the period 1994-1996. Coca-Cola FEMSA is defending its position in these matters and final decision is pending in court. In addition, the Company has Ps. 4,586 in unsettled indirect tax contingencies regarding indemnification accorded with Heineken over FEMSA Cerveza. These matters are related to different Brazilian federal taxes which are pending final decision.

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

*25.7 Collateralized contingencies*

As is customary in Brazil, the Company has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 3,569 and Ps. 3,026 as of December 31, 2015 and 2014, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies (see Note 13).

*25.8 Commitments*

As of December 31, 2015, the Company has contractual commitments for finance leases for machinery and transport equipment and operating lease for the rental of production machinery and equipment, distribution and computer equipment, and land for FEMSA Comercio's operations.

The contractual maturities of the operating lease commitments by currency, expressed in Mexican pesos as of December 31, 2015, are as follows:

	Mexican Pesos	U.S. Dollars	Others
Not later than 1 year	Ps. 3,768	Ps. 200	Ps. 1
Later than 1 year and not later than 5 years	13,262	782	13
Later than 5 years	16,742	330	2
<b>Total</b>	<b>Ps. 33,772</b>	<b>Ps. 1,312</b>	<b>Ps. 16</b>

Rental expense charged to consolidated net income was Ps. 6,088, Ps. 4,988 and Ps. 4,345 for the years ended December 31, 2015, 2014 and 2013, respectively.

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

	<b>2015 Minimum Payments</b>	<b>Present Value of Payments</b>	2014 Minimum Payments	Present Value of Payments
Not later than 1 year	<b>Ps. 109</b>	<b>Ps. 91</b>	Ps. 299	Ps. 263
Later than 1 year and not later than 5 years	<b>359</b>	<b>327</b>	533	504
Later than 5 years	<b>166</b>	<b>149</b>	63	64
Total minimum lease payments	<b>634</b>	<b>567</b>	895	831
Less amount representing finance charges	<b>67</b>		64	
Present value of minimum lease payments	<b>567</b>	<b>567</b>	831	831

The Company through its subsidiary Coca-Cola FEMSA has firm commitments for the purchase of property, plant and equipment of Ps. 92 as December 31, 2015.

**Note 26. Information by Segment**

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

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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:**

2015	Coca-Cola FEMSA	FEMSA Comercio- Retail Division	FEMSA Comercio- Fuel Division	CB Equity	Other <sup>(1)</sup>	Consolidation Adjustments	Consolidated
Total revenues	Ps. 152,360	Ps. 132,891	Ps. 18,510	Ps.	Ps. 22,774	Ps. (14,946)	Ps. 311,589
Intercompany revenue	3,794				11,152	(14,946)	
Gross profit	72,030	47,291	1,420		5,334	(2,896)	123,179
Administrative expenses							11,705
Selling expenses							76,375
Other income							423
Other expenses							(2,741)
Interest expense	(6,337)	(634)	(78)		(1,269)	541	(7,777)
Interest income	414	31	35	18	1,067	(541)	1,024
Other net finance expenses <sup>(3)</sup>							(865)
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	14,725	10,130	164	8	208	(72)	25,163
Income taxes	4,551	956	28	2	2,395		7,932
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	155	(10)		5,879	21		6,045
Consolidated net income							23,276
Depreciation and amortization <sup>(2)</sup>	7,144	3,336	63		282		10,825
Non-cash items other than depreciation and amortization	1,443	280	17		326		2,066
Investments in associates and joint ventures	17,873	744	19	92,694	401		111,731
Total assets	210,249	67,211	3,230	95,502	49,213	(16,073)	409,332
Total liabilities	101,514	44,783	2,752	4,202	30,298	(16,073)	167,476
Investments in fixed assets <sup>(4)</sup>	11,484	6,048	228		1,448	(323)	18,885

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

(2) Includes bottle breakage.

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

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

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

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

(2) Includes bottle breakage.

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

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

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2013	Coca-Cola FEMSA	FEMSA Comercio- Retail Division	CB Equity	Other <sup>(1)</sup>	Consolidation Adjustments	Consolidated
Total revenues	Ps. 156,011	Ps. 97,572	Ps.	Ps. 17,254	Ps. (12,740)	Ps. 258,097
Intercompany revenue	3,116			9,624	(12,740)	
Gross profit	72,935	34,586		4,670	(2,537)	109,654
Administrative expenses						9,963
Selling expenses						69,574
Other income						651
Other expenses						(1,439)
Interest expense	(3,341)	(601)		(865)	476	(4,331)
Interest income	654	5	12	1,030	(476)	1,225
Other net finance expenses <sup>(3)</sup>						(1,143)
Income before income taxes and share of the profit of associate and joint ventures accounted for using the equity method	17,224	2,890	4	5,120	(158)	25,080
Income taxes	5,731	339	1	1,685		7,756
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	289	11	4,587	(56)		4,831
Consolidated net income						22,155
Depreciation and amortization <sup>(2)</sup>	7,132	2,443		121		9,696
Non-cash items other than depreciation and amortization	12	197		108		317
Investments in associates and joint ventures	16,767	734	80,351	478		98,330
Total assets	216,665	39,617	82,576	45,487	(25,153)	359,192
Total liabilities	99,512	37,858	1,933	21,807	(24,468)	136,642
Investments in fixed assets <sup>(4)</sup>	11,703	5,683		831	(335)	17,882

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

(2) Includes bottle breakage.

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

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

**b) By Geographic Area:**

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



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Geographic disclosure for the Company is as follow:

	Total Revenues	Total Non Current Assets
<b>2015</b>		
Mexico and Central America <sup>(1)(2)</sup>	Ps. 228,563	Ps. 158,506
South America <sup>(3)</sup>	74,928	67,568
Venezuela	8,904	3,841
Europe		92,694
Consolidation adjustments	(806)	
Consolidated	Ps. 311,589	Ps. 322,609
<b>2014</b>	Total Revenues	Total Non Current Assets
Mexico and Central America <sup>(1)(2)</sup>	Ps. 186,736	Ps. 139,899
South America <sup>(3)</sup>	69,172	67,078
Venezuela	8,835	6,374
Europe		83,710
Consolidation adjustments	(1,294)	
Consolidated	Ps. 263,449	Ps. 297,061
<b>2013</b>		Total Revenues
Mexico and Central America <sup>(1)(2)</sup>		Ps. 171,726
South America <sup>(3)</sup>		55,157
Venezuela		31,601
Europe		
Consolidation adjustments		(387)
Consolidated		Ps. 258,097

- (1) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 218,809, Ps. 178,125 and Ps. 163,351 during the years ended December 31, 2015, 2014 and 2013, respectively. Domestic (Mexico only) non-current assets were Ps. 157,080 and Ps. 138,662, as of December 31, 2015, and December 31, 2014, respectively.
- (2) Coca-Cola FEMSA's Asian division consists of the 51% equity investment in CCFPI (Philippines) which was acquired in 2013, and is accounted for using the equity method of accounting (see Note 10). The equity in earnings of the Asian division were Ps. 86, Ps. (334) and Ps. 108 in 2015, 2014 and 2013, respectively as is the equity method investment in CCFPI was Ps. 9,996, Ps. 9,021 and Ps. 9,398 this is presented as part of the Company's corporate operations in 2015, 2014 and 2013, respectively and thus disclosed net in the table above as part of the Total Non Current assets in the Mexico & Central America division. However, the Asian division is represented by the following investee level amounts, prior to

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reflection of the Company's 51% equity interest in the accompanying consolidated financial statements: revenues Ps. 19,576, Ps. 16,548 and Ps. 13,438, gross profit Ps. 5,325, Ps. 4,913 and Ps. 4,285, income before income taxes Ps. 334, Ps. 664 and Ps. 310, depreciation and amortization Ps. 2,369, Ps. 643 and Ps. 1,229, total assets Ps. 22,002 Ps. 19,877 and Ps. 17,232, total liabilities Ps. 6,493, Ps. 6,614 and Ps. 4,488, capital expenditures Ps. 1,778, Ps. 2,215 and Ps. 1,889, as of December 31, 2015, 2014 and 2013, respectively.

- (3) South America includes Brazil, Argentina, Colombia, Chile and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 39,749, Ps. 45,799 and Ps. 31,138 during the years ended December 31, 2015, 2014 and 2013, respectively. Brazilian non-current assets were Ps. 44,851 and Ps. 51,587, as of December 31, 2015 and December 31, 2014, respectively. South America revenues include Colombia revenues of Ps. 14,283, Ps. 14,207 and Ps. 13,354 during the years ended December 31, 2015, 2014 and 2013, respectively. Colombia non-current assets were Ps. 12,755 and Ps. 12,933, as of December 31, 2015 and December 31, 2014, respectively. South America revenues include Argentina revenues of Ps. 14,004, Ps. 9,714 and Ps. 10,729 during the years ended December 31, 2015, 2014 and 2013, respectively. Argentina non-current assets were Ps. 2,861 and Ps. 2,470, as of December 31, 2015 and December 31, 2014, respectively. South America revenues include Chile revenues of Ps. 7,586 during the year ended December 31, 2015. Chile non-current assets were Ps. 7,031, as of December 31, 2015.

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

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

**IFRS 9, Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The transition to IFRS 9 differs by requirements and is partly retrospective and partly prospective. The Company has not early adopted this IFRS, and the Company has yet to complete its evaluation of whether it will have a material impact on its consolidated financial statements.

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

IFRS 15, Revenue from Contracts with Customers, was originally issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2018, earlier application is permitted. Revenue is recognized as control is passed, either over time or at a point in time.

The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. Also, an entity needs to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company has yet to complete its evaluation of whether there will be a significant impact as a consequence of this standard's adoption; nonetheless most of the Company's operations are at a single point in time, which is when the Company transfers goods or services to a customer. The Company does not expect a potential impact on its consolidated financial statements and the Company expects to complete its evaluation during 2017.

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### **IFRS 16, Leases**

IFRS 16 Leases was issued in January 2016 and supersedes IAS 17 Leases and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers has also been applied.

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

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis). The Company has yet to complete its evaluation whether there will be a potential impact as a consequence of this standard's adoption, although given the nature of the Company's operations, it will expect a significant impact on its consolidated financial statements.

### **Amendments to IAS 7, Disclosure Initiative**

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

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

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

### **Note 28. Subsequent Events**

In January 18, 2016, Eduardo Padilla Silva replaced Daniel Rodriguez Cofré as our Chief Financial and Corporate Officer, and Mr. Rodriguez Cofré replaced Mr. Padilla Silva as Chief Executive Officer of FEMSA Comercio.

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In February 17, 2016, the president of Venezuela announced a devaluation of the official exchange rate of 37% and moved the existing three-tier exchange rates system into dual system as part of a package of economic policies aimed to face the economic crisis from the OPEC member-countries. The official exchange rate (6.30 bolivars per U.S. dollar as of December 31, 2015) and the SICAD exchange rate (13.50 bolivars per U.S. dollar as of December 31, 2015), were merged into a new official exchange rate at 10 bolivars per U.S. dollar. The SIMADI exchange rate was maintained in the same conditions.

On February 23, 2016, the Company's Board of Directors agreed to propose the payment of a cash dividend in the amount of Ps. 8,355 to be paid in two equal installments as of May 5, 2016 and November 3, 2016. This ordinary dividend was approved at the Annual Shareholders meeting on March 8, 2016.

On March 10, 2016, the Venezuelan government announced that it was replacing the SIMADI exchange rate with a new market based exchange rate known as Divisas Complementarias, or DICOM, and the official exchange rate with a preferential exchange rate denominated Divisa Protegida, or DIPRO. The DIPRO exchange rate was 10 bolivars per U.S. dollar, and such exchange rate may be used to settle imports of a list of goods and raw materials, (which as of the date of this financial statements has not been published). The DICOM exchange rate as of April 15, 2016 was 339.45 bolivars per U.S. dollar. Coca-Cola FEMSA will closely monitor developments in this area, which may affect the exchange rate(s) used prospectively.

In March 2016, we issued EUR 1,000 million in 1.750% senior unsecured notes due 2023 with a total yield of 1.824%. The proceeds from this issuance will be used for general corporate purposes, improving our cost of debt and financial flexibility.

On April 11, 2016, Coca-Cola FEMSA paid Ps. 2,500 million aggregate principal amounts of 5-year floating rate domestic bonds (nominal amount).

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Executive and Supervisory Board of Heineken N.V.**

We have audited the accompanying consolidated statement of financial position of Heineken N.V. and its subsidiaries (the Company) as of December 31, 2015 and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company for the years ended December 31, 2014 and December 31, 2013, before the effects of adjustments to retrospectively apply the change in composition of operating segments discussed in Note 5 to the consolidated financial statements, were audited by other auditors whose reports, dated February 10, 2015 and February 11, 2014, respectively, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2015 consolidated financial statements present fairly, in all material respects, the financial position of Heineken N.V. and its subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited the adjustments to the 2014 and 2013 consolidated financial statements to retrospectively apply the change in composition of operating segments, as discussed in Note 5 to the consolidated financial statements. Our procedures included (1) comparing the adjusted amounts of segment revenues, operating income, and assets to the Company's underlying analysis and (2) testing the mathematical accuracy of the reconciliation of segment amounts to the consolidated financial statements. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2014 or 2013 consolidated financial statements of the Company other than with respect to the retrospective adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 or 2013 consolidated financial statements taken as a whole.

/s/ Deloitte Accountants B.V.

**Amsterdam, the Netherlands**

**February 9, 2016**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To: The Executive and Supervisory Board of Heineken N.V.

We have audited, before the effects of the adjustments to retrospectively apply the changes in operating segments as described in note 5, the consolidated statements of financial position of Heineken N.V. and subsidiaries as of December 31, 2014, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of cash flows, and consolidated statement of changes in equity for each of the years in the two-year period then ended. The 2014 and 2013 financial statements before the effects of the adjustments discussed in note 5 are not presented herein. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, before the effects of the adjustments to retrospectively apply the changes in operating segments as described in note 5, present fairly, in all material respects, the financial position of Heineken N.V. and subsidiaries as of December 31, 2014, and the results of their operations and their cash flows for each of the years in the two-year period then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the changes in operating segments as described in note 5 and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by a successor auditor.

/s/ KPMG Accountants N.V.

Amsterdam, the Netherlands

February 10, 2015

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	Note	2015	2014	2013
For the year ended 31 December				
In millions of EUR				
Revenue	5	<b>20,511</b>	19,257	19,203
Other income	8	<b>411</b>	93	226
Raw materials, consumables and services	9	<b>(12,931)</b>	(12,053)	(12,186)
Personnel expenses	10	<b>(3,322)</b>	(3,080)	(3,108)
Amortisation, depreciation and impairments	11	<b>(1,594)</b>	(1,437)	(1,581)
Total expenses		<b>(17,847)</b>	(16,570)	(16,875)
Results from operating activities		<b>3,075</b>	2,780	2,554
Interest income	12	<b>60</b>	48	47
Interest expenses	12	<b>(412)</b>	(457)	(579)
Other net finance income/(expenses)	12	<b>(57)</b>	(79)	(61)
Net finance expenses		<b>(409)</b>	(488)	(593)
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	16	<b>172</b>	148	146
Profit before income tax		<b>2,838</b>	2,440	2,107
Income tax expense	13	<b>(697)</b>	(732)	(520)
Profit		<b>2,141</b>	1,708	1,587
Attributable to:				
Equity holders of the Company (net profit)		<b>1,892</b>	1,516	1,364
Non-controlling interests		<b>249</b>	192	223
Profit		<b>2,141</b>	1,708	1,587
Weighted average number of shares basic	23	<b>572,292,454</b>	574,945,645	575,062,357
Weighted average number of shares diluted	23	<b>572,944,188</b>	576,002,613	576,002,613
Basic earnings per share (EUR)	23	<b>3.31</b>	2.64	2.37
Diluted earnings per share (EUR)	23	<b>3.30</b>	2.63	2.37

**Table of Contents****Financial statements***Consolidated Statement of Comprehensive Income*

	Note	2015	2014	2013
For the year ended 31 December				
In millions of EUR				
Profit		<b>2,141</b>	1,708	1,587
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Actuarial gains and losses	24	<b>95</b>	(344)	197
Items that may be subsequently reclassified to profit or loss:				
Currency translation differences	24	<b>(43)</b>	697	(1,282)
Recycling of currency translation differences to profit or loss	24	<b>129</b>		1
Effective portion of net investment hedges	24	<b>15</b>	(5)	13
Effective portion of changes in fair value of cash flow hedges	24	<b>23</b>	(99)	16
Effective portion of cash flow hedges transferred to profit or loss	24	<b>24</b>	(3)	(4)
Net change in fair value available-for-sale investments	24	<b>43</b>	(1)	(53)
Recycling of fair value of available-for-sale investments to profit or loss	24	<b>(16)</b>		
Share of other comprehensive income of associates/joint ventures	24	<b>7</b>	(7)	5
Other comprehensive income, net of tax	24	<b>277</b>	238	(1,107)
Total comprehensive income		<b>2,418</b>	1,946	480
Attributable to:				
Equity holders of the Company		<b>2,150</b>	1,686	336
Non-controlling interests		<b>268</b>	260	144
Total comprehensive income		<b>2,418</b>	1,946	480



**Table of Contents****Financial statements****Consolidated Statement of Financial Position**

	Note	2015	2014
As at 31 December			
In millions of EUR			
<b>Assets</b>			
Property, plant and equipment	14	<b>9,552</b>	8,718
Intangible assets	15	<b>18,183</b>	16,341
Investments in associates and joint ventures	16	<b>1,985</b>	2,033
Other investments and receivables	17	<b>856</b>	737
Advances to customers		<b>266</b>	254
Deferred tax assets	18	<b>958</b>	661
Total non-current assets		<b>31,800</b>	28,744
Inventories	19	<b>1,702</b>	1,634
Other investments	17	<b>16</b>	13
Trade and other receivables	20	<b>2,873</b>	2,743
Prepayments		<b>343</b>	317
Income tax receivables		<b>33</b>	23
Cash and cash equivalents	21	<b>824</b>	668
Assets classified as held for sale	7	<b>123</b>	688
Total current assets		<b>5,914</b>	6,086
Total assets		<b>37,714</b>	34,830
<b>Equity</b>			
Share capital	22	<b>922</b>	922
Share premium	22	<b>2,701</b>	2,701
Reserves		<b>(655)</b>	(427)
Retained earnings		<b>10,567</b>	9,213
Equity attributable to equity holders of the Company		<b>13,535</b>	12,409
Non-controlling interests	22	<b>1,535</b>	1,043
Total equity		<b>15,070</b>	13,452
<b>Liabilities</b>			
Loans and borrowings	25	<b>10,658</b>	9,499
Tax liabilities		<b>3</b>	3
Employee benefits	28	<b>1,289</b>	1,443
Provisions	30	<b>320</b>	398
Deferred tax liabilities	18	<b>1,858</b>	1,503
Total non-current liabilities		<b>14,128</b>	12,846
Bank overdrafts and commercial papers	21	<b>542</b>	595
Loans and borrowings	25	<b>1,397</b>	1,671
Trade and other payables	31	<b>6,013</b>	5,533
Tax liabilities		<b>379</b>	390
Provisions	30	<b>154</b>	165
Liabilities classified as held for sale	7	<b>31</b>	178
Total current liabilities		<b>8,516</b>	8,532
Total liabilities		<b>22,644</b>	21,378
Total equity and liabilities		<b>37,714</b>	34,830

**Table of Contents****Financial statements****Consolidated Statement of Cash Flows**

	Note	2015	2014	2013
For the year ended 31 December				
In millions of EUR				
<b>Operating activities</b>				
Profit		<b>2,141</b>	1,708	1,587
Adjustments for:				
Amortisation, depreciation and impairments	11	<b>1,594</b>	1,437	1,581
Net interest expenses	12	<b>352</b>	409	532
Gain on sale of property, plant and equipment, intangible assets and subsidiaries, joint ventures and associates	8	<b>(411)</b>	(93)	(226)
Investment income and share of profit and impairments of associates and joint ventures and dividend income on available-for-sale and held-for-trading investments		<b>(182)</b>	(158)	(160)
Income tax expenses	13	<b>697</b>	732	520
Other non-cash items		<b>89</b>	244	156
Cash flow from operations before changes in working capital and provisions		<b>4,280</b>	4,279	3,990
Change in inventories		<b>27</b>	(104)	(42)
Change in trade and other receivables		<b>(59)</b>	(325)	5
Change in trade and other payables		<b>403</b>	456	88
Total change in working capital		<b>371</b>	27	51
Change in provisions and employee benefits		<b>(165)</b>	(166)	(58)
Cash flow from operations		<b>4,486</b>	4,140	3,983
Interest paid		<b>(446)</b>	(522)	(557)
Interest received		<b>87</b>	60	56
Dividends received		<b>159</b>	125	148
Income taxes paid		<b>(797)</b>	(745)	(716)
Cash flow related to interest, dividend and income tax		<b>(997)</b>	(1,082)	(1,069)
Cash flow from operating activities		<b>3,489</b>	3,058	2,914
<b>Investing activities</b>				
Proceeds from sale of property, plant and equipment and intangible assets		<b>83</b>	144	152
Purchase of property, plant and equipment		<b>(1,638)</b>	(1,494)	(1,369)
Purchase of intangible assets		<b>(92)</b>	(57)	(77)
Loans issued to customers and other investments		<b>(195)</b>	(117)	(143)
Repayment on loans to customers		<b>45</b>	40	41
Cash flow (used in)/from operational investing activities		<b>(1,797)</b>	(1,484)	(1,396)
Free operating cash flow		<b>1,692</b>	1,574	1,518
Acquisition of subsidiaries, net of cash acquired		<b>(757)</b>	(159)	(17)
Acquisition of/additions to associates, joint ventures and other investments		<b>(543)</b>	(7)	(53)
Disposal of subsidiaries, net of cash disposed of	6	<b>979</b>	(27)	460
Disposal of associates, joint ventures and other investments	6/7	<b>54</b>	4	165
Cash flow (used in)/from acquisitions and disposals		<b>(267)</b>	(189)	555
Cash flow (used in)/from investing activities		<b>(2,064)</b>	(1,673)	(841)
<b>Financing activities</b>				
Proceeds from loans and borrowings		<b>1,888</b>	858	1,663
Repayment of loans and borrowings		<b>(1,753)</b>	(2,443)	(2,474)
Dividends paid		<b>(909)</b>	(723)	(710)
Purchase own shares and shares issued		<b>(377)</b>	(9)	(21)
Acquisition of non-controlling interests		<b>(21)</b>	(137)	(209)
Other		<b>(1)</b>	1	(1)
Cash flow (used in)/from financing activities		<b>(1,173)</b>	(2,453)	(1,752)

