COCA-COLA FEMSA 2021

FINANCIAL STATEMENTS

Annual Report of the **Audit Committee**

To the Board of Directors
Coca Cola FEMSA, S.A.B. de C.V.

In conformity with the provisions of the Securities Market Act, the corporate charter of this Company and the charter of the Audit Committee of Coca Cola FEMSA, S.A.B. de C.V. (hereafter "the Committee and the Company"), I am pleased to present our Audit Committee Report for the year ended December 31, 2021. This report covered our work over the course of the year including some areas of particular focus. In carrying out our work, we abided by the regulations established by the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE) of the United States of America, the applicable provisions established by the National Banking and Securities Commission (CNBV) of Mexico, as well as the Code of Best Corporate Practices issued by the Business Coordinating Council of Mexico.

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

RISK ASSESSMENT

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

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

Considering that the cybersecurity risk continues to be a significant risk area for the Company, throughout 2021 the Committee devoted special attention to monitor the progress of the main vulnerabilities identified during the corresponding cybersecurity assessments, as well as to review the proper implementation of the information technology initiatives that would guarantee the continuity of the operations, and the protection of the assets and equity of the Company.

INTERNAL CONTROL

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

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

EXTERNAL AUDIT

The Committee recommended to the Board of Directors the appointment of the External Auditors of the Company for the fiscal year 2021. For this purpose, The Committee verified their independence, under the criteria and rules applicable and established by the SEC and NYSE, as well as by the requirements established in the Law and in the general provisions applicable to entities and issuers supervised by the CNBV that engage in external audit services of financial statements, which entered into force on August 1st, 2019. The Committee analyzed the approach and work program of the External Auditors, as well as their coordination with the Internal Audit area.

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

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

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

The Committee carried out and reported to the Board of Directors the result of the annual evaluation of the external audit firm, including all the additional services provided.

INTERNAL AUDIT

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

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

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

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

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

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

FINANCIAL INFORMATION, ACCOUNTING POLICIES AND REPORTS TO THIRD PARTIES

The Committee reviewed with the responsible officials the reasonableness and consistency of quarterly and annual financial statements of the Company and recommended to the Board of Directors its approval and authorization for its publication. As part of this process, the Committee took into account the opinion and observations of the External Auditors, and validated that the criteria, accounting policies, and information used by Management to prepare the financial information for the fiscal year 2021 were adequate, sufficient, and that they had been applied consistently with respect to the previous year.

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

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS, LEGAL ISSUES AND CONTINGENCIES

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

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

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

CODE OF ETHICS

The Committee reviewed the updated version of the Company's Code of Ethics, which incorporates necessary changes by virtue of the social environment in which the Company operates, and the Committee also validated that the Code has provisions regarding compliance with the laws against money laundering and anti-corruption applicable in the countries where the Company operates. Subsequently, the Committee recommended the approval of the Company's Code of Ethics to the Board of Directors.

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

The Committee reviewed the complaints received through the Company´s whistle-blowing system and followed up on their correct and timely attention.

TRAINING

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

ADMINISTRATIVE ACTIVITIES

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

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

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

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

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

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

Sincerely

Alberto Tiburcio Celorio
Chairman of the Audit Committee
Coca Cola FEMSA, S.A.B. de C.V.
March 1st, 2022

Independent **Auditor's Report**

The Board of Directors and Shareholders of Coca-Cola FEMSA, S.A.B. de C.V.
Report on the audit of the financial statements

Opinion

We have audited the accompanying consolidated financial statements of Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (collectively the "Group" or the "Company"), which comprise the consolidated statement of financial position as at December 31, 2021 and 2020, and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for each of the three years in the period ended December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2021, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for opinion

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

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

Key Audit Matters

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

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

Impairment testing of distribution rights and goodwill

Description of the key audit matter and why matter is of most significance

At December 31, 2021, the Company has Distribution rights and goodwill with an aggregate carrying value of approximately $ 98,303 million. As explained in Note 11 to the consolidated financial statements, distribution rights and goodwill are tested for impairment annually at the cash generating unit level (CGUs). Impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The Company has determined value in use at the cash generating unit level to test for impairment.

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

How our audit addressed the key audit matter

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

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

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

Recoverability of deferred tax assets

Description of the key audit matter and why matter is of most significance

As described in Note 23 to the consolidated financial statements, the Company had recognized deferred tax assets arising from net operating loss carryforwards (NOLs) of approximately $ 7,244 million and recoverable tax credits of approximately $ 1,394 million. The NOLs were generated primarily by the Brazilian and Mexican operations and attributable to tax deductions of goodwill amortization generated from recent business acquisitions in Brazil and to remeasurement effects of foreign currency denominated borrowings by the Mexico operation. The recoverable tax credits correspond to income tax credits generated in Mexico arising from dividends received from foreign subsidiaries.

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

How our audit addressed the key audit matter

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

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

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

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

Other information included in the Group's 2021 Annual Report

Other information consists of the information included in the Group's 2021 Annual Report to be presented to the stockholders and the Annual Report to be presented to the Comision Nacional Bancaria y de Valores ("CNBV"), other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The other information is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Luis F. Ortega Sinencio
Mexico City,
Mexico March 16, 2022

Consolidated Statements of **Financial Position**

COCA-COLA FEMSA, S.A.B. DE C.V. and SUBSIDIRIAS
At December 31, 2021 and 2020
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)

	Note	December 2021 (1)	December 2021	December 2020
ASSETS				
Current Assets				
Cash and cash equivalents	4	**$ 2,303**	**Ps. 47,248**	Ps. 43,497
Trade receivables, net	5	**634**	**13,014**	11,523
Inventories	6	**583**	**11,960**	9,727
Recoverable taxes	23	**258**	**5,293**	5,471
Other current financial assets	7	**45**	**931**	478
Other current assets	7	**93**	**1,918**	1,744
Total current assets		**3,916**	**80,364**	72,440
Non Current Assets				
Investments in other entities	8	**365**	**7,494**	7,623
Right-of-use assets	9	**72**	**1,472**	1,278
Property, plant and equipment, net	10	**3,031**	**62,183**	59,460
Intangible assets, net	11	**4,981**	**102,174**	103,971
Deferred tax assets	23	**407**	**8,342**	11,143
Other non-current financial assets	12	**250**	**5,136**	2,699
Other non-current assets	12	**216**	**4,402**	4,452
Total non-current assets		**9,322**	**191,203**	190,626
TOTAL ASSETS		**$ 13,238**	**Ps. 271,567**	Ps. 263,066

	Note	December 2021 (1)	December 2021	December 2020
LIABILITIES AND EQUITY				
Current Liabilities				
Bank loans and notes payable	17	**$ 31**	**Ps. 645**	Ps. 1,645
Current portion of non-current debt	17	**88**	**1,808**	3,372
Current portion of lease liabilities	9	**30**	**614**	560
Interest payable		**40**	**811**	712
Suppliers		**1,109**	**22,745**	17,195
Accrued liabilities		**579**	**11,885**	10,013
Taxes payable		**340**	**6,972**	7,400
Other current financial liabilities	24	**36**	**741**	1,948
Total current liabilities		**2,253**	**46,221**	42,845
Non-Current Liabilities				
Bank loans and notes payable	17	**4,062**	**83,329**	82,461
Post-employment and other non-current employee benefits	15	**201**	**4,126**	3,838
Non-current portion of lease liabilities	9	**43**	**891**	746
Deferred tax liabilities	23	**132**	**2,710**	2,474
Other non-current financial liabilities	24	**25**	**508**	934
Provisions and other non-current liabilities	24	**303**	**6,210**	7,311
Total non-current liabilities		**4,766**	**97,774**	97,764
TOTAL LIABILITIES		**7,019**	**143,995**	140,609
EQUITY				
Common stock		**100**	**2,060**	2,060
Additional paid-in capital		**2,221**	**45,560**	45,560
Retained earnings		**3,950**	**81,037**	75,917
Other equity instruments		**(104)**	**(2,133)**	(1,740)
Accumulated other comprehensive income		**(242)**	**(4,974)**	(4,923)
Equity attributable to equity holders of the parent		**5,925**	**121,550**	116,874
Non-controlling interest in consolidated subsidiaries	20	**294**	**6,022**	5,583
TOTAL EQUITY		**6,219**	**127,572**	122,457
TOTAL LIABILITIES AND EQUITY		**$ 13,238**	**Ps. 271,567**	Ps. 263,066

(1) Convenience translation to U.S. dollars ($) – See Note 2.2.3
The accompanying notes are an integral part of these consolidated statements of financial position.

Consolidated Income **Statements**

For the years ended December 31, 2021, 2020 and 2019

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

	Note	2021 [1]	2021	2020	2019
Net sales		**$ 9,452**	**Ps. 193,899**	Ps. 181,520	Ps. 192,342
Other operating revenues		**44**	**905**	2,095	2,129
Total revenues		**9,496**	**194,804**	183,615	194,471
Cost of goods sold		**5,177**	**106,206**	100,804	106,964
Gross profit		**4,319**	**88,598**	82,811	87,507
Administrative expenses		**439**	**9,012**	7,891	8,427
Selling expenses		**2,521**	**51,708**	48,553	52,110
Other income	18	**74**	**1,502**	1,494	1,890
Other expenses	18	**113**	**2,309**	5,105	4,380
Interest expense	17	**302**	**6,192**	7,894	6,904
Interest income	45	**932**	**1,047**	1,230	
Foreign exchange income (loss), net	11	**227**	**4**	(330)	
Gain on monetary position for subsidiaries in hyperinflationary economies		**36**	**734**	376	221
Market value gain (loss) on financial instruments	19	**4**	**80**	(212)	(288)
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method		**1,114**	**22,852**	16,077	18,409
Income taxes	23	**322**	**6,609**	5,428	5,648
Share in the profit (loss) of equity accounted investees, net of taxes	8	**4**	**88**	(281)	(131)
Consolidated net income		**$ 796**	**Ps. 16,331**	Ps. 10,368	Ps. 12,630
Attributable to:					
Equity holders of the parent		**$ 766**	**Ps. 15,708**	Ps. 10,307	Ps. 12,101
Non-controlling interest		**30**	**623**	61	529
Consolidated net income		**$ 796**	**Ps. 16,331**	Ps. 10,368	Ps. 12,630
Earnings per share- Equity holders of the parent (U.S. dollars and Mexican pesos):					
Basic controlling interest net income	22	**0.05**	**0.93**	0.61	0.72
Diluted controlling interest net income	22	**0.05**	**0.93**	0.61	0.72

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

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

Consolidated Statements of **Comprehensive Income**

For the years ended December 31, 2021, 2020 and 2019

In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)

	Note	2021 (1)	2021	2020	2019
CONSOLIDATED NET INCOME		**$ 796**	**Ps. 16,331**	Ps. 10,368	Ps. 12,630
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Valuation of the effective portion of derivative financial instruments, net of taxes	19	**89**	**1,836**	543	(835)
Exchange differences on the translation of foreign operations and associates		**(95)**	**(1,943)**	(7,543)	(5,579)
Other comprehensive (loss) to be reclassified to profit or loss in subsequent periods		**(6)**	**(107)**	(7,000)	(6,414)
Items that will not be reclassified to profit or loss in subsequent periods:					
Loss from equity financial asset classified at FVOCI		**(19)**	**(393)**	—	(216)
Re-measurements of the net defined benefit liability, net of taxes	15	**(3)**	**(67)**	(318)	(511)
Other comprehensive (loss) not to be reclassified to profit or loss in subsequent periods		**(22)**	**(460)**	(318)	(727)
Total other comprehensive (loss), net of tax		**(28)**	**(567)**	(7,318)	(7,141)
Consolidated comprehensive income for the year, net of tax		**$ 768**	**Ps. 15,764**	Ps. 3,050	Ps. 5,489
Attributable to:					
Equity holders of the parent		**$ 744**	**Ps. 15,264**	Ps. 4,150	Ps. 5,541
Non-controlling interest		**24**	**500**	(1,100)	(52)
Consolidated comprehensive income for the year, net of tax		**$ 768**	**Ps. 15,764**	Ps. 3,050	Ps. 5,489

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

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

Consolidated Statements **of Changes in Equity**

For the years ended December 31, 2021, 2020 and 2019
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Other equity instruments	Valuation of the Portion of Effective Financial Derivative Instruments	Exchange Differences on Translation of Foreign Operations and Associates	Remeasurements of the Net Defined Benefit Liability	Equity Attributable To Equity Holders of the Parent	Non-Controlling Interest	Total Equity
Balances as of January 1, 2019	2,060	45,560	71,156	(1,524)	(149)	8,071	(344)	124,830	6,806	131,636
Consolidated net income	—	—	12,101	—	—	—	—	12,101	529	12,630
Other comprehensive (loss) income, net of tax	—	—	—	(216)	(819)	(5,014)	(511)	(6,560)	(581)	(7,141)
Total comprehensive income	—	—	12,101	(216)	(819)	(5,014)	(511)	5,541	(52)	5,489
Dividends declared	—	—	(7,437)	—	—	—	—	(7,437)	(3)	(7,440)
Balances as of December 31, 2019	2,060	45,560	75,820	(1,740)	(968)	3,057	(855)	122,934	6,751	129,685
Consolidated net income	—	—	10,307	—	—	—	—	10,307	61	10,368
Other comprehensive (loss) income, net of tax	—	—	—	—	443	(6,070)	(318)	(5,945)	(1,161)	(7,106)
Sale of Joint Venture						(212)		(212)		(212)
Total comprehensive income (loss)	—	—	10,307	—	443	(6,282)	(318)	4,150	(1,100)	3,050
Dividends declared	—	—	(10,210)	—	—	—	—	(10,210)	(68)	(10,278)
Balances as of December 31, 2020	2,060	45,560	75,917	(1,740)	(525)	(3,225)	(1,173)	116,874	5,583	122,457
Consolidated net income	—	—	15,708	—	—	—	—	15,708	623	16,331
Other comprehensive (loss) income, net of tax	—	—	—	(393)	1,749	(1,733)	(67)	(444)	(123)	(567)
Total comprehensive income (loss)	**—**	**—**	**15,708**	**(393)**	**1,749**	**(1,733)**	**(67)**	**15,264**	**500**	**15,764**
Dividends declared	—	—	(10,588)	—	—	—	—	(10,588)	(61)	(10,649)
Balances as of December 31, 2021	**Ps. 2,060**	**Ps. 45,560**	**Ps. 81,037**	**Ps. (2,133)**	**Ps. 1,224**	**Ps. (4,958)**	**Ps. (1,240)**	**Ps. 121,550**	**Ps. 6,022**	**Ps. 127,572**

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

Consolidated Statements of **Cash Flows**

For the years ended December 31, 2021, 2020 and 2019

In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)

		2021 [(*)]		2021		2020		2019
OPERATING ACTIVITIES:								
Income before income taxes and share in the profit (loss) of equity	$	**1,118**	**Ps.**	**22,940**	Ps.	15,796	Ps.	18,278
Adjustments for:								
Non-cash operating (income) expenses		**(32)**		**(654)**		(1,319)		(2,409)
Depreciation		**404**		**8,284**		8,415		8,387
Depreciation right-of-use		**32**		**662**		596		555
Amortization		**43**		**888**		1,020		1,062
Amortization prepaid expenses		**33**		**687**		577		638
Gain on sale of long-lived assets		**(3)**		**(58)**		(96)		(42)
Loss on the retirement of long-lived assets		**10**		**199**		291		318
Loss on the retirement of intangible assets		**—**		**3**		375		—
Share of the loss of associates and joint ventures accounted for using the equity method, net of taxes		**(4)**		**(88)**		281		131
Interest income		**(45)**		**(932)**		(1,047)		(1,230)
Interest expense		**302**		**6,192**		7,894		6,904
Foreign exchange (income) loss, net		**(11)**		**(227)**		(4)		330
Non-cash movements in post-employment and other non-current employee benefits obligations		**16**		**328**		368		239
Impairment		**12**		**250**		2,501		948
Monetary position gain, net		**(36)**		**(734)**		(376)		(221)
Market value loss on financial instruments		**(4)**		**(80)**		212		288
Increase / decrease:								
Accounts receivable and other current assets		**(99)**		**(2,041)**		3,040		(1,858)
Other current financial assets		**(27)**		**(550)**		(552)		(100)
Inventories		**(110)**		**(2,262)**		190		(1,140)
Suppliers and other accounts payable		**217**		**4,448**		(1,037)		5,726
Other liabilities		**(20)**		**(401)**		378		(231)
Employee benefits paid		**(23)**		**(471)**		(528)		(478)
Other Tax		**119**		**2,443**		3,162		404
Income taxes paid		**(298)**		**(6,106)**		(4,990)		(5,210)
Net cash flows generated from operating activities		**1,594**		**32,721**		35,147		31,289
INVESTING ACTIVITIES:								
Interest received		**45**		**932**		1,047		1,230
Acquisitions of long-lived assets		**(455)**		**(9,344)**		(9,655)		(10,324)
Proceeds from the sale of long-lived assets		**13**		**259**		274		330
Acquisitions of intangible assets		**(31)**		**(645)**		(289)		(698)
Other non-current assets		**(36)**		**(766)**		(325)		(711)
Dividends received from investments in associates and joint ventures (Note 8)		**1**		**16**		16		1
Investments in financial assets		**—**		**1**		(1,576)		(572)
Net cash flows (used in) investing activities	$	**(463)**	**Ps.**	**(9,547)**	Ps.	(10,508)	Ps.	(10,744)
FINANCING ACTIVITIES:								
Proceeds from borrowings		**545**		**11,191**		62,297		10,736
Repayments of borrowings		**(692)**		**(14,189)**		(45,187)		(20,460)
Interest paid		**(226)**		**(4,646)**		(6,102)		(4,682)
Dividends paid		**(519)**		**(10,649)**		(10,278)		(7,440)
Interest paid on lease liabilities		**(5)**		**(101)**		(105)		(129)
Payments of leases		**(31)**		**(629)**		(573)		(492)
Other financing activities		**(60)**		**(1,240)**		365		(327)
Net cash flows (used in) / obtained from financing activities		**(988)**		**(20,263)**		417		(22,794)
Net increase in cash and cash equivalents		**143**		**2,911**		25,056		(2,249)
Cash and cash equivalents at the beginning of the period		**2,120**		**43,497**		20,491		23,727
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies		**41**		**840**		(2,050)		(987)
Cash and cash equivalents at the end of the period	$	**2,304**	**Ps.**	**47,248**	Ps.	43,497	Ps.	20,491

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

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

Notes to the Consolidated Statements

For the years ended December 31, 2021, 2020 and 2019

Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)

Note 1. Activities of the Company

Coca-Cola FEMSA, S.A.B. de C.V. ("Coca-Cola FEMSA") is a Mexican corporation, mainly engaged in acquiring, holding and transferring all types of bonds, shares and marketable securities. Coca-Cola FEMSA and its subsidiaries (the "Company"), are mainly engaged in the production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Brazil, Uruguay, Argentina. The Coca-Cola trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters and other beverages (including juice drinks, coffee, teas, milk, value-added dairy, sports drinks, energy drinks, alcoholic beverages and plant-based drinks). In addition, the Company distributes and sell Heineken-owned brand beer products and Monster products in all of the countries where we operate.

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

As of December 31, 2021 and 2020 the most significant subsidiaries which the Company controls are:

Company	Activity	Country	Ownership percentage 2021	Ownership percentage 2020
Propimex, S. de R.L. de C.V. [1]	Distribution	Mexico	**100.00%**	100.00%
Controladora Interamericana de Bebidas, S. de R. L. de C.V.	Holding	Mexico	**100.00%**	100.00%
Spal Industria Brasileira de Bebidas, S.A.	Production and distribution	Brazil	**84.38%**	84.38%
Servicios Refresqueros del Golfo y Bajio, S. de R.L. de C.V.	Production	Mexico	**100.00%**	100.00%
Embotelladora Mexicana de Bebidas Refrescantes, S. de R.L. de C.V.	Production	Mexico	**100.00%**	100.00%

[1] During 2021, Distribuidora y Manufacturera del Valle de México, S. de R. L. de C.V merged into Propimex, S. de R.L. de C.V.

