COCA COLA FEMSA SAB DE CV
Form 20-F
April 12, 2019

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As filed with the Securities and Exchange Commission on April 12, 2019.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Commission file number 1-12260

Coca-Cola FEMSA, S.A.B. de C.V.

(Exact name of registrant as specified in its charter)

Not Applicable

(Translation of registrant s name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

Calle Mario Pani No. 100,

Santa Fe Cuajimalpa,

Cuajimalpa de Morelos,

05348, Ciudad de México, México

(Address of principal executive offices)

Maria Dyla Castro Varela

Calle Mario Pani No. 100,

Santa Fe Cuajimalpa,

Cuajimalpa de Morelos,

05348 Ciudad de México, México

(52-55) 1519-5121

kofmxinves@kof.com.mx

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

address of company contact person)

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

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 10 units	New York Stock Exchange, Inc.
Units, each consisting of 3 Series B shares and 5 Series L shares, without par value	New York Stock Exchange, Inc. (not for trading, for listing purposes only)
Series L shares, without par value	New York Stock Exchange, Inc. (not for trading, for listing purposes only)

Series B shares, without par value	**New York Stock Exchange, Inc.** **(not for trading, for listing purposes only)**

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

None

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

None

The number of outstanding shares of each class of capital or common stock as of December 31, 2018 was:

992,078,519 Series A shares, without par value

583,545,678 Series D shares, without par value

525,208,065 Series L shares, without par value

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

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

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

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

U.S. GAAP IFRS Other

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

Item 17 Item 18

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

References

Unless the context otherwise requires, the terms Coca-Cola FEMSA, our company, we, us and our are used in th annual report to refer to Coca-Cola FEMSA, S.A.B. de C.V. and its subsidiaries on a consolidated basis.

References herein to U.S. dollar, US$, dollar or $ are to the lawful currency of the United States of America. References herein to Mexican pesos or Ps. are to the lawful currency of the United Mexican States, or Mexico.

As used in this annual report:

Central America refers to Guatemala, Nicaragua, Costa Rica and Panama.

South America refers to Argentina, Brazil, Colombia and Uruguay.

sparkling beverages refers to non-alcoholic carbonated beverages.

still beverages refers to non-alcoholic non-carbonated beverages.

waters refers to flavored and non-flavored waters, whether or not carbonated.

References to *Coca-Cola* trademark beverages in this annual report refer to products described in **Item 4. Information on the Company The Company Our Products.**

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps.19.64 to US$1.00, the exchange rate for Mexican pesos on December 31, 2018, according to the U.S. Federal Reserve Board. On April 5, 2019, this exchange rate was Ps.19.07 to US$1.00.

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

Sources

Certain information contained in this annual report has been computed based upon statistics prepared by the Mexican National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*, or INEGI), the Federal Reserve Bank of New York, the U.S. Federal Reserve Board, the Mexican Central Bank (*Banco de México*), the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores,* or the CNBV), local entities in each country where we operate and upon our estimates.

Forward-Looking Information

This annual report contains words such as believe, expect, anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views of future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including, but not limited to, effects on our company from changes in our relationship with The Coca-Cola Company, fluctuation in the prices of raw materials, competition, significant developments in economic or political conditions in Mexico, Central and South America, including changes in currency exchange and interest rates, our ability to successfully integrate mergers and acquisitions, or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

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Item 2. Offer Statistics and Expected Timetable

Not applicable.

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Item 3. Key Information

SELECTED CONSOLIDATED FINANCIAL DATA

We prepared our consolidated financial statements included in this annual report in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, or IASB, referred to herein as IFRS.

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2018 and 2017 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2018, 2017 and 2016.

Pursuant to IFRS, the information in this annual report presents financial information in nominal terms and Mexican pesos. In the case of Argentina, on July 1, 2018 the economy satisfied the conditions to be treated as a hyperinflationary economy based on various economic factors, including that Argentina s cumulative inflation over the three-year period prior to such date exceeded 100%, according to available indexes in the country. Effective as of January 1, 2018, we adjusted the financial information of our Argentine operations to recognize inflationary effects and functional currency was converted to Mexican pesos using the exchange rates at the end of the period ended December 31, 2018. See Note 3.4 to our consolidated financial statements. Our non-Mexican subsidiaries maintain their accounting records in their local currency and in accordance with accounting principles generally accepted in the country where they are located. For presentation in our consolidated financial statements, we adjust these accounting records into IFRS and report in Mexican pesos under these standards.

Effective as of December 31, 2017, we deconsolidated our operations in Venezuela and as a result began accounting for the results of operations of Coca-Cola FEMSA de Venezuela, S.A., or KOF Venezuela, as an investment under the fair value method pursuant to IFRS 9, *Financial Instruments*. Effective as of January 1, 2018, we no longer include the results of operations of KOF Venezuela in our consolidated financial statements. See Notes 3.3 and 26 to our consolidated financial statements.