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Net cash flow		<b>252</b>	(1,068)	321
Cash and cash equivalents as at 1 January		<b>73</b>	1,112	846
Effect of movements in exchange rates		<b>(43)</b>	29	(55)
Cash and cash equivalents as at 31 December	21	<b>282</b>	73	1,112

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**Table of Contents****Financial statements***Consolidated Statement of Changes in Equity*

In millions of EUR	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2013		922	2,701	(527)	(11)	150	779	(26)	7,746	11,734	1,071	12,805
Profit							214		1,150	1,364	223	1,587
Other comprehensive income	24			(1,194)	13	(53)			206	(1,028)	(79)	(1,107)
Total comprehensive income				(1,194)	13	(53)	214		1,356	336	144	480
Transfer to retained earnings							(188)		188			
Dividends to shareholders									(530)	(530)	(185)	(715)
Purchase/reissuance own/non-controlling shares								(21)		(21)		(21)
Own shares delivered								6	(6)			
Share-based payments									8	8		8
Acquisition of non-controlling interests without a change in control	6								(125)	(125)	(76)	(201)
Balance as at 31 December 2013		922	2,701	(1,721)	2	97	805	(41)	8,637	11,402	954	12,356

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**Table of Contents****Financial statements****Consolidated Statement of Changes in Equity continued**

In millions of EUR	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2014		922	2,701	(1,721)	2	97	805	(41)	8,637	11,402	954	12,356
Profit							174		1,342	1,516	192	1,708
Other comprehensive income	24			624	(101)	(1)			(352)	170	68	238
Total comprehensive income				624	(101)	(1)	174		990	1,686	260	1,946
Transfer to retained earnings							(236)		236			
Dividends to shareholders									(512)	(512)	(224)	(736)
Purchase/reissuance own/non-controlling shares								(33)		(33)	32	(1)
Own shares delivered								4	(4)			
Share-based payments									47	47	1	48
Acquisition of non-controlling interests without a change in control	6								(181)	(181)	20	(161)
Balance as at 31 December 2014		922	2,701	(1,097)	(99)	96	743	(70)	9,213	12,409	1,043	13,452

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**Table of Contents****Financial statements****Consolidated Statement of Changes in Equity continued**

In millions of EUR	Note	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2015		922	2,701	(1,097)	(99)	96	743	(70)	9,213	12,409	1,043	13,452
Profit							186		1,706	1,892	249	2,141
Other comprehensive income	24			80	52	26			100	258	19	277
Total comprehensive income				80	52	26	186		1,806	2,150	268	2,418
Transfer to retained earnings							(210)		210			
Dividends to shareholders									(676)	(676)	(248)	(924)
Purchase/reissuance own/non-controlling shares	22							(384)		(384)	10	(374)
Own shares delivered								22	(22)			
Share-based payments									32	32		32
Acquisition of non-controlling interests without a change in control	6								4	4	(2)	2
Changes in consolidation											464	464
Balance as at 31 December 2015		922	2,701	(1,017)	(47)	122	719	(432)	10,567	13,535	1,535	15,070

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### **Notes to the Consolidated Financial Statements**

#### **1. Reporting entity**

Heineken N.V. (the Company) is a company domiciled in the Netherlands. The address of the Company's registered office is Tweede Weteringplantsoen 21, Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2015 comprise the Company, its subsidiaries (together referred to as HEINEKEN and individually as HEINEKEN entities) and HEINEKEN's interest in jointly controlled entities and associates. The Company is registered in the Trade Register of Amsterdam No. 33011433.

Disclosures on subsidiaries, jointly controlled entities and associates are included in notes 16 and 36 respectively.

HEINEKEN is primarily involved in the brewing and selling of beer.

#### **2. Basis of preparation**

##### **(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) effective year-end 2015 have been adopted by the EU. Consequently, the accounting policies applied by the Company also comply fully with IFRS as issued by the IASB.

The consolidated financial statements have been prepared by the Executive Board of the Company and authorised for issue on 9 February 2016 and will be submitted for adoption to the Annual General Meeting of Shareholders on 21 April 2016.

##### **(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis unless otherwise indicated.

The methods used to measure fair values are discussed further in notes 3 and 4.

##### **(c) Functional and presentation currency**

These consolidated financial statements are presented in Euro, which is the Company's functional currency. All financial information presented in Euro has been rounded to the nearest million unless stated otherwise.

##### **(d) Use of estimates and judgements**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about assumptions and estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in the following notes:

Note 6 Acquisitions and disposals of subsidiaries and non-controlling interests

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Note 15 Intangible assets

Note 16 Investments in associates and joint ventures

Note 17 Other investments and receivables

Note 18 Deferred tax assets and liabilities

Note 28 Employee benefits

Note 30 Provisions

Note 32 Financial risk management and financial instruments

Note 34 Contingencies

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### **2. Basis of preparation continued**

#### **(e) Changes in accounting policies**

HEINEKEN has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

Amendments to IFRSs Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These changes had no significant impact on the disclosures or amounts recognised in HEINEKEN's consolidated financial statements.

### **3. Significant accounting policies**

#### **General**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by HEINEKEN entities.

#### **(a) Basis of consolidation**

##### **(i) Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to HEINEKEN. HEINEKEN controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

HEINEKEN measures goodwill at the acquisition date as the fair value of the consideration transferred plus the fair value of any previously held equity interest in the acquiree and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that HEINEKEN incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent considerations are recognised in profit or loss.

##### **(ii) Acquisitions of non-controlling interests**

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

**(iii) Subsidiaries**

Subsidiaries are entities controlled by HEINEKEN. HEINEKEN controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by HEINEKEN.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

**(iv) Loss of control**

Upon the loss of control, HEINEKEN derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any resulting gain or loss is recognised in profit or loss. If HEINEKEN retains any interest in the previous subsidiary, such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset, depending on the level of influence retained.

**(v) Interests in equity-accounted investees**

HEINEKEN's investments in associates and joint ventures are accounted for using the equity method of accounting. Investments in associates are those entities in which HEINEKEN has significant influence, but no control or joint control, over the financial and operating policies. Joint ventures are the arrangements in which HEINEKEN has joint control, whereby HEINEKEN has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are recognised initially at cost. The cost of the investment includes transaction costs.

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**Table of Contents**
**3. Significant accounting policies continued**

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

When HEINEKEN's share of losses exceeds the carrying amount of the associate or joint venture, including any long-term investments, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that HEINEKEN has an obligation or has made a payment on behalf of the associate or joint venture.

**(vi) Transactions eliminated on consolidation**

Intra-HEINEKEN balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-HEINEKEN transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted associates and JVs are eliminated against the investment to the extent of HEINEKEN's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) Foreign currency****(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of HEINEKEN entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss arising on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured at cost are translated into the functional currency using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale (equity) investments and foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment, which are recognised in other comprehensive income.

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Euro at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Euro at exchange rates approximating to the exchange rates ruling at the dates of the transactions. Group entities, with a functional currency being the currency of a hyperinflationary economy, first restate their financial statements in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies (see Reporting in hyperinflationary economies below). The related income, costs and balance sheet amounts are translated at the foreign exchange rate ruling at the balance sheet date.

Foreign currency differences are recognised in other comprehensive income and are presented within equity in the translation reserve. However, if the operation is not a wholly owned subsidiary, the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When HEINEKEN disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the

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cumulative amount is reattributed to non-controlling interests. When HEINEKEN disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the translation reserve.

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**Table of Contents****3. Significant accounting policies continued**

The following exchange rates, for the most important countries in which HEINEKEN has operations, were used while preparing these consolidated financial statements:

In EUR	Year-end 2015	Year-end 2014	Year-end 2013	Average 2015	Average 2014	Average 2013
BRL	<b>0.2319</b>	0.3105	0.3070	<b>0.2705</b>	0.3202	0.3486
GBP	<b>1.3625</b>	1.2839	1.1995	<b>1.3772</b>	1.2403	1.1775
MXN	<b>0.0530</b>	0.0560	0.0553	<b>0.0568</b>	0.0566	0.0590
NGN	<b>0.0046</b>	0.0049	0.0047	<b>0.0047</b>	0.0048	0.0049
PLN	<b>0.2357</b>	0.2340	0.2407	<b>0.2390</b>	0.2389	0.2382
RUB	<b>0.0124</b>	0.0138	0.0221	<b>0.0147</b>	0.0196	0.0236
SGD	<b>0.6486</b>	0.6227	0.5743	<b>0.6556</b>	0.5943	0.6017
USD	<b>0.9185</b>	0.8237	0.7251	<b>0.9011</b>	0.7527	0.7530
VND in 1000	<b>0.0409</b>	0.0387	0.0345	<b>0.0411</b>	0.0355	0.0358

**(iii) Reporting in hyperinflationary economies**

When the economy of a country in which we operate is deemed hyperinflationary and the functional currency of a Group entity is the currency of that hyperinflationary economy, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit current at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and restatement of non-monetary items in the balance sheet, such as P, P & E, to reflect current purchasing power as at the period end using a general price index from the date when they were first recognised. Comparative amounts are not adjusted. Any differences arising were recorded in equity on adoption.

In 2013, hyperinflation accounting was applicable to our operations in Belarus. No hyperinflation accounting was applied in 2014 and 2015.

**(iv) Hedge of net investments in foreign operations**

Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective and regardless of whether the net investment is held directly or through an intermediate parent. These differences are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

**(c) Non-derivative financial instruments****(i) General**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

If HEINEKEN has a legal right to offset financial assets with financial liabilities and if HEINEKEN intends either to settle on a net basis or to realise the asset and settle the liability simultaneously, financial assets and liabilities are presented in the statement of financial position as a net

amount. The right of set-off is available today and not contingent on a future event and it is also legally enforceable for all counterparties in a normal course of business, as well as in the event of default, insolvency or bankruptcy.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts and commercial papers form an integral part of HEINEKEN's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting policies for interest income, interest expenses and other net finance income and expenses are discussed in note 3(r).

**(ii) Held-to-maturity investments**

If HEINEKEN has the positive intent and ability to hold debt securities to maturity, they are classified as held-to-maturity. Debt securities are loans and long-term receivables and are measured at amortised cost using the effective interest method, less any impairment losses. Investments held-to-maturity are recognised or derecognised on the day they are transferred to or by HEINEKEN.

**(iii) Available-for-sale investments**

HEINEKEN's investments in equity securities and certain debt securities are classified as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein other than impairment losses (see note 3i(i)) and foreign currency differences on available-for-sale monetary items (see note 3b(i)) are recognised in other comprehensive income and presented within equity in the fair value reserve. When these investments are derecognised, the relevant cumulative gain or loss in the fair value reserve is transferred to profit or loss.

Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Available-for-sale investments are recognised or derecognised by HEINEKEN on the date it commits to purchase or sell the investments.

**(iv) Other**

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Included in non-derivative financial instruments are advances to customers. Subsequently, the advances are amortised over the term of the contract as a reduction of revenue.

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### **3. Significant accounting policies continued**

#### **(d) Derivative financial instruments (including hedge accounting)**

##### **(i) General**

HEINEKEN uses derivatives in the ordinary course of business in order to manage market risks. Generally, HEINEKEN applies hedge accounting in order to minimise the effects of foreign currency, interest rate or commodity price fluctuations in profit or loss.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, commodity swaps, spot and forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules approved and monitored by the Executive Board.

Derivative financial instruments are recognised initially at fair value, with attributable transaction costs recognised in profit or loss as incurred. Derivatives for which hedge accounting is not applied are accounted for as instruments at fair value through profit or loss. When derivatives qualify for hedge accounting, subsequent measurement is at fair value, and changes therein accounted for as described in 3b(iii), 3d(ii) or 3d(iii).

##### **(ii) Cash flow hedges**

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve within equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued. The cumulative unrealised gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity is recognised in profit or loss immediately. When a hedging instrument is terminated, but the hedged transaction still is expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above-mentioned policy when the transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in other comprehensive income is transferred to the same line of profit or loss in the same period that the hedged item affects profit or loss.

##### **(iii) Fair value hedges**

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss and adjusts the carrying amount of the hedged item.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

##### **(iv) Separable embedded derivatives**

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

**(e) Share capital**

**(i) Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**(ii) Repurchase of share capital (treasury shares)**

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.



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### **3. Significant accounting policies continued**

#### ***(iii) Dividends***

Dividends are recognised as a liability in the period in which they are declared.

#### **(f) Property, plant and equipment**

##### ***(i) Owned assets***

Items of property, plant and equipment (P, P & E) are measured at cost less government grants received (refer to (q)), accumulated depreciation (refer to (iv)) and accumulated impairment losses (3i(ii)).

Cost comprises the initial purchase price increased with expenditures that are directly attributable to the acquisition of the asset (such as transports and non-recoverable taxes). The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use (refer to an appropriate proportion of production overheads), and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of P, P & E.

Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment or purchased software that is integral to the functionality of the related equipment are capitalised and amortised as part of that equipment. In all other cases, spare parts are carried as inventory and recognised in the income statement as consumed. Where an item of P, P & E comprises major components having different useful lives, they are accounted for as separate items (major components) of P, P & E.

Returnable bottles and kegs in circulation are recorded within P, P & E and a corresponding liability is recorded in respect of the obligation to repay the customers' deposits. Deposits paid by customers for returnable items are reflected in the consolidated statement of financial position within current liabilities.

##### ***(ii) Leased assets***

Leases in terms of which HEINEKEN assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, P, P & E acquired by way of finance lease is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease. Lease payments are apportioned between the outstanding liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognised in HEINEKEN's statement of financial position. Payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

##### ***(iii) Subsequent expenditure***

The cost of replacing a part of an item of P, P & E is recognised in the carrying amount of the item or recognised as a separate asset, as appropriate, if it is probable that the future economic benefits embodied within the part will flow to HEINEKEN and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of P, P & E are recognised in profit or loss when incurred.

**(iv) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Land except for financial leases on land over the contractual period is not depreciated as it is deemed to have an infinite life. Depreciation on other P, P & E is charged to profit or loss on a straight-line basis over the estimated useful lives of items of P, P & E, and major components that are accounted for separately, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Assets under construction are not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that HEINEKEN will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative years are as follows:

Buildings	30	40 years
Plant and equipment	10	30 years
Other fixed assets	3	10 years

Where parts of an item of P, P & E have different useful lives, they are accounted for as separate items of P, P & E.

The depreciation methods and residual value as well as the useful lives are reassessed, and adjusted if appropriate, at each financial year-end.

**(v) Gains and losses on sale**

Net gains on sale of items of P, P & E are presented in profit or loss as other income. Net losses on sale are included in depreciation. Net gains and losses are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and there is no continuing management involvement with the P, P & E.

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### **3. Significant accounting policies continued**

#### **(g) Intangible assets**

##### **(i) Goodwill**

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the cost of the acquisition over HEINEKEN's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill arising on the acquisition of associates and joint ventures is included in the carrying amount of the associates and joint ventures.

Goodwill is measured at cost less accumulated impairment losses (refer to accounting policy 3i(ii)). Goodwill is allocated to individual or groups of cash-generating units (CGUs) for the purpose of impairment testing and is tested annually for impairment. Negative goodwill is recognised directly in profit or loss as other income.

##### **(ii) Brands**

Brands acquired, separately or as part of a business combination, are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied.

Strategic brands are well-known international/local brands with a strong market position and an established brand name. Strategic brands are amortised on an individual basis over the estimated useful life of the brand. Other brands are amortised on a portfolio basis per country.

##### **(iii) Customer-related, contract-based intangibles and reacquired rights**

Customer-related and contract-based intangibles are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied. If the amounts are not material, these are included in the brand valuation. The relationship between brands and customer-related intangibles is carefully considered so that brands and customer-related intangibles are not both recognised on the basis of the same cash flows.

Reacquired rights are identifiable intangible assets recognised in an acquisition that represent the right an acquirer previously has granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets.

Customer-related and contract-based intangibles acquired as part of a business combination are valued at fair value. Customer-related and contract-based intangibles acquired separately are measured at cost.

Customer-related, contract-based intangibles and reacquired rights are amortised over the remaining useful life of the customer relationships or the period of the contractual arrangements.

##### **(iv) Software, research and development and other intangible assets**

Purchased software is measured at cost less accumulated amortisation (refer to (vi)) and impairment losses (refer to accounting policy 3i(ii)). Expenditure on internally developed software is capitalised when the expenditure qualifies as development activities, otherwise it is recognised in profit or loss when incurred.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products, software and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and HEINEKEN intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation (refer to (vi)) and accumulated impairment losses (refer to accounting policy 3i(ii)).

Other intangible assets that are acquired by HEINEKEN and have finite useful lives are measured at cost less accumulated amortisation (refer to (vi)) and impairment losses (refer to accounting policy 3i(ii)). Expenditure on internally generated goodwill and brands is recognised in profit or loss when incurred.

**(v) *Subsequent expenditure***

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

**Table of Contents****3. Significant accounting policies continued****(vi) Amortisation**

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives, other than goodwill, from the date they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

Strategic brands	40	50 years
Other brands	15	25 years
Customer-related and contract-based intangibles	5	20 years
Reacquired rights	3	12 years
Software	3	7 years
Capitalised development costs		3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(vii) Gains and losses on sale**

Net gains on sale of intangible assets are presented in profit or loss as other income. Net losses on sale are included in amortisation. Net gains and losses are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and there is no continuing management involvement with the intangible assets.

**(h) Inventories****(i) General**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(ii) Finished products and work in progress**

Finished products and work in progress are measured at manufacturing cost based on weighted averages and taking into account the production stage reached. Costs include an appropriate share of direct production overheads based on normal operating capacity.

**(iii) Other inventories and spare parts**

The cost of other inventories is based on weighted averages. Spare parts are valued at the lower of cost and net realisable value. Value reductions and usage of parts are charged to profit or loss. Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment are initially capitalised and depreciated as part of the equipment.

**(i) Impairment**

**(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income and presented in the fair value reserve in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

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**3. Significant accounting policies continued**

**(ii) *Non-financial assets***

The carrying amounts of HEINEKEN's non-financial assets, other than inventories (refer to accounting policy (h)) and deferred tax assets (refer to accounting policy (s)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, CGU).

The recoverable amount of an asset or CGU is the higher of an asset's fair value less costs 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 or CGU.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the acquirer's CGUs, or groups of CGUs expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored on regional, sub-regional or country level depending on the characteristics of the acquisition, the synergies to be achieved and the level of integration.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses recognised in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate and joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate and joint venture is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

**(j) *Assets or disposal groups classified as held for sale***

Assets or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee defined benefit plan assets, which continue to be measured in accordance with HEINEKEN's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and P, P & E once classified as held for sale are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

**(k) *Employee benefits***

**(i) *Defined contribution plans***

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A defined contribution plan is a post-employment benefit plan (pension plan) under which HEINEKEN pays fixed contributions into a separate entity. HEINEKEN has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employee renders the service are discounted to their present value.

### *(ii) Defined benefit plans*

A defined benefit plan is a post-employment benefit plan (pension plan) that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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**3. Significant accounting policies continued**

HEINEKEN's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any defined benefit plan assets is deducted. The discount rate is the yield at balance sheet date on AA-rated bonds that have maturity dates approximating to the terms of HEINEKEN's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculations are performed annually by qualified actuaries using the projected unit credit method. When the calculation results in a benefit to HEINEKEN, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in HEINEKEN. An economic benefit is available to HEINEKEN if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are changed, the expense or benefit is recognised immediately in profit or loss.

HEINEKEN recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses and other net finance income and expenses in profit or loss.