Note 2. Basis of Preparation

2.1 Statement of compliance

The consolidated financial statements of the Company as of December 31, 2021 and 2020 and for the years ended December 31, 2021, 2020 and 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer John Anthony Santa Maria Otazua and Chief Financial Officer Constantino Spas Montesinos on February 23, 2022. These consolidated financial statements and notes were then approved by the Company's Board of Directors on February 25, 2022 and subsequent events have been considered since that date (see Note 27). These consolidated financial statements will be presented to the Company's shareholders on March 28, 2022. The Company's Board of Directors and Shareholders have the authority to approve or modify the Company's consolidated financial statements.

2.2 Basis of measurement and presentation

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

- Derivative financial instruments
- Trust assets of post-employment and other non-current employee benefit plans

The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationship.

The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period.

2.2.1 Presentation of consolidated income statement

The Company classifies its costs and expenses by function in the consolidated income statement in order to conform to industry practices.

2.2.2 Presentation of consolidated statements of cash flows

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

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

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position as of December 31, 2021 and the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2021 were converted into U.S. dollars at the exchange rate of Ps. 20.5140 per U.S. dollar as published by the Federal Reserve Bank of New York on December 31, 2021, the last date in 2021 for which information is available. This arithmetic conversion should not be construed a representation that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate. As of March 16, 2022 (the issuance date of these financial statements) such exchange rate was Ps. 20.7280 per U.S. dollar, a depreciation of 1.04% since December 31, 2021.

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 observable from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

In the application of the Company's accounting policies, management has made the following judgements which have the most significant effects on the amounts recognized in the consolidated financial statements:

2.3.1 Key sources of estimation uncertainty

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

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

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

The Company assesses at each reporting date or annually whether there is an indication that a depreciable long-lived asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU in which the asset is assigned exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount, which is determined based on its value in use. In assessing value in use, the estimated future cash flows expected to be generated from the use of an asset or CGU are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs to sell, recent market transactions are considered, if available. If recent market transactions are not available, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. The key assumptions used to determine the recoverable amount for the Company's CGUs, including a sensitivity analysis, are further explained in Notes 3.16 and 11.

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

Property, plant and equipment, including returnable bottles which are expected to provide benefits over a period of more than one year, as well as intangible assets with definite useful lives are depreciated/amortized over their estimated useful lives. The Company bases its estimates on the experience of its technical personnel as well as its experience in the industry for similar assets; see Notes 3.13, 8 and 9.

2.3.1.3 Post-employment and other non-current employee benefits

The Company regularly or annually evaluates the reasonableness of the assumptions used in its post-employment and other non-current employee benefit computations. Information about such assumptions is described in Note 15.

2.3.1.4 Income taxes

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Company recognizes deferred tax assets for unused tax losses and other credits and regularly reviews them for recoverability, based on its judgment regarding the probability of the expected timing and level of future taxable income, and the expected timing of the reversals of existing taxable temporary differences. See Note 23.

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 24. 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, 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.

The Company operates in numerous tax jurisdictions and is subject to periodic tax audits, in the normal course of business, by local tax authorities on a range of tax matters in relation to corporate tax, transfer pricing and indirect taxes. The impact of changes in local tax regulations and ongoing inspections by local tax authorities could materially impact the amounts recorded in the financial statements. Where the amount of tax payable is uncertain, the Company establishes provisions based on management's estimates with respect to the likelihood of material tax exposures and the probable amount of the liability.

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

The amount of uncertain income tax positions is included in Note 24.6.

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 19.

2.3.1.7 Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, Income Taxes and IAS 19, Employee Benefits, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the 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;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard; and
- Indemnifiable assets are recognized at the acquisition date on the same basis as the indemnifiable liability subject to any contractual limitations.

For each acquisition, management's judgment must be exercised to determine the fair value of the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, applying estimates or judgments in techniques used, especially in forecasting CGUs' cash flows, in the computation of weighted average cost of capital (WACC) and estimation of inflation during the operation of intangible assets with indefinite life, mainly, distribution rights.

2.3.1.8 Investments in associates

If the Company holds, directly or indirectly, 20 per cent or more of the voting power of the investee, it is presumed that it has significant influence, unless it can be clearly demonstrated that this is not the case. If the Company holds, directly or indirectly, less than 20 per cent of the voting power of the investee, it is presumed that the Company does not have significant influence, unless such influence can be clearly demonstrated. Decisions regarding the propriety of utilizing the equity method of accounting for a less than 20 per cent-owned corporate investee require a careful evaluation of voting rights and their impact on the Company's ability to exercise significant influence. Management considers the existence of the following circumstances, which may indicate that the Company is able to exercise significant influence over a less than 20 per cent-owned corporate investee:

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

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

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

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

2.3.1.9 Joint Arrangements

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When the Company is a party to an arrangement it shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively; joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. Management needs to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement (see Note 3.1).

2.3.1.10 Leases

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

- Determination of whether the Company is reasonably certain to exercise an option to extend a lease agreement or not to exercise an option to terminate a lease agreement before its termination date, considering all the facts and circumstances that create an economic incentive for the Company to exercise, or not, such options, taking into account whether the lease option is enforceable, when the Company has the unilateral right to apply the option in question.

- The Company cannot readily determine the interest rate implicit in its lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

2.4 Changes in accounting policies

The Company has applied the following amendments to the standards on January 1, 2021. None of the amendments had a significant impact on the Company's financial statements:

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Disclosures, which concludes phases of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

Amendment to IFRS 16 - Covid-19 related rental concessions

The amendment allows an optional practical expedient that simplifies how tenants account for rental concessions, arising as a direct consequence for the COVID-19 pandemic.

The practical expedient can only be applied if:

- The new consideration is substantially equal to or lesser than the original consideration;
- the decrease in the lease payments refers to rental payments that occur before June 30, 2022; and
- no other substantive changes to the lease terms have been made.

Those lessees who apply this practical expedient must disclose:

- The fact that the practical expedient has been applied to all eligible rental concessions and, if applicable to some selected ones; the nature of the contracts to which they have applied it; and
- the amount recognized in results for the reporting period that arises from the application of the practical expedient.

This amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.

This amendment does not provide a practical expedient for lessors. Lessors are required to continue evaluating whether the rental concessions are lease modifications and justify them accordingly.

Note 3. Significant Accounting Policies

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2021. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Company controls an investee if and only if the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, revenues and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intra-group assets and liabilities, equity, revenues, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

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

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

3.1.1 Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore they are recognized entirely in equity without applying acquisition accounting. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are measured at carrying amount and reflected in shareholders' equity as part of additional paid-in capital.

3.2 Business combinations

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Company. When evaluating control, the Company considers substantive potential voting rights. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquired. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Company's 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 of the acquiree and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Company's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in consolidated net income.

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

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

The Company sometimes obtains control of an acquiree without transferring consideration. The acquisition method of accounting for a business combination applies to those combinations, which may take the following forms:

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

i. Minority veto rights expire that previously kept the Company from controlling an acquiree in which it held the majority voting rights.

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

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

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

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

- The variations in the net investment in foreign subsidiaries generated by exchange rate fluctuation are included in other comprehensive income, which is recorded in equity as part of the cumulative exchange differences on translation of foreign subsidiaries and associates within the accumulated other comprehensive income.

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

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

For incorporation into the Company's consolidated financial statements, each foreign subsidiary, associate or joint venture's individual financial statements are translated into Mexican pesos, as follows:

- For hyperinflationary economic environments, the inflation effects of the origin country are recognized pursuant to IAS 29 Financial Reporting in Hyperinflationary Economies, and subsequently translated into Mexican pesos using the year-end exchange rate for the consolidated statements of financial position and consolidated income statement and comprehensive income; and
- For non-inflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month only if the exchange rate does not fluctuate significantly.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of exchange differences on translation of foreign subsidiaries and associates are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint ventures that do not result in the Company losing significant influence or joint control), the proportionate share of the exchange differences on translation of foreign subsidiaries and associates is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Foreign exchange differences are recognized in equity as part of the exchange differences on translation of foreign subsidiaries and associates.

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

		Exchange Rates of Local Currencies Translated to Mexican Pesos [1]				
		Average Exchange Rate for			Exchange Rate as of December 31,	
Country or Zone	**Functional currency**	**2021**	**2020**	**2019**	**2021**	**2020**
Mexico	Mexican peso	**1.00**	1.00	1.00	**1.00**	1.00
Guatemala	Quetzal	**2.62**	2.78	2.50	**2.67**	2.56
Costa Rica	Colon	**0.03**	0.04	0.03	**0.03**	0.03
Panama	Balboa	**20.28**	21.49	19.26	**20.58**	19.95
Colombia	Colombian peso	**0.01**	0.01	0.01	**0.01**	0.01
Nicaragua	Cordoba	**0.58**	0.63	0.58	**0.58**	0.57
Argentina	Argentine peso	**0.21**	0.31	0.41	**0.20**	0.24
Brazil	Real	**3.76**	4.18	4.89	**3.69**	3.84
Uruguay	Uruguayan peso	**0.47**	0.51	0.55	**0.46**	0.47

[1] Exchange rates published by the central bank of each country

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

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

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

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

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

As of December 31, 2021, 2020, and 2019, the operations of the Company are classified as follows:

Country	Cumulative Inflation 2019- 2021	Type of Economy	Cumulative Inflation 2018- 2020	Type of Economy	Cumulative Inflation 2017- 2019	Type of Economy
Mexico	**13.9%**	**Non-hyperinflationary**	11.2%	Non-hyperinflationary	13.2%	Non-hyperinflationary
Guatemala	**11.7%**	**Non-hyperinflationary**	10.9%	Non-hyperinflationary	11.8%	Non-hyperinflationary
Costa Rica	**5.8%**	**Non-hyperinflationary**	4.5%	Non-hyperinflationary	5.8%	Non-hyperinflationary
Panama	**0.9%**	**Non-hyperinflationary**	(1.5)%	Non-hyperinflationary	0.5%	Non-hyperinflationary
Colombia	**11.4%**	**Non-hyperinflationary**	8.8%	Non-hyperinflationary	11.0%	Non-hyperinflationary
Nicaragua	**17.1%**	**Non-hyperinflationary**	13.5%	Non-hyperinflationary	15.6%	Non-hyperinflationary
Argentina	**216.1%**	**Hyperinflationary**	209.2%	Hyperinflationary	179.4%	Hyperinflationary
Brazil	**20.0%**	**Non-hyperinflationary**	13.1%	Non-hyperinflationary	11.1%	Non-hyperinflationary
Uruguay	**28.5%**	**Non-hyperinflationary**	28.5%	Non-hyperinflationary	22.0%	Non-hyperinflationary

3.5 Cash and cash equivalents

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

The Company also maintains restricted cash held as collateral to meet certain contractual obligations (see Note 4). Restricted cash is presented within other current financial assets given that the restrictions are short-term in nature.

3.6 Financial assets

Financial assets are classified within the following business models depending on the Management's objective: (i) "hold to maturity to collect contractual cash flows", (ii) "hold to collect contractual cash flows and sell financial assets" and (iii) "Others or hold to negotiate" or as derivatives assigned in hedging instruments with an effective hedge, as appropriate. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

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

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

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

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

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

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

3.6.1 Financial assets at amortized cost

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

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

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

3.6.1.1 Effective interest rate method (ERR)

The effective interest rate method is a method to calculate the amortized cost of loans, accounts receivables and other financial assets (designated as held-to-maturity) and to allocate interest income / expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that represents an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or (where appropriate) a shorter period, to the net carrying amount on the initial recognition.

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

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

- It´s managed within a business model whose objective is to collect the contractual cash flows and sell the financial assets; and
- The contractual terms are solely principle and interest payments.

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

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

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

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

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

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

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

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

3.6.5 Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Loans and 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, 2021, 2020 and 2019 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 6, Ps. 6 and Ps. 5, respectively.

3.6.6 Other financial assets

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

3.6.7 Financial assets impairment

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

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

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

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

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

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

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

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

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

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

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

3.6.8 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the financial asset have expired; or
- The Company has transferred its rights to receive the asset cash flows or has assumed an obligation to pay the full received cash flows without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred or retained substantially all the asset risks and benefits, but has transferred control of the asset.

3.6.9 Offsetting of financial instruments

Financial assets are required to be offset against financial liabilities and the net amount reported in the consolidated statement of financial position if, and only if the Company:

- Currently has an enforceable legal right to offset the recognized amounts; and
- Intends to settle on a net basis, or to realize the assets and settle the liabilities simultaneously

3.7 Derivative financial instruments

The Company is exposed to different risks related to cash flows, liquidity, market and third-party credit. As a result, the Company contracts different derivative financial instruments in order to reduce its exposure to the risk of exchange rate fluctuations between the U.S. Dollar and other currencies, and interest rate fluctuations associated with its borrowings denominated in foreign currencies and the exposure to the risk of fluctuation in the costs of certain raw materials.

The Company values and records all derivative financial instruments and hedging activities in the consolidated statement of financial position as either an asset or liability measured at fair value, considering quoted prices in recognized markets. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models supported by sufficient, reliable and verifiable market data, recognized in the financial sector. Changes in the fair value of derivative financial instruments are recorded each year in current earnings or otherwise as a component of cumulative other comprehensive income based on the item being hedged and the effectiveness of the hedge.

3.7.1 Hedge accounting

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

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

3.7.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI and accumulated under the hedging valuation of the effective portion of derivative financial instruments. The gain or loss relating to the ineffective portion is recognized immediately in consolidated net income and is included in the market value gain (loss) on financial instruments line item within the consolidated statements of income.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to consolidated net income in the periods when the hedged item is recognized in profit and loss, in the same line of the consolidated statement of income as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in consolidated net income. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in consolidated net income.

3.7.3 Fair value hedges

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

For fair value hedges relating to items carried at amortized cost, change in the fair value of the effective portion of the hedge is recognized first as an adjustment to the carrying value of the hedged item and then any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR (Effective Interest Rate) method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

3.7.4 Hedge of net investment in a foreign business

The Company designates certain debt securities as a hedge of its net investment in foreign subsidiaries and applies hedge accounting to foreign currency differences arising between the functional currency of its investments abroad and the functional currency of the holding company (Mexican peso), regardless of whether the net investment is held directly or through a sub-holding. Differences in foreign currency that arise in the conversion of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income in the exchange differences on the translation of foreign operations and associates caption, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized as market value gain or loss on financial instruments within the consolidated income statements. When part of the hedge of a net investment is disposed, the corresponding accumulated foreign currency translation effect is recognized as part of the gain or loss on disposal within the consolidated income statement. As of December 31, 2021, 2020 and 2019 there were no transactions of this nature.

3.8 Fair value measurement

The Company measures financial instruments, such as, derivatives, and certain non-financial assets such as trust assets of labor obligations at fair value at each balance sheet date. Also, fair values of bank loans and notes payable carried at amortized cost are disclosed in Note 17.

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: unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

The Company determines the policies and procedures for both recurring fair value measurement, such as those described in Note 19 and unquoted liabilities such as debt described in Note 17.

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 that is incurred when purchasing or producing a product, and are based on the weighted average cost formula.

Cost of goods sold is based on the weighted average cost of the inventories at the time of sale. Cost of goods sold includes expenses related to the purchase of raw materials used in the production process, as well as labor costs (wages and other benefits), depreciation of production facilities, equipment and other costs, including fuel, electricity, equipment maintenance and inspection.

Management is required to make judgements regarding write-downs to determine the net realizable value of the inventory. These write-downs consider factors such as age and condition of goods as recent market data to assess the estimated future demand for goods. For the years ended December 31, 2021 and 2020, the COVID-19 pandemic has not had a material impact on the Company´s assessment of the net realizable value of the inventory, with inventory turns remaining similar since the commencement of the pandemic.

3.10 Held for sale long lived assets and discontinued operations

The Company classifies long lived assets as held for sale when:

a) An asset is expected to be recovered principally through the sale, instead of being recovered through continuous operational use;

b) An asset is maintained as held for its immediately sale; and

c) An asset's sale is considered as highly probable in its actual condition.

A sale is considered highly probable when:

- Management is engaged with a sales plan;
- An active plan to locate a buyer has been initiated;
- The asset must be actively marketed at a reasonable price related to its fair value; and
- The sale is expected to be completed in less than one year from the date of classification.

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

Discontinued operations are the results of operations and cash flows that can be clearly distinguished from the rest of the Company's operations and cash flows that have been disposed or classified as held for sale, and:

- Represent either a separated major line of business or geographic area;
- Are part of a coordinated plan to dispose of a major line of business or a geographic of operations; or
- It is a subsidiary acquired exclusively for the purpose of reselling it.

Discontinued operations are excluded from the continuing operations results and they are presented separately net of tax in the consolidated income.

3.11 Other current assets

Other current assets, which will be realized within a period of less than one year from the reporting date, are comprised of prepaid assets, product promotion and agreements with customers.

Prepaid assets principally consist of advances to suppliers of raw materials, advertising, promotional, leasing and insurance costs, and are recognized as other current assets at the time of the cash disbursement, and are derecognized in the consolidated statement of financial position and recognized in the appropriate consolidated income statement caption when the risks and rewards of the related goods have been transferred to the Company or services have been received, respectively.

The Company has prepaid advertising costs which consist of television and radio advertising airtime paid in advance. These expenses are generally amortized over the period based on the transmission of the television and radio spots. The related production costs are recognized in consolidated income statement as incurred.

The Company has agreements with customers for the right to sell and promote the Company's products over a certain period. The majority of these agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract. During the years ended December 31, 2021, 2020 and 2019, such amortization aggregated to Ps. 219, Ps. 213 and Ps. 273, respectively.

3.12 Investments in other entities

3.12.1 Investments in associates

Associates are those entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but without control over those policies. Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value.

Investments in associates are accounted for using the equity method and initially recognized at cost, which comprises the investment's purchase price and any directly attributable expenditure necessary to acquire it. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. The financial statements of the associates are prepared for the same reporting period as the Company.

When the Company's share of losses exceeds the carrying amount of the investment in the associate, including any advances, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has a legal or constructive obligation or has made payments on behalf of the associate.

Goodwill identified at the acquisition date is presented as part of the investment in shares of the associate in the consolidated statement of financial position. Any goodwill arising on the acquisition of the Company's interest in an associate is measured in accordance with the Company's accounting policy for goodwill arising in a business combination, see Note 3.2.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associates is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the amount in other expenses line in the consolidated statements of income.

3.12.2 Joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Company's rights to the assets and obligations for the liabilities of the arrangements.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method.

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

As of December 31, 2021 and 2020 the Company does not have an interest in joint operations.

3.12.3 Investment in Venezuela

On December 31, 2017, the Company changed the method of accounting for its investment in Venezuela from consolidation to the fair value method through OCI using Level 3 inputs and recognized as of December 31, 2021 a fair value loss on the investment of Ps. (393). Gains and losses on the investment since January 1, 2018 are recognized in OCI. As of December 31, 2021, fair value of Venezuela investment is Ps. 0.

3.13 Property, plant and equipment

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

Major maintenance costs are capitalized as part of total acquisition cost, which imply an increase on the asset useful life. Routine maintenance and repair costs are expensed as incurred.

Construction in progress consists of long-lived assets not yet in service, in other words, that are not yet ready for the purpose that they were bought, built or developed. The Company expects to complete those investments during the following 12 months.

Depreciation is computed using the straight-line method. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for and depreciated separately. The Company estimates depreciation rates, considering the estimated useful lives of the assets.