Commencing on February 1, 2017, we started consolidating the financial results of Coca-Cola FEMSA Philippines, Inc., or KOF Philippines, in our financial statements. In August 2018, our subsidiary Controladora de Inversiones en Bebidas Refrescantes, S.L., or CIBR, notified The Coca-Cola Company of its decision to exercise its option to sell its 51.0% stake in KOF Philippines and, on December 13, 2018, CIBR completed this sale. As a result, KOF Philippines was classified as an asset held for sale commencing on August 31, 2018 and as a discontinued operation for the year ended December 31, 2018, and the corresponding results for 2017 were restated for comparative purposes. Commencing on January 1, 2018, we stopped accounting for KOF Philippines and, specifically our Asia division, as a separate reporting segment. The net gain derived from the sale of KOF Philippines, as well as KOF Philippines results of operations from January 1, 2018 through December 12, 2018 were recorded in our consolidated financial statements as part of our Mexico and Central America consolidated reporting segment. See Notes 5 and 26 to our consolidated financial statements.

Except when specifically indicated, information in this annual report on Form 20-F is presented as of December 31, 2018 and does not give effect to any transaction subsequent to that date.

The following table presents selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including the notes thereto, and the information in **Item 5. Operating and Financial Review and Prospects.** The selected financial information contained herein is presented on a consolidated basis, and is not necessarily indicative of our financial position or results at or for any future date or period. See Note 3 to our consolidated financial statements for our

significant accounting policies.

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	Year Ended December 31,					
	2018[(1)(2)]	2018[(2)]	2017[(3)]	2016[(4)]	2015	2014
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)					
Income Statement Data:						
Total revenues	US$ 9,286	Ps. 182,342	Ps. 183,256	Ps. 177,718	Ps. 152,360	Ps. 147,298
Cost of goods sold	5,012	98,404	99,748	98,056	80,330	78,916
Gross profit	4,274	83,938	83,508	79,662	72,030	68,382
Administrative expenses	407	7,999	7,693	7,423	6,405	6,385
Selling expenses	2,543	49,925	50,351	48,039	41,879	40,465
Other income	29	569	1,542	1,281	620	1,001
Other expenses	125	2,450	32,899[(5)]	5,093	2,368	1,159
Interest expenses	385	7,568	8,777	7,471	6,337	5,546
Interest income	51	1,004	791	715	414	379
Foreign exchange gain (loss), net	(14)	(277)	788	(1,792)	(1,459)	(968)
Gain (loss) on monetary position for subsidiaries in hyperinflationary economies	11	212	1,590	2,417	(33)	(312)
Market value gain (loss) on financial instruments	(16)	(314)	246	51	142	25
Income (loss) before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	875	17,190	(11,255)	14,308	14,725	14,952
Income taxes	268	5,260	4,184	3,928	4,551	3,861
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	(12)	(226)	60	147	155	(125)
Net income (loss) for continuing operations	596	11,704	(15,379)	10,527	14,725	14,952
Net income (loss) for discontinued operations	172	3,366	3,725			

Consolidated net income (loss)	768	15,070	(11,654)	10,527	10,329	10,966
Attributable to:						
Equity holders of the parent for continuing operations	557	10,936	(16,058)	10,070	10,235	10,542
Equity holders of the parent for discontinued operations	152	2,975	3,256			
Non-controlling interest for continuing operations	39	768	679	457	94	424
Non-controlling interest for discontinued operations	20	391	469			
Consolidated net income (loss)	768	15,070	(11,654)	10,527	10,329	10,966
Ratio to Revenues (%)						
Gross profit margin	46.0	46.0	45.6	44.8	47.3	46.4
Net income margin	8.3	8.3	(6.4)	5.9	6.8	7.4

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	As of December 31,					
	2018(1)(2)	2018(2)	2017(3)	2016(4)	2015	2014
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)					
Balance Sheet Data:						
Cash and cash equivalents	US$ 1,208	Ps. 23,727	Ps. 18,767	Ps. 10,476	Ps. 15,989	Ps. 12,958
Accounts receivable, net, inventories, recoverable taxes, other current financial assets and other current assets	1,720	33,763	36,890	34,977	26,243	25,170
Total current assets	2,928	57,490	55,657	45,453	42,232	38,128
Investments in other entities	536	10,518	12,540	22,357	17,873	17,326
Property, plant and equipment, net	3,155	61,942	75,827	65,288	50,532	50,527
Intangible assets, net	5,949	116,804	124,243	123,964	90,754	97,024
Deferred tax assets, other non-current financial assets and other non-current assets	868	17,033	17,410	22,194	8,858	9,361
Total non-current assets	10,508	206,297	230,020	233,803	168,017	174,238
Total assets	13,436	263,787	285,677	279,256	210,249	212,366
Bank loans and notes payable	70	1,382	2,057	1,573	384	301
Current portion of non-current debt	521	10,222	10,114	1,479	3,086	905
Interest payable	25	497	487	520	411	371
Suppliers, accounts payable, taxes payable and other current financial liabilities	1,705	33,423	42,936	36,296	26,599	26,826
Total current liabilities	2,321	45,524	55,594	39,868	30,480	28,403
Bank loans and notes payable	3,575	70,201	71,189	85,857	63,260	64,821
Post-employment and other non-current employee benefits, deferred tax liabilities, other non-current financial liabilities, provisions and other non-current liabilities	830	16,312	18,184	24,298	7,774	9,024
Total non-current liabilities	4,405	86,513	89,373	110,155	71,034	73,845
Total liabilities	6,726	132,037	144,967	150,023	101,514	102,248
Total equity	6,710	131,750	140,710	129,233	108,735	110,118
	6,363	124,944	122,569(6)	122,137	104,749	105,717