***(iii) Other long-term employee benefits***

HEINEKEN's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at balance sheet date on high-quality credit-rated bonds that have maturity dates approximating to the terms of HEINEKEN's obligations. The obligation is calculated using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

***(iv) Termination benefits***

Termination benefits are payable when employment is terminated by HEINEKEN before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Termination benefits are recognised as an expense when HEINEKEN is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if HEINEKEN has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

***(v) Share-based payment plan (LTV)***

As from 1 January 2005, HEINEKEN established a share plan for the Executive Board and, as from 1 January 2006, HEINEKEN also established a share plan for senior management (refer to note 29).

The grant date fair value, adjusted for expected dividends, of the share rights granted is recognised as personnel expenses with a corresponding increase in equity (equity-settled) over the period that the employees become unconditionally entitled to the share rights. The costs of the share plan for both the Executive Board and senior management members are spread evenly over the performance period, during which vesting conditions are applicable subject to continued services. The total amount to be expensed is determined taking into consideration the expected forfeitures.

At each balance sheet date, HEINEKEN revises its estimates of the number of share rights that are expected to vest, for the 100 per cent internal performance conditions of the running share plans for the senior management members and the Executive Board. It recognises the impact of the revision of original estimates (only applicable for internal performance conditions, if any) in profit or loss, with a corresponding adjustment to equity.

**(vi) Matching share entitlement**

As from 21 April 2011, HEINEKEN established a matching share entitlement for the Executive Board. The grant date fair value of the matching shares is recognised as personnel expenses in the income statement as it is deemed an equity-settled share-based payment.

**(vii) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term benefits if HEINEKEN has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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### **3. Significant accounting policies continued**

#### **(l) Provisions**

##### **(i) General**

A provision is recognised if, as a result of a past event, HEINEKEN has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as part of net finance expenses.

##### **(ii) Restructuring**

A provision for restructuring is recognised when HEINEKEN has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating losses are not provided for. The provision includes the benefit commitments in connection with early retirement and redundancy schemes.

##### **(iii) Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by HEINEKEN from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract and taking into consideration any reasonably obtainable sub-leases. Before a provision is established, HEINEKEN recognises any impairment loss on the assets associated with that contract.

##### **(iv) Other**

The other provisions, not being provisions for restructuring or onerous contracts, consist mainly of surety and guarantees, litigation and claims and environmental provisions.

#### **(m) Loans and borrowings**

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Loans and borrowings included in a fair value hedge are stated at fair value in respect of the risk being hedged.

Loans and borrowings for which HEINEKEN has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date are classified as non-current liabilities.

#### **(n) Revenue**

##### **(i) Products sold**

Revenue from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of sales tax, excise duties, returns, customer discounts and other sales-related discounts. Revenue from the sale of products is recognised in profit or loss when the amount of revenue can be measured reliably, the significant risks and rewards of ownership have been transferred to the

buyer, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, and there is no continuing management involvement with the products.

If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue as the sales are recognised.

**(ii) Other revenue**

Other revenues are proceeds from royalties, rental income, pub management services and technical services to third parties, net of sales tax. Royalties are recognised in profit or loss on an accrual basis in accordance with the substance of the relevant agreement. Rental income, pub management services and technical services are recognised in profit or loss when the services have been delivered.

**(o) Other income**

Other income includes gains from sale of P, P & E, intangible assets and (interests in) subsidiaries, joint ventures and associates, net of sales tax. They are recognised in profit or loss when risks and rewards have been transferred to the buyer.

**(p) Expenses**

**(i) Operating lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

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### **3. Significant accounting policies continued**

#### ***(ii) Finance lease payments***

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

#### ***(q) Government grants***

Government grants are recognised at their fair value when it is reasonably assured that HEINEKEN will comply with the conditions attaching to them and the grants will be received.

Government grants relating to P, P & E are deducted from the carrying amount of the asset.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

#### ***(r) Interest income, interest expenses and other net finance income and expenses***

Interest income and expenses are recognised as they accrue in profit or loss, using the effective interest method unless collectability is in doubt.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Other net finance income and expenses comprises dividend income, gains and losses on the disposal of available-for-sale investments, changes in the fair value of investments designated at fair value through profit or loss and held for trading investments, changes in fair value of hedging instruments that are recognised in profit or loss, unwinding of the discount on provisions, impairment losses recognised on investments and interest on the net defined benefit obligation. Dividend income is recognised in the income statement on the date that HEINEKEN's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Foreign currency gains and losses are reported on a net basis in the other net finance income and expenses.

#### ***(s) Income tax***

Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

#### ***(i) Current tax***

Income tax expenses comprise corporate income tax due in countries of incorporation of the Company's main subsidiaries and levied on actual profits. Income tax expense also includes the corporate income taxes which are levied on a deemed profit basis and revenue basis (withholding taxes). 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. Current tax payable also includes any tax liability arising from the declaration of dividends. This presentation adequately reflects the Company's global tax return.

*(ii) Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax is not recognised for:

temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss

temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future

taxable temporary differences arising on the initial recognition of goodwill

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

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### **3. Significant accounting policies continued**

Deferred tax is provided for on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### ***(iii) Uncertain tax positions***

In determining the amount of current and deferred income tax, the Company takes into account the impact of uncertain income tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company 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.

#### **(t) Discontinued operations**

A discontinued operation is a component of HEINEKEN's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

#### **(u) Earnings per share**

HEINEKEN presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for the weighted average number of own shares purchased in the year. Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, adjusted for the weighted average number of own shares purchased in the year and for the effects of all dilutive potential ordinary shares which comprise share rights granted to employees.

#### **(v) Cash flow statement**

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, fair value changes, equity-settled share-based payments and other non-cash items have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to ordinary shareholders are included in financing activities. Dividends received are classified as operating activities. Interest paid is also included in operating activities.

#### **(w) Operating segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Board, which is considered to be HEINEKEN's chief operating decision-maker. An operating segment is a component of HEINEKEN that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of HEINEKEN's other components. All operating segments' operating results are reviewed regularly by the Executive Board to make decisions about resources to be

allocated to the segment and to assess its performance, and for which discrete financial information is available.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment results, assets and liabilities that are reported to the Executive Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated result items comprise net finance expenses and income tax expenses. Unallocated assets comprise current other investments and cash call deposits.

Segment capital expenditure is the total cost incurred during the period to acquire P, P & E, and intangible assets other than goodwill.

**(x) Recently issued IFRS**

***New relevant standards and interpretations not yet adopted.***

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2015, which HEINEKEN has not applied in preparing these consolidated financial statements.



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### **3. Significant accounting policies continued**

IFRS 9, published in July 2014, replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted. HEINEKEN is assessing the potential impact of IFRS 9 on its consolidated financial statements.

IFRS 15, published in May 2014, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective on or after 1 January 2018, with early adoption permitted. HEINEKEN is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16, published in January 2016, establishes a revised framework for determining whether a lease is recognised on the (Consolidated) Statement of Financial Position. It replaces existing guidance on leases, including IAS 17. IFRS 16 is effective on or after 1 January 2019, with early adoption permitted. HEINEKEN will assess the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

The following new or amended standards are not expected to have a significant impact of HEINEKEN consolidated financial statements:

Applying the concept of materiality in practise (amendments to IAS 1 Disclosure Initiative)

Regulatory Deferral Accounts (IFRS 14)

Accounting for Acquisitions of Interests in Joint Operations (amendments to IFRS 11)

Bearer Plants (amendments to IAS 16 and IAS 41)

Classification of Acceptable Methods of Depreciation and Amortisation (amendments to IAS 16 and IAS 38)

Equity method in separate financial statements (amendments to IAS 27)

Sale or Contribution of Assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)

Applying the consolidation exemption (amendments to IFRS 10, IFRS 11 and IAS 28)

Annual Improvements to IFRSs 2012-2014 Cycle

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### **4. Determination of fair values**

#### ***General***

A number of HEINEKEN's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values or for the purpose of impairment testing is disclosed in the notes specific to that asset or liability.

#### **Fair value as a result of business combinations**

##### ***(i) Property, plant and equipment***

The fair value of P, P & E recognised as a result of a business combination is based on market prices for similar items when available and replacement cost when appropriate.

##### ***(ii) Intangible assets***

The fair value of brands acquired in a business combination is based on the relief of royalty method or determined using the multi-period excess earnings method. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of reacquired rights and other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

##### ***(iii) Inventories***

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

##### ***(iv) Trade and other receivables***

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

#### **Fair value from normal business**

##### ***(i) Investments in equity and debt securities***

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date or, if unquoted, determined using an appropriate valuation technique. The fair value of held-to-maturity investments is determined for disclosure purposes only. In case the quoted price does not exist at the date of exchange or in case the quoted price exists at the date of exchange but was not used as the cost, the investments are valued indirectly based on discounted cash flow models.

**(ii) Derivative financial instruments**

The fair value of derivative financial instruments is based on their listed market price, if available. If a listed market price is not available, fair value is in general estimated by discounting the difference between the cash flows based on contractual price and the cash flows based on current price for the residual maturity of the contract using observable interest yield curves, basis spread and foreign exchange rates.

Fair values include the instrument's credit risk and adjustments to take account of the credit risk of the HEINEKEN entity and counterparty when appropriate.

**(iii) Non-derivative financial instruments**

Fair value, which is determined for disclosure purposes or when fair value hedge accounting is applied, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

Fair values include the instrument's credit risk and adjustments to take account of the credit risk of the HEINEKEN entity and counterparty when appropriate.

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### **5. Operating segments**

HEINEKEN distinguishes the following five reportable segments:

Africa, Middle East & Eastern Europe

Americas

Asia Pacific

Europe

#### Head Office and Other/eliminations

The first four reportable segments as stated above are HEINEKEN's business regions. These business regions are each managed separately by a Regional President. The Regional President is directly accountable for the functioning of the segment's assets, liabilities and results of the region and reports regularly to the Executive Board (the chief operating decision-maker) to discuss operating activities, regional forecasts and regional results. The Head Office operating segment falls directly under the responsibility of the Executive Board. For each of the five reportable segments, the Executive Board reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in the table on the next page. Performance is measured based on EBIT (beia), as included in the internal management reports that are reviewed by the Executive Board. EBIT (beia) is defined as earnings before interest and taxes and net finance expenses, before exceptional items and amortisation of acquisition-related intangibles. Exceptional items are defined as items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period. EBIT and EBIT (beia) are not financial measures calculated in accordance with IFRS. EBIT (beia) is used to measure performance as management believes that this measurement is the most relevant in evaluating the results of these segments.

HEINEKEN has multiple distribution models to deliver goods to end customers. There is no reliance on major clients. Deliveries to end consumers are done in some countries via own wholesalers or own pubs, in other markets directly and in some others via third parties. As such, distribution models are country-specific and diverse across HEINEKEN. In addition, these various distribution models are not centrally managed or monitored. Consequently, the Executive Board is not allocating resources and assessing the performance based on business type information and therefore no segment information is provided on business type.

Inter-segment pricing is determined on an arm's length basis. As net finance expenses and income tax expenses are monitored on a consolidated level (and not on an individual regional basis) and regional presidents are not accountable for that, net finance expenses and income tax expenses are not provided for the operating segments.

**Table of Contents****5. Operating segments continued****Information about reportable segments**

In millions of EUR	Note	2015	Europe		Americas			Africa, Middle East & Eastern Europe		
			2014 <sup>3</sup>	2013 <sup>3</sup>	2015	2014	2013	2015	2014 <sup>3</sup>	2013 <sup>3</sup>
Revenue										
Third party revenue <sup>1</sup>		<b>9,510</b>	9,077	9,236	<b>5,154</b>	4,626	4,486	<b>3,260</b>	3,186	3,198
Interregional revenue		<b>717</b>	684	687	<b>5</b>	5	9	<b>3</b>	3	6
Total revenue		<b>10,227</b>	9,761	9,923	<b>5,159</b>	4,631	4,495	<b>3,263</b>	3,189	3,204
Other income	8	<b>34</b>	76	163	<b>6</b>	7	56	<b>51</b>	10	7
Results from operating activities		<b>1,039</b>	1,054	972	<b>807</b>	660	681	<b>487</b>	620	602
Net finance expenses	12									
Share of profit of associates and joint ventures and impairments thereof	16	<b>16</b>	33	17	<b>74</b>	60	70	<b>52</b>	28	37
Income tax expense	13									
Profit										
Attributable to:										
Equity holders of the Company (net profit)										
Non-controlling interests										
EBIT reconciliation										
EBIT <sup>2</sup>		<b>1,055</b>	1,087	989	<b>881</b>	720	751	<b>539</b>	648	639
Eia <sup>2</sup>		<b>159</b>	42	185	<b>97</b>	121	39	<b>92</b>	51	(8)
EBIT (beia) <sup>2</sup>	27	<b>1,214</b>	1,129	1,174	<b>978</b>	841	790	<b>631</b>	699	631
Current segment assets		<b>3,155</b>	3,257	2,890	<b>1,802</b>	1,668	1,236	<b>1,412</b>	1,264	1,067
Non-current segment assets		<b>10,605</b>	10,070	9,859	<b>5,877</b>	5,382	5,193	<b>3,186</b>	2,872	2,747
Investment in associates and joint ventures		<b>190</b>	301	237	<b>1,098</b>	792	823	<b>217</b>	253	238
Total segment assets		<b>13,950</b>	13,628	12,986	<b>8,777</b>	7,842	7,252	<b>4,815</b>	4,389	4,052
Unallocated assets										
Total assets										
Segment liabilities		<b>4,956</b>	5,431	4,610	<b>1,342</b>	1,195	1,027	<b>1,294</b>	1,107	1,056
Unallocated liabilities										
Total equity										
Total equity and liabilities										
Purchase of P, P & E	14	<b>548</b>	504	406	<b>369</b>	291	261	<b>432</b>	467	510
Acquisition of goodwill	15	<b>51</b>	100	9	<b>132</b>			<b>44</b>		
Purchases of intangible assets	15	<b>22</b>	13	29	<b>14</b>	13	12	<b>4</b>	2	3
Depreciation of P, P & E	14	<b>(517)</b>	(490)	(506)	<b>(226)</b>	(219)	(211)	<b>(286)</b>	(261)	(241)
(Impairment) and reversal of impairment of P, P & E	14	<b>(23)</b>	(3)	(9)			(1)	<b>(33)</b>	(3)	(8)
Amortisation intangible assets	15	<b>(69)</b>	(57)	(79)	<b>(96)</b>	(92)	(97)	<b>(16)</b>	(9)	(9)
(Impairment) and reversal of impairment of intangible assets	15	<b>(4)</b>		(111)					(18)	(5)

**Table of Contents****5. Operating segments continued**

In millions of EUR	Note	Asia Pacific			Head Office & Other/Eliminations			Consolidated		
		2015	2014	2013	2015	2014 <sup>3</sup>	2013 <sup>3</sup>	2015	2014	2013
<b>Revenue</b>										
Third party revenue <sup>1</sup>		<b>2,480</b>	2,087	2,036	<b>107</b>	281	247	<b>20,511</b>	19,257	19,203
Interregional revenue		<b>3</b>	1	1	<b>(728)</b>	(693)	(703)			
Total revenue		<b>2,483</b>	2,088	2,037	<b>(621)</b>	(412)	(456)	<b>20,511</b>	19,257	19,203
<b>Other income</b>										
Results from operating activities	8	<b>(62)</b>			<b>382</b>			<b>411</b>	93	226
Net finance expenses	12		407	376	<b>325</b>	39	(77)	<b>3,075</b>	2,780	2,554
Share of profit of associates and joint ventures and impairments thereof	16	<b>30</b>	29	26		(2)	(4)	<b>172</b>	148	146
Income tax expense	13							<b>(697)</b>	(732)	(520)
Profit								<b>2,141</b>	1,708	1,587
Attributable to:										
Equity holders of the Company (net profit)								<b>1,892</b>	1,516	1,364
Non-controlling interests								<b>249</b>	192	223
								<b>2,141</b>	1,708	1,587
<b>EBIT reconciliation</b>										
EBIT <sup>2</sup>		<b>447</b>	436	402	<b>325</b>	37	(81)	<b>3,247</b>	2,928	2,700
Eia <sup>2</sup>		<b>288</b>	146	163	<b>(325)</b>	(20)	12	<b>311</b>	340	391
EBIT (beia) <sup>2</sup>	27	<b>735</b>	582	565		17	(69)	<b>3,558</b>	3,268	3,091
<b>Current segment assets</b>										
Non-current segment assets		<b>8,107</b>	6,881	6,254	<b>1,080</b>	845	1,400	<b>28,855</b>	26,050	25,453
Investment in associates and joint ventures		<b>417</b>	621	476	<b>63</b>	66	109	<b>1,985</b>	2,033	1,883
Total segment assets		<b>9,566</b>	8,254	7,487	<b>(370)</b>	43	1,034	<b>36,738</b>	34,156	32,811
Unallocated assets								<b>976</b>	674	526
Total assets								<b>37,714</b>	34,830	33,337
<b>Segment liabilities</b>										
Unallocated liabilities		<b>748</b>	600	449	<b>506</b>	421	319	<b>8,846</b>	8,754	7,461
Total equity								<b>15,070</b>	13,452	12,356
Total equity and liabilities								<b>37,714</b>	34,830	33,337
<b>Purchase of P, P &amp; E</b>										
Acquisition of goodwill	14	<b>284</b>	243	142	<b>7</b>	14	50	<b>1,640</b>	1,519	1,369
Purchases of intangible assets	15	<b>392</b>			<b>619</b>			<b>619</b>	100	9
Depreciation of P, P & E	15	<b>2</b>	1	5	<b>51</b>	28	28	<b>93</b>	57	77
(Impairment) and reversal of impairment of P, P & E	14	<b>(110)</b>	(83)	(80)	<b>(12)</b>	(27)	(35)	<b>(1,151)</b>	(1,080)	(1,073)
Amortisation intangible assets	14	<b>(15)</b>	(2)	2	<b>(71)</b>			<b>(71)</b>	(8)	(16)
(Impairment) and reversal of impairment of intangible assets	15	<b>(169)</b>	(148)	(179)	<b>(18)</b>	(25)	(12)	<b>(368)</b>	(331)	(376)
	15							<b>(4)</b>	(18)	(116)

<sup>1</sup> Includes other revenue of EUR386 million in 2015, EUR377 million in 2014 and EUR375 million in 2013.

<sup>2</sup> For definition see Glossary. Note that these are non-GAAP measures and therefore unaudited.

<sup>3</sup> 2014 and 2013 numbers have been revised to reflect the new regional segmentation.

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### **6. Acquisitions and disposals of subsidiaries and non-controlling interests**

#### **Accounting for the acquisition of Lasko (Slovenia)**

The acquisition of 53.43 per cent of the share capital of Pivovarna Lasko ( Lasko ), the leading Slovenian brewer for EUR119.5 million completed on 15 October 2015.

#### **Restructuring of South African and Namibian operations**

On 1 December 2015, HEINEKEN along with Diageo plc and The Ohlthaver & List (O&L) group of companies, the majority shareholder of Namibia Breweries Limited ( NBL ) restructured their respective joint venture operations in South Africa and Namibia as follows:

HEINEKEN, Diageo and NBL closed their distribution joint venture, Brandhouse Beverages (Pty) Ltd.

HEINEKEN's shareholding in DHN Drinks (Pty) Limited ( DHN ) increased to 75 per cent and as a result HEINEKEN obtained control over the South African entities DHN and Sedibeng Brewery (Pty) Limited ( Sedibeng ).

HEINEKEN also acquired an additional 15 per cent stake in NBL from Diageo. NBL is continued to be accounted for as an associate.

HEINEKEN paid a total net cash consideration of ZAR1.9 billion (EUR138 million) to Diageo.

Prior to the restructuring, HEINEKEN had a 75 per cent stake in Sedibeng and a 42.25 per cent stake in DHN. Both were accounted for as joint ventures because HEINEKEN had joint control over the entire South African structure. In accordance with IFRS, the Previously Held Equity Interest (PHEI) in the acquired businesses is accounted for at fair value at the date of acquisition and amounts to EUR29 million for DHN and EUR137 million for Sedibeng. The fair value compared to HEINEKEN's carrying amount and the release of cumulative amounts recorded in OCI result in a non-cash exceptional gain of EUR48 million in DHN and a non-cash exceptional loss of EUR5 million in Sedibeng, recognised in Other Income.

#### **Accounting for the acquisition of Desnoes & Geddes (Jamaica) and GAPL Pte Ltd**

On 7 October 2015, HEINEKEN announced that HEINEKEN and Diageo plc ( Diageo ) have completed a transaction to bring increased focus to their respective beer businesses and certain licensing arrangements in Jamaica, Malaysia, Singapore and Ghana. The transaction comprises:

HEINEKEN obtained control of Desnoes & Geddes ( D&G ) by acquiring Diageo's 57.9 per cent shareholding in this company, taking its shareholding to 73.3 per cent.

HEINEKEN now has full ownership of GAPL Pte Ltd ( GAPL ), having acquired Diageo's shareholding, which was slightly lower than 50 per cent. GAPL owns 51 per cent of the issued share capital of Guinness Anchor Berhad ( GAB ), which is listed on the Malaysian Stock Exchange. GAPL is also the licensee for Guinness and ABC Stout distribution for the Singapore market.

HEINEKEN has sold its 20 per cent ownership stake in Guinness Ghana Breweries Limited ( GGBL ) to Diageo through the sale of the holding entity of the shares, Heineken Ghanaian Holdings B.V. ( HGH ).