The estimated useful lives of the Company's principal assets are as follows:

	Years
Buildings	40 – 50
Machinery and equipment	10 – 20
Distribution equipment	7 – 15
Refrigeration equipment	5 – 7
Returnable bottles	1.5 – 3
Other equipment	3 – 10

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

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

Returnable and non-returnable bottles:

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

- Non-returnable: bottles are recorded in the consolidated income statement at the time of the sale of the product.
- Returnable: bottles are classified as long-lived assets as a component of property, plant and equipment. Returnable bottles are recorded at acquisition cost and for countries with hyperinflationary economies, restated according to IAS 29. Depreciation of returnable bottles is computed using the straight-line method over their estimated useful lives. There are two types of returnable bottles:
- Those that are in the Company's control within its facilities, plants and distribution centers; and
- Those that have been placed in the hands of customers and still belong to the Company.

Returnable bottles that have been placed in the hands of customers are subject to an agreement with a retailer pursuant to which the Company retains ownership. These bottles are monitored by sales personnel during periodic visits to retailers and the Company has the right to charge any breakage identified to the retailer. Bottles that are not subject to such agreements are expensed when placed in the hands of retailers.

The Company's returnable bottles are depreciated according to their estimated useful lives (3 years for glass bottles and 1.5 years for PET bottles). Deposits received from customers are amortized over the same estimated useful lives of the bottles.

3.14 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance and represent payments whose benefits will be received in future years. Intangible assets acquired separately are measured at initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition (see Note 3.2). Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite, in accordance with the period over which the Company expects to receive the benefits.

Intangible assets with finite useful lives are amortized and mainly consist of information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over their expected useful lives. Expenditures that do not fulfill the requirements for capitalization are expensed as incurred.

Amortized intangible assets 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, 2021, the Company had four bottler agreements in Mexico: (i) Valley of Mexico territory, which is up for renewal in June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) the agreement for the Bajio territory, which is up for renewal in May 2025 and (iv) the agreement for the Golfo territory, which is up for renewal in May 2025. As of December 31, 2021, the Company had one bottler agreement in Brazil which is up for renewal in October 2027. As of December 31, 2021, the Company had three bottler agreements in Guatemala, which are up for renewal in March 2025 (one contract) and April 2028 (two contracts).

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

As of December 31, 2021 our investee KOF Venezuela had one bottler agreement, which is up for renewal in August 2026.

The bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent the Company from selling Coca-Cola trademark beverages in the affected territory and would have an adverse effect on the Company´s business, financial conditions, results from operations and prospects.

3.15 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 the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.16 Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest CGUs for which a reasonable and consistent allocation basis can be identified.

For goodwill and other indefinite lived intangible assets, the Company tests for impairment on an annual basis and whenever certain circumstances indicate that the carrying amount of the related CGU might exceed its recoverable amount.

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

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

Where the conditions leading to an impairment loss no longer exist, it is subsequently reversed. That is, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in consolidated net income. Impairment losses related to goodwill are not reversible. For the year ended December 31, 2021, 2020 and 2019 there was no impairment related to goodwill recognized.

3.17 Leases

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

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

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

As a tenant

Initial measurement

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

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

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

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

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

Subsequent Measurement

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

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

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

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

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

i) The modification increases the scope of the lease by adding the right to use one or more underlying assets; and

ii) The consideration of the lease is increased by an amount proportional to the independent price of the increase in scope and by any adjustment to that independent price to reflect the contract circumstances.

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

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

As property owner.

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

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

- If the lease is for most of the useful life of the asset;
- If the present value of the minimum future lease payments amounts to substantially all of the underlying asset fair value.

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

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

(i) Fixed payments including those leases that in substance are fixed, which may involve variability, but essentially unavoidable, less any lease incentive to be collected;

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

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

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

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

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

3.18 Financial liabilities and equity instruments

3.18.1 Classification as debt or equity

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

3.18.2 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 when the proceeds are received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3.18.3 Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. The effective interest method amortization is included in interest expense in the consolidated statements of income.

De-recognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

3.19 Provisions

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

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

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

The Company recognizes a provision for a loss contingency when it is probable (i.e. the probability that the event will occur is greater than the probability that it will not) that certain effects related to past events, would materialize and can be reasonably quantified. These events and their financial impact are also disclosed as loss contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized, see Note 24.

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 and there is 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 non-current employee benefits

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

In Mexico, the economic benefits and retirement pensions are granted to employees with 10 years of service and minimum age of 60. In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days' wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

For defined benefit retirement plans and other non-current employee benefits, such as the Company's sponsored pension and retirement plans and seniority premiums, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. All re-measurements effects of the Company's defined benefit obligation such as actuarial gains and losses and return on plan assets are recognized directly in other comprehensive income ("OCI"). The Company presents service costs within cost of goods sold, administrative and selling expenses in the consolidated statements of income. The Company presents net interest cost within interest expense in the consolidated statements of income. The projected benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as of the end of each reporting period. Certain subsidiaries of the Company have established plan assets for the payment of pension benefits and seniority premiums through irrevocable trusts of which the employees are named as beneficiaries, which serve to decrease the funded status of such plans' related obligations.

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

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

a. When it can no longer withdraw the offer of those benefits; and

b. When it recognizes costs for a restructuring that is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits.

The Company is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

A settlement occurs when the Company enters into a transaction that eliminates all further legal or constructive obligations or part or all of the benefits provided under a defined benefit plan. A curtailment arises from an isolated event such as closing of a plant, discontinuance of an operation or termination or suspension of a plan. Gains or losses on the settlement or curtailment of a defined benefit plan are recognized when the settlement or curtailment occurs.

3.21 Revenue recognition

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

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

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

The Company generates revenues from the following principal activities:

Sale of goods.

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

Rendering of services.

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

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

Sources of Revenue	For the year ended December 31, 2021	For the year ended December 31, 2020	For the year ended December 31, 2019
Sale of products	**Ps. 193,899**	Ps. 181,520	Ps. 192,342
Services rendered	**321**	327	385
Other operating revenues [1]	**584**	1,768	1,744
Revenue from contracts with customers	**Ps. 194,804**	Ps. 183,615	Ps. 194,471

[1] In 2021, 2020 and 2019, we include related tax effect in Brazil associated to sales taxes paid in excess in prior years (PIS/COFINS) – See Note 23.2.1.

Variable allowances granted to customers

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

Sales discounts are considered variable consideration and are reflected in the client's invoice. Therefore discounts are recorded at the moment of sale (sales are recorded net of discounts).

In the Modern Channel, retail products are sold at a discount based on volume, considering total sales during the period, which is usually 12 months. Revenues on these sales are recognized based on the price established in the agreement, net of discounts for estimated volume. Accumulated experience is used to estimate and foresee discounts using the expected value method. No element of financing is considered, due to the fact that the majority of sales are made in cash for the Traditional Channel or on credit for the Modern Channel.

Contracts costs.

The incremental costs for obtaining a customer contract are recognized as an asset if the Company expects to recover those costs. The incremental costs are those incurred to obtain a contract and that wouldn't be incurred if the contract hadn't been obtained. The Company expenses these costs as incurred in the consolidated income statement when the associated revenue is realized in a period equal to or less than one year. The recognized assets, as previously indicated, are amortized on a straight-line basis over the terms of the related revenue contracts, reflecting how the goods and services are transferred to the client.

3.22 Administrative and selling expenses

Administrative expenses include labor costs (salaries and other benefits, like employee profit sharing "PTU") of employees not directly involved in the sale of the Company's products, as well as professional service fees, the depreciation of office facilities, amortization of capitalized information technology system implementation costs and any other similar costs.

Selling expenses include:

- Distribution: labor costs (salaries and other related benefits), outbound freight costs, warehousing costs of finished products, depreciation of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2021, 2020 and 2019, these distribution costs amounted to Ps. 26,023, Ps. 24,190 and Ps. 25,068, respectively;
- Sales: labor costs (salaries and other benefits including PTU) and sales commissions paid to sales personnel;
- Marketing: promotional expenses and advertising costs.

PTU is paid by the Company's Mexican subsidiaries to its eligible employees. In Mexico, employee profit sharing is computed at the rate of 10% of the individual company taxable income. PTU in Mexico is calculated from the same taxable income for income tax, except for the following: a) neither tax losses from prior years nor the PTU paid during the year are deductible; and b) payments exempt from taxes for the employees are fully deductible in the PTU computation.

The amendment to the Federal Labor Law established a limit on the amount to be paid for profit sharing to employees, which indicates that the amount of PTU assigned to each employee may not exceed the equivalent of three months of the employee's current salary, or the average PTU received by the employee in the previous three years, whichever is greater. If the PTU determined is less than or equal to this limit, the PTU will be the one determined by applying 10% of the individual company taxable income. If the PTU determined exceeds this limit, the limit would apply and this should be considered the PTU for the period.

3.23 Income taxes

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

3.23.1 Current income taxes

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

3.23.2 Deferred income taxes

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits and reversal of existing taxable temporary differences will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred income taxes are classified as a non-current asset or liability, regardless of when the temporary differences are expected to reverse.

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

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

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

In Mexico, the income tax rate was 30% for 2021, 2020 and 2019. For 2022, the rate will continue to be 30%.

3.24 Share-based payments transactions

Senior executives of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. The equity instruments are granted and then held by a trust controlled by FEMSA. They are accounted for as equity settled transactions. The award of equity instruments is granted for a fixed monetary value.

Share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the share-based payments is expensed and recognized based on the graded vesting method over the vesting period.

3.25 Earnings per share

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

3.26 Issuance of common shares

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

3.27 IFRIC 23 Uncertainty over income tax treatments

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

a. Whether an entity considers uncertain tax treatments separately;

b. The assumptions an entity makes about the examination of tax treatments by taxation authorities;

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

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

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Note 4. Cash and Cash Equivalents

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

		2021		2020
Cash and bank balances	**Ps.**	**5,336**	Ps.	4,435
Cash equivalents (see Note 3.5)		**41,912**		39,062
Total	**Ps.**	**47,248**	Ps.	43,497

Note 5. Trade Receivable, Net

		2021		2020
Trade receivables	**Ps.**	**10,863**	Ps.	9,705
The Coca-Cola Company (related party) (Note 13)		**820**		509
Loans to employees		**82**		82
FEMSA and subsidiaries (related parties) (Note 13)		**634**		624
Other related parties (Note 13)		**139**		138
Other		**1,007**		980
Allowance for doubtful accounts on trade receivables		**(531)**		(515)
	Ps.	**13,014**	Ps.	11,523

5.1 Trade receivables

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

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

Because less than the 2.2% of the trade receivables is unrecoverable, the Company does not have any customers classified as "high risk" which would be eligible to have special management conditions for the credit risk. As of December 31, 2021, the Company does not have a representative group of customers directly related to the expected loss.

In 2021 and 2020, during the Covid-19 pandemic, governments have implemented several preventive measures such as social distancing and the temporary closure of certain points of sale considered as nonessential. As such measures were eased, most businesses were able to reopen and this allowed the company to recover the accounts receivable. Given that the impact on this item was not material, the Company did not implement any relevant change to its models to estimate the receivables' provisions.

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

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

The carrying value of accounts receivable approximates its fair value as of December 31, 2021 and 2020.

Aging for trade receivables past due but not impaired		2021		2020
0 days	Ps.	11,689	Ps.	9,905
1-30 days		686		769
31-60 days		112		298
61-90 days		45		65
91-120 days		91		44
121 + days		391		442
Total	Ps.	13,014	Ps.	11,523

5.2 Changes in the allowance for expected credit losses

		2021		2020		2019
Balance at the beginning of the year	Ps.	515	Ps.	493	Ps.	595
Allowance for the year		35		119		314
Charges and write-offs of uncollectible accounts		6		(29)		(397)
Added in business combinations		—		—		4
Effects of changes in foreign exchange rates		(25)		(68)		(23)
Balance at the end of the year	Ps.	531	Ps.	515	Ps.	493

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.

5.3 Payments from The Coca-Cola Company:

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Company's refrigeration equipment and returnable bottles investment program. Contributions received by the Company for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the carrying amount of refrigeration equipment and returnable bottles items. For the years ended December 31, 2021, 2020 and 2019 contributions due were Ps. 2,437, Ps. 1,482, and Ps. 2,274, respectively.

Note 6. Inventories

		2021		2020
Finished products	Ps.	4,371	Ps.	3,694
Raw materials		4,371		3,224
Non strategic spare parts		865		934
Inventories in transit		1,620		1,284
Packing materials		419		271
Other		314		320
	Ps.	11,960	Ps.	9,727

For the years ended as of December 31, 2021, 2020 and 2019, the Company recognized write-downs of its inventories for Ps. 45, Ps. 82 and Ps. 244, respectively to net realizable value.

For the years ended as of December 31, 2021, 2020 and 2019, changes in inventories are comprised of the following and included in the consolidated income statement under the cost of goods sold caption:

		2021		2020		2019
Finished goods and work in progress	Ps.	23,654	Ps.	23,901	Ps.	24,676
Raw materials and consumables used		79,425		76,002		79,520
Total	Ps.	103,079	Ps.	99,903	Ps.	104,196

Note 7. Other Current Assets and Other Current Financial Assets

7.1 Other Current Assets:

		2021		2020
Prepaid expenses	**Ps.**	**1,805**	Ps.	1,622
Agreements with customers		**111**		115
Others		**2**		7
	Ps.	**1,918**	Ps.	1,744

Prepaid expenses as of December 31, 2021 and 2020 are as follows:

		2021		2020
Advances for inventories	**Ps.**	**1,627**	Ps.	1,503
Advertising and promotional expenses paid in advance		**105**		92
Prepaid insurance		**73**		27
	Ps.	**1,805**	Ps.	1,622

Advertising and promotional expenses recorded in the consolidated income statements for the years ended December 31, 2021, 2020 and 2019, for Ps. 5,413 Ps. 5,043 and Ps. 6,748 respectively.

7.2 Other Current Financial Assets:

		2021		2020
Restricted cash	**Ps.**	**239**	Ps.	74
Derivative financial instruments (See Note 19)		**692**		404
	Ps.	**931**	Ps.	478

Restricted cash in Brazil is held in U.S. dollars and relates to short term deposits in order to fulfill the collateral requirements for accounts payable.

Note 8. Investments in Other Entities

As of December 31, 2021 and 2020 the investment in other entities is comprised of the following:

		2021		2020
Investment in Associates and Joint Ventures	**Ps.**	**7,494**	Ps.	7,623

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

Investee	Principal Activity	Place of Incorporation	Ownership Percentage 2021	Ownership Percentage 2020	Carrying Amount 2021	Carrying Amount 2020
Joint ventures:						
Compañía Panameña de Bebidas, S.A.P.I. de C.V.	Beverages	Mexico	**50.0%**	50.0%	**Ps. —**	Ps. —
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	**50.0%**	50.0%	**183**	181
Fountain Agua Mineral, LTDA	Beverages	Brazil	**50.0%**	50.0%	**699**	720
Planta Nueva Ecología De Tabasco, S.A. de C.V.	Recycling	Mexico	**50.0%**	0.0%	**18**	—
Associates:						
Promotora Industrial Azucarera, S.A. de C.V. (“PIASA”) (1)	Sugar production	Mexico	**36.4%**	36.4%	**3,348**	3,335
Jugos del Valle, S.A.P.I. de C.V. (1)	Beverages	Mexico	**28.8%**	28.8%	**2,128**	1,945
Leao Alimentos e Bebidas, LTDA (1)	Beverages	Brazil	**24.7%**	24.7%	**404**	446
Industria Envasadora de Querétaro, S.A. de C.V. (“IEQSA”) (1)	Canned bottling	Mexico	**26.5%**	26.5%	**178**	192
Industria Mexicana de Reciclaje, S.A. de C.V. (“IMER”) (1)	Recycling	Mexico	**35.0%**	35.0%	**102**	121
Trop Frutas do Brasil, LTDA (1)	Beverages	Brazil	**23.6%**	23.6%	**55**	359
Alimentos de Soja S.A.U. (1)	Beverages	Argentina	**10.7%**	10.7%	**263**	207
Others	Various	Various	**Various**	Various	**116**	117
					Ps. 7,494	Ps. 7,623

Accounting method:

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

During 2021 the Company received dividends from Industria Envasadora de Querétaro, S.A. de C.V. (“IEQSA”) for the amount of Ps. 16 and Ps. 16 for 2020 respectively. During 2020 the Company received dividends from Promotora Mexicana de Embotelladores, S.A. de C.V. for the amount of Ps. 1.

During 2021 the Company made capital contributions to Jugos del Valle, S.A.P.I. de C.V. for the amounts of Ps. 44, and there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders. During 2021 the Company made a capital reduction on Leao Alimentos y Bebidas LTDA. for the amount of Ps. 46, and there were no changes in the ownership percentage as a result of the capital reduction.

During 2021, the Company recognized an impairment on its investment in Trop Frutas Do Brasil LTDA. for the amount of Ps. 250.

During 2020, the Company recognized impairments on its investments in Compañía Panameña de Bebidas, S.A.P.I de C.V. and Leao Alimentos y Bebidas LTDA. for the amounts of Ps. 1,463 and Ps. 1,038, respectively. During 2019, the Company recognized an impairment on its investment in Compañía Panameña de Bebidas, S.A.P.I de C.V. for the amount of Ps. 948. Each impact per year was recorded in the other expenses line.

On September 30, 2020, the Company announced that its joint venture with The Coca-Cola Company (Compañía Panameña de Bebidas, S.A..P.I. de C.V.) successfully sold 100% of its stock interest in Estrella Azul, a dairy products company in Panama. As part of the transaction, the Company agreed with the buyer that it could receive payments in the future if the business of Estrella Azul achieves certain volume and EBITDA targets during the 2022-2027 period. The Company estimated the amount of the payments to be received based on the forecasts of the business and calculated its net present value. As of December 31, 2021 and 2020, the financial asset recognized in the consolidated statement of financial position has a total value of Ps. 5 and Ps. 8 respectively. This transaction is presented in the other expenses line of the consolidated income statements. The Company concluded it did not achieve the requirements to be considered as a discontinued operation under IFRS 5.

For the years ended December 31, 2021, 2020 and 2019 the equity (loss) earnings recognized for associates were Ps. 85, Ps. (124), and Ps. 84, respectively.

For the years ended December 31, 2021, 2020 and 2019 the equity (loss) earnings recognized for joint ventures were Ps. 3, Ps. (157) and Ps. (215), respectively.

Note 9. Leases

For the years ended as of December 31, 2021 and 2020, the change in the Company's right-of-use assets, is as follows:

		2021		**2020**
Balance at beginning of the period	**Ps.**	**1,278**	Ps.	1,382
Additions		**533**		599
Disposals		**(44)**		(112)
Depreciation		**(662)**		(596)
Hyperinflationary economies effect		**14**		14
Indexation effect		**383**		145
Effects of changes in foreign exchange rates		**(30)**		(154)
Balance at end of the period	**Ps.**	**1,472**	Ps.	1,278

As of December 31, 2021 and 2020, scheduled maturities of the Company's lease liabilities, are as follows:

		2021		**2020**
Maturity analysis				
Less than one year	**Ps.**	**614**	Ps.	560
One to three years		**478**		306
More than three years		**413**		440
Balance at end of the period	**Ps.**	**1,505**	Ps.	1,306
Current		**614**		560
Non-Current	**Ps.**	**891**	Ps.	746

The interest expense for leases reported in the income statements for the years ended on December 31, 2021, 2020 and 2019 was Ps. 101, Ps. 105, and Ps. 129, respectively.

The expenses for the low value assets and short-term leases reported in the income statements for the years ended on December 31, 2021, 2020 and 2019 was Ps. 183, Ps. 190 and Ps. 187, respectively.

As of December 31, 2021, 2020 and 2019 the weighted average incremental borrowing rate was 7.18%, 6.58% and 7.68%, respectively.

Note 10. Property, plant & equipment.