Equity attributable to equity holders of the parent						
Non-controlling interest in consolidated subsidiaries	347	6,806	18,141	7,096	3,986	4,401
Total liabilities and equity	13,436	263,787	285,677	279,256	210,249	212,366

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	As of December 31,					
	2018(1)(2)	2018(2)	2017(3)	2016(4)	2015	2014
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)					
Financial Ratios (%)						
Current(7)	1.26	1.26	1.00	1.14	1.38	1.34
Leverage(8)	1.0	1.0	1.03	1.16	0.93	0.93
Capitalization(9)	0.41	0.41	0.39	0.41	0.39	0.38
Coverage(10)	4.22	4.22	4.20	4.80	3.92	4.73
Share Data(11)						
A Shares	7,936,628,152	7,936,628,152	7,936,628,152	7,936,628,152	7,936,628,152	7,936,628,152
D Shares	4,668,365,424	4,668,365,424	4,668,365,424	4,668,365,424	4,668,365,424	4,668,365,424
B Shares	1,575,624,195	1,575,624,195	1,575,624,195	1,491,894,096	1,491,894,096	1,491,894,096
L Shares	2,626,040,325	2,626,040,325	2,626,040,325	2,486,490,160	2,486,490,160	2,486,490,160
Number of outstanding shares	16,806,658,096	16,806,658,096	16,806,658,096	16,583,377,832	16,583,377,832	16,583,377,832
Per Share Data(11)						
Book Value(12)	0.38	7.43	7.29	7.37	6.32	6.37
Basic earnings (loss) per share from(13):						
Continuing operations	0.03	0.65	(0.96)	0.61	0.62	0.64
Discontinued operations	0.01	0.18	0.19			
Diluted earnings (loss) per share from(14):						
Continuing operations	0.03	0.65	(0.96)	0.61	0.62	0.64
Discontinued operations	0.01	0.18	0.19			

(1) Translation to U.S. dollar amounts at an exchange rate of Ps.19.64 to US$1.00 solely for the convenience of the reader.

(2) Includes results of Alimentos y Bebidas Atlantida, S.A., or ABASA, and Comercializadora y Productora de Bebidas Los Volcanes, S.A., or Los Volcanes, from May 2018 and of Montevideo Refrescos S.R.L., or Monresa, from July 2018. **See Item 4. Information on the Company The Company Corporate History.**

(3) Our consolidated statements of income for 2017 were restated for comparative purposes, as a result of the sale of our equity participation in KOF Philippines. For further information **see Item 5. Operating and Financial Review and Prospects General Sale of Equity Participation in KOF Philippines.**

(4) Includes results of Vonpar S.A., or Vonpar, from December 2016. **See Item 4. Information on the Company The Company Corporate History.**

(5) See Note 19 to our consolidated financial statements.

(6) See Note 3.3 to our consolidated financial statements.
(7) Computed by dividing total current assets by total current liabilities.
(8) Computed by dividing total liabilities by total equity.
(9) Computed by adding current bank loans and notes payable, current portion of non-current debt and non-current bank loans and notes payable, and dividing such sum by the sum of total equity and non-current bank loans and notes payable.
(10) Computed by dividing net cash flows from operating activities by the difference between interest expense and interest income.
(11) Share data and per share data has been restated to give effect to the stock split described in **Item 4. Information on the Company The Company Capital Stock.**
(12) Based on 16,806.7 million shares as of December 31, 2018 and 2017, and 16,583.4 million shares as of December 31, 2016, 2015 and 2014.
(13) Computed on the basis of the weighted average number of shares outstanding during the period: 16,806.7 million in 2018, 16,730.8 million in 2017, and 16,598.7 million in 2016, 2015 and 2014.
(14) The diluted earnings per share calculation was computed on the basis of the diluted weighted average number of shares outstanding during the period: 16,806.7 million in 2018, 16,730.8 million in 2017, 16,598.7 million in 2016 (which reflects the commitment to deliver Series L shares to the sellers of Vonpar, without changing the number of shares for 2016) and 16,583.4 million in 2015 and 2014. For further information see Note 3.26 to our consolidated financial statements.

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DIVIDENDS AND DIVIDEND POLICY

The following table sets forth the nominal amount in Mexican pesos of dividends declared, paid and to be paid per share each year and the U.S. dollar amounts on a per share basis actually paid or to be paid to holders of American Depositary Shares, which we refer to as ADSs, on each of the respective payment dates.