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HEINEKEN and Diageo have agreed to enter into licensing agreements for each other's brands currently in the respective portfolios in Jamaica and Ghana.

The total net cash consideration payable by HEINEKEN to Diageo for the Transaction was USD780.5 million (EUR707 million).

Prior to the acquisition, HEINEKEN owned a 15.4 per cent stake in D&G and a slightly higher than 50 per cent stake in GAPL. Prior to the acquisition, D&G was accounted for as an available for sale investment and GAPL was accounted for as a joint venture. The PHEI in the acquired businesses is accounted for at fair value at the date of acquisition and amounts to EUR26 million for D&G and EUR331 million for GAPL. The fair value of the PHEI of D&G has been determined using Level 1 inputs (the quoted market price) of D&G shares as of the acquisition date. The fair value compared to HEINEKEN's carrying amount and the release of cumulative amounts recorded in OCI result in a non-cash exceptional gain of EUR18 million in D&G, recognised in Other net finance income and expense and a non-cash exceptional loss of EUR61 million in GAPL, recognised in Other Income.

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**Table of Contents****6. Acquisitions and disposals of subsidiaries and non-controlling interests continued**

The following table summarises the major classes of consideration transferred and the recognised provisional amounts of assets acquired and liabilities assumed at the acquisition date.

In millions of EUR	Lasko	South Africa	D&G and GAPL
Cash and cash equivalents	2	16	42
Property, plant and equipment	103	257	114
Intangible assets	180	2	930
Inventories	19	55	33
Other assets	90	186	94
<b>Assets acquired</b>	<b>394</b>	<b>516</b>	<b>1,213</b>
Contingent liabilities			5
Short term liabilities	216	94	74
Long term liabilities	51	191	251
<b>Liabilities assumed</b>	<b>267</b>	<b>285</b>	<b>330</b>
<b>Total net identifiable assets</b>	<b>127</b>	<b>231</b>	<b>883</b>

In millions of EUR			
Consideration transferred	120	52	707
Fair value of previously held equity interest in the acquiree		165	356
Non-controlling interests	58	58	344
Net identifiable assets acquired	(127)	(231)	(883)
<b>Goodwill on acquisition (provisional)</b>	<b>51</b>	<b>44</b>	<b>524</b>

Acquisition-related costs of EUR7 million have been recognised in the income statement for the period ended 31 December 2015.

The goodwill in each of the transactions is attributable to earnings beyond the period over which intangible assets are amortised, workforce, expected synergies and future customers. None of the goodwill amounts recognised are expected to be deductible for tax purposes. The goodwill related to D&G and GAPL has been allocated to the group of CGU s Americas (EUR132 million) and Asia Pacific (EUR392 million).

Non-controlling interests are measured based on their proportional interest in the recognised assets and liabilities of the acquired entities.

In accordance with IFRS 3, the amounts recorded for the transactions are provisional and are subject to adjustments during the measurement period if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. The amounts are provisional mainly because of the timing of the acquisitions in the fourth quarter of 2015.

The amount of revenue and profit or loss for the acquired companies after obtaining control amounts to EUR177 million and EUR20 million respectively. Would the acquisitions have taken place on 1 January 2015, revenue and profit for HEINEKEN would have been EUR21,179 million and EUR2,184 million respectively.

Mandatory General Offers ( MGO ) were announced for Lasko and D&G non-controlling interest holders on 16 October 2015 and 17 November 2015 respectively. The subscription periods ended 15 January 2016 for Lasko and 21 January 2016 for D&G. Please refer to subsequent events note for further information on the acquired shares as part of the MGOs.

**Disposals**

**Disposal of EMPAQUE**

The disposal of the Mexican packaging business EMPAQUE completed on 18 February 2015 for the value of USD1.225 billion (EUR956 million). A post tax EUR379 million book gain on the disposal was recorded in Other Income.

**Disposal of Ghana**

As part of the transaction with Diageo to acquire their interest in D&G and GAPL, HEINEKEN sold its 20 per cent ownership in Heineken Ghanaian Holdings B.V. on 7 October 2015. The disposal resulted in a non-cash exceptional gain of EUR7 million recognised in Other income.

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**Table of Contents****7. Assets or disposal groups classified as held for sale**

The assets and liabilities below are classified as held for sale following the commitment of HEINEKEN to a plan to sell these assets and liabilities. Efforts to sell the other assets and liabilities classified as held for sale have commenced and are expected to be completed during 2016.

**Assets and liabilities classified as held for sale**

In millions of EUR	2015	2014
Current assets	53	96
Property, plant and equipment	67	236
Intangible assets		332
Other non-current assets	3	24
Assets classified as held for sale	123	688
Current liabilities	(31)	(103)
Non-current liabilities		(75)
Liabilities classified as held for sale	(31)	(178)

On 23 July 2015, Grupa Żywiec signed with Orbico Group a conditional agreement upon which Orbico Group will acquire 80 per cent of the shares in Dstribev Sp. z o.o (Grupa Żywiec's sales and distribution company serving the traditional trade and horeca market). The enterprise value for an 80 per cent stake amounted to PLN96 million (EUR23 million), and is subject to customary price adjustments. The assets and liabilities of Dstribev were classified as assets held for sale as at 31 December 2015. Closing of the transaction occurred on 1 February 2016.

In 2014, the assets and liabilities held for sale mainly related to HEINEKEN's packaging business EMPAQUE in Mexico. The sale was completed on 18 February 2015.

**8. Other income**

In millions of EUR	2015	2014	2013
Gain on sale of property, plant and equipment	37	41	87
Gain on sale of subsidiaries, joint ventures and associates	374	52	139
	411	93	226

Included in other income are the results of previously held equity interests in GAB and South African operations and the disposal gains in relation to EMPAQUE and Ghana (refer to note 6). Included in other income in 2014, is the gain of HEINEKEN's PHEI in Zagorka, amounting to EUR51 million. In 2013 HEINEKEN disposed various subsidiaries and associates (i.e. Oy Hartwall Ab, Efes Kazakhstan JSC FE, Jiangsu Dafuhao Breweries Co. Ltd, Pago International GmbH and Shanghai Asia Pacific Brewery Company) and realised a gain of EUR47 million as a result of share issuance in Compania Cervecerias Unidas S.A.

**Table of Contents****9. Raw materials, consumables and services**

In millions of EUR	2015	2014	2013
Raw materials	<b>1,616</b>	1,782	1,868
Non-returnable packaging	<b>3,049</b>	2,551	2,502
Goods for resale	<b>1,775</b>	1,495	1,551
Inventory movements	<b>(141)</b>	(15)	2
Marketing and selling expenses	<b>2,755</b>	2,447	2,418
Transport expenses	<b>1,139</b>	1,050	1,031
Energy and water	<b>517</b>	548	564
Repair and maintenance	<b>485</b>	458	482
Other expenses	<b>1,736</b>	1,737	1,768
	<b>12,931</b>	12,053	12,186

Other expenses mainly include rentals of EUR301 million (2014: EUR291 million, 2013: EUR282 million), consultant expenses of EUR142 million (2014: EUR179 million, 2013: EUR166 million), telecom and office automation of EUR206 million (2014: EUR199 million, 2013: EUR183 million), distribution expenses of EUR135 million (2014: EUR122 million, 2013: EUR128 million), travel expenses of EUR151 million (2014: EUR143 million, 2013: EUR155 million) and other taxes of EUR144 million (2014: EUR124 million, 2013: EUR129 million).

**10. Personnel expenses**

In millions of EUR	Note	2015	2014	2013
Wages and salaries		<b>2,178</b>	2,107	2,125
Compulsory social security contributions		<b>346</b>	337	346
Contributions to defined contribution plans		<b>47</b>	42	41
Expenses/ (income) related to defined benefit plans	28	<b>78</b>	(31)	41
Expenses related to other long-term employee benefits		<b>3</b>	8	11
Equity-settled share-based payment plan	29	<b>33</b>	48	10
Other personnel expenses		<b>637</b>	569	534
		<b>3,322</b>	3,080	3,108

In other personnel expenses, restructuring costs are included for an amount of EUR90 million (2014: EUR101 million, 2013: EUR80 million). In 2015, these costs are primarily related to the restructuring of operations in the Netherlands, Poland and Portugal.

The average number of full-time equivalent (FTE) employees during the year was:

	2015	2014*	2013*
The Netherlands	<b>3,791</b>	3,897	4,054
Other Europe	<b>25,161</b>	24,739	26,001
The Americas	<b>20,985</b>	22,610	23,951
Africa Middle East and Eastern Europe	<b>15,102</b>	16,212	17,931
Asia Pacific	<b>8,728</b>	8,678	8,996
	<b>73,767</b>	76,136	80,933

\* 2014 and 2013 numbers have been revised to reflect the new regional segmentation.

**11. Amortisation, depreciation and impairments**

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In millions of EUR	Note	2015	2014	2013
Property, plant and equipment	14	<b>1,222</b>	1,088	1,089
Intangible assets	15	<b>372</b>	349	492
		<b>1,594</b>	1,437	1,581

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**Table of Contents****12. Net finance income and expense****Recognised in profit or loss**

In millions of EUR	2015	2014	2013
Interest income	60	48	47
Interest expenses	(412)	(457)	(579)
Dividend income from available-for-sale investments	10	10	15
Gain/(loss) on disposal of available-for-sale investments	18		
Net change in fair value of derivatives	143	173	16
Net foreign exchange gain/(loss)	(179)	(205)	(31)
Unwinding discount on provisions	(3)	(5)	(5)
Interest on the net defined benefit obligation	(44)	(49)	(56)
Other	(2)	(3)	
Other net finance income/(expenses)	(57)	(79)	(61)
<b>Net finance income/(expenses)</b>	<b>(409)</b>	<b>(488)</b>	<b>(593)</b>

**13. Income tax expense****Recognised in profit or loss**

In millions of EUR	2015	2014	2013
<b>Current tax expense</b>			
Current year	799	666	740
Under/(over) provided in prior years	(3)	(9)	13
	796	657	753
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	(72)	21	(173)
Previously unrecognised deductible temporary differences	(3)	(5)	
Changes in tax rate	20	10	(32)
Utilisation/(benefit) of tax losses recognised	(11)	32	(13)
Under/(over) provided in prior years	(33)	17	(15)
	(99)	75	(233)
<b>Total income tax expense in profit or loss</b>	<b>697</b>	<b>732</b>	<b>520</b>

**Reconciliation of the effective tax rate**

In millions of EUR	2015	2014	2013
Profit before income tax	2,838	2,440	2,107
Share of net profit of associates and joint ventures and impairments thereof	(172)	(148)	(146)
<b>Profit before income tax excluding share of profit of associates and joint ventures (including impairments thereof)</b>	<b>2,666</b>	<b>2,292</b>	<b>1,961</b>

**Table of Contents****13. Income tax expense continued**

	%	2015	%	2014	%	2013
Income tax using the Company's domestic tax rate	<b>25.0</b>	<b>667</b>	25.0	573	25.0	490
Effect of tax rates in foreign jurisdictions	<b>2.1</b>	<b>57</b>	3.8	87	4.1	79
Effect of non-deductible expenses	<b>4.2</b>	<b>111</b>	2.7	61	4.6	90
Effect of tax incentives and exempt income	<b>(7.7)</b>	<b>(205)</b>	(4.0)	(93)	(8.3)	(162)
Recognition of previously unrecognised temporary differences	<b>(0.1)</b>	<b>(3)</b>	(0.2)	(5)		
Utilisation or recognition of previously unrecognised tax losses	<b>(0.2)</b>	<b>(4)</b>	(0.1)	(3)	(0.6)	(11)
Unrecognised current year tax losses	<b>0.8</b>	<b>21</b>	0.7	17	1.3	26
Effect of changes in tax rate	<b>0.8</b>	<b>20</b>	0.4	10	(1.6)	(32)
Withholding taxes	<b>1.9</b>	<b>50</b>	2.6	60	2.1	42
Under/(over) provided in prior years	<b>(1.3)</b>	<b>(36)</b>	0.3	8	(0.1)	(2)
Other reconciling items	<b>0.7</b>	<b>19</b>	0.7	17		
	<b>26.2</b>	<b>697</b>	31.9	732	26.5	520

The effective tax rate 2015 includes the gain on sale of EMPAQUE, which was tax exempt, while the effective tax rate 2014 included one-off tax items with an overall negative tax impact. The line effect of non-deductible expenses includes the impact of impairments for which no tax benefit could be recognised (refer to note 14). The reported rate 2013 included a one-off tax item with a positive impact (EUR46 million) regarding the re-measurement of a deferred tax position following a tax rate change.

**Income tax recognised in other comprehensive income**

In millions of EUR	Note	2015	2014	2013
Changes in fair value reserve		<b>(3)</b>	3	10
Changes in hedging reserve		<b>14</b>	11	(2)
Changes in translation reserve		<b>77</b>	108	(43)
Changes as a result of actuarial gains and losses		<b>(33)</b>	96	(66)
Other				(1)
	24	<b>55</b>	218	(102)

**Table of Contents****14. Property, plant and equipment**

In millions of EUR	Note	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
<b>Cost</b>						
Balance as at 1 January 2014		4,934	6,905	4,616	705	17,160
Changes in consolidation		9	2	1		12
Purchases		83	279	471	686	1,519
Transfer of completed projects under construction		91	383	149	(623)	
Transfer (to)/from assets classified as held for sale		(72)	(175)	7	(4)	(244)
Disposals		(93)	(90)	(234)	(1)	(418)
Effect of movements in exchange rates		37	1	41	30	109
Balance as at 31 December 2014		4,989	7,305	5,051	793	18,138
Balance as at 1 January 2015		<b>4,989</b>	<b>7,305</b>	<b>5,051</b>	<b>793</b>	<b>18,138</b>
Changes in consolidation		256	280	132	22	690
Purchases		84	99	428	1,029	1,640
Transfer of completed projects under construction		240	607	206	(1,053)	
Transfer (to)/from assets classified as held for sale		(50)	(1)	(8)		(59)
Disposals		(54)	(126)	(354)	(3)	(537)
Effect of movements in exchange rates		15	(54)	(47)		(86)
Balance as at 31 December 2015		<b>5,480</b>	<b>8,110</b>	<b>5,408</b>	<b>788</b>	<b>19,786</b>
<b>Depreciation and impairment losses</b>						
Balance as at 1 January 2014		(1,789)	(3,827)	(3,090)		(8,706)
Changes in consolidation		4	11	3		18
Depreciation charge for the year	11	(154)	(415)	(511)		(1,080)
Impairment losses	11	(5)	(3)			(8)
Transfer to/(from) assets classified as held for sale		2	42	(8)		36
Disposals		30	79	210		319
Effect of movements in exchange rates		6	14	(19)		1
Balance as at 31 December 2014		(1,906)	(4,099)	(3,415)		(9,420)
Balance as at 1 January 2015		<b>(1,906)</b>	<b>(4,099)</b>	<b>(3,415)</b>		<b>(9,420)</b>
Changes in consolidation		(35)	(51)	(61)		(147)
Depreciation charge for the year	11	(157)	(424)	(570)		(1,151)
Impairment losses	11	(18)	(36)	(17)		(71)
Transfer to/(from) assets classified as held for sale		14		5		19
Disposals		29	136	332		497
Effect of movements in exchange rates		(15)	22	32		39
Balance as at 31 December 2015		<b>(2,088)</b>	<b>(4,452)</b>	<b>(3,694)</b>		<b>(10,234)</b>
<b>Carrying amount</b>						
As at 1 January 2014		3,145	3,078	1,526	705	8,454
As at 31 December 2014		3,083	3,206	1,636	793	8,718
As at 1 January 2015		<b>3,083</b>	<b>3,206</b>	<b>1,636</b>	<b>793</b>	<b>8,718</b>
As at 31 December 2015		<b>3,392</b>	<b>3,658</b>	<b>1,714</b>	<b>788</b>	<b>9,552</b>

**Impairment losses**

In 2015, a total impairment loss of EUR71 million (2014: EUR8 million, 2013: EUR23 million) was charged to profit or loss.



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Due to difficult market circumstances, impairments of property, plant & equipment were recorded in Belgium (EUR26 million), Laos (EUR15 million) and Tunisia (EUR33 million). These impairments have been recorded on the line Amortisation, depreciation and impairments in the Income Statement. In determining the recoverable amount of these assets the applied discount rates are 9.4 per cent for Belgium, based on a fair value less cost to sell valuation, and 16.5 per cent for Laos and 12.2 per cent for Tunisia, based on value in use valuations. In the fair value less cost to sell valuation external beer market development and inflation assumptions were used in line with the goodwill impairment testing process.

### **Financial lease assets**

HEINEKEN leases P, P & E under a number of finance lease agreements. At 31 December 2015, the net carrying amount of leased P, P & E was EUR15 million (2014: EUR15 million).

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**14. Property, plant and equipment continued**

**Security to authorities**

Certain P, P & E amounting to EUR80 million (2014: EUR91 million) has been pledged to the authorities in a number of countries as security for the payment of taxes, particularly import and excise duties on beers, non-alcoholic beverages and spirits. This mainly relates to the Netherlands and Brazil.

**Property, plant and equipment under construction**

P, P & E under construction mainly relates to expansion of the brewing capacity in various countries.

**Capitalised borrowing costs**

During 2015, borrowing costs amounting to EUR3 million have been capitalised (2014: EUR5 million).

**Table of Contents****15. Intangible assets**

In millions of EUR	Note	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total
<b>Cost</b>							
Balance as at 1 January 2014		10,407	3,851	2,110	680	506	17,554
Changes in consolidation		98	15	17	30	(47)	113
Purchased/internally developed				1		56	57
Disposals			(2)			(2)	(4)
Transfers to assets held for sale		(259)		(85)			(344)
Effect of movements in exchange rates		557	208	131	63	1	960
Balance as at 31 December 2014		10,803	4,072	2,174	773	514	18,336
Balance as at 1 January 2015		<b>10,803</b>	<b>4,072</b>	<b>2,174</b>	<b>773</b>	<b>514</b>	<b>18,336</b>
Changes in consolidation and other transfers		611	475	333	296	18	1,733
Purchased/internally developed						93	93
Disposals						(18)	(18)
Transfers to assets held for sale							
Effect of movements in exchange rates		317	30	20	32	(2)	397
Balance as at 31 December 2015		<b>11,731</b>	<b>4,577</b>	<b>2,527</b>	<b>1,101</b>	<b>605</b>	<b>20,541</b>
<b>Amortisation and impairment losses</b>							
Balance as at 1 January 2014		(391)	(359)	(511)	(71)	(288)	(1,620)
Changes in consolidation						1	1
Amortisation charge for the year	11		(98)	(147)	(43)	(43)	(331)
Impairment losses	11	(16)	(2)				(18)
Disposals			2			(1)	1
Transfers to assets held for sale				21		(1)	20
Effect of movements in exchange rates			(5)	(13)	(29)	(1)	(48)
Balance as at 31 December 2014		(407)	(462)	(650)	(143)	(333)	(1,995)
Balance as at 1 January 2015		<b>(407)</b>	<b>(462)</b>	<b>(650)</b>	<b>(143)</b>	<b>(333)</b>	<b>(1,995)</b>
Changes in consolidation					(1)	(1)	(2)
Amortisation charge for the year	11		(108)	(165)	(44)	(51)	(368)
Impairment losses	11		(3)			(1)	(4)
Disposals						15	15
Transfers to assets held for sale							
Effect of movements in exchange rates			2	7	(14)	1	(4)
Balance as at 31 December 2015		<b>(407)</b>	<b>(571)</b>	<b>(808)</b>	<b>(202)</b>	<b>(370)</b>	<b>(2,358)</b>
<b>Carrying amount</b>							
As at 1 January 2014		10,016	3,492	1,599	609	218	15,934
As at 31 December 2014		10,396	3,610	1,524	630	181	16,341
As at 1 January 2015		<b>10,396</b>	<b>3,610</b>	<b>1,524</b>	<b>630</b>	<b>181</b>	<b>16,341</b>
As at 31 December 2015		<b>11,324</b>	<b>4,006</b>	<b>1,719</b>	<b>899</b>	<b>235</b>	<b>18,183</b>

**Brands, customer-related and contract-based intangibles**

The main brands capitalised are the brands acquired in various acquisitions such as Fosters, Strongbow, Dos Equis, Tiger and Bintang. The main customer-related and contract-based intangibles relate to customer relationships with retailers in Mexico and Asia Pacific (constituted either by way of a contractual agreement or by way of non-contractual relations) and reacquired rights.

**Impairment tests for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill in respect of Europe, the Americas (excluding Brazil) and Asia Pacific is allocated and monitored on a regional basis. For Brazil and subsidiaries within Africa, Middle East and Eastern Europe and Head Office, goodwill is allocated and monitored on an individual country basis.

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**Table of Contents****15. Intangible assets continued**

The carrying amounts of goodwill allocated to each (group of) CGU(s) are as follows:

In millions of EUR	2015	2014*
Europe	5,060	4,876
The Americas (excluding Brazil)	2,124	1,862
Brazil	62	83
Africa, Middle East and Eastern Europe (aggregated)	508	491
Asia Pacific	3,090	2,604
Head Office	480	480
	11,324	10,396

\* 2014 numbers have been revised to reflect the new regional segmentation

Throughout the year, goodwill increased mainly due to acquisitions and net foreign currency differences.