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Cost as of January 1, 2019	Ps. 5,575	Ps. 18,775	Ps. 38,465	Ps. 19,963	Ps. 14,749	Ps. 4,131	Ps. 479	Ps. 861	Ps. 102,998
Additions [1]	4	27	392	816	2,581	6,392	—	112	10,324
Additions from business combinations	142	227	50	(13)	—	—	7	(8)	405
Transfer of completed projects	(253)	508	2,650	1,396	360	(5,004)	343	—	—
Disposals	(1)	(35)	(1,577)	(1,032)	(1,056)	—	(13)	(35)	(3,749)
Effects of changes in foreign exchange rates	(323)	(1,122)	(2,315)	(961)	(833)	(381)	(34)	(130)	(6,099)
Changes in value on the recognition of inflation effects	114	366	1,254	241	352	18	—	—	2,345
Cost as of December 31, 2019	Ps. 5,258	Ps. 18,746	Ps. 38,919	Ps. 20,410	Ps. 16,153	Ps. 5,156	Ps. 782	Ps. 800	Ps. 106,224
Cost as of January 1, 2020	Ps. 5,258	Ps. 18,746	Ps. 38,919	Ps. 20,410	Ps. 16,153	Ps. 5,156	Ps. 782	Ps. 800	Ps. 106,224
Additions [1]	—	104	171	281	2,613	6,300	—	186	9,655
Additions from business combinations	158	—	87	—	—	—	—	—	245
Transfer of completed projects in progress	4	721	3,165	1,192	57	(5,187)	48	—	—
Disposals	(13)	(29)	(1,425)	(1,073)	(561)	(12)	(5)	(57)	(3,175)
Effects of changes in foreign exchange rates	(255)	(1,182)	(2,243)	(797)	(629)	(333)	(91)	(78)	(5,608)
Changes in value on the recognition of inflation effects	88	293	990	189	291	(30)	3	—	1,824
Cost as of December 31, 2020	Ps. 5,240	Ps. 18,653	Ps. 39,664	Ps. 20,202	Ps. 17,924	Ps. 5,894	Ps. 737	Ps. 851	Ps. 109,165
Cost as of January 1, 2021	**Ps. 5,240**	**Ps. 18,653**	**Ps. 39,664**	**Ps. 20,202**	**Ps. 17,924**	**Ps. 5,894**	**Ps. 737**	**Ps. 851**	**Ps. 109,165**
Additions [1]	**—**	**21**	**61**	**427**	**3,655**	**7,911**	**—**	**217**	**12,292**
Transfer of completed projects in progress	**—**	**731**	**4,791**	**1,351**	**31**	**(7,001)**	**95**	**2**	**—**
Disposals	**(6)**	**(20)**	**(2,680)**	**(1,614)**	**(2,299)**	**—**	**(62)**	**(16)**	**(6,697)**
Effects of changes in foreign exchange rates	**(144)**	**(637)**	**(1,919)**	**(556)**	**(365)**	**(70)**	**(22)**	**(77)**	**(3,790)**
Changes in value on the recognition of inflation effects	**140**	**326**	**1,260**	**319**	**487**	**—**	**138**	**321**	**2,991**
Cost as of December 31, 2021	**Ps. 5,230**	**Ps. 19,074**	**Ps. 41,177**	**Ps. 20,129**	**Ps. 19,433**	**Ps. 6,734**	**Ps. 886**	**Ps. 1,298**	**Ps. 113,961**

[1] Total includes Ps. 3,784, Ps. 289 and Ps. 610 outstanding payment to suppliers, as of December 31, 2021, 2020 and 2019 respectively

Accumulated Depreciation	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Accumulated depreciation as of January 1, 2019	Ps. —	Ps. (4,414)	Ps. (16,969)	Ps. (10,206)	Ps. (8,706)	Ps. —	Ps. (276)	Ps. (485)	Ps. (41,056)
Depreciation for the year	—	(386)	(2,862)	(2,211)	(2,734)	—	(108)	(86)	(8,387)
Disposals	—	14	1,049	966	1,079	—	9	28	3,145
Effects of changes in foreign exchange rates	—	223	1,013	583	571	—	12	62	2,464
Changes in value on the recognition of inflation effects	—	(92)	(629)	(164)	(302)	—	(2)	(14)	(1,203)
Accumulated depreciation as of December 31, 2019	Ps. —	Ps. (4,655)	Ps. (18,398)	Ps. (11,032)	Ps. (10,092)	Ps. —	Ps. (365)	Ps. (495)	Ps. (45,037)
Accumulated depreciation as of January 1, 2020	Ps. —	Ps. (4,655)	Ps. (18,398)	Ps. (11,032)	Ps. (10,092)	Ps. —	Ps. (365)	Ps. (495)	Ps. (45,037)
Depreciation for the year	—	(490)	(2,828)	(2,148)	(2,779)	—	(40)	(130)	(8,415)
Disposals	—	19	1,125	989	536	—	1	36	2,706
Effects of changes in foreign exchange rates	—	165	854	464	432	—	31	165	2,111
Changes in value on the recognition of inflation effects	—	(82)	(595)	(132)	(250)	—	(6)	(5)	(1,070)
Accumulated depreciation as of December 31, 2020	Ps. —	Ps. (5,043)	Ps. (19,842)	Ps. (11,859)	Ps. (12,153)	Ps. —	Ps. (379)	Ps. (429)	Ps. (49,705)
Accumulated depreciation as of January 1, 2021	**Ps. —**	**Ps. (5,043)**	**Ps. (19,842)**	**Ps. (11,859)**	**Ps. (12,153)**	**Ps. —**	**Ps. (379)**	**Ps. (429)**	**Ps. (49,705)**
Depreciation for the year	**—**	**(484)**	**(2,793)**	**(2,097)**	**(2,708)**	**—**	**(80)**	**(122)**	**(8,284)**
Disposals	**—**	**6**	**2,336**	**1,493**	**2,390**	**—**	**62**	**10**	**6,297**
Effects of changes in foreign exchange rates	**—**	**162**	**867**	**372**	**222**	**—**	**8**	**48**	**1,679**
Changes in value on the recognition of inflation effects	**—**	**(139)**	**(946)**	**(209)**	**(427)**	**—**	**(6)**	**(38)**	**(1,765)**
Accumulated depreciation as of December 31, 2021	**Ps. —**	**Ps. (5,498)**	**Ps. (20,378)**	**Ps. (12,300)**	**Ps. (12,676)**	**Ps. —**	**Ps. (395)**	**Ps. (531)**	**Ps. (51,778)**

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, 2019	Ps. 5,258	Ps. 14,091	Ps. 20,521	Ps. 9,378	Ps. 6,061	Ps. 5,156	Ps. 417	Ps. 305	Ps. 61,187
As of December 31, 2020	Ps. 5,240	Ps. 13,610	Ps. 19,822	Ps. 8,343	Ps. 5,771	Ps. 5,894	Ps. 358	Ps. 422	Ps. 59,460
As of December 31, 2021	**Ps. 5,230**	**Ps. 13,576**	**Ps. 20,799**	**Ps. 7,829**	**Ps. 6,757**	**Ps. 6,734**	**Ps. 491**	**Ps. 767**	**Ps. 62,183**

Note 11. Intangible Assets

Cost	Produce and Distribute Coca-Cola trademark Products	Goodwill	Other indefinite lived intangible assets	Technology costs and management systems	Development systems	Other amortizables	Total
Balance as of January 1, 2019	Ps. 88,362	Ps. 23,729	Ps. 1,054	Ps. 6,023	Ps. 777	Ps. 666	Ps. 120,611
Purchases	—	—	—	100	334	263	697
Acquisition from business combinations	(2,887)	2,903	153	(6)	—	(185)	(22)
Systems Development	—	—	—	398	(399)	1	—
Transfer of completed development systems	—	—	—	—	—	—	—
Disposals	—	—	—	(17)	—	—	(17)
Effect of movements in exchange rates	(3,475)	(799)	(42)	(68)	(22)	13	(4,393)
Changes in value on the recognition of inflation effects	—	—	—	—	—	(6)	(6)
Cost as of December 31, 2019	Ps. 82,000	Ps. 25,833	Ps. 1,165	Ps. 6,430	Ps. 690	Ps. 752	Ps. 116,870
Balance as of January 1, 2020	Ps. 82,000	Ps. 25,833	Ps. 1,165	Ps. 6,430	Ps. 690	Ps. 752	Ps. 116,870
Purchases	—	—	—	43	198	48	289
Acquisition from business combinations	—	—	—	—	—	—	—
Transfer of completed development systems	—	—	—	374	(665)	291	—
Disposals	—	—	(25)	(41)	(6)	(371)	(443)
Effect of movements in exchange rates	(4,604)	(2,402)	8	(97)	(41)	(21)	(7,157)
Changes in value on the recognition of inflation effects	—	—	—	—	—	38	38
Cost as of December 31, 2020	Ps. 77,396	Ps. 23,431	Ps. 1,148	Ps. 6,709	Ps. 176	Ps. 737	Ps. 109,597
Balance as of January 1, 2021	**Ps. 77,396**	**Ps. 23,431**	**Ps. 1,148**	**Ps. 6,709**	**Ps. 176**	**Ps. 737**	**Ps. 109,597**
Purchases	**—**	**—**	**135**	**370**	**673**	**113**	**1,291**
Transfer of completed development systems	**—**	**—**	**—**	**255**	**(469)**	**214**	**—**
Disposals	**—**	**—**	**(3)**	**—**	**—**	**—**	**(3)**
Effect of movements in exchange rates	**(1,257)**	**(522)**	**(88)**	**(374)**	**(5)**	**(24)**	**(2,270)**
Changes in value on the recognition of inflation effects	**—**	**—**	**—**	**—**	**—**	**62**	**62**
Cost as of December 31, 2021	**Ps. 76,139**	**Ps. 22,909**	**Ps. 1,192**	**Ps. 6,960**	**Ps. 375**	**Ps. 1,102**	**Ps. 108,677**

Accumulated amortization	Rights to Produce and Distribute Coca-Cola trademark Products	Goodwill	Other indefinite lived intangible assets	Technology costs and management systems	Development systems	Other amortizables	Total
Balance as of January 1, 2019	(745)	—	—	(3,025)	—	(37)	(3,807)
Amortization expense	—	—	—	(819)	—	(243)	(1,062)
Disposals	—	—	—	17	—	—	17
Effect of movements in exchange rate	—	—	—	52	—	9	61
Changes in value on the recognition of inflation effects	—	—	—	(30)	—	1	(29)
Balance as of December 31, 2019	Ps. (745)	Ps. —	Ps. —	Ps. (3,805)	Ps. —	Ps. (270)	Ps. (4,820)
Amortization expense	—	—	—	(703)	—	(317)	(1,020)
Disposals	—	—	—	20	—	48	68
Effect of movements in exchange rate	—	—	—	164	—	11	175
Changes in value on the recognition of inflation effects	—	—	—	(29)	—	—	(29)
Balance as of December 31, 2020	Ps. (745)	Ps. —	Ps. —	Ps. (4,353)	Ps. —	Ps. (528)	Ps. (5,626)
Amortization expense	**—**	**—**	**—**	**(594)**	**—**	**(294)**	**(888)**
Disposals	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Effect of movements in exchange rate	**—**	**—**	**—**	**53**	**—**	**10**	**63**
Changes in value on the recognition of inflation effects - amortization	**—**	**—**	**—**	**(52)**	**—**	**—**	**(52)**
Balance as of December 31, 2021	**Ps. (745)**	**Ps. —**	**Ps. —**	**Ps. (4,946)**	**Ps. —**	**Ps. (812)**	**Ps. (6,503)**
Balance as of December 31, 2019	Ps. 81,255	Ps. 25,833	Ps. 1,165	Ps. 2,625	Ps. 690	Ps. 482	Ps. 112,050
Balance as of December 31, 2020	Ps. 76,651	Ps. 23,431	Ps. 1,148	Ps. 2,356	Ps. 176	Ps. 209	Ps. 103,971
Balance as of December 31, 2021	**Ps. 75,394**	**Ps. 22,909**	**Ps. 1,192**	**Ps. 2,014**	**Ps. 375**	**Ps. 290**	**Ps. 102,174**

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

For the year ended December 31, 2021, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 15, Ps.108 and Ps. 765, respectively.

For the year ended December 31, 2020, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 22, Ps.154 and Ps.844, respectively.

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

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

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

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

In millions of Ps.		**2021**		**2020**
Mexico	**Ps.**	**56,352**	Ps.	56,352
Guatemala		**1,735**		1,755
Nicaragua		**438**		433
Costa Rica		**1,407**		1,425
Panama		**1,238**		1,200
Colombia		**3,798**		4,414
Brazil		**30,608**		31,741
Argentina		**395**		312
Uruguay		**2,332**		2,450
Total	**Ps.**	**98,303**	Ps.	100,082

Goodwill and distribution rights are tested for impairments annually. The recoverable amounts of the CGUs are based on value-in-use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU.

The foregoing forecasts reflect the outcomes that the Company consider most likely to occur based on the current situation of each of the CGUs including the macroeconomic situation in each CGU including the remaining impacts of the COVID-19 pandemic which has heightened the inherent uncertainty in such estimations, the foregoing forecasts could differ from the results obtained over time.

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

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

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

The discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated into the projected cash flows. The discount rate calculation is based on the opportunity cost to a market participant, considering the specific circumstances of the Company and its operating segments and is derived from its WACC. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest-bearing borrowings the Company is obliged to service, which is equivalent to the cost of debt based on the conditions that a creditor would assess in the market. Segment-specific risk is incorporated by applying beta factors which are evaluated annually based on publicly available market data.

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

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

- Cash flows were projected based on actual operating results and the five-years business plan.
- A WACC per each CGU was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjustment.

The key assumptions by CGU for impairment test as of December 31, 2021 were as follows:

CGU	Pre-tax WACC	WACC Real	Expected Annual Long-Term Inflation 2022-2026	Expected Volume Growth Rates 2022-2026
Mexico	**6.8%**	**4.9%**	**3.7%**	**2.8%**
Brazil	**9.1%**	**5.8%**	**3.3%**	**7.7%**
Colombia	**8.7%**	**5.8%**	**3.0%**	**8.4%**
Argentina	**19.7%**	**14.5%**	**35.9%**	**5.4%**
Guatemala	**7.9%**	**6.1%**	**4.2%**	**10.7%**
Costa Rica	**13.5%**	**9.2%**	**3.1%**	**6.5%**
Nicaragua	**18.3%**	**10.6%**	**4.3%**	**6.4%**
Panama	**8.5%**	**6.5%**	**2.2%**	**7.0%**
Uruguay	**8.5%**	**6.1%**	**5.0%**	**4.0%**

The key assumptions by CGU for impairment test as of December 31, 2020 were as follows:

CGU	Pre-tax WACC	WACC Real	Expected Annual Long-Term Inflation 2021-2030	Expected Volume Growth Rates 2021-2030
Mexico	7.4%	5.3%	3.9%	2.0%
Brazil	9.1%	6.0%	3.0%	2.4%
Colombia	11.0%	7.3%	2.8%	4.1%
Argentina	26.3%	20.4%	30.1%	3.9%
Guatemala	10.6%	8.3%	3.1%	6.8%
Costa Rica	15.3%	10.8%	2.7%	4.3%
Nicaragua	20.6%	13.9%	3.7%	7.1%
Panama	8.8%	6.8%	1.5%	7.9%
Uruguay	9.9%	7.1%	7.8%	2.0%

Sensitivity to Changes in Assumptions

As of December 31, 2021, the Company performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and an additional sensitivity to the volume of 100 basis points and concluded that no impairment would be recorded.

CGU	Change in WACC	Change in Volume Growth CAGR [1]	Effect on Valuation
Mexico	**0.2%**	**-1.0%**	Passes by 6.8x
Brazil	**0.2%**	**-1.0%**	Passes by 2.7x
Colombia	**0.2%**	**-1.0%**	Passes by 4.2x
Argentina	**0.8%**	**-1.0%**	Passes by 10.0x
Guatemala	**0.2%**	**-1.0%**	Passes by 54.5x
Costa Rica	**0.4%**	**-1.0%**	Passes by 3.1x
Nicaragua	**0.5%**	**-1.0%**	Passes by 1.0x
Panama	**0.1%**	**-1.0%**	Passes by 8.2x
Uruguay	**0.1%**	**-1.0%**	Passes by 4.4x

[1] Compound Annual Growth Rate (CAGR)

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

Note 12. Other non-current assets and other non-current financial assets

12.1 Other Non-Current Assets:

		2021		2020
Non-current prepaid advertising expenses	**Ps.**	**213**	Ps.	333
Guarantee deposits [1]		**1,165**		1,465
Prepaid bonuses		**283**		238
Advances to acquire property, plant and equipment		**457**		171
Shared based payment		**303**		192
Indemnifiable contingencies from business combinations [2]		**1,554**		1,609
Recoverable tax		**378**		350
Other		**49**		94
	Ps.	**4,402**	Ps.	4,452

[1] Mainly in Brazil, as it is customary the Company is required to guarantee tax, legal and labor contingencies by guarantee deposits. See Note 24.5.

[2] Corresponds to indemnification assets that are warranted by former Vonpar owners in accordance with the share purchase agreement.

12.2 Other Non-Current Financial Assets:

		2021		2020
Other non-current financial assets	**Ps.**	**153**	Ps.	175
Derivative financial instruments (See Note 19)		**4,983**		2,524
	Ps.	**5,136**	Ps.	2,699

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

Note 13. Balances and Transactions with Related Parties and Affiliated Companies

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

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

		2021		2020
Balances:				
Assets (current included in accounts receivable)				
Due from FEMSA and its subsidiaries (see Note 5) [1] [3]	**Ps.**	**634**	Ps.	624
Due from The Coca-Cola Company (see Note 5) [1]		**820**		509
Due from Heineken Group [1]		**139**		133
Other receivables [1]		**—**		5
	Ps.	**1,593**	Ps.	1,271

		2021		2020
Liabilities (current included in suppliers and other liabilities and loans)				
Due to FEMSA and its subsidiaries [2] [3]	**Ps.**	**1,380**	Ps.	454
Due to The Coca-Cola Company [2]		**1,444**		3,513
Due to Heineken Group [2]		**488**		830
Other payables [2]		**224**		924
	Ps.	**3,536**	Ps.	5,721

[1] Presented within accounts receivable.

[2] Recorded within accounts payable and suppliers

[3] Parent

Balances due from related parties are considered to be recoverable. Accordingly, for the years ended December 31, 2021, 2020 and 2019, there was no expense resulting from the uncollectibility of balances due from related parties.

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

Transactions		2021		2020		2019
Income:						
Sales to affiliated parties	**Ps.**	**5,489**	Ps.	5,020	Ps.	5,694
Heineken		**3**		3		5
Expenses:						
Purchases and other expenses from FEMSA		**7,447**		6,538		7,756
Purchases of concentrate from The Coca-Cola Company		**37,213**		32,222		34,063
Purchases of raw material, beer and operating expenses from Heineken		**11,635**		11,600		12,755
Advertisement expense paid to The Coca-Cola Company		**1,482**		865		1,756
Purchases from Ades		**890**		338		497
Purchases from Jugos del Valle		**2,918**		2,437		2,863
Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V.		**2,213**		2,123		2,728
Purchase of sugar from Beta San Miguel		**938**		1,023		655
Purchase of canned products from Industria Envasadora de Queretaro, S.A. de C.V.		**234**		226		682
Purchase of inventories from Leao Alimentos e Bebidas, LTDA		**1,320**		1,253		1,867
Purchase of resine from Industria Mexicana de Reciclaje, S.A. de C.V.		**416**		308		281
Donations to Instituto Tecnologico y de Estudios Superiores de Monterrey, A.C. [(1) (2)]		**—**		225		127
Donations to Fundación Femsa, A.C.		**230**		114		146
Other expenses with related parties		**156**		10		15

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

[(2)] These donations were made to ITESM through Fundacion FEMSA as intermediary.