Fiscal Year with Respect to which Dividend was Declared[1]	Date Dividend Paid or To Be Paid	Mexican Pesos per Share (Nominal)[2]	U.S. Dollars per Share[3]
2014	May 5, 2015	1.540	0.090
	November 3, 2015	1.550	0.090
2015	May 3, 2016	1.670	0.097
	November 1, 2016	1.680	0.089
2016	May 3, 2017	1.680	0.086
	November 1, 2017	1.670	0.087
2017	May 3, 2018	1.680	0.088
	November 1, 2018	1.670	0.083
2018	May 3, 2019	1.770[4]	[5]
	November 1, 2019	1.770[4]	[5]

(1) The dividends declared for each fiscal year were divided into two payments.
(2) Based on the number of shares outstanding at the time the dividend is paid.
(3) Expressed in U.S. dollars using the applicable exchange rate when the dividend was paid.
(4) Dividend declared prior to the eight-for-one stock split described in **Item 4. Information on the Company The Company Capital Stock**. As a result of the stock split, the dividend per share to be paid will be Ps.0.22125 per share, or the amount of the dividend declared divided by eight.
(5) Because the dividend declared for the fiscal year 2018 has not been paid at the time of this annual report, the U.S. dollar per share amount has not been determined.

The declaration, amount and payment of dividends are subject to the approval by holders of a majority of our shares (except for our Series L shares, which do not grant the right to vote on the declaration, amount and payment of dividends); provided that, if the amount of dividends exceeds 20.0% of the preceding years retained earnings, the approval by holders of a majority of our Series D shares is also required. The declaration, amount and payment of dividends is also subject to and dependent generally upon the recommendation of our board of directors, and upon our results, financial condition, capital requirements, general business conditions and the requirements of Mexican law. Accordingly, our historical dividend payments are not necessarily indicative of future dividends. See **Item 10. Additional Information Bylaws Dividend Rights.**

We pay all cash dividends in Mexican pesos. Exchange rate fluctuations affect the U.S. dollar amounts received by holders of ADSs as a result of the conversion by the ADS depositary of cash dividends paid on the Series L shares and Series B shares underlying our units represented by such ADSs. In addition, exchange rate fluctuations between the Mexican peso and the U.S. dollar affect the market price of the ADSs.

Under Mexican income tax law, dividends, either in cash or in kind, paid to individuals that are Mexican residents, and to individuals and companies that are non-Mexican residents, on our shares, including the Series L shares and the Series B shares underlying our units, including units represented by ADSs, are subject to a 10.0% Mexican withholding tax, or a lower rate if covered by a tax treaty. **See Item 10. Additional Information Taxation Mexican**

Taxation.

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RISK FACTORS

Risks Related to Our Company

Our business depends on our relationship with The Coca-Cola Company, and changes in this relationship may adversely affect our business, financial condition, results of operations and prospects.

Substantially all of our sales are derived from sales of *Coca-Cola* trademark beverages. We produce, market, sell and distribute *Coca-Cola* trademark beverages through standard bottler agreements in the territories where we operate, which we refer to as our territories. We are required to purchase concentrate for all *Coca-Cola* trademark beverages from affiliates of The Coca-Cola Company, which price may be unilaterally determined from time to time by The Coca-Cola Company in all such territories. We are also required to purchase sweeteners and other raw materials only from companies authorized by The Coca-Cola Company. **See Item 4. Information on the Company The Company Our Territories.**

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

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

We depend on The Coca-Cola Company to continue with our bottler agreements. Our bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew the applicable agreement. In addition, these agreements generally may be terminated in the case of material breach. **See Item 4. Information on the Company Bottler Agreements.** Termination of any such bottler agreement would prevent us from selling *Coca-Cola* trademark beverages in the affected territory. The foregoing and any other adverse changes in our relationship with The Coca-Cola Company would have an adverse effect on our business, financial condition, results of operations and prospects.

The Coca-Cola Company and FEMSA have substantial influence on the conduct of our business, which may result in us taking actions contrary to the interests of our shareholders other than The Coca-Cola Company and FEMSA.

The Coca-Cola Company and Fomento Económico Mexicano, S.A.B. de C.V., which we refer to as FEMSA, have substantial influence on the conduct of our business. As of the date of this report, The Coca-Cola Company indirectly owned 27.8% of our outstanding capital stock, representing 32.9% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint up to five of our maximum of 21 directors and the vote of at least two of them is required to approve certain actions by our board of directors. As of the date of this report, FEMSA indirectly owned 47.2% of our outstanding capital stock, representing 56.0% of our capital stock with full voting rights. FEMSA is entitled to appoint up to 13 of our maximum of 21 directors and all of our executive officers. The Coca-Cola Company and FEMSA together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval by our board of directors, and FEMSA and The Coca-Cola Company together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval of our shareholders. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.** The interests of The Coca-Cola Company and FEMSA may be different from the interests of our other shareholders, which may result in us taking actions contrary to the interests of such other shareholders.

Changes in consumer preferences and public concern about health related issues could reduce demand for some of our products.

The non-alcoholic beverage industry is evolving mainly as a result of changes in consumer preferences and regulatory actions. There have been different plans and actions adopted in recent years by governmental authorities in some of the countries where we operate. These include increases in tax rates or the imposition of new taxes on the sale of beverages containing certain sweeteners, and other regulatory measures, such as restrictions on advertising for some of our products. Moreover, researchers, health advocates and dietary guidelines are encouraging consumers to reduce their consumption of certain types of beverages sweetened with sugar and High Fructose Corn Syrup, or HFCS. In addition, concerns over the environmental impact of plastic may reduce the consumption of our products sold in plastic bottles or result in additional taxes that could adversely affect consumer demand. Increasing public concern about these issues, new or increased taxes, other regulatory measures or our failure to meet consumers preferences, could reduce demand for some of our products, which would adversely affect our business, financial condition, results of operations and prospects. **See Item 4. Information on the Company The Company Business Strategy.**

The reputation of Coca-Cola trademarks and trademark infringement could adversely affect our business.