The recoverable amounts of the (group of) CGUs are based on value in use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit using a pre-tax discount rate.

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

Cash flows were projected based on actual operating results and the three-year business plan. Cash flows for a further seven-year period were extrapolated using expected annual per country volume growth rates, which are based on external sources. Management believes that this forecast period is justified due to the long-term nature of the beer business and past experiences.

The beer price growth per year after the first three-year period is assumed to be at specific per country expected annual long-term inflation, based on external sources.

Cash flows after the first 10-year period were extrapolated using a perpetual growth rate equal to the expected annual long-term inflation, in order to calculate the terminal recoverable amount.

A per CGU-specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.

The values assigned to the key assumptions used for the value in use calculations are as follows:

In per cent	Pre-tax WACC	Expected annual long-term inflation 2019-2025	Expected volume growth rates 2019-2025
Europe	9.4	1.8	0.6
The Americas (excluding Brazil)	13.5	3.1	2.0

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Brazil	14.1	4.8	2.0
Africa Middle East and Eastern Europe	12.4-24.7	3.0-8.9	1.7-8.5
Asia Pacific	14.1	4.5	3.3
Head Office and other	9.4	1.8	0.6

### **Sensitivity to changes in assumptions**

The outcome of a sensitivity analysis of a 100 basis points adverse change in key assumptions (lower growth rates or higher discount rates respectively) did not result in a materially different outcome of the impairment test.

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**Table of Contents****16. Investments in associates and joint ventures**

HEINEKEN has interests in a number of individually insignificant joint ventures and associates.

**Acquisition of 50 per cent stake Lagunitas (US)**

The acquisition of a 50 per cent shareholding in the Lagunitas Brewing Company was completed on 15 October 2015 and is accounted for as a joint venture using the equity method.

**Summarised financial information for equity accounted joint ventures and associates**

The following table includes, in aggregate, the carrying amount and HEINEKEN's share of profit and OCI of joint ventures and associates:

In millions of EUR	Joint Ventures		Associates	
	2015	2014	2015	2014
Carrying amount of interests	<b>1,852</b>	1,964	<b>133</b>	69
Share of :				
Profit or loss from continuing operations	<b>151</b>	135	<b>21</b>	13
Other comprehensive income	<b>7</b>	(7)	<b>21</b>	13
	<b>158</b>	128	<b>21</b>	13

**17. Other investments and receivables**

In millions of EUR	Note	2015	2014
<b>Non-current other investments and receivables</b>			
Available-for-sale investments	32	<b>287</b>	253
Non-current derivatives	32	<b>210</b>	97
Loans to customers	32	<b>69</b>	68
Loans to joint ventures and associates	32	<b>22</b>	65
Long-term prepayments		<b>115</b>	84
Held-to-maturity investments	32	<b>1</b>	3
Indemnification receivable	32	<b>4</b>	9
Other receivables	32	<b>148</b>	158
		<b>856</b>	737
<b>Current other investments</b>			
Investments held for trading	32	<b>16</b>	13
		<b>16</b>	13

Effective interest rates on loans to customers range from 0.5-12 per cent.

The other receivables mainly originate from the acquisition of the beer operations of FEMSA and represent a receivable on the Brazilian authorities on which interest is calculated in accordance with Brazilian legislation. Collection of this receivable is expected to be beyond a period of five years.

HEINEKEN has interests in several entities where it has less than significant influence. These are classified as available-for-sale investments and valued based on their share price when publicly listed. For investments that are not listed fair values are established using multiples. Debt securities (which are interest-bearing) with a carrying amount of EUR15 million (2014: EUR14 million) are included in available-for-sale investments.

**Sensitivity analysis equity price risk**

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As at 31 December 2015, an amount of EUR98 million (2014: EUR99 million) of available-for-sale investments and investments held for trading is listed on stock exchanges. An increase or decrease of 1 per cent in the share price at the reporting date would not result in a material impact on HEINEKEN's financial position.

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**Table of Contents****18. Deferred tax assets and liabilities****Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following items:

In millions of EUR	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
Property, plant and equipment	54	80	(607)	(607)	(553)	(527)
Intangible assets	78	83	(1,507)	(1,340)	(1,429)	(1,257)
Investments	129	131	(5)	(8)	124	123
Inventories	28	20	(2)	(1)	26	19
Loans and borrowings	11	1	(23)	(10)	(12)	(9)
Employee benefits	334	366	(3)	(1)	331	365
Provisions	93	112	(42)	(20)	51	92
Other items	332	288	(134)	(113)	198	175
Tax losses carry forward	364	177			364	177
Tax assets/(liabilities)	1,423	1,258	(2,323)	(2,100)	(900)	(842)
Set-off of tax	(465)	(597)	465	597		
Net tax assets/(liabilities)	958	661	(1,858)	(1,503)	(900)	(842)

Of the total net deferred tax assets of EUR958 million as at 31 December 2015 (2014: EUR661 million), EUR363 million (2014: EUR196 million) is recognised in respect of subsidiaries in various countries where there have been tax losses in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise these deferred tax assets.

**Tax losses carry forward**

HEINEKEN has tax losses carry forward for an amount of EUR2,363 million as at 31 December 2015 (2014: EUR1,493 million), which expire in the following years:

In millions of EUR	2015	2014
2015		30
2016	24	40
2017	26	14
2018	57	33
2019	16	51
2020	11	
After 2019 respectively 2018 but not unlimited	513	277
Unlimited	1,716	1,048
	2,363	1,493
Recognised as deferred tax assets gross	(1,564)	(786)
Unrecognised	799	707

The unrecognised losses relate to entities for which it is not probable that taxable profit will be available to offset these losses. The increase in available tax losses, compared to 2014, is driven by acquisitions in 2015.

**Table of Contents****18. Deferred tax assets and liabilities continued****Movement in deferred tax balances during the year**

In millions of EUR	Balance 1 January 2015	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	Balance 31 December 2015
Property, plant and equipment	(527)	(54)	23	6		(1)	(553)
Intangible assets	(1,257)	(261)	(3)	91		1	(1,429)
Investments	123	7	(7)	2	1	(2)	124
Inventories	19	(4)		10		1	26
Loans and borrowings	(9)		(13)	1	6	3	(12)
Employee benefits	365		4	(7)	(33)	2	331
Provisions	92	2	1	(25)		(19)	51
Other items	175	(12)	93	10	1	(69)	198
Tax losses carry forward	177	125	(14)	11		65	364
Net tax assets/(liabilities)	(842)	(197)	84	99	(25)	(19)	(900)

In millions of EUR	Balance 1 January 2014	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	Balance 31 December 2014
Property, plant and equipment	(536)		9	(22)		22	(527)
Intangible assets	(1,234)	(2)	(79)	40		18	(1,257)
Investments	119		1	1		2	123
Inventories	19						19
Loans and borrowings	1		(11)	(1)		2	(9)
Employee benefits	315		7	(36)	96	(17)	365
Provisions	101		2	(4)		(7)	92
Other items	59		98	(21)	14	25	175
Tax losses carry forward	220	(2)	(5)	(32)		(4)	177
Net tax assets/(liabilities)	(936)	(4)	22	(75)	110	41	(842)

**19. Inventories**

In millions of EUR	2015	2014
Raw materials	247	297
Work in progress	223	181
Finished products	479	398
Goods for resale	197	240
Non-returnable packaging	195	166
Other inventories and spare parts	361	352
	<b>1,702</b>	<b>1,634</b>

During 2015 inventories were written down by EUR23 million to net realisable value (2014: nil, 2013: nil).



**Table of Contents****20. Trade and other receivables**

In millions of EUR	Note	2015	2014
Trade receivables		<b>2,169</b>	2,017
Other receivables		<b>625</b>	580
Trade receivables due from associates and joint ventures		<b>27</b>	24
Derivatives		<b>52</b>	122
	32	<b>2,873</b>	2,743

A net impairment loss of EUR61 million (2014: EUR19 million, 2013: EUR34 million) in respect of trade and other receivables was included in expenses for raw materials, consumables and services.

**21. Cash and cash equivalents**

In millions of EUR	Note	2015	2014
Cash and cash equivalents	32	<b>824</b>	668
Bank overdrafts and commercial papers	25	<b>(542)</b>	(595)
Cash and cash equivalents in the statement of cash flows		<b>282</b>	73

HEINEKEN has a global cash pooling programme in place and reports net amounts in the statement of financial position. Cash and bank overdrafts subject to offset-arrangements under this programme have been netted for EUR1,962 million (2014: EUR1,910 million).

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### **22. Capital and reserves**

#### **Share capital**

As at 31 December 2015, the issued share capital comprised 576,002,613 ordinary shares (2014: 576,002,613). The ordinary shares have a par value of EUR1.60. All issued shares are fully paid. The share capital as at 31 December 2015 amounted to EUR922 million (2014: EUR922 million).

The Company's authorised capital amounts to EUR2,500 million, consisting of 1,562,500,000 shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by HEINEKEN, rights are suspended.

During 2015, HEINEKEN purchased 5,229,279 shares for a total consideration of EUR365 million following the completion of the divestment of EMPAQUE in February 2015. These shares have not been cancelled. As announced in the Q3 trading update, the share buy back plan was discontinued in light of the acquisitions mentioned in note 6.

#### **Share premium**

As at 31 December 2015, the share premium amounted to EUR2,701 million (2014: EUR2,701 million).

#### **Translation reserve**

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations of HEINEKEN (excluding amounts attributable to non-controlling interests) as well as value changes of the hedging instruments in the net investment hedges. HEINEKEN considers this a legal reserve.

#### **Hedging reserve**

This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred. HEINEKEN considers this a legal reserve.

#### **Fair value reserve**

This reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired. HEINEKEN considers this a legal reserve.

#### **Other legal reserves**

These reserves relate to the share of profit of joint ventures and associates over the distribution of which HEINEKEN does not have control. The movement in these reserves reflects retained earnings of joint ventures and associates minus dividends received. In case of a legal or other restriction which means that retained earnings of subsidiaries cannot be freely distributed, a legal reserve is recognised for the restricted part.

#### **Reserve for own shares**

The reserve for the Company's own shares comprises the cost of the Company's shares held by HEINEKEN. As at 31 December 2015, HEINEKEN held 6,318,958 of the Company's shares (2014: 1,395,435).

#### **LTV**

During the period from 1 January to 31 December 2015, HEINEKEN acquired 270,000 shares for an amount of EUR19 million for delivery against LTV and other share-based payment plans.

#### **Dividends**

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The following dividends were declared and paid by HEINEKEN:

In millions of EUR	2015	2014
Final dividend previous year EUR0.53, respectively EUR0.56 per qualifying ordinary share	425	305
Interim dividend current year EUR0.36, respectively EUR0.36 per qualifying ordinary share	251	207
Total dividend declared and paid	676	512

As announced at the AGM of 21 April 2015, HEINEKEN widened the pay-out ratio for its annual dividend from 30-35 per cent to 30-40 per cent of net profit (beia). For 2015, a payment of a total cash dividend of EUR1.30 per share (2014: EUR1.10) will be proposed at the AGM. If approved, a final dividend of EUR0.86 per share will be paid on 4 May 2016, as an interim dividend of EUR0.44 per share was paid on 12 August 2015. The payment will be subject to 15 per cent Dutch withholding tax.

After the balance sheet date, the Executive Board proposed the following dividends. The dividends, taking into account the interim dividends declared and paid, have not been provided for.

In millions of EUR	2015	2014
Per qualifying ordinary share EUR1.30 (2014: EUR1.10)	741	632

### Non-controlling interests

The non-controlling interests (NCI) relate to minority stakes held by third parties in HEINEKEN consolidated subsidiaries. The total non-controlling interest as at 31 December 2015 amounted to EUR1,535 million (2014: EUR1,043 million). Refer to note 36 for the disclosure of material NCIs.

**Table of Contents****23. Earnings per share****Basic earnings per share**

The calculation of basic earnings per share for the period ended 31 December 2015 is based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR1,892 million (2014: EUR1,516 million, 2013: EUR1,364 million) and a weighted average number of ordinary shares basic outstanding during the year ended 31 December 2015 of 572,292,454 (2014: 574,945,645, 2013: 575,062,357). Basic earnings per share for the year amounted to EUR3.31 (2014: EUR2.64, 2013: EUR2.37).

**Diluted earnings per share**

The calculation of diluted earnings per share for the period ended 31 December 2015 is based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR1,892 million (2014: EUR1,516 million, 2013: EUR1,364 million) and a weighted average number of ordinary shares basic outstanding after adjustment for the effects of all dilutive potential ordinary shares of 572,944,188 (2014: 576,002,613, 2013: 576,002,613). Diluted earnings per share for the year amounted to EUR3.30 (2014: EUR2.63, 2013: EUR2.37).

**Weighted average number of shares basic and diluted**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Total number of shares issued	<b>576,002,613</b>	576,002,613	576,002,613
Effect of own shares held	<b>(3,710,159)</b>	(1,056,968)	(940,256)
Weighted average number of basic shares for the year	<b>572,292,454</b>	574,945,645	575,062,357
Dilutive effect of share based payment plan obligations	<b>651,734</b>	1,056,968	940,256
Weighted average number of diluted shares for the year	<b>572,944,188</b>	576,002,613	576,002,613

**Table of Contents****24. Income tax on other comprehensive income**

In millions of EUR	2015		2014		2013		Amount net of tax		
	Amount before tax	Tax	Amount before tax	Tax	Amount before tax	Tax			
Other comprehensive income									
Actuarial gains and losses	128	(33)	95	(440)	96	(344)	263	(66)	197
Currency translation differences	(120)	77	(43)	590	107	697	(1,244)	(38)	(1,282)
Recycling of currency translation differences to profit or loss	129		129				1		1
Effective portion of net investment hedges	15		15	(6)	1	(5)	18	(5)	13
Effective portion of changes in fair value of cash flow hedges	(3)	26	23	(108)	9	(99)	17	(1)	16
Effective portion of cash flow hedges transferred to profit or loss	36	(12)	24	(5)	2	(3)	(3)	(1)	(4)
Net change in fair value available-for-sale investments	46	(3)	43	(4)	3	(1)	(63)	10	(53)
Recycling of fair value of available-for-sale investments to profit or loss	(16)		(16)						
Share of other comprehensive income of associates/joint ventures	7		7	(7)		(7)	6	(1)	5
Total other comprehensive income	222	55	277	20	218	238	(1,005)	(102)	(1,107)

**25. Loans and borrowings**

This note provides information about the contractual terms of HEINEKEN's interest-bearing loans and borrowings. For more information about HEINEKEN's exposure to interest rate risk and foreign currency risk, refer to note 32.

**Non-current liabilities**

In millions of EUR	Note	2015	2014
Unsecured bond issues		9,269	7,802
Unsecured bank loans		126	481
Secured bank loans		38	45
Finance lease liabilities	26	10	10
Other non-current interest-bearing liabilities		1,183	1,153
Non-current interest-bearing liabilities		10,626	9,491
Non-current derivatives		32	8
Non-current liabilities		10,658	9,499

**Current interest-bearing liabilities**

In millions of EUR	Note	2015	2014
Current portion of unsecured bonds issued		400	967
Current portion of unsecured bank loans		354	3
Current portion of secured bank loans		8	11
Current portion of finance lease liabilities	26	5	5
Current portion of other non-current interest-bearing liabilities		35	121
Total current portion of non-current interest-bearing liabilities		802	1,107
Deposits from third parties (mainly employee loans)		595	564
		1,397	1,671



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Bank overdrafts and commercial papers	21	<b>542</b>	595
Current interest-bearing liabilities		<b>1,939</b>	2,266

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**Table of Contents****25. Loans and borrowings continued****Net interest-bearing debt position**

In millions of EUR	Note	2015	2014 <sup>1</sup>
Non-current interest-bearing liabilities		<b>10,626</b>	9,491
Current portion of non-current interest-bearing liabilities		<b>802</b>	1,107
Deposits from third parties (mainly employee loans)		<b>595</b>	564
		<b>12,023</b>	11,162
Bank overdrafts and commercial papers	21	<b>542</b>	595
Market value of cross-currency interest rate swaps	32	<b>(215)</b>	(166)
		<b>12,350</b>	11,591
Cash, cash equivalents and current other investments	17/21	<b>(840)</b>	(681)
Net interest-bearing debt position		<b>11,510</b>	10,910

<sup>1</sup> Restated to reflect the revised net debt definition

HEINEKEN has amended its net debt definition to include derivative financial instruments designated as cash flow hedges if these hedges are considered to be inextricably linked to the underlying borrowings because they are used to mitigate the foreign currency exchange risk arising from foreign currency borrowings. The change in this definition has resulted in a reduction in net debt of EUR215 million at 31 December 2015 (2014: EUR166 million).

**Non-current liabilities**

In millions of EUR	Unsecured bond issues	Unsecured bank loans	Secured bank loans	Finance lease liabilities	Other non-current interest-bearing liabilities	Non-current derivatives	Non-current non-interest-bearing liabilities	Total
Balance as at 1 January 2015	<b>7,802</b>	<b>481</b>	<b>45</b>	<b>10</b>	<b>1,153</b>	<b>8</b>		<b>9,499</b>
Consolidation changes		133		2				135
Effect of movements in exchange rates	3	(26)			(1)	(2)	(3)	(29)
Transfers to current liabilities	(390)	(364)	(4)	(3)	(55)	(81)	(3)	(900)
Charge to/(from) equity in relation to derivatives	(69)				100	24		55
Proceeds	1,510	180	1	1	9	827	2	2,530
Repayments	(10)	(278)		(1)	(45)	(684)	(6)	(1,024)
Other	423		(4)	1	22	(60)	10	392
Balance as at 31 December 2015	<b>9,269</b>	<b>126</b>	<b>38</b>	<b>10</b>	<b>1,183</b>	<b>32</b>		<b>10,658</b>

**Table of Contents****25. Loans and borrowings continued****Terms and debt repayment schedule**

Terms and conditions of outstanding non-current and current loans and borrowings were as follows:

In millions of EUR	Category	Currency	Nominal interest rate %	Repayment	Carrying amount 2015	Face value 2015	Carrying amount 2014	Face value 2014
Unsecured bond	issue under EMTN programme	GBP	7.3	2015			508	508
Unsecured bond	issue under EMTN programme	SGD	2.7	2015			47	47
Unsecured bond	issue under EMTN programme	EUR	4.6	2016	400	400	399	400
Unsecured bond	issue under EMTN programme	SGD	1.5	2017	64	65	61	62
Unsecured bond	issue under EMTN programme	EUR	1.3	2018	100	100	99	100
Unsecured bond	issue under EMTN programme	SGD	2.2	2018	62	62	59	59
Unsecured bond	issue under EMTN programme	USD	1.3	2019	183	184	164	165
Unsecured bond	issue under EMTN programme	EUR	2.5	2019	845	850	844	850
Unsecured bond	issue under EMTN programme	EUR	2.1	2020	997	1,000	996	1,000
Unsecured bond	issue under EMTN programme	EUR	2.0	2021	497	500	497	500
Unsecured bond	issue under EMTN programme	EUR	1.3	2021	497	500		
Unsecured bond	issue under EMTN programme	USD	3.3	2022	183	184		
Unsecured bond	issue under EMTN programme	EUR	1.7	2023	140	140		
Unsecured bond	issue under EMTN programme	EUR	3.5	2024	497	500	497	500
Unsecured bond	issue under EMTN programme	EUR	1.5	2024	454	460		
Unsecured bond	issue under EMTN programme	EUR	2.9	2025	742	750	741	750
Unsecured bond	issue under EMTN programme	EUR	2.0	2025	224	225		
Unsecured bond	issue under EMTN programme	EUR	3.5	2029	199	200	199	200
Unsecured bond	issue under EMTN programme	EUR	3.3	2033	179	180	179	180
Unsecured bond	issue under EMTN programme	EUR	2.6	2033	91	100	91	100
Unsecured bond	issue under EMTN programme	EUR	3.5	2043	75	75	75	75
Unsecured bond	issue under APB MTN programme	SGD	3.0-4.0	2020-2022	25	25	24	24

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Unsecured bond	issue under 144A/RegS	USD	0.8	2015			411	412
Unsecured bond	issue under 144A/RegS	USD	1.4	2017	<b>1,146</b>	<b>1,148</b>	1,026	1,030
Unsecured bond	issue under 144A/RegS	USD	3.4	2022	<b>685</b>	<b>689</b>	614	618
Unsecured bond	issue under 144A/RegS	USD	2.8	2023	<b>915</b>	<b>919</b>	819	824
Unsecured bond	issue under 144A/RegS	USD	4.0	2042	<b>450</b>	<b>459</b>	402	412
Unsecured bond	n.a.	EUR	3.5-4.5	2020	<b>19</b>	<b>19</b>	17	17
Unsecured bank loans	bank facilities	EUR	4.8	2016	<b>207</b>	<b>207</b>	207	207
Unsecured bank loans	bank facilities	NGN	15-17	2016	<b>14</b>	<b>16</b>	121	121
Unsecured bank loans	German Schuldschein notes	EUR	1.8-6.2	2016	<b>111</b>	<b>111</b>	110	111
Unsecured bank loans	bank facilities	MYR	3.5-4.5	2016-2017	<b>19</b>	<b>19</b>		
Unsecured bank loans	bank facilities	USD , RWF	4.5-13.5	2017-2020	<b>17</b>	<b>17</b>		
Unsecured bank loans	bank facilities	ZAR	8.0	2018	<b>71</b>	<b>71</b>		
Unsecured bank loans	bank facilities	PGK	4.7	2019	<b>38</b>	<b>38</b>	35	35
Unsecured bank loans	various	various	various	various	<b>3</b>	<b>3</b>	11	11
Secured bank loans	bank facilities	GBP	1.8	2016	<b>6</b>	<b>6</b>	8	8
Secured bank loans	bank facilities	HTG	8.5	2020	<b>13</b>	<b>14</b>	16	16
Secured bank loans	bank facilities	ETB	10.0	2021	<b>22</b>	<b>22</b>	20	20
Secured bank loans	various	various	various	various	<b>5</b>	<b>5</b>	12	12
Other interest-bearing liabilities	2008 US private placement	USD	5.9	2015			43	43
Other interest-bearing liabilities	2011 US private placement	GBP	7.3	2016	<b>34</b>	<b>34</b>	32	32
Other interest-bearing liabilities	2008 US private placement	USD	2.8	2017	<b>83</b>	<b>83</b>	74	74
Other interest-bearing liabilities	2008 US private placement	GBP	7.2	2018	<b>44</b>	<b>44</b>	41	41
Other interest-bearing liabilities	2010 US private placement	USD	4.6	2018	<b>665</b>	<b>666</b>	597	597
Other interest-bearing liabilities	2008 US private placement	USD	6.3	2018	<b>357</b>	<b>358</b>	321	321
Other interest-bearing liabilities	facilities from JVs	EUR	various	various	<b>17</b>	<b>17</b>	150	150
Other interest-bearing liabilities	various	various	various	various	<b>18</b>	<b>18</b>	16	16
Deposits from third parties	n.a.	various	various	various	<b>595</b>	<b>595</b>	564	564
Finance lease liabilities	n.a.	various	various	various	<b>15</b>	<b>15</b>	15	15
					<b>12,023</b>	<b>12,093</b>	11,162	11,227

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**25. Loans and borrowings continued**

**Financing headroom<sup>1</sup>**

As at 31 December 2015, no amounts were drawn on the existing revolving credit facility of EUR2,500 million. This revolving credit facility was extended by one year and matures now in 2020. The committed financing headroom at Group level was EUR2,333 million as at 31 December 2015 and consisted of an undrawn revolving credit facility and centrally available cash, minus commercial paper in issue at Group level.