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

		2021		2020		2019
Current compensations and employee benefits	**Ps.**	**737**	Ps.	815	Ps.	978
Termination benefits		**—**		68		186
Shared based payments		**276**		190		188

Note 14. Balances and Transactions in Foreign Currencies

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different from the functional currency of the Company. As of December 31, 2021 and 2020, assets and liabilities denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

	Assets		Liabilities	
Balances	Current	Non-current	Current	Non-current
As of December 31, 2021				
U.S. dollars	**28,851**	**14**	**3,495**	**52,591**
Euros	**—**	**—**	**205**	**—**
As of December 31, 2020				
U.S. dollars	21,787	4	2,645	50,969
Euros	—	—	95	—

For the years ended December 31, 2021, 2020 and 2019 transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

Transactions	Revenues	Purchases of Raw Materials	Interest Expense	Other
Year ended December 31, 2021 U.S.dollars	**452**	**14,420**	**1,749**	**2,509**
Year ended December 31, 2020 U.S.dollars	462	12,801	3,418	2,213
Year ended December 31, 2019 U.S.dollars	1,506	14,307	1,910	2,723
Year ended December 31, 2019 Euros	—	454	—	—

Note 15. Post-Employment and Other Non-current Employee Benefits

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

15.1 Assumptions

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

Mexico	2021	2020	2019
Financial:			
Discount rate used to calculate the defined benefit obligation and the net interest on de net defined benefit liability (asset)	**8.0%**	7.2%	7.5%
Salary increase: (Non-Union/Union)	**4.5%**	4.5%	4.5%
Future pension increase	**3.5%**	3.5%	3.5%
Biometric:			
Mortality	**EMSSA 2009 (1)**	EMSSA 2009 (1)	EMSSA 2009 (1)
Disability	**IMSS 97 (2)**	IMSS-97 (2)	IMSS-97 (2)
Normal retirement age	**60 years**	60 years	60 years
Rest of employee turnover	**BMAR2007 (3)**	BMAR2007 (3)	BMAR2007 (3)

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

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

(3) BMAR. Actuary experience

In Mexico the methodology used to determine the discount rate was the yield or Internal Rate of Return ("IRR") which involves a yield curve. In this case, the expected rates of each period were taken from a yield curve of the Mexican Federal Government Treasury Bond (known as CETES in Mexico) because there is no deep market in high quality corporate obligations in Mexico.

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

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

	Pension and Retirement Plans	Seniority Premiums
2022	**Ps. 386**	Ps. 43
2023	**169**	42
2024	**205**	45
2025	**229**	46
2026	**284**	50
2027 to 2031	**1,777**	272

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

		2021		2020
Pension and Retirement Plans:				
Vested benefit obligation	**Ps.**	**952**	Ps.	996
Non-vested benefit obligation		**1,876**		1,644
Accumulated benefit obligation		**2,828**		2,640
Excess of projected defined benefit obligation over accumulated benefit obligation		**1,687**		1,671
Defined benefit obligation		**4,515**		4,311
Pension plan funds at fair value		**(1,234)**		(1,201)
Net defined benefit liability	**Ps.**	**3,281**	Ps.	3,110
Seniority Premiums:				
Vested benefit obligation	**Ps.**	**289**	Ps.	307
Non-vested benefit obligation		**232**		224
Accumulated benefit obligation		**521**		531
Excess of projected defined benefit obligation over accumulated benefit obligation		**457**		334
Defined benefit obligation		**978**		865
Seniority premium plan funds at fair value		**(133)**		(137)
Net defined benefit liability	**Ps.**	**845**	Ps.	728
Total post-employment and other non-current employee benefits	**Ps.**	**4,126**	Ps.	3,838

15.3 Trust assets

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

Type of instrument	2021	2020
Fixed return:		
Traded securities	**22%**	18%
Life annuities	**16%**	18%
Bank instruments	**5%**	17%
Federal government instruments	**37%**	27%
Variable return:		
Publicly traded shares	**20%**	20%
	100%	100%

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

In Mexico, the Income Tax Law requires that, in the case of private plans, certain notifications must be submitted to the authorities and a certain level of instruments must be invested in Federal Government instruments, among others.

The Company's various pension plans have a technical committee that is responsible for verifying the correct operation of the plan with regard to the payment of benefits, actuarial valuations of the plan, and the monitoring and supervision of the benefit trust. The committee is responsible for determining the investment portfolio and the types of instruments the fund will be invested in. This technical committee is also responsible for verifying the correct operation of the plan in all of the countries in which the Company has these benefits.

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

Since the Mexican Tax Law limits the plan's asset investment in related parties, to 10% 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 that the Company invests in related parties included in portfolio fund are mainly as follows:

		2021		2020
Mexico				
Portfolio:				
Debt:				
Grupo Industrial Bimbo, S.A.B. de C. V.	**Ps.**	**25**	Ps.	28
Grupo Financiero Banorte, S.A.B. de C.V.		**9**		9
El Puerto de Liverpool, S.A.B. de C.V.		**9**		—
Capital:				
Fomento Económico Mexicano, S.A.B. de C.V.		**3**		3
El Puerto de Liverpool, S.A.B. de C.V.		**—**		—
Alfa, S.A.B. de C.V.		**—**		—

During the years ended December 31, 2021, 2020 and 2019, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during 2022.

15.4 Amounts recognized in the consolidated income statements and the consolidated statements of equity

	Income statement								Accumulated OCI	
2021		Current Service Cost		Past Service Cost		Gain or Loss on Settlement or curtailment		Net Interest on the Net Defined Benefit Liability		Remeasurements of the Net Defined Benefit Liability net of taxes
Pension and retirement plans	**Ps.**	**244**	**Ps.**	**—**	**Ps.**	**—**	**Ps.**	**197**	**Ps.**	**1,038**
Seniority premiums		**84**		**—**		**—**		**51**		**202**
Total	**Ps.**	**328**	**Ps.**	**—**	**Ps.**	**—**	**Ps.**	**248**	**Ps.**	**1,240**

	Income statement								Accumulated OCI	
2020		Current Service Cost		Past Service Cost		Gain or Loss on Settlement or curtailment		Net Interest on the Net Defined Benefit Liability		Remeasurements of the Net Defined Benefit Liability net of taxes
Pension and retirement plans	Ps.	229	Ps.	71	Ps.	—	Ps.	188	Ps.	934
Seniority premiums		68		—		—		43		239
Total	Ps.	297	Ps.	71	Ps.	—	Ps.	231	Ps.	1,173

	Income statement				Accumulated OCI
2019	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability net of taxes
Pension and retirement plans	Ps. 170	Ps. (44)	Ps. 2	Ps. 176	Ps. 790
Seniority premiums	35	76	—	24	65
Total	Ps. 205	Ps. 32	Ps. 2	Ps. 200	Ps. 855

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

	2021	2020	2019
Amount accumulated in other comprehensive income as of the beginning of the periods	**Ps. 1,173**	Ps. 855	Ps. 344
Recognized during the year (obligation liability and plan assets)	**680**	213	98
Actuarial gains and losses arising from changes in financial assumptions	**(550)**	(76)	456
Actuarial gains and losses arising from changes in demographic assumptions	**—**	184	—
Foreign exchange rate valuation (gain)	**9**	(3)	(43)
Adjustment from employees transferred	**(72)**	—	—
Amount accumulated in other comprehensive income as of the end of the period, net of tax	**Ps. 1,240**	Ps. 1,173	Ps. 855

Remeasurements of the net defined benefit liability include the following:

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

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

	2021	2020	2019
Pension and Retirement Plans:			
Initial balance	**Ps. 4,311**	Ps. 3,912	Ps. 3,388
Current service cost	**244**	229	170
Effect on curtailment	**—**	—	2
Interest expense	**291**	269	275
Actuarial gains or losses	**5**	257	585
Foreign exchange loss	**18**	28	(69)
Benefits paid	**(364)**	(455)	(395)
Past service cost	**10**	71	(44)
	Ps. 4,515	Ps. 4,311	Ps. 3,912
Seniority Premiums:			
Initial balance	**Ps. 865**	Ps. 630	Ps. 411
Current service cost	**84**	68	35
Interest expense	**62**	53	37
Actuarial gains or losses	**74**	187	155
Benefits paid	**(107)**	(73)	(84)
Past service cost	**—**	—	76
	Ps. 978	Ps. 865	Ps. 630

15.6 Changes in the balance of trust assets

		2021		2020		2019
Pension and retirement plans:						
Balance at beginning of year	**Ps.**	**1,201**	Ps.	1,122	Ps.	1,031
Actual return on trust assets		**33**		75		81
Foreign exchange gain		**—**		4		2
Life annuities		**—**		—		8
Balance at end of year	**Ps.**	**1,234**	Ps.	1,201	Ps.	1,122
Seniority premiums						
Balance at beginning of year	**Ps.**	**137**	Ps.	127	Ps.	111
Actual return on trust assets		**(4)**		10		16
Balance at end of year	**Ps.**	**133**	Ps.	137	Ps.	127

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

15.7 Variation in assumptions

The Company decided that the relevant actuarial assumptions that are subject to sensitivity and valuated through the projected unit credit method, are the discount rate and the salary increase rate because they have the most significant impact:

- Discount rate: The rate that determines the value of the obligations over time.
- Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable.

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

-1.0%:	**Income Statement**								**Accumulated OCI**	
Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability (asset)		**Current Service Cost**		**Past Service Cost**		**Gain or Loss on Settlement on curtailment**		**Net Interest on the Net Defined Benefit Liability**		**Remeasurements of the Net Defined Benefit Liability**
Pension and retirement plans	Ps.	255	Ps.	—	Ps.	—	Ps.	226	Ps.	1,463
Seniority premiums		90		—		—		58		173
Total	Ps.	345	Ps.	—	Ps.	—	Ps.	284	Ps.	1,636

Expected salary increase		**Current Service Cost**		**Past Service Cost**		**Gain or Loss on Settlement on curtailment**		**Net Interest on the Net Defined Benefit Liability**		**Remeasurements of the Net Defined Benefit Liability**
Pension and retirement plans	Ps.	211	Ps.	—	Ps.	—	Ps.	172	Ps.	1,288
Seniority premiums		75		—		—		45		145
Total	Ps.	286	Ps.	—	Ps.	—	Ps.	217	Ps.	1,433

15.8 Employee benefits expense

On April 23, 2021, Mexican government enacted changes on several labor laws in order to regulate labor outsourcing. In particular, these changes increased the cost of profit sharing. The amount recorded to expense was of Ps, 1,068 compared to Ps. 673 in 2020.

For the years ended December 31, 2021, 2020 and 2019, employee benefits expenses recognized in the consolidated income statements are as follows:

		2021		2020		2019
Included in cost of goods sold:						
Wages and salaries	**Ps.**	**4,301**	Ps.	3,955	Ps.	4,052
Social security costs		**1,359**		1,251		1,277
Employee profit sharing		**57**		89		79
Pension and seniority premium costs (Note 15.4)		**52**		69		34
Share-based payment expense (Note 16.2)		**19**		4		1
Included in selling and distribution expenses:						
Wages and salaries		**16,627**		15,620		16,068
Social security costs		**4,787**		4,587		4,717
Employee profit sharing		**959**		551		539
Pension and seniority premium costs (Note 15.4)		**235**		261		185
Share-based payment expense (Note 16.2)		**32**		20		2
Included in administrative expenses:						
Wages and salaries		**2,788**		2,448		2,742
Social security costs		**581**		541		625
Employee profit sharing		**52**		33		35
Pension and seniority premium costs (Note 15.4)		**41**		38		20
Share-based payment expense (Note 16.2)		**225**		166		185
Total employee benefits expense	**Ps.**	**32,115**	Ps.	29,633	Ps.	30,561

Note 16. Bonus Programs

16.1 Quantitative and qualitative objectives

The bonus program for executives is based on achieving certain goals established annually by management and directors, which include quantitative and qualitative objectives and special projects.

The quantitative objectives represent approximately 50% of the bonus and are based on the Economic Value Added (“EVA”) methodology. The objective established for the executives at each entity is based on a combination of the EVA generated per entity and by our Company and the EVA generated by our parent Company FEMSA. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

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

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of achievement of the goals established every year. The bonuses are recognized in the income statement in the year earned and are paid in cash the following year. During the years ended December 31, 2021, 2020 and 2019 the bonus expense recorded amounted to Ps. 856, Ps.747 and Ps. 940, respectively.

16.2 Share-based payment bonus plan

The Company has a stock incentive plan for the benefit of its senior executives. This plan uses as its main evaluation metric the EVA. Under the EVA stock incentive plan, eligible executives are entitled to receive a special annual bonus (fixed amount), to purchase FEMSA and Coca-Cola FEMSA shares or options, based on the executive's responsibility in the organization, their business' EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 33% per year. Fifty percent of Coca-Cola FEMSA's annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options. For the years ended December 31, 2021, 2020 and 2019, no stock options have been granted to executives. Beginning with January 1, 2016 the shares ratably vest over a three year period.

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

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

At December 31, 2021 the shares granted under the Company's executive incentive plans are as follows:

	Number of shares		
Incentive Plan	**FEMSA**	**KOF**	**Vesting period**
2017	326,561	369,791	2018-2020
2018	211,290	256,281	2019-2021
2019	312,006	457,338	2020-2022
2020	666,281	956,926	2021-2023
2021	780,524	1,197,820	2022-2024
Total	2,296,662	3,238,156	

For the years ended December 31, 2021, 2020 and 2019, the total expense recognized for the period arising from share-based payment transactions, using the grant date model, was of Ps. 276 Ps. 190 and Ps. 188, respectively.

As of December 31, 2021 and 2020, the asset recorded by the Company in its consolidated statements of financial position amounted was of Ps. 303 and Ps. 192 respectively, see Note 12.

Note 17. Bank Loans and Notes Payables

Expressed in millions of mexican pesos. [1]	2022	2023	2024	2025	2026	2027 and following years	Carrying value as of December 31, **2021**	Fair value as of December 31, **2021**	Carrying value as of December 31, 2020
Short- term debt:									
Fixed rate debt:									
Argentine pesos									
Bank loans	461	—	—	—	—	—	461	461	711
Interest rate	41.02%	—	—	—	—	—	41.02%		44.73%
Uruguayan pesos									
Bank loans	184	—	—	—	—	—	184	184	498
Interest rate	6.00%	—	—	—	—	—	6.00%		15.13%
Subtotal	**645**	**—**	**—**	**—**	**—**	**—**	**645**	**645**	**1,209**
Variable rate debt:									
Colombian pesos									
Bank loans	—	—	—	—	—	—	—	—	436
Interest rate	—	—	—	—	—	—	—		3.08%
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**436**
Short- term debt	**645**	**—**	**—**	**—**	**—**	**—**	**645**	**645**	**1,645**
Long term debt:									
Fixed rate debt:									
U.S. Dollar									
Yankee bond	—	—	—	—	—	52,255	52,255	56,147	50,598
Interest rate	—	—	—	—	—	3.09%	3.09%		3.09%
Mexican pesos									
Senior notes	—	7,498	—	—	—	18,449	25,947	24,722	21,483
Interest rate	—	5.46%	—	—	—	7.59%	6.97%		7.00%
Brazilian reais									
Bank loans	48	28	18	—	—	—	94	94	157
Interest rate	6.00%	6.40%	6.62%	—	—	—	6.24%		6.18%
Uruguayan pesos									
Bank loans	256	930	—	—	—	—	1,186	1,186	1,031
Interest rate	8.04%	6.27%	—	—	—	—	6.65%		9.72%
Subtotal	**304**	**8,456**	**18**	**0**	**—**	**70,704**	**79,482**	**82,149**	**73,269**
Variable rate debt:									
Mexican pesos									
Senior notes	1,499	—	—	1,726	2,425	—	5,650	5,540	3,181
Interest rate	5.49%	—	—	5.32%	5.29%	—	5.35%		4.64%
Bank loans	—	—	—	—	—	—	—	—	9,335
Interest rate	—	—	—	—	—	—	—		5.04%
Brazilian reais									
Bank loans	5	—	—	—	—	—	5	5	48
Interest rate	8.95%	—	—	—	—	—	8.95%		8.44%
Subtotal	**1,504**	**—**	**—**	**1,726**	**2,425**	**—**	**5,655**	**5,545**	**12,564**
Long term debt	**1,808**	**8,456**	**18**	**1,726**	**2,425**	**70,704**	**85,137**	**87,694**	**85,833**
Current portion of long term debt	**1,808**	**—**	**—**	**—**	**—**	**—**	**1,808**	**1,805**	**3,372**
Long- term debt	**—**	**8,456**	**18**	**1,726**	**2,425**	**70,704**	**83,329**	**85,889**	**82,461**

(1) All interest rates shown in this table are weighted average contractual annual rates.

The fair value of bank loans is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for debt of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy. The fair value of the Company's publicly traded debt is based on quoted market prices as of December 31, 2021 and 2020, which is considered to be level 1 in the fair value hierarchy.

For the years ended December 31, 2021, 2020 and 2019, the interest expense related to the bank loans and notes payable is comprised as follows and included in the consolidated income statement under the interest expense caption:

		2021		2020		2019
Interest on debts and borrowings	**Ps.**	**4,544**	Ps.	6,228	Ps.	4,459
Finance charges for employee benefits		**248**		231		200
Derivative instruments (interest)		**1,097**		1,174		1,946
Finance charges of leases		**101**		105		129
Finance operating charges		**202**		156		170
	Ps.	**6,192**	Ps.	7,894	Ps.	6,904

The Company has the following debt bonds: a) registered with the Mexican stock exchange: i) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46%, ii) Ps. 1,500 (nominal amount) with a maturity date in 2022 and floating interest rate of TIIE + 0.25%, iii) Ps. 8,500 (nominal amount) with a maturity date in 2027 and fixed interest rate of 7.87%, iv) Ps. 1,727 (nominal amount) with a maturity date in 2025 and floating interest rate of TIIE + 0.08%, v) Ps. 3,000 (nominal amount) with a maturity date in 2028 and fixed interest rate of 7.35%, vi) Ps. 6,965 (nominal amount) with a maturity date in 2028 and fixed rate of 7.36%, and vii) Ps. 2,435 (nominal amount) with a maturity date in 2026 and floating rate of TIIE + 0.05%, and b) registered with the SEC : i) Senior notes of US. $ 1,250 with interest at a fixed rate of 2.75% and maturity date on January 22, 2030, ii) Senior notes of US. $ 705 with interest at a fixed rate of 1.85% and maturity date on September 1, 2032 and iii) Senior notes of US. $ 600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043 all of which are guaranteed by our subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., and Yoli de Acapulco, S. de R.L. de C.V. ("Guarantors").

During 2019, the Company had credit contracts in Mexico for an amount of Ps. 9,400 at an interest rate of 8.39% and 7.91%. Such loans were used to settle bank loans denominated in USD and for general corporate purposes. Additionally, the Company obtained during 2019 bank loans in Uruguay, Colombia and Argentina for an amount of Ps. 1,670.

During 2020, the Company obtained (and paid off) bank loans to build liquidity in light of the recent COVID-19 pandemic: in Mexico for an amount of Ps. 15,650 at a weighted interest rate of 6.04%, and in Argentina and Colombia for an amount of Ps. 1,184. Similarly, on January 22, 2020 the Company prepaid senior notes in Mexico for US. $ 900, and on February 18, 2020, the Company paid the total balance of its senior notes for US. $ 500. In addition, the Company celebrated bank loans in Argentine and Uruguayan peso with some banks for Ps. 711 and Ps. 759 (nominal amounts), respectively.

On September 2021, the Company issued the first Sustainability-Linked Bond (SLB) in the Mexican Market on a dual-tranche transaction for an amount of Ps. 9,400; such bonds were used to prepay bank loans in Mexico with maturity dates in 2025 and 2026.