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

If we are unable to protect our information systems against service interruption, misappropriation of data or breaches of security, our operations could be disrupted, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Negative or inaccurate information on social media could adversely affect our reputation.

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

Competition could adversely affect our business, financial condition, results of operations and prospects.

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

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

and prospects.

Water shortages or any failure to maintain existing concessions or contracts could adversely affect our business, financial condition, results of operations and prospects.

Water is an essential component of all of our products. We obtain water from various sources in our territories, including springs, wells, rivers and municipal and state water companies pursuant to either concessions granted by governments in our various territories (including governments at the federal, state or municipal level) or pursuant to contracts.

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

We cannot assure you that water will be available in sufficient quantities to meet our future production needs or will prove sufficient to meet our water supply needs. Continued water scarcity in the regions where we operate may adversely affect our business, financial condition, results of operations and prospects.

Increases in the prices of raw materials would increase our cost of goods sold and may adversely affect our business, financial condition, results of operations and prospects.

In addition to water, our most significant raw materials are (i) concentrate, which we acquire from affiliates of The Coca-Cola Company, (ii) sweeteners and (iii) packaging materials.

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

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

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

Regulatory developments may adversely affect our business, financial condition, results of operations and prospects.

We are subject to several laws and regulations in each of the territories where we operate. The principal areas in which we are subject to laws and regulations are anti-corruption, anti-bribery, anti-money laundering, water, environment, labor, taxation, health, antitrust and price controls. **See Item 4. Information on the Company Regulation.** Changes in existing laws and regulations, the adoption of new laws or regulations, or a stricter interpretation or enforcement

thereof in the countries where we operate may increase our operating and compliance costs or impose restrictions on our operations which, in turn, may adversely affect our financial condition, business, results of operations and prospects.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where we operate. **See Item 4. Information on the Company Regulation Price Controls.** We cannot assure you that existing or future laws and regulations in the countries where we operate relating to goods and services (in particular, laws and regulations imposing statutory price controls) will not affect our products, our ability to set prices for our products, or that we will not need to implement price restraints, which could have a negative effect on our business, financial condition, results of operations and prospects.

We operate in multiple territories and are subject to complex regulatory frameworks with increased enforcement activities. Despite our internal governance and compliance processes, we may be subject to unexpected breaches by our employees, contractors or other agents to our code of ethics, anti-corruption policies and business conduct protocols, including instances of fraudulent behavior, corrupt practices and dishonesty by any of them. Our failure to comply with applicable laws and other standards could harm our reputation, subject us to substantial fines, sanctions or penalties and adversely affect our business. There is no assurance that we will be able to comply with changes in any laws and regulations within the timelines established by the relevant regulatory authorities.

Taxes could adversely affect our business, financial condition, results of operations and prospects.

The countries where we operate may adopt new tax laws or modify existing tax laws to increase taxes applicable to our business or products. Our products are subject to certain taxes in many of the countries where we operate. **See Item 4. Information on the Company Regulation Taxation of Beverages.** The imposition of new taxes, increases in existing taxes, or changes in the interpretation of tax laws and regulation by tax authorities may have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

Weather conditions and natural disasters may adversely affect our business, financial condition, results of operations and prospects.

Lower temperatures, higher rainfall and other adverse weather conditions such as hurricanes, as well as natural disasters such as earthquakes and floods, may negatively impact consumer patterns, which may result in reduced sales of our beverage offerings. Additionally, such adverse weather conditions and natural disasters may affect plant installed capacity, road infrastructure and points of sale in the territories where we operate and limit our ability to produce, sell and distribute our products, thus affecting our business, financial condition, results of operations and prospects.

We may not be able to successfully integrate our acquisitions and achieve the expected operational efficiencies or synergies.

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

An impairment in the carrying value of distribution rights under our bottler agreements and goodwill of acquired businesses could negatively affect our financial condition and results of operations.

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

Risks Related to the units and the ADSs

Our Series L shares have limited voting rights.

Our Series L shares grant the right to vote only in certain circumstances. In general terms, they grant the right to elect up to three of our maximum of 21 directors and only grant the right to vote on specific matters, including certain changes in our corporate form, mergers involving our company when our company is the merged entity or when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of our shares on the *Bolsa Mexicana de Valores* (Mexican Stock Exchange, or BMV) or any other foreign stock exchange, and those matters for which the *Ley del Mercado de Valores* (Mexican Securities Market Law) expressly grants the right to vote to classes of shares with limited voting rights. As a result, holders of units will not be able to influence our business or operations with respect to the Series L shares they indirectly hold. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders** and **Item 10. Additional Information Bylaws Voting Rights, Transfer Restrictions and Certain Minority Rights.**

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

Our units, which are comprised of 3 Series B shares and 5 Series L shares, trade on the New York Stock Exchange (NYSE) in the form of ADSs, each representing 10 units. Holders of ADSs may not receive notice of Series L or Series B shareholder meetings from the ADS depositary in sufficient time to enable such holders to return voting instructions to the ADS depositary in a timely manner.