**Incurrence covenant<sup>1</sup>**

HEINEKEN has an incurrence covenant in some of its financing facilities. This incurrence covenant is calculated by dividing net debt (excluding the market value of cross-currency interest rate swaps) by EBITDA (beia) (both based on proportional consolidation of joint ventures and including acquisitions made in 2015 on a pro-forma basis). As at 31 December 2015 this ratio was 2.4 (2014: 2.4, 2013: 2.5). If the ratio would be beyond a level of 3.5, the incurrence covenant would prevent HEINEKEN from conducting further significant debt financed acquisitions.

<sup>1</sup> Non-GAAP measures: unaudited

**Table of Contents****26. Finance lease liabilities**

Finance lease liabilities are payable as follows:

In millions of EUR	<b>Future minimum lease payments 2015</b>	<b>Interest 2015</b>	<b>Present value of minimum lease payments 2015</b>	Future minimum lease payments 2014	Interest 2014	Present value of minimum lease payments 2014
Less than one year	<b>5</b>		<b>5</b>	5		5
Between one and five years	<b>9</b>		<b>9</b>	8		8
More than five years	<b>1</b>		<b>1</b>	2		2
	<b>15</b>		<b>15</b>	15		15

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**Table of Contents****27. Non-GAAP measures**

In the internal management reports, HEINEKEN measures its performance primarily based on EBIT and EBIT beia (before exceptional items and amortisation of acquisition-related intangible assets). Both are non-GAAP measures not calculated in accordance with IFRS. 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. Beia adjustments are also applied on operating profit and net profit metrics.

The table below presents the relationship between IFRS measures, being results from operating activities and net profit, and HEINEKEN non-GAAP measures, being EBIT, EBIT (beia), operating profit (beia) and net profit (beia).

In millions of EUR	2015 <sup>1</sup>	2014 <sup>1</sup>	2013 <sup>1</sup>
Results from operating activities	<b>3,075</b>	2,780	2,554
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	<b>172</b>	148	146
EBIT	<b>3,247</b>	2,928	2,700
Exceptional items and amortisation of acquisition-related intangible assets included in EBIT	<b>311</b>	340	391
EBIT (beia)	<b>3,558</b>	3,268	3,091
Share of profit of associates and joint ventures and impairments thereof (beia) (net of income tax)	<b>(177)</b>	(139)	(150)
Operating profit (beia)	<b>3,381</b>	3,129	2,941
Profit attributable to equity holders of the Company (net profit)	<b>1,892</b>	1,516	1,364
Exceptional items and amortisation of acquisition-related intangible assets included in EBIT	<b>311</b>	340	391
Exceptional items included in finance costs	<b>(18)</b>	(1)	(11)
Exceptional items included in income tax expense	<b>(124)</b>	(52)	(151)
Exceptional items included in non-controlling interest	<b>(13)</b>	(45)	(8)
Net profit (beia)	<b>2,048</b>	1,758	1,585

<sup>1</sup> Unaudited

The 2015 exceptional items included in EBIT contain the amortisation of acquisition-related intangibles for EUR321 million (2014: EUR291 million, 2013: EUR329 million), the disposal gain for EMPAQUE of EUR379 million, restructuring expenses of EUR106 million (2014: EUR111 million, 2013: EUR99 million) and the impairment of intangible assets and P, P & E of EUR78 million (2014: EUR21 million, 2013: EUR102 million). Additional exceptional items included in EBIT are the write down of assets and recording of provisions in DRC and Rwanda for an amount of EUR79 million and the combined loss on the Previously Held Equity Interests of GAB, DHN and Sedibeng of EUR19 million.

The revaluation of the existing stake in D&G of EUR18 million resulted in an exceptional item in finance costs. In 2014, the exceptional items in finance costs were EUR6 million (2013: EUR21 million). The exceptional items in income tax expense include the tax impact on amortisation of acquisition-related intangible assets of EUR75 million (2014: EUR72 million, 2013: EUR84 million) and the tax impact on other exceptional items included in EBIT and finance costs of EUR58 million (2014: EUR6 million, 2013: EUR21 million). These items are partly offset by exceptional income tax items with a negative impact amounting to EUR9 million (2014: EUR26 million negative impact, 2013: EUR46 million positive impact).

EBIT and EBIT (beia) are not financial measures calculated in accordance with IFRS. The presentation of these financial measures may not be comparable to similarly titled measures reported by other companies due to differences in the ways the measures are calculated.

**Table of Contents****28. Employee benefits**

In millions of EUR	2015	2014
Present value of unfunded defined benefit obligations	329	358
Present value of funded defined benefit obligations	8,544	8,551
Total present value of defined benefit obligations	8,873	8,909
Fair value of defined benefit plan assets	(7,661)	(7,547)
Present value of net obligations	1,212	1,362
Asset ceiling items	4	2
Recognised liability for defined benefit obligations	1,216	1,364
Other long-term employee benefits	73	79
	1,289	1,443

HEINEKEN makes contributions to defined benefit plans that provide pension benefits for employees upon retirement in a number of countries. The defined benefit plans in the Netherlands and the UK combined cover 88.4 per cent of the total defined benefit plan assets (2014: 88.6 per cent), 83.9 per cent of the present value of the defined benefit obligations (2014: 83.0 per cent) and 55.2 per cent of the present value of net obligations (2014: 52.1 per cent) as at 31 December 2015.

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 2015, HEINEKEN's cash contribution to the Dutch pension plan was at the maximum level. The same level is expected to be paid in 2016.

HEINEKEN's UK plan (Scottish & Newcastle pension plan - SNPP) was closed to future accrual in 2010 and the liabilities thus relate to past service before plan closure. Based on the triennial review finalised in early 2013, HEINEKEN has agreed a 10-year funding plan including base Company contributions of GBP21 million per year, with a further Company contribution of between GBP15 million and GBP40 million per year, contingent on the funding level of the pension fund. As at 31 December 2015, the IAS 19 present value of the net obligations of SNPP represents a GBP369 million (EUR502 million) deficit. No additional liability has to be recognised as the net present value of the minimum funding requirement does not exceed the net obligation. The next triennial review will take place in 2016.

Other countries where HEINEKEN offers a defined benefit plan to (former) employees include: Austria (closed in 2007 to new entrants), Belgium, Greece (closed in 2014 to new entrants), Ireland (closed in 2012 to all future accrual), Jamaica, Mexico (plan changed to hybrid defined contribution for majority of employees in 2014), Nigeria (closed to new entrants in 2007), Portugal, Spain (closed to management in 2010) and Switzerland.

The vast majority of benefit payments are from pension funds that are held in trusts (or equivalent); however, there is a small portion where HEINEKEN meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by Trustee Boards composed of HEINEKEN representatives and independent and/or member representation, in accordance with local regulations and practice in each country. The relationship and division of responsibility between HEINEKEN and the Trustee Board (or equivalent) including investment decisions and contribution schedules are carried out in accordance with the plan's regulations.

In other countries, retirement benefits are provided to employees via defined contribution plans.

Other long-term employee benefits mainly relate to long-term bonus plans, termination benefits, medical plans and jubilee benefits.



**Table of Contents****28. Employee benefits continued****Movement in net defined benefit obligation**

The movement in the defined benefit obligation over the year is as follows:

In millions of EUR	Note	Present value of defined benefit obligations		Fair value of defined benefit plan assets		Present value of net obligations	
		2015	2014	2015	2014	2015	2014
Balance as at 1 January		<b>8,909</b>	7,674	<b>(7,547)</b>	(6,553)	<b>1,362</b>	1,121
Included in profit or loss							
Current service cost		<b>83</b>	75			<b>83</b>	75
Past service cost/(credit)		<b>(9)</b>	(103)			<b>(9)</b>	(103)
Administration expense				<b>6</b>	4	<b>6</b>	4
Effect of any settlement		<b>(2)</b>	(7)			<b>(2)</b>	(7)
Expense recognised in personnel expenses	10	<b>72</b>	(35)	<b>6</b>	4	<b>78</b>	(31)
Interest expense/(income)	12	<b>258</b>	326	<b>(214)</b>	(277)	<b>44</b>	49
		<b>330</b>	291	<b>(208)</b>	(273)	<b>122</b>	18
Included in OCI							
Remeasurement loss/(gain):							
Actuarial loss/(gain) arising from							
Demographic assumptions		<b>(62)</b>	12			<b>(62)</b>	12
Financial assumptions		<b>(191)</b>	1,185			<b>(191)</b>	1,185
Experience adjustments		<b>(41)</b>	(112)			<b>(41)</b>	(112)
Return on plan assets excluding interest income				<b>166</b>	(645)	<b>166</b>	(645)
Effect of movements in exchange rates		<b>259</b>	257	<b>(236)</b>	(225)	<b>23</b>	32
		<b>(35)</b>	<b>1,342</b>	<b>(70)</b>	(870)	<b>(105)</b>	<b>472</b>
Other							
Changes in consolidation and reclassification		<b>13</b>	(86)		32	<b>13</b>	(54)
Contributions paid:							
By the employer				<b>(180)</b>	(195)	<b>(180)</b>	(195)
By the plan participants		<b>26</b>	26	<b>(26)</b>	(26)		
Benefits paid		<b>(370)</b>	(338)	<b>370</b>	338		
		<b>(331)</b>	(398)	<b>164</b>	149	<b>(167)</b>	(249)
Balance as at 31 December		<b>8,873</b>	8,909	<b>(7,661)</b>	(7,547)	<b>1,212</b>	1,362

**Defined benefit plan assets**

In millions of EUR		2015			2014*		
		Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments:							
Europe		<b>746</b>		<b>746</b>	766		766
Northern America		<b>511</b>		<b>511</b>	716		716
Japan		<b>212</b>		<b>212</b>	207		207
Asia other		<b>153</b>		<b>153</b>	234		234
Other		<b>249</b>	<b>1</b>	<b>250</b>	253	<b>1</b>	254
		<b>1,871</b>	<b>1</b>	<b>1,872</b>	2,176	<b>1</b>	2,177
Debt instruments:							
Corporate bonds investment grade		<b>2,791</b>	<b>1,355</b>	<b>4,146</b>	2,551	1,253	3,804
Corporate bonds non-investment grade		<b>131</b>	<b>178</b>	<b>309</b>	133	146	279
		<b>2,922</b>	<b>1,533</b>	<b>4,455</b>	2,684	1,399	4,083

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Derivatives	16	(1,229)	(1,213)	5	(924)	(919)
Properties and real estate	253	267	520	281	212	493
Cash and cash equivalents	195	47	242	206	15	221
Investment funds	1,219	292	1,511	923	309	1,232
Other plan assets	4	270	274	199	61	260
	1,687	(353)	1,334	1,614	(327)	1,287
Balance as at 31 December	6,480	1,181	7,661	6,474	1,073	7,547

\* Revised

The HEINEKEN pension funds monitor the mix of debt and equity securities in their investment portfolios based on market expectations. Material investments within the portfolio are managed on an individual basis. Through its defined benefit pension plans, HEINEKEN is exposed to a number of risks, the most significant which are detailed below:

**Asset volatility**

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform this yield, this will create a deficit. Both the Netherlands and the UK plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term, while providing volatility and risk in the short term.

In the Netherlands, an Asset-Liability Matching (ALM) study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 38 per cent equity securities, 40 per cent bonds, 7 per cent property and real estate and 15 per cent other investments. The objective is

**Table of Contents****28. Employee benefits continued**

to hedge currency risk on the US dollar, Japanese yen and British pound for 50 per cent of the equity exposure in the strategic investment mix.

In the UK, an Asset-Liability Matching study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 29 per cent equity securities (including synthetic exposure from derivatives), 35 per cent bonds (including synthetic exposure from derivatives), 5 per cent property and real estate and 31 per cent other investments. The objective is to hedge currency risk on developed non-GBP equity market exposures for 70 per cent, with US dollar currency risk on other investments hedged 100 per cent in the strategic investment mix.

**Interest rate risk**

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans bond holdings.

In the Netherlands, interest rate risk is partly managed through fixed income investments. These investments match the liabilities for 22.7 per cent (2014: 20.1 per cent). In the UK, interest rate risk is partly managed through the use of a mixture of fixed income investments and interest rate swap instruments. These investments and instruments match the liabilities for 24.7 per cent (2014: 24.7 per cent).

**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 sensitivity is based on capped Consumer Price Inflation for deferred members and capped Retail Price Inflation for pensions in payment.

**Life expectancy**

The majority of the plans obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans liabilities. This is particularly significant in the UK plan, where inflation-linked increases result in higher sensitivity to changes in life expectancy. In 2015, the Trustee of SNPP implemented a longevity hedge to remove the risk of a higher increase in life expectancy than anticipated for current pensioners.

**Principal actuarial assumptions as at the balance sheet date**

Based on the significance of the Dutch and UK pension plans compared with the other plans, the table below only includes the major actuarial assumptions for those two plans as at 31 December:

In per cent	The Netherlands		UK*	
	2015	2014	2015	2014
Discount rate as at 31 December	2.3	1.8	3.9	3.6
Future salary increases	2.0	2.0		
Future pension increases	0.9	0.3	3.0	2.9

\* The UK plan closed for future accrual leading to certain assumptions being equal to zero. For the other defined benefit plans the following actuarial assumptions apply at 31 December:

In per cent	Europe		The Americas		Africa, Middle East & Eastern Europe	
	2015	2014	2015	2014	2015	2014
Discount rate as at 31 December	<b>0.8-2.3</b>	1.0-1.9	<b>7.0</b>	7.3	<b>12.0</b>	15.0
Future salary increases	<b>0.0-3.5</b>	0.0-3.5	<b>4.5</b>	4.5	<b>7.5</b>	8.4
Future pension increases	<b>0.0-1.2</b>	0.0-1.8	<b>3.5</b>	3.5	<b>3.0</b>	3.2
Medical cost trend rate	<b>0.0-4.5</b>	0.0-4.5	<b>5.1</b>	5.1	<b>4.5</b>	6.8

Assumptions regarding future mortality rates are based on published statistics and mortality tables. For the Netherlands, the rates are obtained from the AG-Prognosetafel 2014, fully generational. Correction factors from Towers Watson are applied on these rates. For the UK, the rates are obtained from the Continuous Mortality Investigation 2011 projection model.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 18 years.

HEINEKEN expects the 2016 contributions to be paid for the defined benefit plans to be in line with 2015.

**Table of Contents****28. Employee benefits continued****Sensitivity analysis**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2015		31 December 2014	
	<b>Increase in assumption</b>	Decrease in assumption	<b>Increase in assumption</b>	Decrease in assumption
In per cent				
Discount rate (0.5% movement)	<b>(677)</b>	771	<b>(721)</b>	825
Future salary growth (0.25% movement)	<b>21</b>	(20)	<b>45</b>	(44)
Future pension growth (0.25% movement)	<b>300</b>	(292)	<b>301</b>	(265)
Medical cost trend rate (0.5% movement)	<b>6</b>	(5)	<b>5</b>	(5)
Life expectancy (1 year)	<b>287</b>	(290)	<b>285</b>	(287)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

**29. Share-based payments Long-Term Variable Award**

HEINEKEN has a performance-based share plan (Long-Term Variable award (LTV)) for the Executive Board and senior management. Under this LTV plan, share rights are conditionally awarded to incumbents on an annual basis. The vesting of these rights is subject to the performance of Heineken N.V. on specific internal performance conditions and continued service over a three-year period.

The performance conditions for LTV 2013-2015, LTV 2014-2016 and LTV 2015-2017 are the same for the Executive Board and senior management and comprise solely of internal financial measures, being Organic Revenue Growth (Organic Gross Profit beia growth up to LTV 2013-2015), Organic EBIT beia growth, Earnings Per Share (EPS) beia growth and Free Operating Cash Flow. Essentially, the performance targets are also the same for the Executive Board and senior management, although for LTV 2013-2015 the performance conditions for the Executive Board have been set at a higher target level as a result of the recalibration that took place at the end of 2013.

At target performance, 100 per cent of the awarded share rights vest. At threshold performance, 50 per cent of the awarded share rights vest. At maximum performance, 200 per cent of the awarded share rights vest for the Executive Board as well as senior managers contracted by the US, Mexico, Brazil and Singapore, and 175 per cent vest for all other senior managers.

**Table of Contents****29. Share-based payments Long-Term Variable Award continued**

The performance period for the aforementioned plans are:

LTV	Performance period start	Performance period end
2013-2015	1 January 2013	31 December 2015
2014-2016	1 January 2014	31 December 2016
2015-2017	1 January 2015	31 December 2017

The vesting date for the Executive Board is shortly after the publication of the annual results of 2015, 2016 and 2017 respectively and for senior management on 1 April 2016, 2017 and 2018 respectively.

As HEINEKEN will withhold the tax related to vesting on behalf of the individual employees, the number of Heineken N.V. shares to be received will be a net number. The share rights are not dividend-bearing during the performance period. The fair value has been adjusted for expected dividends by applying a discount based on the dividend policy and historical dividend payouts, during the vesting period.

The terms and conditions of the share rights granted are as follows:

Grant date/employees entitled	Number*	Based on share price
Share rights granted to Executive Board in 2013	50,278	50.47
Share rights granted to senior management in 2013	560,863	50.47
Share rights granted to Executive Board in 2014	51,702	49.08
Share rights granted to senior management in 2014	597,744	49.08
<b>Share rights granted to Executive Board in 2015</b>	<b>54,903</b>	<b>58.95</b>
<b>Share rights granted to senior management in 2015</b>	<b>534,298</b>	<b>58.95</b>

\* The number of shares is based on at target payout performance (100 per cent).

Under the LTV 2012-2014, a total of 87,438 (gross) shares vested for the Executive Board and 796,904 (gross) shares vested for senior management.

Based on the performance conditions, it is expected that approximately 765,841 shares of the LTV 2013-2015 will vest in 2016 for senior management and the Executive Board.

The number, as corrected for the expected performance for the various awards, and weighted average share price per share under the LTV of senior management and Executive Board are as follows:

	Weighted average share price 2015	Number of share rights 2015	Weighted average share price 2014	Number of share rights 2014
Outstanding as at 1_January	44.42	2,401,418	42.41	1,257,106
Granted during the year	58.95	589,201	49.08	649,446
Forfeited during the year	50.95	(235,289)	44.80	(112,593)
Vested during the year	35.89	(891,409)	36.69	(216,229)
Performance adjustment		(9,139)		823,688
Outstanding as at 31_December	52.26	1,854,782	44.42	2,401,418

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Under the extraordinary share plans for senior management 16,000 shares were granted and 40,425 (gross) shares vested. These extraordinary grants only have a service condition and vest between one and five years. The expenses relating to these additional grants are recognised in profit or loss during the vesting period. Expenses recognised in 2015 are EUR1.0 million (2014: EUR1.2 million, 2013: EUR1.1 million).