Additionally, during 2021, the Company obtained bank loans in local currency in Argentina and Uruguay for Ps. 461 and Ps. 1,114 (nominal amounts) respectively.

17.1 Reconciliation of liabilities arising from financing activities.

		Cash flows		Non-cash impact				
	Carrying Value at December 31, 2020	Repayments	Proceeds	New leases	Others	Foreign Exchange movement	Translation Effect	Carrying Value at December 31, **2021**
Short-term bank loans	Ps. 1,645	Ps. (1,925)	Ps. 844	Ps. —	Ps. —	Ps. —	Ps. 81	Ps. 645
Total short-term from financing activities	Ps. 1,645	Ps. (1,925)	Ps. 844	Ps. —	Ps. —	Ps. —	Ps. 81	Ps. 645
Long-term bank loans	10,568	(9,764)	947	—	—	—	(467)	1,284
Long-term notes payable	75,265	(2,500)	9,400	—	—	1,688	—	83,853
Total long-term from financing activities	Ps. 85,833	Ps. (12,264)	Ps. 10,347	Ps. —	Ps. —	Ps. 1,688	Ps. (467)	Ps. 85,137
Lease liabilities	Ps. 1,306	Ps. (629)	Ps. —	Ps. 533	Ps. 340	Ps. (3)	Ps. (42)	Ps. 1,505
Total from financing activities	Ps. 88,784	Ps. (14,818)	Ps. 11,191	Ps. 533	Ps. 340	Ps. 1,685	Ps. (428)	Ps. 87,287

		Cash flows		Non-cash impact				
	Carrying Value at December 31, 2019	Repayments	Proceeds	New leases	Others	Foreign Exchange movement	Translation Effect	Carrying Value at December 31, 2020
Short-term bank loans	Ps. 882	Ps. (17,641)	Ps. 18,525	Ps. —	Ps. —	Ps. —	Ps. (121)	Ps. 1,645
Short-term notes payable	—	— —	—	— —	— —			
Total short-term from financing activities	Ps. 882	Ps. (17,641)	Ps. 18,525	Ps. —	Ps. —	Ps. —	Ps. (121)	Ps. 1,645
Long-term bank loans	11,576	(896)	293	—	—	—	(405)	10,568
Long-term notes payable	57,519	(26,650)	43,479	—	—	1,018	(101)	75,265
Long-term lease liabilities	—	—	—	—	—	—	—	—
Total long-term from financing activities	Ps. 69,095	Ps. (27,546)	Ps. 43,772	Ps. —	Ps. —	Ps. 1,018	Ps. (506)	Ps. 85,833
Lease liabilities [1]	Ps. 1,383	Ps. (573)	Ps. —	Ps. 599	Ps. 33	Ps. (13)	Ps. (123)	Ps. 1,306
Total from financing activities	Ps. 71,360	Ps. (45,760)	Ps. 62,297	Ps. 599	Ps. 33	Ps. 1,005	Ps. (750)	Ps. 88,784

[1] Beginning balance as of adoption date; January 1st, 2019

Note 18. Other Income and Expenses

		2021		2020		2019
Other income:						
Gain on sale of long-lived assets	**Ps.**	**259**	Ps.	274	Ps.	330
Cancellation of contingencies		**745**		344		565
Foreign exchange gain related to operating activities		**—**		—		79
Joint venture sale		**—**		212		—
Other [1]		**498**		664		916
	Ps.	**1,502**	Ps.	1,494	Ps.	1,890

		2021		2020		2019
Other expenses:						
Provisions for contingencies	**Ps.**	**938**	Ps.	842	Ps.	1,305
Loss on the retirement of long-lived assets		**199**		291		318
Loss on sale of long-lived assets		**201**		178		288
Loss on the retirement of intangible assets		**3**		375		—
Impairment (See Note 8)		**250**		2,501		948
Severance payments [2]		**233**		192		1,062
Donations		**258**		361		288
Foreign exchange losses related to operating activities		**61**		69		—
Other		**166**		296		171
	Ps.	**2,309**	Ps.	5,105	Ps.	4,380

[1] Following a favorable decision from Brazilian tax authorities received during 2019, Coca-Cola FEMSA has been entitled to reclaim indirect tax payments made in prior years in Brazil, resulting in the recognition of a tax credit and a positive effect in the operating revenues and other income captions of the consolidated income statements. See note 23.2.1.

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

Note 19. Financial Instruments

Fair Value of Financial Instruments

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

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

The Company measures the fair value of its financial assets and liabilities classified as level 1 and 2, applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes the Company's financial assets and liabilities measured at fair value, as of December 31, 2021 and 2020:

		2021				2020		
		Level 1		Level 2		Level 1		Level 2
Derivative financial instruments asset	**Ps.**	**764**	**Ps.**	**4,911**	Ps.	488	Ps.	2,440
Derivative financial instruments liability		**35**		**58**		84		1,417
Trust assets of labor obligations		**1,367**		**—**		1,338		—

Impact of hedging on equity

Set out below is the reconciliation of each component of equity and the analysis of other comprehensive income:

	Foreign exchange forward contracts	Foreign currency option	Cross-currency swaps	Interest Rate swaps	Treasury Lock contracts	Commodity price contracts	Total holders of the parent	Non-controlling interest	Total
As at January 1, 2020	Ps. (208)	Ps. —	Ps. (776)	Ps. (78)	Ps. 71	Ps. 23	Ps. (968)	Ps. (97)	Ps. (1,065)
Financial instruments – purchases	(837)	2	161	—	—	351	(323)	53	(270)
Change in fair value of financial instruments recognized in OCI	—	—	2,654	—	—	9	2,663	414	3,077
Amount reclassified from OCI to profit or loss	286	(2)	1,544	98	(102)	(37)	1,787	199	1,986
Foreign currency revaluation of the net foreign operations	—	—	(3,588)	—	—	—	(3,588)	(530)	(4,118)
Effects of changes in foreign exchange rates	7	—	92	14	—	(8)	105	16	121
Tax effect	163	—	(254)	(33)	31	(108)	(201)	(52)	(253)
As at December 31, 2020	Ps. (589)	Ps. —	Ps. (167)	Ps. 1	Ps. —	Ps. 230	Ps. (525)	Ps. 3	Ps. (522)
Financial instruments – purchases	70	—	(61)	—	—	427	436	70	506
Change in fair value of financial instruments recognized in OCI	—	—	198	—	—	826	1,024	66	1,090
Amount reclassified from									
OCI to profit or loss	785	—	—	(1)	—	1,141	(357)	(140)	(497)
Foreign currency revaluation of the net foreign operations	—	—	1,427	—	—	—	1,427	137	1,564
Effects of changes in foreign exchange rates	7	—	8	—	—	(9)	6	(1)	5
Tax effect	(253)	—	(500)	—	—	(34)	(787)	(45)	(832)
As at December 31, 2021	**Ps. 20**	**Ps. —**	**Ps. 905**	**Ps. —**	**Ps. —**	**Ps. 299**	**Ps. 1,224**	**Ps. 90**	**Ps. 1,314**

19.1 Forward agreements to purchase foreign currency

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

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these forwards are recorded as part of "cumulative other comprehensive income". Net gain/loss on expired contracts is recognized as part of foreign exchange or cost of goods sold, depending on the nature of the hedge in the consolidated income statements.

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

At December 31, 2021, the Company had the following outstanding forward agreements to purchase foreign currency:

			Fair Value			
Maturity Date		**Notional Amount**		**(Liability)**		**Asset**
2022	**Ps.**	**6,131**	**Ps.**	**(49)**	**Ps.**	**78**

At December 31, 2020, the Company had the following outstanding forward agreements to purchase foreign currency:

			Fair Value			
Maturity Date		**Notional Amount**		**(Liability)**		**Asset**
2021	Ps.	7,130	Ps.	(843)	Ps.	4

19.2 Cross-currency swaps

The Company has cross-currency swaps contracts to reduce the risk of interest rate and exchange rate fluctuation in the contracted credits denominated in USD. Cross-currency swaps are designated as hedge instruments when the Company changes the debt profile to the functional currency to reduce the exchange rate fluctuation risk.

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

At December 31, 2021, the Company had the following outstanding cross-currency swap agreements:

			Fair Value			
Maturity Date		**Notional Amount**		**(Liability)**		**Asset**
2022	**Ps.**	**407**	**Ps.**	**—**	**Ps.**	**45**
2023		**11,733**		**—**		**3,628**
2026		**6,348**		**(1)**		**220**
2027		**7,204**		**—**		**366**
2030		**3,911**		**(8)**		**404**

At December 31, 2020, the Company had the following outstanding cross-currency swap agreements:

			Fair Value			
Maturity Date		**Notional Amount**		**(Liability)**		**Asset**
2021	Ps.	404	Ps.	(4)	Ps.	—
2023		11,371		—		2,165
2027		6,982		(464)		80
2030		3,790		(107)		192

19.3 Interest Rate swaps

The Company has contracted a number of interest rate swaps associated with its debt denominated in USD. These interest rate swaps are designated as fair value hedges and the fair value changes are recorded in the income statement as "market value (gain) loss on financial instruments".

At December 31, 2021, the Company had the following outstanding interest rate swap agreements.

Maturity Date	Notional Amount	Fair Value (Liability)	Fair Value Asset
2032	**Ps. 6,175**	**Ps. —**	**Ps. 170**

At December 31, 2020, the Company had no outstanding interest rate swap agreements:

19.4 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 materials. The fair value is estimated based on the market valuations to terminate the contracts at the end of the period. These instruments are designated as cash flow hedges and the changes in their fair value are recorded as part of "cumulative other comprehensive income".

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

As of December 31, 2021, the Company had the following aluminum price contracts:

Maturity Date	Notional Amount	Fair Value (Liability)	Fair Value Asset
2022	**Ps. 102**	**Ps. —**	**Ps. 62**

As of December 31, 2021, the Company had the following PX + MEG (resin) price contracts:

Maturity Date	Notional Amount	Fair Value (Liability)	Fair Value Asset
2022	**Ps. 470**	**Ps. (28)**	**Ps. 5**

As of December 31, 2021, the Company had the following sugar price contracts:

Maturity Date	Notional Amount	Fair Value (Liability)	Fair Value Asset
2022	**Ps. 2,020**	**Ps. (7)**	**Ps. 502**
2023	**769**	**—**	**195**

As of December 31, 2020, the Company had the following aluminum price contracts:

Maturity Date	Notional Amount	Fair Value (Liability)	Fair Value Asset
2021	Ps. 695	Ps. —	Ps. 125
2022	Ps. 99	Ps. —	Ps. 17

As of December 31, 2020, the Company had the following PX + MEG (resin) price contracts:

Maturity Date	Notional Amount	Fair Value (Liability)	Fair Value Asset
2021	Ps. 729	Ps. (65)	Ps. —

As of December 31, 2020, the Company had the following sugar price contracts:

Maturity Date	Notional Amount	Fair Value (Liability)	Fair Value Asset
2021	Ps. 1,260	Ps. (18)	Ps. 275
2022	366	—	70

19.5 Sale of Estrella Azul

On September 30, 2020, Coca-Cola FEMSA announced that its joint venture with The Coca-Cola Company (Compañía Panameña de Bebidas, S.A.P.I. de C.V.) successfully sold 100% of its stock interest in Estrella Azul, a dairy products company in Panama. As part of the transaction, the company agreed with the buyer that we could receive payments in the future if the business of Estrella Azul achieves certain volume and EBITDA targets during the 2022-2027 period. The Company estimated the amount of the payments to be received based on the forecasts of the business (level 3 inputs) and calculated their fair value using an income approach. As of December 31, 2021 and 2020, the financial assets recognized in the consolidated statement of financial position has a total value of Ps. 5 and Ps. 8, respectively.

19.6 Net effects of expired contracts that met hedging criteria

Derivative	Impact in consolidated income statement - Gain (Loss)		2021		2020		2019
Cross-currency swaps	Interest expense	**Ps.**	**—**	Ps.	(109)	Ps.	(199)
Cross-currency swaps	Foreign exchange		**—**		1,212		480
Interest rate swaps	Interest expense		**—**		(163)		(515)
Option to purchase foreign currency	Cost of good sold		**—**		8		(63)
Forward agreements to purchase foreign currency	Cost of good sold		**(788)**		839		(163)
Commodity Price contracts	Cost of good sold		**1,245**		(131)		(391)

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

Derivative	Impact in consolidated income statement		2021		2020		2019
Embedded derivatives	Market value (loss) on financial instruments	**Ps.**	**—**	Ps.	—	Ps.	4
Cross currency swaps and interest rate swaps	Market value (loss) on financial instruments		**80**		(212)		(293)

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

Type of Derivatives	Impact in consolidated income statement		2021		2020		2019
Cross currency swaps and interest rate swaps	Market value (loss) on financial instruments	**Ps.**	**—**	Ps.	(212)	Ps.	(293)
Embedded derivatives	Market value (loss) gain on financial instruments		**—**		—		4

19.9 Risk management

The Company has exposure to the following financial risks:

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

Additionally, the COVID-19 pandemic has also caused and continues to cause significant volatility in the financial markets, undermining investors' confidence in the growth of countries and businesses. Due to the volatility caused by the COVID-19 pandemic, as well as currency depreciations against the U.S. dollar in many of the countries where we operate and an increase in the price of certain raw materials, our cost of goods sold has increased.

19.9.1 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, interest rates risk and commodity prices risk including:

- Forward Agreements to Purchase Foreign Currency in order to reduce its exposure to the risk of exchange rate fluctuations.
- Options to purchase foreign currency in order to reduce its exposure to the risk of exchange rate fluctuations.
- Cross-Currency Swaps in order to reduce its exposure to the risk of exchange rate fluctuations and interest rate changes.
- Commodity price contracts in order to reduce its exposure to the risk of fluctuation in the costs of certain raw materials.

The Company tracks the fair value (mark to market) of its derivative financial instruments and its possible changes using scenario analyses. The following disclosures provide a sensitivity analysis of the market risks, which the Company is exposed to as it relates to foreign exchange rates, interest rates and commodity prices, which it considers in its existing hedging strategy:

Forward agreement to purchase U.S. Dollar (MXN/USD)	Change in USD rate	Effect on equity		Profit and loss effect	
2021	**(11)%**	**Ps.**	**(298)**	**Ps.**	**—**
2020	(19)%		(884)		—
2019	(9)%		(739)		—

Forward agreement to purchase U.S. Dollar (BRL/USD)	Change in USD rate	Effect on equity		Profit and loss effect	
2021	**(16)%**	**Ps.**	**(284)**	**Ps.**	**—**
2020	(21)%		(357)		—
2019	(13)%		(155)		—

Forward agreement to purchase U.S. Dollar (COP/USD)	Change in USD rate	Effect on equity		Profit and loss effect	
2021	**(11)%**	**Ps.**	**(81)**	**Ps.**	**—**
2020	(16)%		(142)		—
2019	(10)%		(54)		—

Forward agreement to purchase U.S. Dollar (ARS/USD)	Change in USD rate	Effect on equity		Profit and loss effect	
2021	**(1)%**	**Ps.**	**(3)**	**Ps.**	**—**
2020	(2)%		(2)		—
2019	(25)%		(88)		—

Forward agreement to purchase U.S. Dollar (UYU/USD)	Change in USD rate	Effect on equity		Profit and loss effect	
2021	**(4)%**	**Ps.**	**(7)**	**Ps.**	**—**
2020	(9)%		(21)		—
2019	(5)%		(23)		—

Forward agreement to purchase U.S. Dollar (CRC/USD)	Change in USD rate	Effect on equity		Profit and loss effect	
2021	**(3)%**	**Ps.**	**(10)**	**Ps.**	**—**

Cross currency swaps (USD to MXN)	Change in USD rate	Effect on equity		Profit and loss effect	
2021	**(11)%**	**Ps.**	**(1,645)**	**Ps.**	**—**
2020	(19)%		(5,507)		—
2019	(9)%		(2,315)		—

Cross currency swaps (USD to BRL)	Change in USD rate	Effect on equity		Profit and loss effect	
2021	**(16)%**	**Ps.**	**(2,300)**	**Ps.**	**—**
2020	(21)%		(2,161)		—
2019	(13)%		(645)		—

Sugar price contracts	Change on sugar Price	Effect on equity		Profit and loss effect	
2021	**(28)%**	**Ps.**	**(714)**	**Ps.**	**—**
2020	(32)%		(515)		—
2019	(24)%		(255)		—

Aluminum price contracts	Change on Aluminum price	Effect on equity		Profit and loss effect	
2021	**(24)%**	**Ps.**	**(39)**	**Ps.**	**—**
2020	(16)%		(289)		—
2019	(15)%		(1,164)		—

Options to purchase foreign currency (MXN to USD)	Change on USD rate	Effect on equity		Profit and loss effect	
2021	**—%**	**Ps.**	**—**	**Ps.**	**—**
2020	(10)%		(6)		—
2019	(13)%		(303)		—

19.9.2 Interest rate risk

Interest rate risk is the risk that the expected cash flows 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. In addition, the Company regularly evaluates its hedging activities according to its interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The following disclosures provide a sensitivity analysis of the interest rate risks considered reasonably possible for the following fiscal year, according with its existing floating rate borrowings and derivative financial instruments at the end of the reporting period:

Interest Rate Risk	Change in U.S.$ rate	Effect on (profit) or loss	
2021	**+100 bps**	**Ps.**	**(160)**
2020	+100 bps		(102)
2019	+100 bps		(44)

19.9.3 Liquidity risk

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

Ultimate responsibility for liquidity risk management rests with the Company's board of directors, which has established an appropriate liquidity risk management framework for the evaluation of the Company's short-, medium- and long-term funding and liquidity requirements. The Company manages liquidity risk by maintaining adequate reserves, and continuously monitoring forecasted and actual cash flows and by maintaining a conservative debt maturity profile.

The Company has access to credit from national and international banking institutions in order to face treasury needs; besides, the Company has the highest rating for Mexican companies (AAA) given by independent rating agencies, allowing the Company to access capital markets in case it needs resources.

As part of the Company's financing policy, management expects to continue financing its liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which the Company operates, it may not be beneficial or, practicable to remit cash generated in local operations to fund cash requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, management may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In the future management may finance our working capital and capital expenditure needs with short-term or other borrowings.

The Company's management continuously evaluates opportunities to pursue acquisitions or engage in strategic transactions. The Company would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock.

See Note 17 for a disclosure of the Company's maturity dates associated with its non-current financial liabilities as of December 31, 2021.

The following table reflects all contractually fixed and variable payoffs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected net cash outflows and inflows from derivative financial liabilities (assets) that are in place as of December 31, 2021.

Such expected net cash outflows are determined based on each particular settlement date of an instrument. The amounts disclosed are 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 without fixed amounts or timing are based on economic conditions (like interest rates and foreign exchange rates) existing at December 31, 2021.

(In millions of Ps)	**2022**	**2023**	**2024**	**2025**	**2026**	**2027 and thereafter**
Notes and bonds	**Ps. 1,499**	**Ps. 7,498**	**Ps. —**	**Ps. 1,726**	**Ps. 2,425**	**Ps. 70,704**
Loans from banks	**954**	**958**	**17**	**—**	**—**	**—**
Derivatives financial liabilities (assets)	**(605)**	**(3,825)**	**—**	**—**	**(219)**	**(933)**

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

19.9.4 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions is spread amongst approved counterparties.

The Company has a high receivable turnover, hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in cash. The Company's maximum exposure to credit risk for the components of the statement of financial position at December 31, 2021 and 2020 is the carrying amounts (see Note 5).

The credit risk for liquid funds and derivative financial instruments is limited because the counterparties are highly rated banks as designated by international credit rating agencies.