The protections afforded to minority shareholders in Mexico are different from those afforded to minority shareholders in the United States and investors may experience difficulties in enforcing civil liabilities against us or our directors, officers and controlling persons.

Under the Mexican Securities Market Law, the protections afforded to minority shareholders are different from, and may be less than, those afforded to minority shareholders in the United States. Therefore, it may be more difficult for minority shareholders to enforce their rights against us, our directors or our controlling interest shareholders than it would be for minority shareholders of a U.S. company.

In addition, we are organized under the laws of Mexico and most of our directors, officers and controlling persons reside outside the United States, and all or a substantial portion of our assets and the assets of our directors, officers and controlling persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws.

The enforceability against our directors, officers and controlling persons in Mexico in actions for enforcement of judgments of U.S. courts, and liabilities predicated solely upon the U.S. federal securities laws will be subject to certain requirements provided for in the Mexican Federal Civil Procedure Code and any applicable treaties. Some of the requirements may include personal service of process and that the judgments of U.S. courts are not against Mexican public policy. The Mexican Securities Market Law, which is considered Mexican public policy, provides that in the event of actions derived from any breach of the duty of care and the duty of loyalty against our directors and officers, any remedy would be exclusively for the benefit of our company. Therefore, investors would not be directly entitled to any remedies under such actions.

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

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

Holders of units and ADSs in the United States may not be able to participate in any capital offering and as a result may be subject to dilution of their equity interests.

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

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

Risks Related to the Countries Where We Operate

Adverse economic conditions in the countries where we operate may adversely affect our financial condition and results.

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. We also conduct an important part of our operations in Brazil. For the year ended December 31, 2018, approximately 77.3% of our total revenues were attributable to Mexico and Brazil. Our results are affected by the economic conditions in the countries where we conduct operations. Consumer demand and preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic conditions, which vary by country and may not be correlated. In addition, adverse economic conditions may affect and reduce consumer per capita income, thereby adversely affecting consumer demand for our products as a result of a decrease in consumer purchasing power. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our business, financial condition, results of operations and prospects.

Some of the countries where we conduct operations are influenced by the U.S. economy. Deterioration in economic conditions in the U.S. economy may affect these economies. In particular, economic conditions in Mexico are correlated with economic conditions in the United States as a result of the North American Free Trade Agreement. On November 30, 2018, Mexico, Canada and the United States signed a new free trade agreement, the U.S.-Mexico-Canada Agreement, or USMCA, which is yet to be ratified by the signatory countries. Any adverse event affecting the relationship between Mexico and the United States, including the termination of any free trade agreement between these two countries, may have a significant adverse effect on the Mexican economy.

Our business may also be significantly affected by interest rates, inflation rates and exchange rates of the local currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk.** In addition, an increase in interest rates would increase the cost to us of variable rate funding (which, after giving effect to our swap contracts, and calculated by weighting each year s outstanding debt balance mix, constituted approximately 6.9% of our total debt as of December 31, 2018), which would have an adverse effect on our financial position. A continued and prolonged increase in inflation rates in any of the countries where we operate may result in such country being categorized as a hyperinflationary economy for accounting purposes, which would change the manner in which we present and report financial information related to our operations in such country. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.**

On July 1, 2018, Argentina s economy satisfied the conditions to be treated as a hyperinflationary economy based on various economic factors, including that Argentina s cumulative inflation over the three-year period prior to such date exceeded 100%, according to available indexes in the country. Continuing hyperinflation in Argentina may adversely affect our financial position and results of our operations.

***Depreciation of the local currencies of the countries where we operate relative to the U.S. dollar could adversely affect our financial condition and results*.**

Depreciation of local currencies relative to the U.S. dollar increases our cost of some of the raw materials we acquire, the price of which may be paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and may therefore negatively affect our results, financial position and equity. In addition, depreciation of local currencies of the countries where we operate relative to the U.S. dollar may also potentially increase inflation rates in such countries. Significant fluctuations of local currencies relative to the U.S. dollar have occurred in the past and may continue in the future, negatively affecting our results. Future currency devaluations or the imposition of exchange controls in any of the countries where we operate may potentially increase our operating costs, which could have an adverse effect on our financial position and results of operations. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.**

We selectively hedge our exposure to the U.S. dollar with respect to certain local currencies, our U.S. dollar-denominated debt obligations and the purchase of certain U.S. dollar-denominated raw materials. A severe depreciation of any currency of the countries where we operate may result in a disruption of the international foreign exchange markets and may limit our ability to transfer or to convert such currencies into U.S. dollars or other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated indebtedness or obligations in other currencies. While the Mexican government does not restrict the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could impose restrictive exchange rate policies in the future. Currency fluctuations may have an adverse effect on our results, financial condition and cash flows in future periods.

Political and social events in the countries where we operate and elsewhere and changes in governmental policies may have an adverse effect on our business, financial condition, results of operations and prospects.