Matching shares, extraordinary shares and retention share awards are granted to the Executive Board and are disclosed in note 35.

### Personnel expenses

In millions of EUR	Note	2015	2014	2013
Share rights granted in 2011				(3)
Share rights granted in 2012		1	20	5
Share rights granted in 2013		12	17	8
Share rights granted in 2014		10	11	
Share rights granted in 2015		10		
Total expense recognised in personnel expenses	10	33	48	10

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**Table of Contents****30. Provisions**

In millions of EUR	Note	Restructuring	Onerous contracts	Claims and litigation	Other	Total
Balance as at 1 January 2015		162	54	179	168	563
Changes in consolidation			2	6	16	24
Provisions made during the year		83	16	17	48	164
Provisions used during the year		(100)		(14)	(24)	(138)
Provisions reversed during the year		(18)	(21)	(44)	(48)	(131)
Effect of movements in exchange rates		2	3	(28)	6	(17)
Unwinding of discounts		3		6		9
Balance as at 31 December 2015		132	54	122	166	474
Non-current		68	45	113	94	320
Current		64	9	9	72	154

**Restructuring**

The provision for restructuring of EUR132 million mainly relates to restructuring programmes in Spain and the Netherlands.

**Claims and litigation**

The provision for claims and litigation of EUR122 million mainly relates to the litigation inherited from the acquisition of the beer operations of FEMSA in 2010 (refer to note 34).

**Other provisions**

Included are, among others, surety and guarantees provided of EUR39 million (2014: EUR26 million) and provisions for other taxes of EUR42 million (2014: EUR32 million).

**31. Trade and other payables**

In millions of EUR	Note	2015	2014
Trade payables		2,797	2,339
Accruals and deferred income		1,270	1,211
Taxation and social security contributions		806	802
Returnable packaging deposits		606	580
Interest		131	132
Derivatives		89	104
Dividends		46	45
Other payables		268	320
	32	6,013	5,533



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### **32. Financial risk management and financial instruments**

#### **Overview**

HEINEKEN has exposure to the following risks from its use of financial instruments, as they arise in the normal course of HEINEKEN's business:

Credit risk

Liquidity risk

Market risk

This note presents information about HEINEKEN's exposure to each of the above risks, and it summarises HEINEKEN's policies and processes that are in place for measuring and managing risk, including those related to capital management. Further quantitative disclosures are included throughout these consolidated financial statements.

#### **Risk management framework**

The Executive Board, under the supervision of the Supervisory Board, has overall responsibility and sets rules for HEINEKEN's risk management and control systems. They are reviewed regularly to reflect changes in market conditions and HEINEKEN's activities. The Executive Board oversees the adequacy and functioning of the entire system of risk management and internal control, assisted by HEINEKEN Group departments.

The Global Treasury function focuses primarily on the management of financial risk and financial resources. Some of the risk management strategies include the use of derivatives, primarily in the form of spot and forward exchange contracts and interest rate swaps, but options can be used as well. It is HEINEKEN's policy that no speculative transactions are entered into.

#### **Credit risk**

Credit risk is the risk of financial loss to HEINEKEN if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and it arises principally from HEINEKEN's receivables from customers and investment securities.

Following the economic crisis, HEINEKEN placed particular focus on strengthening credit management and a Global Credit Policy was implemented. All local operations are required to comply with the principles contained within the Global Credit Policy and develop local credit management procedures accordingly. HEINEKEN annually reviews compliance with these procedures and continuous focus is placed on ensuring that adequate controls are in place to mitigate any identified risks in respect of both customer and supplier risk.

As at the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial instrument, including derivative financial instruments, in the consolidated statement of financial position.

#### **Loans to customers**

HEINEKEN's exposure to credit risk is mainly influenced by the individual characteristics of each customer. HEINEKEN's held-to-maturity investments include loans to customers, issued based on a loan contract. Loans to customers are ideally secured by, among others, rights on property or intangible assets, such as the right to take possession of the premises of the customer. Interest rates calculated by HEINEKEN are at least based on the risk-free rate plus a margin, which takes into account the risk profile of the customer and value of security given.

HEINEKEN establishes an allowance for impairment of loans that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on

historical data of payment statistics.

In a few countries, the issuance of new loans is outsourced to third parties. In most cases, HEINEKEN issues guarantees to the third party for the risk of default by the customer.

#### **Trade and other receivables**

HEINEKEN's local management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Under the credit policies, all customers requiring credit over a certain amount are reviewed and new customers are analysed individually for creditworthiness before HEINEKEN's standard payment and delivery terms and conditions are offered. HEINEKEN's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer and these limits are reviewed regularly. Customers that fail to meet HEINEKEN's benchmark creditworthiness may transact with HEINEKEN only on a prepayment basis.

In monitoring customer credit risk customers are, on a country basis, grouped according to their credit characteristics, including whether they are an individual or legal entity, which type of distribution channel they represent, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. Customers that are graded as high risk are placed on a restricted customer list, and future sales are made on a prepayment basis only with approval of management.

HEINEKEN has multiple distribution models to deliver goods to end customers. Deliveries are done in some countries via own wholesalers, in other markets directly and in some others via third parties. As such distribution models are country-specific and diverse across HEINEKEN, the results and the balance sheet items cannot be split between types of customers on a consolidated basis. The various distribution models are also not centrally managed or monitored.

**Table of Contents****32. Financial risk management and financial instruments continued**

HEINEKEN establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The components of this allowance are a specific loss component and a collective loss component.

**Advances to customers**

Advances to customers relate to an upfront cash discount to customers. The advances are amortised over the term of the contract as a reduction of revenue. In monitoring customer credit risk, refer to the paragraph above relating to trade and other receivables.

**Investments**

HEINEKEN limits its exposure to credit risk by only investing available cash balances in liquid securities and only with counterparties that have strong credit ratings. HEINEKEN actively monitors these credit ratings.

**Guarantees**

HEINEKEN's policy is to avoid issuing guarantees where possible unless this leads to substantial benefits for HEINEKEN. In cases where HEINEKEN does provide guarantees, such as to banks for loans (to third parties), HEINEKEN aims to receive security from the third party.

Heineken N.V. has issued a joint and several liability statement to the provisions of Section 403, Part 9, Book 2 of the Dutch Civil Code with respect to legal entities established in the Netherlands. Refer to Note 44 of the Company financial statements.

**Exposure to credit risk**

The carrying amount of financial assets and guarantees to banks for loans represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In millions of EUR	Note	2015	2014
Cash and cash equivalents	21	824	668
Trade and other receivables, excluding derivatives	20	2,821	2,621
Current derivatives	20	52	122
Investments held for trading	17	16	13
Available-for-sale investments	17	287	253
Non-current derivatives and investments FVTPL	17	210	97
Loans to customers	17	69	68
Loans to joint ventures and associates	17	22	65
Held-to-maturity investments	17	1	3
Other non-current receivables	17	152	167
Guarantees to banks for loans (to third parties)	34	473	354
		<b>4,927</b>	<b>4,431</b>

The maximum exposure to credit risk for trade and other receivables (excluding current derivatives) at the reporting date by geographic region was:

In millions of EUR	2015	2014
Europe	1,424	1,433
Americas	542	470
Africa, Middle East & Eastern Europe	449	357

Asia Pacific	308	223
Head Office and Other/eliminations	98	138
	<b>2,821</b>	2,621

**Impairment losses**

The ageing of trade and other receivables (excluding current derivatives) at the reporting date was:

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**Table of Contents****32. Financial risk management and financial instruments continued**

In millions of EUR	Gross 2015	Impairment 2015	Gross 2014	Impairment 2014
Not past due	2,475	(54)	2,296	(49)
Past due 0 - 30 days	207	(13)	185	(11)
Past due 31 - 120 days	233	(64)	197	(61)
More than 120 days	347	(310)	347	(283)
	<b>3,262</b>	<b>(441)</b>	3,025	(404)

The movement in the allowance for impairment in respect of trade and other receivables (excluding current derivatives) during the year was as follows:

In millions of EUR	2015	2014
Balance as at 1 January	404	418
Changes in consolidation	7	2
Impairment loss recognised	103	85
Allowance used	(29)	(38)
Allowance released	(42)	(66)
Effect of movements in exchange rates	(2)	3
Balance as at 31 December	441	404

The movement in the allowance for impairment in respect of loans during the year was as follows:

In millions of EUR	2015	2014
Balance as at 1 January	135	150
Changes in consolidation	1	
Impairment loss recognised		10
Allowance used		(21)
Allowance released	(14)	(6)
Effect of movements in exchange rates	(1)	2
Balance as at 31 December	121	135

Impairment losses recognised for trade and other receivables (excluding current derivatives) and loans to customers are part of the other non-cash items in the consolidated statement of cash flows.

The income statement impact of EUR 14 million income (2014: EUR4 million expense, 2013: EUR14 million expense) in respect of loans to customers and EUR61 million expense (2014: EUR19 million expense, 2013: EUR34 million expense) in respect of trade and other receivables (excluding current derivatives) were included in expenses for raw materials, consumables and services.

The allowance accounts in respect of trade and other receivables and held-to-maturity investments are used to record impairment losses, unless HEINEKEN is satisfied that no recovery of the amount owing is possible; at that point, the amount considered irrecoverable is written off against the financial asset.

**Liquidity risk**

Liquidity risk is the risk that HEINEKEN will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. HEINEKEN's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to HEINEKEN's reputation.

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HEINEKEN has a clear focus on ensuring sufficient access to capital markets to finance long-term growth and to refinance maturing debt obligations. Financing strategies, including the diversification of funding sources are under continuous evaluation (information about borrowing facilities is presented in Note 25). In addition, HEINEKEN seeks to align the maturity profile of its long-term debts with its forecasted cash flow generation. Strong cost and cash management and controls over investment proposals are in place to ensure effective and efficient allocation of financial resources.

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**Table of Contents****32. Financial risk management and financial instruments continued****Contractual maturities**

The following are the contractual maturities of non-derivative financial liabilities and derivative financial assets and liabilities, including interest payments:

In millions of EUR	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	2015 More than 5 years
<b>Financial liabilities</b>						
Interest-bearing liabilities	(12,565)	(14,750)	(2,014)	(1,742)	(5,193)	(5,801)
Trade and other payables (excluding interest payable, dividends and derivatives and including non-current part)	(5,744)	(5,744)	(5,658)	(62)	(12)	(12)
<b>Derivative financial assets and (liabilities)</b>						
Interest rate swaps used for hedge accounting (net)	214	265	20	15	230	
Forward exchange contracts used for hedge accounting (net)	(2)	(16)	(12)	(4)		
Commodity derivatives used for hedge accounting (net)	(70)	(70)	(42)	(20)	(8)	
Derivatives not used for hedge accounting (net)	(1)	(1)	(1)			
	<b>(18,168)</b>	<b>(20,316)</b>	<b>(7,707)</b>	<b>(1,813)</b>	<b>(4,983)</b>	<b>(5,813)</b>

In millions of EUR	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	2014 More than 5 years
<b>Financial liabilities</b>						
Interest-bearing liabilities	(11,757)	(14,202)	(2,831)	(876)	(4,269)	(6,226)
Trade and other payables (excluding interest payable, dividends and derivatives and including non-current part)	(5,252)	(5,252)	(5,252)			
<b>Derivative financial assets and (liabilities)</b>						
Interest rate swaps used for hedge accounting (net)	163	238	96	12	130	
Forward exchange contracts used for hedge accounting (net)	(64)	(66)	(60)	(6)		
Commodity derivatives used for hedge accounting (net)	(11)	(10)	(7)	(3)		
Commodity derivatives used for hedge accounting (net)	19	19	19	(3)	3	
	<b>(16,902)</b>	<b>(19,273)</b>	<b>(8,035)</b>	<b>(876)</b>	<b>(4,136)</b>	<b>(6,226)</b>

The total carrying amount and contractual cash flows of derivatives are included in trade and other receivables (refer to note 20), other investments (refer to note 17), trade and other payables (refer to note 31) and non-current non-interest-bearing liabilities (refer to note 25).

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will adversely affect HEINEKEN's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

HEINEKEN uses derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. Generally, HEINEKEN seeks to apply hedge accounting or make use of natural hedges in order to minimise the effects of foreign currency fluctuations in profit or loss.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, commodity swaps, spot and forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules approved and monitored by the Executive Board.





**Table of Contents****32. Financial risk management and financial instruments continued****Foreign currency risk**

HEINEKEN is exposed to foreign currency risk on (future) sales, (future) purchases, borrowings and dividends that are denominated in a currency other than the respective functional currencies of HEINEKEN entities. The main currencies that give rise to this risk are the US dollar, Mexican Peso, Nigerian Naira, Vietnamese Dong and Euro.

In managing foreign currency risk, HEINEKEN aims to ensure the availability of these foreign currencies and to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in foreign exchange rates and the availability of foreign currencies, especially in emerging markets, will have an impact on profit.

HEINEKEN hedges up to 90 per cent of its net US dollar export cash flows on the basis of rolling cash flow forecasts in respect to forecasted sales and purchases. Cash flows in other foreign currencies are also hedged on the basis of rolling cash flow forecasts. HEINEKEN mainly uses forward exchange contracts to hedge its foreign currency risk. The majority of the forward exchange contracts have maturities of less than one year after the balance sheet date.

HEINEKEN has a clear policy on hedging transactional exchange risks, which postpones the impact on financial results. Translation exchange risks are hedged to a limited extent, as the underlying currency positions are generally considered to be long term in nature. The result of the net investment hedging is recognised in the translation reserve, as can be seen in the consolidated statement of comprehensive income.

It is HEINEKEN's policy to provide intra-HEINEKEN financing in the functional currency of subsidiaries where possible to prevent foreign currency exposure on a subsidiary level. The resulting exposure at Group level is hedged by means of foreign currency denominated external debts and by forward exchange contracts. Intra-HEINEKEN financing in foreign currencies is mainly in British pounds, US dollars, Swiss francs, South African Rand and Polish zloty. In some cases, HEINEKEN elects to treat intra-HEINEKEN financing with a permanent character as equity and does not hedge the foreign currency exposure.

The principal amounts of HEINEKEN's US dollar, British pound, Nigerian naira, Singapore dollar bank loans and bond issues are used to hedge local operations, which generate cash flows that have the same respective functional currencies or have functional currencies that are closely correlated. Corresponding interest on these borrowings is also denominated in currencies that match the cash flows generated by the underlying operations of HEINEKEN. This provides an economic hedge without derivatives being entered into.

In respect of other monetary assets and liabilities denominated in currencies other than the functional currencies of the Company and the various foreign operations, HEINEKEN ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

**Exposure to foreign currency risk**

HEINEKEN's transactional exposure to the US dollar and Euro was as follows based on notional amounts. The Euro column relates to transactional exposure to the Euro within subsidiaries which are reporting in other currencies. Included in the amounts are intra-HEINEKEN cash flows. HEINEKEN's transactional exposure to the British pound was excluded from the sensitivity analysis as the net exposure is not material.

In millions	EUR	2015 USD	EUR	2014 USD
<b>Financial assets</b>				
Trade and other receivables	27	61	14	44
Cash and cash equivalents	79	101	98	93
Intragroup assets	18	4,873	14	4,727
<b>Financial liabilities</b>				
Interest-bearing liabilities	(25)	(5,441)	(17)	(5,464)

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Non-interest-bearing liabilities			(1)	(1)
Trade and other payables	(145)	(129)	(135)	(93)
Intragroup liabilities	(910)	(644)	(728)	(706)
Gross balance sheet exposure	(956)	(1,179)	(755)	(1,400)
Estimated forecast sales next year	168	1,353	186	1,373
Estimated forecast purchases next year	(1,765)	(1,534)	(1,739)	(1,562)
Gross exposure	(2,553)	(1,360)	(2,308)	(1,589)
Net notional amount forward exchange contracts	406	748	99	950
Net exposure	(2,147)	(612)	(2,209)	(639)
Sensitivity analysis				
Equity	(46)	(33)	(35)	(31)
Profit or loss	(8)	(6)	(6)	(2)

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**Table of Contents****32. Financial risk management and financial instruments continued****Sensitivity analysis**

A 10 per cent strengthening of the US dollar against the Euro or, in case of the Euro, a strengthening of the Euro against all other currencies as at 31 December would have affected the value of financial assets and liabilities (related to transactional exposure) recorded on the balance sheet and would have therefore decreased (increased) equity and profit by the amounts shown above. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10 per cent weakening of the US dollar against the Euro or, in case of the Euro, a weakening of the Euro against all other currencies as at 31 December would have had the equal but opposite effect on the basis that all other variables remain constant.

**Interest rate risk**

In managing interest rate risk, HEINEKEN aims to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit.

HEINEKEN opts for a mix of fixed and variable interest rates in its financing operations, combined with the use of interest rate instruments. Currently, HEINEKEN's interest rate position is more weighted towards fixed than floating. Interest rate instruments that can be used are interest rate swaps, forward rate agreements, caps and floors.

Swap maturity follows the maturity of the related loans and borrowings which have swap rates for the fixed leg ranging from 3.8 to 7.3 per cent (2014: from 3.8 to 7.3 per cent).

**Interest rate risk profile**

At the reporting date, the interest rate profile of HEINEKEN's interest-bearing financial instruments was as follows:

In millions of EUR	2015	2014
<b>Fixed rate instruments</b>		
Financial assets	93	99
Financial liabilities	(11,057)	(10,225)
Net interest rate swaps	(42)	56
	<b>(11,006)</b>	<b>(10,070)</b>
<b>Variable rate instruments</b>		
Financial assets	1,023	917
Financial liabilities	(1,508)	(1,532)
Net interest rate swaps	42	(56)
	<b>(443)</b>	<b>(671)</b>

**Cash flow sensitivity analysis for variable rate instruments**

HEINEKEN applies cash flow hedge accounting on certain floating rate financial liabilities and designates derivatives as hedging instruments. A change of 100 basis points in interest rates constantly applied during the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below (after tax). This analysis assumes that all other variables, in particular foreign currency rates, remain constant and excludes any possible change in fair value of derivatives at period-end because of a change in interest rates. This analysis is performed on the same basis as for 2014.

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In millions of EUR	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2015				
Variable rate instruments	(4)	4	(4)	4
Net interest rate swaps				
<b>Cash flow sensitivity (net)</b>	<b>(4)</b>	<b>4</b>	<b>(4)</b>	<b>4</b>

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**Table of Contents****32. Financial risk management and financial instruments continued**

In millions of EUR	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2014				
Variable rate instruments	(5)	5	(5)	5
Net interest rate swaps				
Cash flow sensitivity (net)	(5)	5	(5)	5

**Commodity price risk**

Commodity price risk is the risk that changes in commodity prices will affect HEINEKEN's income. The objective of commodity price risk management is to manage and control commodity risk exposures within acceptable parameters, while optimising the return on risk. The main commodity exposure relates to the purchase of cans, glass bottles, malt and utilities. Commodity price risk is in principle addressed by negotiating fixed prices in supplier contracts with various contract durations. So far, commodity hedging with financial counterparties by HEINEKEN has been limited to aluminium hedging and to a limited extent gas and grains hedging, which are done in accordance with risk policies. HEINEKEN does not enter into commodity contracts other than to meet HEINEKEN's expected usage and sale requirements. As at 31 December 2015, the market value of commodity swaps was EUR70 million negative (2014: EUR10 million negative).

**Sensitivity analysis for aluminium hedges**

The table below shows an estimated pre-tax impact of 10 per cent change in the market price of aluminium.

In millions of EUR	10 per cent increase	Equity
		10 per cent decrease
31 December 2015		
Aluminium hedges	40	(40)
<b>Cash flow hedges</b>		

The following table indicates the carrying amount of derivatives and the periods in which all the cash flows associated with derivatives that are cash flow hedges are expected to occur:

In millions of EUR	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	2015
						More than 5 years
Interest rate swaps:						
Assets						
Liabilities	(1)	(2)	(2)			
Cross currency interest rate swaps:						
Assets	215	1,220	90	53	1,077	
Liabilities		(953)	(68)	(38)	(847)	
Forward exchange contracts:						
Assets	37	1,437	1,289	148		
Liabilities	(39)	(1,453)	(1,301)	(152)		
Commodity derivatives:						
Assets	1	1	1			
Liabilities	(71)	(70)	(42)	(20)	(8)	
	142	180	(33)	(9)	222	



**Table of Contents****32. Financial risk management and financial instruments continued**

The periods in which the cash flows associated with forward exchange contracts that are cash flow hedges are expected to impact profit or loss is on average two months earlier than the occurrence of the cash flows as in the above table.

In millions of EUR	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	2014 More than 5 years
<b>Interest rate swaps:</b>						
Assets						
Liabilities	(3)	(4)	(2)	(2)		
<b>Cross currency interest rate swaps:</b>						
Assets						
Liabilities	166	1,701	605	82	1,014	
		(1,459)	(507)	(68)	(884)	
<b>Forward exchange contracts:</b>						
Assets						
Liabilities	24	1,541	1,394	147		
	(88)	(1,607)	(1,454)	(153)		
<b>Commodity derivatives:</b>						
Assets						
Liabilities	5	9	6	2	1	
	(15)	(19)	(13)	(5)	(1)	
	89	162	29	3	130	

The periods in which the cash flows associated with forward exchange contracts that are cash flow hedges are expected to impact profit or loss is typically one or two months earlier than the occurrence of the cash flows as in the above table.