The Company manages the credit risk related to its derivative portfolio by only entering into transactions with reputable and credit-worthy counterparties as well as by maintaining a Credit Support Annex (CSA) that establishes margin requirements. As of December 31, 2021 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.

19.10 Cash Flow hedges

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

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

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

As of December 31, 2021, the Company's financial instruments used to hedge its exposure to foreign exchange rates, interest rates and commodity risks were as follows:

	Maturity		
	1-6 months	**6-12 months**	**More than 12**
Foreign exchange currency risk			
Foreign exchange currency forward contracts			
Notional amount (in millions of pesos)	**1,985**	**1,057**	—
Average exchange rate MXN/USD	**20.88**	**21.40**	—
Notional amount (in millions of pesos)	**984**	**593**	—
Average exchange rate BRL/USD	**5.61**	**5.97**	—
Notional amount (in millions of pesos)	**497**	**191**	—
Average exchange rate COP/USD	**3,858**	**3,952**	—
Notional amount (in millions of pesos)	**280**	**—**	—
Average exchange rate ARS/USD	**122.56**	**—**	—
Notional amount (in millions of pesos)	**165**	**48**	—
Average exchange rate UYU/USD	**45.51**	**46.30**	—
Notional amount (in millions of pesos)	**211**	**120**	—
Average exchange rate CRC/USD	**646.33**	**650.71**	—
Foreign exchange currency swap contracts			
Notional amount (in millions of pesos)	**—**	**—**	12,968
Average exchange rate MXN/USD	**—**	**—**	19.81
Notional amount (in millions of pesos)	**—**	**—**	15,026
Average exchange rate BRL/USD	**—**	**—**	4.47
Notional amount (in millions of pesos)	**407**	**—**	1,202
Average exchange rate COP/USD	**3,543**	**—**	3,550
Interest rate risk			
Interest rate swaps			
Notional amount (in millions of pesos)	**—**	**—**	6,175
Average interest rate	**—**	**—**	0.09%
Commodities risk			
Aluminum (in millions of pesos)	**67**	**35**	—
Average price (USD/Ton)	**1,722**	**1,777**	—
Sugar (in millions of pesos)	**1,366**	**653**	769
Average price (USD cent/Lb)	**15.22**	**14.76**	14.74
PX+MEG (in millions of pesos)	**337**	**134**	—
Average price (USD /Ton)	**934**	**866**	—

As of December 31, 2020, the Company's financial instruments used to hedge its exposure to foreign exchange rates, interest rates and commodity risks were as follows:

	Maturity		
	1-6 months	**6-12 months**	**More than 12**
Foreign exchange currency risk			
Foreign exchange currency forward contracts			
Notional amount (in millions of pesos)	2,806	1,888	—
Average exchange rate MXN/USD	23.35	23.47	—
Notional amount (in millions of pesos)	844	491	—
Average exchange rate BRL/USD	5.41	5.37	—
Notional amount (in millions of pesos)	511	212	—
Average exchange rate COP/USD	3,750	3,740	—
Notional amount (in millions of pesos)	96	—	—
Average exchange rate ARS/USD	92.97	—	—
Notional amount (in millions of pesos)	225	58	—
Average exchange rate UYU/USD	45.92	45.69	—
Foreign exchange currency swap contracts			
Notional amount (in millions of pesos)	—	—	12,568
Average exchange rate MXN/USD	—	—	19.81
Notional amount (in millions of pesos)	—	—	9,575
Average exchange rate BRL/USD	—	—	4.00
Interest rate risk			
Interest rate swaps			
Notional amount (in millions of pesos)	404	—	—
Average interest rate	3,454	—%	—
Commodities risk			
Aluminum (in millions of pesos)	325	370	—
Average price (USD/Ton)	1,654	1,720	1,740
Sugar (in millions of pesos)	869	391	365
Average price (USD cent/Lb)	12.13	11.87	12.17
PX+MEG (in millions of pesos)	364	364	—
Average price (USD /Ton)	730	730	—

Note 20. Non-Controlling Interest in Consolidated Subsidiaries

An analysis of Coca-Cola FEMSA's non-controlling interest in its consolidated subsidiaries as of December 31, 2021, 2020 and 2019 is as follows:

	2021	**2020**	**2019**
Mexico	**Ps. 5,200**	Ps. 4,823	Ps. 5,671
Colombia	**19**	22	21
Brazil	**803**	738	1,059
	Ps. 6,022	Ps. 5,583	Ps. 6,751

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

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

	2021	**2020**	**2019**
Balance at beginning of the period	**Ps. 5,583**	Ps. 6,751	Ps. 6,806
Net income of non-controlling interest	**623**	61	529
Exchange differences on translation of foreign operations	**(210)**	(1,261)	(565)
Valuation of the effective portion of derivative financial instruments, net of taxes	**87**	100	(16)
Dividends paid	**(61)**	(68)	(3)
Balance at end of the period	**Ps. 6,022**	Ps. 5,583	Ps. 6,751

Note 21. Equity

21.1 Equity accounts

As of December 31, 2021, the common stock of Coca-Cola FEMSA is represented by 16,806,658,096 common shares, with no par value. Fixed capital stock is Ps. 934 (nominal value) and variable capital is unlimited.

The characteristics of the common shares are as follows:

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

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

(i) An eight-for-one stock split (the "Stock Split") of each series of shares of the Company;

(ii) The issuance of Series B ordinary shares with full voting rights;

(iii) The creation of units, comprised of 3 Series B shares and 5 Series L shares, to be listed for trading on the Mexican Stock Exchange ("BMV") and in the form of American depositary shares (ADSs) on the New York Stock Exchange ("NYSE"); and

(iv) Amendments to the Company's bylaws mainly to give effect to the matters approved in paragraphs (i), (ii), and (iii), described above.

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

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

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

Outstanding shares prior to the Stock Split:

Series of shares	Shareholders	Outstanding shares	% of the capital stock	% of ordinary shares with full voting rights
A	Wholly-owned subsidiary of Fomento Económico Mexicano, S.A.B. de C.V.	992,078,519	47.22%	62.96%
D	Wholly-owned subsidiaries of The Coca-Cola Company	583,545,678	27.78%	37.04%
L	Public float	525,208,065	25.00%	0%
Total		**2,100,832,262**	**100%**	**100%**

Outstanding shares after the Stock Split:

Series of shares	Shareholders	Outstanding shares	% of the capital stock	% of ordinary shares with full voting rights
A	Wholly-owned subsidiary of Fomento Económico Mexicano, S.A.B. de C.V.	7,936,628,152	47.22%	55.97%
D	Wholly-owned subsidiaries of The Coca-Cola Company	4,668,365,424	27.78%	32.92%
B	Public float	1,575,624,195	9.38%	11.11%
L	Public float	2,626,040,325	15.63%	0%
Total		**16,806,658,096**	**100%**	**100%**

As of December 31, 2021, 2020 and 2019, the number of each share series representing Coca-Cola FEMSA's common stock is comprised as follows:

	Thousands of Shares		
Series of shares	**2021**	**2020**	**2019**
A	**7,936,628**	7,936,628	7,936,628
B	**1,575,624**	1,575,624	1,575,624
D	**4,668,366**	4,668,366	4,668,366
L	**2,626,040**	2,626,040	2,626,040
	16,806,658	16,806,658	16,806,658

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve amounts to 20% of common stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company. As of December 31, 2021, 2020 and 2019, this reserve was Ps. 412, Ps. 412 and Ps. 187 respectively included in retained earnings.

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect at the date of distribution, except for restated shareholder contributions and distributions made from net 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. This tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. The Company's consolidated balances of CUFIN at December 31, 2021, that are not subject to withholding tax, amounted to Ps. 14,027 .

For the years ended December 31, 2021, 2020 and 2019 the dividends declared and paid per share by the Company are as follows:

Series of shares (1)		**2021** (1)		**2020**		**2019**
A	**Ps.**	**5,000**	Ps.	4,822	Ps.	3,512
D		**2,941**		2,836		2,066
L		**1,654**		1,595		1,162
B		**993**		957		697
	Ps.	**10,588**	Ps.	10,210	Ps.	7,437

(1) At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 19, 2021, the shareholders declared a dividend of Ps. 10,588 that was paid on May 4, 2021 and November 3, 2021. This represents a dividend of Ps. 5.04 per each ordinary share.

There were no withholding taxes associated with the payment of dividends in 2021, 2020 and 2019 by the Company to its shareholders

21.2 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 balances in order to obtain the lowest cost of capital available. The Company manages its capital structure and adjust 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, 2021 and 2020.

The Company is not subject to any externally imposed capital requirements, other than the legal reserve (see Note 21.1).

The Company's Finance and Planning 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, currently rated AAA and A/A2/BBB+ respectively, which requires us to comply, among others, with the financial metrics that each rating agency considers. For example, some rating agencies require us to maintain a debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio lower than 2.0x. As a result, prior to entering into new business ventures, acquisitions or divestitures, management evaluates the impact that these transactions can have on its credit rating.

Note 22. Earnings per Share

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

Diluted earnings per share amounts are calculated by dividing consolidated net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the period plus the weighted average number of shares for the effects of dilutive potential shares (originated by the Company's commitment to capitalize 27.9 million KOF series L shares).

Earnings amounts per share type are as follows:

	2021			
	Per series "A" shares	**Per series "D" shares**	**Per series "B" shares**	**Per series "L" shares**
Consolidated net Income	**Ps. 7,712**	**Ps. 4,536**	**Ps. 1,531**	**Ps. 2,552**
Consolidated net income attributable to equity holders of the parent	**7,418**	**4,363**	**1,473**	**2,454**
Weighted average number of shares for basic earnings per share (millions of shares)	**7,937**	**4,668**	**1,576**	**2,626**

	2020			
	Per series "A" shares	**Per series "D" shares**	**Per series "B" shares**	**Per series "L" shares**
Consolidated net Income	Ps. 4,896	Ps. 2,880	Ps. 972	Ps. 1,620
Consolidated net income attributable to equity holders of the parent	4,868	2,863	966	1,610
Weighted average number of shares for basic earnings per share (millions of shares)	7,937	4,668	1,576	2,626

	2019			
	Per series "A" shares	**Per series "D" shares**	**Per series "B" shares**	**Per series "L" shares**
Consolidated net Income	Ps. 5,965	Ps. 3,508	Ps. 1,184	Ps. 1,973
Consolidated net income attributable to equity holders of the parent	5,715	3,360	1,135	1,891
Weighted average number of shares for basic earnings per share (millions of shares)	7,937	4,668	1,576	2,626

Note 23. Income Taxes

23.1 Income Tax

The major components of income tax expense for the years ended December 31, 2021, 2020 and 2019 are:

		2021		2020		2019
Current tax expense:						
Current year	**Ps.**	**4,259**	Ps.	7,367	Ps.	6,011
Deferred tax expense:						
Origination and reversal of temporary differences		**2,795**		(3,391)		905
(Benefit) utilization of tax losses recognized		**(445)**		1,452		(1,268)
Total deferred tax expense (benefit)		**2,350**		(1,939)		(363)
Total income tax expense in consolidated net income	**Ps.**	**6,609**	Ps.	5,428	Ps.	5,648

2021		**Mexico**		**Foreign**		**Total**
Current tax expense:						
Current year	**Ps.**	**3,356**	**Ps.**	**903**	**Ps.**	**4,259**
Deferred tax expense:						
Origination and reversal of temporary differences		**1,659**		**1,136**		**2,795**
Utilization (benefit) of tax losses recognized		**356**		**(801)**		**(445)**
Total deferred tax		**2,015**		**335**		**2,350**
Total income tax expense in consolidated net income	**Ps.**	**5,371**	**Ps.**	**1,238**	**Ps.**	**6,609**

2020		**Mexico**		**Foreign**		**Total**
Current tax expense:						
Current year	Ps.	6,311	Ps.	1,056	Ps.	7,367
Deferred tax expense:						
Origination and reversal of temporary differences		(2,676)		(715)		(3,391)
Utilization (benefit) of tax losses recognized		1,962		(510)		1,452
Total deferred tax (benefit)		(714)		(1,225)		(1,939)
Total income tax expense (benefit) in consolidated net income	Ps.	5,597	Ps.	(169)	Ps.	5,428

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

Recognized in Consolidated Statement of Other Comprehensive Income (OCI)

Income tax related to items charged or recognized directly in OCI during the year:		**2021**		**2020**		**2019**
Unrealized loss (gain) on cash flow hedges	**Ps.**	**787**	Ps.	216	Ps.	(373)
Remeasurements of the net defined benefit liability		**(27)**		(130)		(192)
Total income tax recognized in OCI	**Ps.**	**760**	Ps.	86	Ps.	(565)

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

Income tax related to items recognized directly in OCI as of year-end:		**2021**		**2020**		**2019**
Unrealized loss (gain) on derivative financial instruments	**Ps.**	**573**	Ps.	(212)	Ps.	(481)
Comprehensive loss (income) to be reclassified to profit or loss in subsequent periods		**573**		(212)		(481)
Re-measurements of the net defined benefit liability		**(408)**		(378)		(240)
Balance of income tax in AOCI	**Ps.**	**165**	Ps.	(590)	Ps.	(721)

A reconciliation between effective income tax rate and Mexican domestic statutory tax rate for the years ended December 31, 2021, 2020 and 2019 follows:

	2021	2020	2019
Mexican statutory income tax rate	**30%**	30%	30%
Income tax from prior years	**(0.64)%**	(0.38)%	(2.66)%
(Loss) on monetary position for subsidiaries in hyperinflationary economies	**(0.21)%**	(0.62)%	(0.50)%
Annual inflation tax adjustment	**6.48%**	0.73%	0.78%
Non-deductible expenses	**1.82%**	2.49%	3.92%
Non-taxable income	**—%**	—%	—%
Income taxed at a rate other than the Mexican statutory rate	**1.14%**	0.08%	1.28%
Effect of restatement of tax values	**(2.54)%**	(1.81)%	(1.47)%
Effect of change in statutory rate	**(0.09)%**	(0.23)%	(0.52)%
Income tax credits [1]	**(2.69)%**	(10.34)%	(0.18)%
Tax loss	**(3.57)%**	13.80%	(1.01)%
Other	**(0.78)%**	0.04%	1.04%
	28.92%	33.76%	30.68%

[1] Favorable position of Brazilian Courts related to a no taxation on financial effects of recovered tax credits from previously won judicial disputes, which allowed a recognition of a deferred tax credit in Brazil.

Deferred income tax

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

	Consolidated Statement of Financial Position as of		Consolidated Income Statement		
	2021	**2020**	**2021**	**2020**	**2019**
Expected credit losses	**Ps. (96)**	Ps. (64)	**Ps. (34)**	Ps. (10)	Ps. (18)
Inventories	**17**	23	**(1)**	72	(37)
Prepaid expenses	**55**	26	**29**	(17)	41
Property, plant and equipment, net	**(1,171)**	(1,006)	**(223)**	(90)	128
Rights of use assets	**112**	176	**(68)**	(22)	197
Other assets	**(340)**	(325)	**(28)**	(389)	24
Finite useful lived intangible assets	**(54)**	(128)	**69**	(275)	(78)
Indefinite lived intangible assets	**1,412**	796	**165**	140	114
Post-employment and other non-current employee benefits	**(447)**	(381)	**(59)**	4	65
Derivative financial instruments	**2**	74	**(72)**	80	(12)
Contingencies	**(889)**	(1,627)	**171**	182	(94)
Employee profit sharing payable	**(444)**	(208)	**(236)**	(7)	17
Tax loss carryforwards	**(7,244)**	(6,915)	**(445)**	2,342	(1,268)
Tax credits to recover [1]	**(1,394)**	(2,594)	**1,200**	(1,629)	(122)
Cumulative other comprehensive income	**165**	(590)	**760**	86	29
Liabilities of amortization of goodwill of business acquisition	**5,897**	6,554	**87**	—	860
Financial leasing	**(155)**	(211)	**53**	(23)	(190)
Other [2]	**(1,058)**	(2,269)	**982**	(2,383)	(19)
Deferred tax (income)			**Ps. 2,350**	Ps. (1,939)	Ps. (363)

	2021	2020
Deferred tax, asset	**Ps. (8,342)**	Ps. (11,143)
Deferred tax, liability	**2,710**	2,474
Deferred income taxes, net	**Ps. (5,632)**	Ps. (8,669)

[1] Corresponds to income tax credits from dividends received from foreign subsidiaries to be recovered within the next ten years accordingly to the Mexican Income Tax law.

[2] One of the principal items considered are deferred non deductible interest calculated according to the Mexican Tax Law.

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

		2021		2020		2019
Balance at beginning of the period	**Ps.**	**(8,669)**	Ps.	(6,661)	Ps.	(5,582)
Deferred tax provision for the period		**2,350**		(1,939)		(363)
Change in the statutory rate		**81**		(42)		(66)
Acquisition of subsidiaries		**—**		—		57
Effects in equity:						
Unrealized loss (gain) on derivative financial instruments		**787**		216		(373)
Cumulative translation adjustment		**(163)**		(392)		(230)
Remeasurements of the net defined benefit liability		**(27)**		(130)		(192)
Inflation adjustment		**9**		279		88
Balance at end of the period	**Ps.**	**(5,632)**	Ps.	(8,669)	Ps.	(6,661)

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes levied by the same tax authority.

The Company has determined that undistributed profits of its subsidiaries, will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which deferred tax liabilities have not been recognized, aggregate to December 31, 2021: Ps. 8,762, December 31, 2020: Ps. 5,212 and, December 31, 2019: Ps. 13,187.

Tax Loss Carryforwards

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

		Tax Loss Carryforwards amounts in millions
2025	**Ps.**	**1,218**
2026		**5,516**
2027		**—**
2028		**509**
2029		**10**
2030		**—**
2031 and thereafter		**89**
No expiration (Brazil)		**14,787**
	Ps.	**22,129**

During 2013, the Company completed certain acquisitions in Brazil. In connection with the acquisitions in Brazil the Company recorded certain goodwill balances that are deductible for Brazilian income tax reporting purposes. The deduction of such goodwill amortization has resulted in the creation of Net Operating Losses (NOLs) in Brazil which the NOLs for which deferred tax asset has been recorded, which have no expiration, but their usage is limited to 30% of Brazilian taxable income in any given year. As of December 31, 2021 and 2020 the Company believes that it is more likely than not that it will ultimately recover such NOLs through the reversal of temporary differences and future taxable income. Accordingly, the related deferred tax assets have been fully recognized.

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

		2021		2020		2019
Balance at beginning of the period	**Ps.**	**21,522**	Ps.	28,871	Ps.	25,879
Increase		**5,768**		4,985		6,029
Utilization of tax losses		**(4,558)**		(1,986)		(1,854)
Unused tax losses - 2028 to 2030		**—**		(7,830)		—
Effect of foreign currency exchange rates		**(603)**		(2,518)		(1,183)
Balance at end of the period	**Ps.**	**22,129**	Ps.	21,522	Ps.	28,871

23.2 Recoverable taxes
Recoverable taxes result mainly from higher provisional payments of income tax during 2021 in México in comparison to current year income tax, and other indirect tax, which will be compensated or recovered in future years.

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

23.2.1 Exclusion of the State VAT (ICMS) on the federal sale taxes (PIS / COFINS) calculate basis
On March 15, 2017 the Brazilian Federal Supreme Court (STF) ruled that the inclusion of the VAT (ICMS) on federal sales taxes (PIS and COFINS) taxable basis was unconstitutional. During 2019, our companies in Brazil obtained conclusive favorable motions over this exclusion of VAT (ICMS) over PIS / COFINS calculation. The net favorable effects of each case are to be recorded at the time all formalities and legal procedures are finalized and recovery of the taxes paid becomes virtually certain. During 2021, 2020 and 2019, the administrative formalities for three of the motions and the recoverable taxes were concluded and were recorded in the income statement.

As of December 31, 2021 and 2020 the amount of recoverable taxes in Brazil including PIS and COFINS is Ps. 1,243 and Ps. 2,523 respectively.