In recent years, some of the governments in the countries where we operate have implemented and may continue to implement significant changes in laws, public policy or regulations that could affect the political and social conditions in these countries. Any such changes, and similar changes in other countries such as the U.S., may have an adverse effect on our business, results of operations, prospects and financial condition. Furthermore, national presidential and legislative elections took place in 2018 or are scheduled to take place in 2019 in several of the countries where we operated in 2018, including Mexico, Brazil, Argentina, Costa Rica, Colombia, Guatemala and Panama. We cannot assure you that political or social developments in the countries where we operate or elsewhere, such as the election of new administrations, changes in laws, public policy or regulations, political disagreements, civil disturbances and the rise in violence and perception of violence, over which we have no control, will not have a corresponding adverse effect on the local or global markets or on our business, financial condition, results of operations and prospects.

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Item 4. Information on the Company

THE COMPANY

Overview

We are the largest franchise bottler of *Coca-Cola* trademark beverages in the world in terms of volume. We operate in territories in the following countries:

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

We also operate in Venezuela through our investment in KOF Venezuela.

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

The following is an overview of our operations by consolidated reporting segment in 2018.

Operations by Consolidated Reporting Segment Overview

Year Ended December 31, 2018

	Total Revenues		Gross Profit	
	(in millions of Mexican pesos, except percentages)			
Mexico and Central America[1]	Ps.100,162	54.9%	Ps.48,162	57.4%
South America[2]	82,180	45.1%	35,776	42.6%
Consolidated	182,342	100.0%	83,938	100.0%

(1) Includes Mexico, Guatemala (including the operations of ABASA and Los Volcanes from May 2018), Nicaragua, Costa Rica and Panama.

(2) Includes Colombia, Brazil, Argentina and, from July 2018, Uruguay.

Corporate History

We are a subsidiary of FEMSA, a leading company that participates in the beverage industry through us, and the beer industry through its ownership of the second largest equity stake in Heineken, one of the world s leading brewers with operations in over 70 countries. FEMSA also participates in the retail industry through FEMSA Comercio, which is comprised of a retail division operating various small-format chain stores including OXXO, a health division which includes drugstores and related operations and a fuel division operated by OXXO Gas, a chain of retail fuel service stations. Additionally, FEMSA, through its strategic businesses unit, provides logistics services, point-of-sale refrigeration solutions and plastics solutions to FEMSA s business units and third-party clients.

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We commenced operations in 1979, when a subsidiary of FEMSA acquired certain sparkling beverage bottlers in Mexico City and surrounding areas. In 1991, FEMSA transferred its ownership in the bottlers to FEMSA Refrescos, S.A. de C.V., our corporate predecessor. In June 1993, a subsidiary of The Coca-Cola Company subscribed for 30.0% of our capital stock in the form of Series D shares. In September 1993, FEMSA sold Series L shares that represented 19.0% of our capital stock to the public, and we listed these shares on the Mexican Stock Exchange and, in the form of ADSs, on the NYSE.

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

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

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

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

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

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

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

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

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

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

In October 2011, we merged with Administradora de Acciones del Norte, S.A.P.I. de C.V., or Grupo Tampico, a Mexican bottler with operations in the states of Tamaulipas, San Luis Potosi, and Veracruz, as well as in parts of the states of Hidalgo, Puebla and Queretaro.

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

In May 2012, we merged with Grupo Fomento Queretano, S.A.P.I. de C.V., or Grupo Fomento Queretano, a Mexican bottler with operations mainly in the state of Queretaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. As part of our merger with Grupo Fomento Queretano, we increased our minority equity interest in PIASA.

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

In January 2013, we acquired, through CIBR, a 51.0% stake in KOF Philippines from The Coca-Cola Company. In December 2018, CIBR completed the sale of its stake in KOF Philippines back to The Coca-Cola Company through the exercise of CIBR s option to sell.

In May 2013, we merged with Grupo Yoli, S.A. de C.V., a Mexican bottler with operations mainly in the state of Guerrero, as well as in parts of the state of Oaxaca. As part of our merger with Grupo Yoli, we increased our minority equity interest in PIASA.

In August 2013, we acquired Companhia Fluminense de Refrigerantes, or Companhia Fluminense, a franchise that operates in parts of the states of Sao Paulo, Minas Gerais and Rio de Janeiro in Brazil. As part of our acquisition of Companhia Fluminense, we also acquired an additional minority equity interest in Leão Alimentos.

In October 2013, we acquired Spaipa S.A. Industria Brasileira de Bebidas, or Spaipa, a Brazilian bottler with operations in the state of Parana and in parts of the state of Sao Paulo. As part of our acquisition of Spaipa, we increased our minority equity interest in Leão Alimentos and a 50.0% stake in Fountain Água Mineral Ltda., a joint venture to develop the water category together with The Coca-Cola Company.

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

In August 2016, we acquired, through Leão Alimentos, an indirect participation in Laticínios Verde Campo Ltda., a producer of milk and dairy products in Brazil.

In December 2016, we acquired Vonpar, a Brazilian bottler of *Coca-Cola* trademark products with operations in the states of Rio Grande do Sul and Santa Catarina in Brazil. As part of our acquisition of Vonpar, we increased our minority equity interest in Leão Alimentos.