HEINEKEN has entered into several cross-currency interest rate swaps which have been designated as cash flow hedges to hedge the foreign exchange rate risk on the principal amount and future interest payments of its US dollar and GBP borrowings. HEINEKEN has also entered into a few interest rate swaps which have been designated as cash flow hedges to hedge the value of future interest cash flows payable on floating interest borrowings. The borrowings are designated as the hedged item as part of the cash flow hedge. The borrowings and the interest rate and cross-currency interest rate swaps have the same critical terms.

**Net investment hedges**

HEINEKEN hedges its investments in certain subsidiaries by entering into local currency denominated borrowings, which mitigate the foreign currency translation risk arising from the subsidiaries net assets. These borrowings are designated as a net investment hedge. The fair value of these borrowings at 31 December 2015 was EUR536 million (2014: EUR520 million), and no ineffectiveness was recognised in profit and loss in 2015 (2014: nil, 2013: nil).

**Capital management**

There were no major changes in HEINEKEN's approach to capital management during the year. The Executive Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business and acquisitions. Capital is herein defined as equity attributable to equity holders of the Company (total equity minus non-controlling interests).

HEINEKEN is not subject to externally imposed capital requirements other than the legal reserves explained in note 22. Shares are purchased to meet the requirements of the share-based payment awards, as further explained in note 29. In 2015, HEINEKEN also purchased shares following the completion of the divestment of EMPAQUE in February 2015, as further explained in note 22.

**Fair values**

For bank loans and finance lease liabilities the carrying amount is a reasonable approximation of fair value. The fair value of the unsecured bond issues as at 31 December 2015 was EUR10,025 million (2014: EUR9,296 million) and the carrying amount was EUR9,669 million (2014:

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EUR8,769 million). The fair value of the other interest bearing liabilities as at 31 December 2015 was EUR1,870 million (2014: EUR1,829) and the carrying amount was EUR1,759 million (2014: EUR1,829 million).

### **Basis for determining fair values**

The significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above are discussed in note 4.

### **Fair value hierarchy**

The tables below present the financial instruments accounted for at fair value and amortised cost by level of the following fair value measurement hierarchy:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)



**Table of Contents****32. Financial risk management and financial instruments continued**

31 December 2015	Level 1	Level 2	Level 3
Available-for-sale investments	98	105	84
Non-current derivative assets		210	
Current derivative assets		52	
Investments held for trading	16		
	114	367	84
Non-current derivative liabilities		(32)	
Loans and borrowings	(10,025)	(1,870)	
Current derivative liabilities		(89)	
	(10,025)	(1,991)	

31 December 2014	Level 1	Level 2	Level 3
Available-for-sale investments	99	86	68
Non-current derivative assets		97	
Current derivative assets		122	
Investments held for trading	13		
	112	305	68
Non-current derivative liabilities		(8)	
Loans and borrowings	(9,296)	(1,829)	
Current derivative liabilities		(104)	
	(9,296)	(1,941)	

There were no transfers between level 1 and level 2 of the fair value hierarchy during the period ended 31 December 2015.

## Level 2

HEINEKEN determines level 2 fair values for over-the-counter securities based on broker quotes. The fair values of simple over-the-counter derivative financial instruments are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where available.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates. These calculations are tested for reasonableness by comparing the outcome of the internal valuation with the valuation received from the counterparty. Fair values reflect the credit risk of the instrument and include adjustments to take into account the credit risk of HEINEKEN and counterparty when appropriate.

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## Level 3

Details of the determination of level 3 fair value measurements as at 31 December 2015 are set out below:

In millions of EUR	2015	2014
<b>Available-for-sale investments based on level 3</b>		
Balance as at 1 January	68	59
Fair value adjustments recognised in other comprehensive income	16	10
Disposals		(1)
Transfers		
<b>Balance as at 31 December</b>	<b>84</b>	<b>68</b>

The fair values for the level 3 available-for-sale investments are based on the financial performance of the investments and the market multiples of comparable equity securities.

**33. Off-balance sheet commitments**

In millions of EUR	Total 2015	Less than 1 year	1-5 years	More than 5 years	Total 2014
Lease & operational lease commitments	1,114	150	415	549	993
Property, plant and equipment ordered	293	282	11		158
Raw materials purchase contracts	8,507	1,987	4,794	1,726	3,400
Marketing and merchandising commitments	370	156	213	1	402
Other off-balance sheet obligations	2,004	629	778	597	1,606
Off-balance sheet obligations	12,288	3,204	6,211	2,873	6,559
Undrawn committed bank facilities	2,930	398	2,523	9	2,871

HEINEKEN leases buildings, cars and equipment in the ordinary course of business.

Raw material contracts include long-term purchase contracts with suppliers in which prices are fixed or will be agreed based upon predefined price formulas. These contracts mainly relate to malt, bottles and cans. The significant increase of raw materials purchase commitments relates to purchase contracts with EMPAQUE which has become a third party supplier after the disposal in 2015.

During the year ended 31 December 2015, EUR301 million (2014: EUR291 million, 2013: EUR282 million) was recognised as an expense in profit or loss in respect of operating leases and rent.

Other off-balance sheet obligations mainly include distribution, rental 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.

**Table of Contents****34. Contingencies****Brazil**

As part of the acquisition of the beer operations of FEMSA in 2010, HEINEKEN inherited existing legal proceedings with labour unions, tax authorities and other parties of its, now wholly-owned, subsidiaries Cervejarias Kaiser Brasil and Cervejarias Kaiser Nordeste (jointly, Heineken Brasil). The proceedings have arisen in the ordinary course of business and are common to the current economic and legal environment of Brazil. The proceedings have partly been provided for (refer to note 30). The contingent amount being claimed against Heineken Brasil resulting from such proceedings as at 31 December 2015 is EUR450 million. Such contingencies were classified by legal counsel as less than probable of being settled against Heineken Brasil, but more than remote. However, HEINEKEN believes that the ultimate resolution of such legal proceedings will not have a material adverse effect on its consolidated financial position or result of operations. HEINEKEN does not expect any significant liability to arise from these contingencies. A part of the aforementioned contingencies (EUR238 million) is tax-related and qualifies for indemnification by FEMSA (refer to note 17).

As is customary in Brazil, Heineken Brasil has been requested by the tax authorities to collateralise tax contingencies currently in litigation amounting to EUR416 million by either pledging fixed assets or entering into available lines of credit which cover such contingencies.

**Guarantees**

In millions of EUR	Total 2015	Less than 1 year	1-5 years	More than 5 years	Total 2014
Guarantees to banks for loans (to third parties)	473	285	178	10	354
Other guarantees	564	224	280	60	592
Guarantees	1,037	509	458	70	946

Guarantees to banks for loans relate to loans 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.

**35. Related parties****Identification of related parties**

HEINEKEN's parent company is Heineken Holding N.V. HEINEKEN's ultimate controlling party is Mrs. de Carvalho-Heineken. Our shareholder structure is set out in the section Shareholder Information.

In addition, HEINEKEN has related party relationships with its associates and joint ventures (refer to note 16), HEINEKEN pension funds (refer to note 28), Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), employees (refer to note 25) and with its key management personnel (the Executive Board and the Supervisory Board).

**Key management remuneration**

In millions of EUR	2015	2014	2013
Executive Board	13.9	15.4	10.0
Supervisory Board	0.9	1.0	1.0
Total	14.8	16.4	11.0

**Executive Board**

The remuneration of the members of the Executive Board comprises a fixed component and a variable component. The variable component is made up of a Short-Term Variable pay (STV) and a Long-Term Variable award (LTV). The STV is based on financial and operational measures (75 per cent) and on individual leadership measures (25 per cent) as set by the Supervisory Board. It is partly paid out in shares that are blocked

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for a period of five calendar years. After the five calendar years, HEINEKEN will match the blocked shares 1:1 which is referred to as the matching share entitlement. For the LTV award we refer to note 29.

As at 31 December 2015, Mr. Jean-François van Boxmeer held 179,838 Company shares and Mrs. Laurence Debroux held 681 Company shares(2014: Mr. Jean-François van Boxmeer 117,889).

In thousands of EUR	2015			Total
	J.F.M.L. van Boxmeer	L. Debroux <sup>1</sup>	D.R. Hooft Graafland <sup>2</sup>	
Fixed salary	1,150	421	201	1,772
Short-Term Variable pay	2,930	833	394	4,157
Matching share entitlement	1,353	385	182	1,920
Long-Term Variable award	2,706	158	1,825	4,689
Extraordinary share award/Retention bonus	236	124		360
Pension contributions	723	82	33	838
Other emoluments	21	134	7	162
Termination benefit				
<b>Total<sup>3</sup></b>	<b>9,119</b>	<b>2,137</b>	<b>2,642</b>	<b>13,898</b>

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**Table of Contents****35. Related parties continued**

In thousands of EUR	2014		Total
	J.F.M.L. van Boxmeer	D.R. Hooft Graafland	
Fixed salary	1,150	650	1,800
Short-Term Variable pay	2,769	1,118	3,887
Matching share entitlement	640	517	1,157
Long-Term Variable award	2,972	1,690	4,662
Extraordinary share award/Retention bonus	750		750
Pension contributions	709	387	1,096
Other emoluments	21	21	42
Termination benefit		2,000	2,000
Total <sup>3</sup>	9,011	6,383	15,394

In thousands of EUR	2013		Total
	J.F.M.L. van Boxmeer	D.R. Hooft Graafland	
Fixed salary	1,150	650	1,800
Short-Term Variable Pay	1,127	455	1,582
Matching share entitlement	564	228	792
Long-Term Variable award	475	227	702
Extraordinary share award/Retention bonus	3,039	1,300	4,339
Pension contributions	470	277	747
Other emoluments	21	21	42
Termination benefit			
Total <sup>4</sup>	6,846	3,158	10,004

<sup>1</sup> Appointed on 23 April 2015

<sup>2</sup> Resigned on 23 April 2015

<sup>3</sup> In 2015, an estimated tax penalty of EUR2.8 million (2014: EUR1.5 million) to the Dutch tax authorities was recognised in relation to the remuneration of Mr. René Hooft Graafland. The tax penalty is an expense to the employer and therefore not included in the table above.

<sup>4</sup> In 2013, the Dutch Government applied an additional tax levy of 16 per cent over 2013 taxable income above EUR150,000. This tax levy related to remuneration over 2013 for the Executive Board is EUR1.5 million. The tax levy was an expense to the employer and therefore not included in the table above.

The matching share entitlements for each year are based on the performance in that year. The CEO, and the two CFOs have all chosen to invest 50 per cent of their STV for 2015 into Heineken N.V. shares (investment shares); in 2014 the CEO invested 25 per cent and the CFO invested 50 per cent. From an accounting perspective the corresponding matching shares vest immediately and as such a fair value of EUR1.9 million was recognised in the 2015 income statement. The matching share entitlements are not dividend-bearing during the five calendar year holding period of the investment shares. Therefore, the fair value of the matching share entitlements has been adjusted for missed expected dividends by applying a discount based on the dividend policy and historical dividend payouts during the vesting period.

In 2013, the CEO was rewarded with an extraordinary share award of EUR2.52 million (45,893 shares gross) for the successful acquisition of Asia Pacific Breweries Limited. The awarded shares vested immediately and remain blocked for a period of five years from the grant date. Furthermore, the Supervisory Board granted a retention share award to the CEO in 2013 to the value of EUR1.5 million (27,317 share entitlements gross). The share award vested two years after the grant date and was converted into Heineken N.V. shares. A three-year holding restriction applies to these shares as from the vesting date. In 2015, an expense of EUR236,000 is recognised for the retention award.

**Resignation of Mr. René Hooft Graafland as a member of the Executive Board and CFO in 2015**

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Mr. René Hooft Graafland has resigned from the Executive Board following the Annual General Meeting on 23 April 2015 and his employment contract ended 1 May 2015. A severance payment of EUR2 million has been made upon contract ending and has been recognised in the 2014 income statement. This resignation is considered a retirement under the LTV plan rules, which implies that unvested LTV awards as of 1 May 2015 will continue to vest at their regular vesting dates, insofar and to the extent that predetermined performance conditions are met.

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**Table of Contents****35. Related parties continued**

As a result, the expenses for the LTV awards 2013-2015, 2014-2016 and 2015-2017 have been accelerated from their usual rate of one-third per year to a rate which ensures full expensing on 1 May 2015 rather than on 31 December 2015, 2016 and 2017. The impact of this acceleration in expensing for Mr. René Hooft Graafland is approximately EUR0.5 million (2014: EUR0.2 million, 2013: nil).

**Supervisory Board**

The individual members of the Supervisory Board received the following remuneration:

In thousands of EUR	2015	2014	2013
G.J. Wijers <sup>1</sup>	160	163	136
C.J.A. van Lede <sup>2</sup>			51
J.A. Fernández Carbajal	105	105	108
M. Das	85	88	88
M.R. de Carvalho	104	141	141
J.M. de Jong <sup>3</sup>		25	86
A.M. Fentener van Vlissingen	85	91	90
M.E. Minnick	80	83	80
V.C.O.B.J. Navarre	70	73	75
J.G. Astaburuaga Sanjinés	96	95	95
H. Scheffers <sup>4</sup>	80	81	51
J.M. Huët <sup>5</sup>	75	58	
Total	940	1,003	1,001

<sup>1</sup> Appointed as Chairman as at 25 April 2013

<sup>2</sup> Stepped down as at 25 April 2013

<sup>3</sup> Stepped down as at 24 April 2014

<sup>4</sup> Appointed as at 25 April 2013

<sup>5</sup> Appointed as at 24 April 2014

Mr. Michel de Carvalho held 100,008 shares of Heineken N.V. as at 31 December 2015 (2014: 100,008 shares, 2013: 100,008 shares). As at 31 December 2015 and 2014, the Supervisory Board members did not hold any of the Company's bonds or option rights. Mr. Michel de Carvalho held 100,008 ordinary shares of Heineken Holding N.V. as at 31 December 2015 (2014: 100,008 ordinary shares, 2013: 100,008 ordinary shares).

**Table of Contents****35. Related parties continued****Other related party transactions**

In millions of EUR	Transaction value			Balance outstanding as at 31 December		
	2015	2014	2013	2015	2014	2013
Sale of products, services and royalties						
To associates and joint ventures	82	75	70	30	21	26
To FEMSA	817	857	699	137	136	129
	899	932	769	167	157	155
Raw materials, consumables and services						
Goods for resale joint ventures						
Other expenses joint ventures						
Other expenses FEMSA	197	201	142	36	46	25
	197	201	142	36	46	25

**Heineken Holding N.V.**

In 2015, an amount of EUR1,047,479 (2014: EUR744,285, 2013: EUR757,719) was paid to Heineken Holding N.V. for management services for HEINEKEN.

This payment is based on an agreement of 1977 as amended in 2001, providing that Heineken N.V. reimburses Heineken Holding N.V. for its costs. Best practice provision III.6.4 of the Dutch Corporate Governance Code of 10 December 2008 has been observed in this regard.

**FEMSA**

As consideration for HEINEKEN's acquisition of the beer operations of Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), FEMSA became a major shareholder of Heineken N.V. Therefore, several existing contracts between FEMSA and former FEMSA-owned companies acquired by HEINEKEN have become related party contracts.

**36. HEINEKEN entities****Control of HEINEKEN**

The shares and options of the Company are traded on Euronext Amsterdam, where the Company is included in the main AEX Index. Heineken Holding N.V. Amsterdam has an interest of 50.005 per cent in the issued capital of the Company. The financial statements of the Company are included in the consolidated financial statements of Heineken Holding N.V.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued with respect to legal entities established in the Netherlands. The list of the legal entities for which the declaration has been issued is disclosed in the Heineken N.V. stand-alone financial statements.

Pursuant to the provisions of Article 17 (1) of the Republic of Ireland Companies (Amendment) Act 1986, the Company issued irrevocable guarantees in respect of the financial year from 1 January 2015 up to and including 31 December 2015 regarding the liabilities referred to in Article 5(c)(ii) of the Republic of Ireland Companies (Amendment) Act 1986 of the wholly-owned subsidiary companies Heineken Ireland Limited, Heineken Ireland Sales Limited, The West Cork Bottling Company Limited, Western Beverages Limited, Beamish & Crawford Limited and Nash Beverages Limited.

**Significant subsidiaries**



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Set out below are HEINEKEN's significant subsidiaries at 31 December 2015. The subsidiaries as listed below are held by the Company and the proportion of ownership interests held equals the proportion of the voting rights held by HEINEKEN. The country of incorporation or registration is also their principal place of business. The disclosed significant subsidiaries represent the largest subsidiaries and represent an approximate total revenue of EUR14 billion and total asset value of EUR19 billion and are structural contributors to the business.

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**Table of Contents****36. HEINEKEN entities continued**

There were no significant changes to the HEINEKEN structure and ownership interests except those disclosed in note 6.

	Country of incorporation	percentage of ownership	
		2015	2014
Heineken International B.V.	The Netherlands	100.0	100.0
Heineken Brouwerijen B.V.	The Netherlands	100.0	100.0
Heineken Nederland B.V.	The Netherlands	100.0	100.0
Cuauhtémoc Moctezuma Holding, S.A. de C.V.	Mexico	100.0	100.0
Cervejarias Kaiser Brasil S.A.	Brazil	100.0	100.0
Heineken France S.A.S.	France	100.0	100.0
Nigerian Breweries Plc.	Nigeria	54.3	54.3
Heineken USA Inc.	United States	100.0	100.0
Heineken UK Ltd	United Kingdom	100.0	100.0
Heineken España S.A.	Spain	99.8	99.8
Heineken Italia S.p.A.	Italy	100.0	100.0
Brau Union Österreich AG	Austria	100.0	100.0
Grupa Zywiec S.A.	Poland	65.2	65.2
LLC Heineken Breweries	Russia	100.0	100.0
Vietnam Brewery Ltd.	Vietnam	60.0	60.0

**Summarised financial information on subsidiaries with material non-controlling interests**

Set out below is the summarised financial information for Nigerian Breweries Plc. which has a non-controlling interest material to HEINEKEN. The financial information is based on HEINEKEN accounting policies and differs from local financial reporting, mainly as a result of the Consolidated Breweries acquisition in 2014. The NCI on Nigerian Breweries Plc is dispersed, no shareholder has an interest above 13 per cent.

In millions of EUR	2015	2014
<b>Summarised Balance Sheet</b>		
<b>Current</b>		
Assets	266	274
Liabilities	(629)	(554)
Total current net assets	(363)	(280)
<b>Non-current</b>		
Assets	1,120	943
Liabilities	(194)	(303)
Total non-current net assets	926	640

**Table of Contents****36. HEINEKEN entities continued**

In millions of EUR	2015	2014	2013
<b>Summarised Income Statement</b>			
Revenue	1,359	1,281	1,302
Profit before income tax	262	297	303
Income tax	(82)	(97)	(95)
Net profit from continuing operations	180	200	208
Net profit from discontinuing operations			
Other comprehensive income/(loss)	(45)	1	(18)
Total comprehensive income	135	201	190
Total comprehensive income attributable to NCI	62	92	87
Dividend paid to NCI	67	82	42

In millions of EUR	2015	2014	2013
<b>Summarised Cash Flow</b>			
Cash flow from operating activities	432	405	530
Interest paid	(30)	(13)	(25)
Income tax paid	(101)	(115)	(81)
Net cash generated from operating activities	301	277	424
Net cash used in Investing activities	(156)	(162)	(157)
Net cash used in financing activities	(229)	(145)	(268)
Net change in cash and cash equivalents	(84)	(30)	(1)
Exchange difference	1	3	(1)

**37. Subsequent events****Sale of Dtribev SP. z.o.o**

On 1 February 2016, Grupa Żywiec closed the sale of 80 per cent of Dtribev Sp. z o.o, Grupa Żywiec's sales and distribution company serving the traditional trade and horeca market, to Orbico Group.

**Acquisition of non-controlling interest Pivovarna Lasko**

After conclusion of the mandatory public takeover offer on 15 January 2016 and subsequent acquisitions of stakes from minority interest holders, HEINEKEN increased its shareholding in Lasko by 44.1 per cent to 97.5 per cent.

**Acquisition of non-controlling interest Desnoes & Geddes**

After conclusion of the mandatory public takeover offer on 21 January 2016, HEINEKEN increased its shareholding in D&G by 22.4 per cent to 95.8 per cent.

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**38. Other disclosures**

**Remuneration**

Refer to note 35 of the consolidated financial statements for the remuneration and incentives of the Executive Board and Supervisory Board. The Executive Board members are the only employees or assignees of the Company.

**Executive and Supervisory Board statement**

The members of the Supervisory Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101, paragraph 2, of the Dutch Civil Code.

The members of the Executive Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101, paragraph 2, of the Dutch Civil Code and Article 5:25c, paragraph 2 sub c, of the Financial Markets Supervision Act.

Amsterdam, 9 February 2016

Executive Board  
Van Boxmeer  
Debroux

Supervisory Board  
Wijers  
Fernández Carbajal  
Das  
de Carvalho  
Fentener van Vlissingen  
Minnick  
Navarre  
Astaburuaga Sanjinés  
Scheffers  
Huët