23.3 Tax Reform
Brazil

In early 2017, the Supreme Court decided that the value-added tax would not be used as the basis for calculating the federal sales tax, resulting in a reduction of the federal sales tax. The Brazilian tax authorities have appealed the Supreme Court's decision and such appeal was refused on a final decision in May 2021. However, our Brazilian subsidiaries commenced legal proceedings to ascertain their ability to calculate federal sales tax without using the value-added tax as a basis, in accordance with the Supreme Court's first ruling, and obtained a final favorable resolution in 2019. In 2021, the federal production and sales taxes together resulted in an average of 16.20% tax over net sales.

In recent years, the excise tax rate on concentrate in Brazil has undergone recurrent temporary fluctuations. The excise tax rate was increased from 4.0% to 12.0% from January 1, 2019 to June 30, 2019, was reduced to 8.0% from July 1, 2019 to September 30, 2019 and was increased to 10.0% from October 1, 2019 to December 31, 2019. The excise tax rate was reduced to 4.0% from January 1, 2020 to May 31, 2020, was increased to 8.0% from June 1, 2020 to November 30, 2020, was reduced again to 4.0% from December 1, 2020 to January 31, 2021, and was increased to 8.0% from February 1, 2021 onwards. The tax credit that we may recognize in our Brazilian operations in connection with purchases of concentrate in the Manaus Free Trade Zone has been affected accordingly.

Argentina

On January 1, 2018, a tax reform became effective in Argentina. That reform reduced the income tax rate from 35.0% to 30.0% for 2018 and 2019, and then to 25.0% for 2020. In June 2021 (effective retroactively to January 2021), the Argentine government increased the income tax rate to 35.0% for 2021 onwards and imposed a tax rate of 7.0% on dividends paid to non- resident stockholders and resident individuals.

This same tax reform imposed a new tax on dividends paid to nonresident stockholders and resident individuals at a rate of 7.0% for 2018 and 2019, and then to 13.0% for the following years. The reform decreased the sales tax rate in the province of Buenos Aires from 1.75% to 1.5% in 2018. The reform shceduled a reduction in the sales tax rate in the City of Buenos Aires from to 2.0% to 1.5% in 2019, to 1.0% in 2020, to 0.5% in 2021. Nonetheless,the Argentine government issued several executive decrees since 2019 to maintain the sales tax rate for both the province of Buenos Aires and the City of Buenos Aires at a rate of 1.5%.

Mexico

On January 1, 2019, the Mexican government eliminated the right to offset any tax credit against any payable tax (universal offset or compensation universal). Effective as of such date, tax credits weare only offset against taxes of the same nature, and it is not possible to offset tax credits against taxes withheld to third parties.

On January 1, 2020, a tax reform became effective in Mexico. The most relevant changes are: (i) a limitation on taxpayers' annual net interest expense deduction equal to 30.0% of the taxpayer's adjusted taxable income (comparable to EBITDA), provided that (x) any interest expenses of a company below Ps.20 million (approximately US$1 million) are not subject to the rule and can therefore be deducted in their entirety and (y) any deductible interest that is not allowed to be deducted in a given year because of the 30.0% limit, may be carried forward for the subsequent 10 years; (ii) stringent rules to categorize certain foreign income and foreign subsidiaries that are subject to low levels of taxation as subject to Mexican income tax; (iii) an inflation-related increase in the excise tax applicable to the production, sale and import of beverages with added sugar and HFCS from Ps.1.17 to Ps.1.2616 per liter, which excise tax will be subject to an annual increase based on the previous year's inflation rate starting on January 1, 2021; (iv) an expansion of the definition of "energy drink" to apply an excise tax of 25.0% on beverages that include a mix of caffeine and any other stimulants; and (v) a modification of the Mexican Federal Tax Code to (a) increase the number of events that may trigger the joint and several liability of partners, shareholders, directors, managers or any other person responsible for the management of a business, (b) add a new disclosure obligation of certain reportable transactions to tax authorities, and (c) increase the tax authorities' discretion to limit tax benefits or attributes in situations where authorities believe the tax benefit, rather than a business reason or an alternative economic benefit, is the primary factor behind a transaction or legal structure.

In April 2021, the Mexican government amended the Federal Labor Law, the Tax Code and other laws that regulate labor benefits to, among other things, prohibit the outsourcing of personnel, except in certain circumstances. As a result of this tax reform, the deduction of expenses related to the outsourcing is prohibited as well as the ability to credit the value-added tax generated by the expenses related to the outsourcing and in extreme cases, the outsourcing of personnel may qualify as tax fraud. This reform became effective on September 1, 2021.

Colombia

On January 1, 2019, a new tax reform became effective in Colombia. This reform reduced the previous income tax rate of 33.0% for 2019 to 32.0% for 2020, to 31.0% for 2021 and to 30.0% for 2022. The minimum assumed income tax (renta presuntiva sobre el patrimonio) was also reduced from 3.5% for 2018 to 1.5% for 2019 and 2020, and to 0.0% for 2021. In addition, the thin capitalization ratio was adjusted from 3:1 to 2:1, and was modified to apply only to transactions between related parties. Commencing on January 1, 2019, value-added tax, which was applied only to the first sale in the supply chain prior to December 31, 2018, began to be applied and transferred throughout the entire supply chain, which in our case results in charging value-added tax on the sales price of our finished goods (applicable to our Colombian subsidiary located in the free trade zone). For companies located in free trade zones, the value-added tax is charged on the cost of imported raw materials of national and foreign origin, which we are able to credit against the value-added tax on the sales price of our products. The municipality sales tax was 50.0% deductible against income tax payable in 2019 and 100.0% deductible in 2020. Finally, the value-added tax paid on acquired fixed assets will be credited against income tax or the minimum assumed income tax. Additionally, this tax reform increased the tax rate on dividends paid to foreign individuals and non-resident entities from 5.0% to 7.5%. The tax reform also imposed a tax rate of 7.5% on dividends paid to Colombian companies. This tax is charged only on the first distribution of dividends from one Colombian corporate entity to another, and a credit resulting from the tax withholding is carried forward until a Colombian company makes a distribution to a shareholder that is an individual residing in Colombia or a non-resident individual or entity.

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

In August 2021, a new tax reform became effective in Colombia. This reform increased the income tax rate from 30.0% to 35.0% for 2022 onwards and limited to 50.0% the ability to deduct the municipality sales taxes against income taxes.

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

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

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

Uruguay
On December 31, 2021 Uruguayan government issued an executive decree that increased the excise tax from 19% to 22% for energy drinks that should have applied beginning January 2022.

On December 29, 2020, the Uruguayan government issued an executive decree to modify the way the excise tax credit of beverages sold in returnable bottles is calculated, which excise tax credit is currently 1.15 Uruguayan pesos (Ps.0.53 as of December 31, 2021) per liter. Starting on January 1, 2021 and until June 30, 2021, the excise tax credit was calculated based on the ratio of purchases made by any company in Uruguay selling returnable bottles produced in Uruguay in the last three years to the total purchases of returnable bottles made by such company in and outside Uruguay in the last three years. The Uruguayan government did not issue another executive decree with the rules so since July 1st, 2021, this tax credit is not longer applicable.

Note 24. Other Liabilities, Provisions and Commitments

24.1 Other current financial liabilities

		2021		2020
Sundry creditors	**Ps.**	**657**	Ps.	1,018
Derivative financial instruments		**84**		930
Total	**Ps.**	**741**	Ps.	1,948

24.2 Provisions and other non-current liabilities

		2021		2020
Provisions	**Ps.**	**4,150**	Ps.	5,100
Taxes payable		**53**		67
Other [(1)]		**2,007**		2,144
Total	**Ps.**	**6,210**	Ps.	7,311

[(1)] Includes an amount ofPs. 899 for 2021 an 2020 related of certain tax contingencies that expired and are payable to the former shareholders of Spaipa (acquired in 2013).

24.3 Other non-current financial liabilities

		2021		2020
Derivative financial instruments	**Ps.**	**9**	Ps.	571
Security deposits		**499**		363
Total	**Ps.**	**508**	Ps.	934

Costa Rica

24.4 Provisions recorded in the consolidated statement of financial position

The Company has various loss contingencies and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2021 and 2020:

		2021		2020
Taxes	**Ps.**	**2,066**	Ps.	2,540
Labor		**1,472**		1,681
Legal		**612**		879
Total [1]	**Ps.**	**4,150**	Ps.	5,100

[1] As it is customary in Brazil, the Company is required to guarantee tax, legal and labor contingencies by guarantee deposits. See Note 12.

24.5. Changes in the balance of provisions recorded

24.5.1 Taxes

		2021		2020		2019
Balance at beginning of the period	**Ps.**	**2,540**	Ps.	4,696	Ps.	5,038
Penalties and other charges		**30**		—		1
New contingencies		**148**		186		368
Cancellation and adjustments		**(59)**		(152)		(247)
Payments		**(236)**		(187)		(68)
Reversal of indemnifiable items [1]		**—**		(1,177)		—
Other Effects		**(263)**		—		—
Effect of foreign currency exchange rates		**(94)**		(826)		(396)
Balance at end of the period	**Ps.**	**2,066**	Ps.	2,540	Ps.	4,696

[1] This amount for 2021 includes Ps. 899 of certain tax contingencies that expired and are payable to the former shareholders of Spaipa (acquired in 2013), see Note 24.2.

24.5.2 Labor

		2021		2020		2019
Balance at beginning of the period	**Ps.**	**1,681**	Ps.	2,222	Ps.	2,340
Penalties and other charges		**303**		228		249
New contingencies		**363**		227		465
Cancellation and expiration		**(445)**		(51)		(273)
Contingencies added in business combinations		**—**		—		44
Payments		**(358)**		(561)		(401)
Effects of foreign currency exchange rates		**(72)**		(384)		(202)
Balance at end of the period	**Ps.**	**1,472**	Ps.	1,681	Ps.	2,222

24.5.3 Legal

		2021		2020		2019
Balance at beginning of the period	**Ps.**	**879**	Ps.	1,065	Ps.	920
Penalties and other charges		**68**		8		94
New contingencies		**26**		193		128
Cancellation and expiration		**(241)**		(141)		(45)
Contingencies added in business combinations		**—**		—		77
Payments		**(97)**		(111)		(44)
Effect of foreign currency exchange rates		**(23)**		(135)		(65)
Balance at end of the period	**Ps.**	**612**	Ps.	879	Ps.	1,065

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.

24.6 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 arisen in the ordinary course of business and are common to the industry in which the Company operates. Such contingencies were classified by the Company as less than probable but not remote, the estimated amount including uncertain tax position as of December 31, 2021 of these lawsuits is Ps. 102,659, however, the Company believes that the ultimate resolution of such proceedings will not have a material effect on its consolidated financial position or result of operations.

The Company has tax disputes, most of which are related to its Brazilian operations, with loss expectations assessed by management and supported by the analysis of legal counsel considered as possible. The main possible tax contingencies of Brazilian operations amount to approximately Ps. 55,288. This refers to various tax disputes related primarily to: (i) Ps. 8,573 of credits for ICMS (VAT); (ii) Ps. 30,821 related to tax credits of IPI over raw materials acquired from Free Trade Zone Manaus; (iii) Claims of Ps. 4,766 related to compensation of federal taxes not approved by the Tax authorities; (iv) Ps. 8,549 relating to questions about the amortization of goodwill generated in acquisitions operations; and (v) Ps. 2,579 relating to liability over the operations of a third party, former distributor, in the period from 2001 to 2003. The Company is defending its position in these matters and final decision is pending in court.

After conducting a thorough analysis, during 2021 the Company has decided to reverse its temporary decision to suspend tax credits on concentrate purchased from the Manaus Free Trade Zone in Brazil. As a result, the Company has recognized an extraordinary benefit of Ps. 1,083 million in the cost of goods sold equivalent to the accumulated credit suspended since 2019 and until the first quarter of 2021. This decision was supported by recent developments and opinions from external advisors.

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 these subsidiaries operate. The Company does not expect any material liability to arise from these contingencies.

24.7 Collateralized contingencies

As is customary in Brazil, the Company has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 10,721, Ps. 7,342 and Ps. 10,471 as of December 31, 2021, 2020 and 2019, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies. Also as disclosed in Note 7.2 there is some restricted cash in Brazil relates to short term deposits in order to fulfill the collateral requirements for accounts payable.

24.8 Commitments

The Company has signed commitments for the purchase of property, plant and equipment of Ps. 726 and Ps. 432 as December 31, 2021 and 2020, respectively.

Note 25. Information by segment

The Company's chief operating decision maker ("CODM") is the Chief Executive Officer, who periodically reviews financial information at the country level. Thus, each of the separate countries in which the Company operates is considered an operating segment.

The Company has aggregated operating segments into the following reporting segments for the purposes of its consolidated financial statements: (i) Mexico and Central America division (comprising the following countries: Mexico (including corporate operations), Guatemala, Nicaragua, Costa Rica and Panama), and (ii) the South America division (comprising the following countries: Brazil, Argentina, Colombia, and Uruguay).

The Company is of the view that the quantitative and qualitative aspects of the aggregated operating segments are similar in nature for all periods presented. In evaluating the appropriateness of aggregating operating segments, the key indicators considered included but were not limited to:(i) similarities of customer base, products, production processes and distribution processes, (ii) similarities of governments, (iii) currency trends and (iv) historical and projected financial and operating statistics, historically and according to our estimates the financial trends of the countries aggregated into an operating segment have behaved in similar ways and are expected to continue to do so.

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

2021	Mexico and Central America (1)	South America (2)	Consolidated
Total revenues	**115,794**	**79,010**	**194,804**
Intercompany revenue	**5,415**	**13**	**5,428**
Gross profit	**57,366**	**31,232**	**88,598**
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method	**15,792**	**7,060**	**22,852**
Depreciation and amortization	**5,988**	**3,846**	**9,834**
Non-cash items other than depreciation and amortization	**1,052**	**561**	**1,613**
Equity in earnings profit (loss) of associated companies and joint ventures	**141**	**(53)**	**88**
Total assets	**170,543**	**101,024**	**271,567**
Investments in associate companies and joint ventures	**5,991**	**1,503**	**7,494**
Total liabilities	**(115,738)**	**(28,257)**	**(143,995)**
Capital expenditures, net (3)	**9,800**	**4,064**	**13,865**

2020	Mexico and Central America (1)	South America (2)	Consolidated
Total revenues	106,783	76,832	183,615
Intercompany revenue	4,998	18	5,016
Gross profit	52,906	29,905	82,811
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method	14,751	1,326	16,077
Depreciation and amortization	6,471	4,137	10,608
Non-cash items other than depreciation and amortization	979	515	1,494
Equity in earnings (loss) of associated companies and joint ventures	(95)	(186)	(281)
Total assets	165,887	97,179	263,066
Investments in associate companies and joint ventures	5,804	1,819	7,623
Total liabilities	113,727	26,882	140,609
Capital expenditures, net (3)	6,764	3,590	10,354

2019	Mexico and Central America [1]	South America [2]	Consolidated
Total revenues	109,249	85,222	194,471
Intercompany revenue	5,673	15	5,688
Gross profit	52,384	35,123	87,507
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method	10,349	8,060	18,409
Depreciation and amortization	6,380	4,262	10,642
Non-cash items other than depreciation and amortization	878	205	1,083
Equity in earnings (loss) of associated companies and joint ventures	(177)	46	(131)
Total assets	147,374	110,465	257,839
Investments in associate companies and joint ventures	6,198	3,553	9,751
Total liabilities	95,694	32,460	128,154
Capital expenditures, net [3]	667	4,788	11,465

[1] Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 94,762, Ps. 87,833 and Ps. 91,358 during the years ended December 31, 2021, 2020 and 2019, respectively. Domestic (Mexico only) total assets were Ps. 149,421, Ps. 148,068 and Ps. 130,045 as of December 31, 2021, 2020 and 2019, respectively. Domestic (Mexico only) total liabilities were Ps. 109,945, Ps. 109,086 and Ps. 91,427 as of December 31, 2021, 2020 and 2019, respectively.

[2] South America includes Brazil, Argentina, Colombia and Uruguay. South America revenues include Brazilian revenues of Ps. 53,051, Ps. 56,191 and Ps. 61,554 during the years ended December 31, 2021, 2020 and 2019, respectively. Brazilian total assets were Ps. 74,163, Ps. 70,376 and Ps. 82,667 as of December 31, 2021, 2020 and 2019, respectively. Brazilian total liabilities Ps. 20,440, Ps. 19,148 and Ps. 24,103 as of December 31, 2021, 2020 and 2019, respectively. South America revenues also include Colombian revenues of Ps. 14,180, Ps. 12,049 and Ps. 13,522 during the years ended December 31, 2021, 2020 and 2019, respectively. Colombian total assets were Ps. 15,132, Ps. 15,993 and Ps. 16,518 as of December 31, 2021, 2020 and 2019, respectively. Colombian total liabilities were Ps. 3,395, Ps. 3,262 and Ps. 4,154 as of December 31, 2021, 2020 and 2019, respectively. South America revenues also include Argentine revenues of Ps. 8,408, Ps. 5,468 and Ps. 6,725 during the years ended December 31, 2021, 2020 and 2019, respectively. Argentine total assets were Ps. 6,087, Ps. 5,039 and Ps. 5,341 as of December 31, 2021, 2020 and 2019, respectively. Argentine total liabilities were Ps. 2,013, Ps. 1,842 and Ps. 1,637 as of December 31, 2021, 2020 and 2019, respectively. South America revenues also include Uruguay revenues of Ps. 3,371, Ps. 3,124 and Ps. 3,421, during the years ended on December 31, 2021 and 2020, respectively. Uruguay total assets were Ps. 5,642, Ps. 5,771 and Ps. 5,939 as of December 31, 2021 and 2020, respectively. Uruguay total liabilities were Ps. 2,409, Ps. 2,630 and Ps. 2,566, as of December 31, 2021 and 2020, respectively.

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

Note 26. Future Impact of Recently Issued Accounting Standards not yet in Effect:

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

Classification of Liabilities as Current or Non-current - Amendments to IAS 1

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued amendments to IAS 16, which prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendments.

The amendments are not expected to have a material impact on the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

I - Subsidiary as a first-time adopter - amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment will also be applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

Fees in the '10 per cent' test for derecognition of financial liabilities - amendments to IFRS 9 - Financial Instruments

As part of its 2019-2020 annual improvements to IFRS standards process the IASB issued amendments to IFRS 9. The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments.

The amendments are not expected to have a material impact on the Company.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

'Income Taxes' Amendments to IAS 12,
On May 7, 2021, the IASB issued amendments to IAS 12 "Income Tax"

The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments modify paragraphs 15, 22 and 24 of IAS 12, which state that the initial recognition exemption does not apply to operations that at the time of initial recognition give rise to equal taxable and deductible temporary differences.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Company.

Note 27. Subsequent Events

Effective January 24, 2022, the Company, through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of CVI Refrigerantes Ltda. (herein "CVI"), in an all cash transaction for a consideration transferred of Ps. 1,948 (R$523). CVI was a bottler of Coca-Cola trademark products, which operated mainly in Rio Grande do Sul, Brazil. This acquisition will reinforce the Company's leadership position in Brazil. The Company started integrating the results of CVI as of February 2022.

On January 25, 2022, the Company announced the construction of a new recycling plant together with ALPLA México, S.A. de C.V. ("ALPLA"), that will be known as "PLANETA", ("Planta Nueva Ecología de Tabasco" in Spanish). The plant will have a joint investment between Coca-Cola FEMSA and ALPLA of more than US$ 60 million and will operate with state-of-the-art technology to process up to 50,000 tons of post-consumption PET bottles per year, to produce up to 35,000 tons of food grade recycled material, ready to be reused. The plant is expected to start operations during the first quarter of 2023.