In March 2017, we acquired together with The Coca-Cola Company, through our Mexican, Brazilian, Argentine, Colombian subsidiaries and also through our interest in Jugos del Valle in Mexico, a participation in the AdeS plant-based beverage businesses. As a result of this acquisition, we have exclusive distribution rights of AdeS plant-based beverages in our territories.

In April 2018, Compañía Inversionista en Bebidas del Norte, S.L., one of our subsidiaries, acquired from The Coca-Cola Company ABASA, a Guatemalan bottler of *Coca-Cola* trademark products with operation in the northeast region of Guatemala.

In April 2018, Compañía de Inversiones Moderna, S.L., one of our subsidiaries, acquired from The Coca-Cola Company Los Volcanes, a Guatemalan bottler of *Coca-Cola* trademark products with operations in the southwest region of Guatemala.

In June 2018, Inversiones en Bebidas Refrescantes Ibérica, S.L., one of our subsidiaries, acquired from The Coca-Cola Company, Monresa, the Uruguayan bottler of *Coca-Cola* trademark products.

Capital Stock

On April 11, 2019, we completed an eight-for-one stock split, or the Stock Split , whereby (a) for each Series A share, holders of Series A shares received eight new Series A shares, (b) for each Series D share, holders of Series D shares received eight new Series D shares and (c) for each Series L share, holders of Series L shares received one unit (each consisting of 3 Series B shares (with full voting rights) and 5 Series L shares (with limited voting rights)). Effective on April 11, 2019, our units were listed for trading on the Mexican Stock Exchange and ADSs, each representing 10 units, were listed for trading on the NYSE.

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

Business Strategy

We operate with a large geographic footprint in Latin America. To consolidate our position as a global leader in the beverage business, we continue to expand our robust portfolio of beverages, transforming and enhancing our operational capabilities, inspiring a cultural evolution, and embedding sustainability throughout our business to create economic, social, and environmental value for all of our stakeholders.

Our view on sustainable development is a comprehensive part of our business strategy. We base our efforts in our ethics and values, focusing on (i) our people, (ii) our communities and (iii) our planet, and we take a responsible and disciplined approach to the use of resources and capital allocation.

To maximize growth and profitability and driven by our centers of excellence s initiatives we plan on continuing to execute the following key strategies: (i) accelerate revenue growth, (ii) increase our business scale and profitability across categories, (iii) continue our expansion through organic growth and strategic joint ventures, mergers and acquisitions, (iv) accelerate the digitization of our end-to-end processes and (v) empower people to lead this transformation, building on our high performance organization.

We seek to accelerate our revenue growth through the introduction of new categories, products and presentations that better meet our consumers needs and preferences, while maintaining our core products and improving our profitability. To address our consumers diverse lifestyles, we have developed new products through innovation and have expanded the availability of low- and non-caloric beverages by reformulating existing products to reduce added sugar and offering smaller presentations of our products. As of December 31, 2018, approximately 34.6% of our brands were low- or non-caloric beverages, and we continue to expand our product portfolio to offer more options to our consumers so they can satisfy their hydration and nutrition needs. **See Our Products and Packaging.** In addition, we inform our consumers through front labeling on the nutrient composition and caloric content of our beverages. We have been pioneers in the introduction of the Guideline Daily Amounts (GDA), and we perform responsible advertising practices and marketing. We voluntarily adhere to national and international codes of conduct in advertising and marketing, including communications targeted to minors who are developed based on the Responsible Marketing policies and Global School Beverage Guidelines of The Coca-Cola Company, achieving full compliance with all such codes and guidelines in all of the countries where we operate.

We view our relationship with The Coca-Cola Company as integral to our business, and together we have developed marketing strategies to better understand and address our consumer needs. **See Marketing.**

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Our Territories

The following map shows our territories giving estimates in each case of the population to which we offer products and the number of retailers of our beverages as of December 31, 2018:

Our Products

We produce, market, sell and distribute *Coca-Cola* trademark beverages. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters and still beverages (including juice drinks, coffee, teas, milk, value-added dairy, sports drinks, energy drinks and plant-based drinks).

Our most important brand, *Coca-Cola*, together with its line of low-calorie products, accounted for 62.2%, 60.8% (excluding sales volume of KOF Philippines) and 60.3% of our total sales volume in 2018, 2017 and 2016, respectively.

The following table sets forth the trademarks of the main products we distributed in 2018:

Colas:

Coca-Cola

Coca-Cola Sin Azúcar

Coca-Cola Light

Flavored Sparkling Beverages:

Crush	*Kuat*	*Quatro*
Fanta	*Lift*	*Schweppes*
Fresca	*Mundet*	*Sprite*

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Still Beverages:

Cepita	*Hi-C*	*Leão*	*ValleFrut*
Estrella Azul	*Santa Clara*	*Powerade*	*Monster*
FUZE Tea	*Del Valle*	*Valle Fresh*	*AdeS*

Water:

Alpina	*Brisa*	*Dasani*	*Kin*
Aquarius	*Ciel*	*Manantial*	
Bonaqua	*Crystal*	*Nevada*	

Packaging

We produce, market, sell and distribute *Coca-Cola* trademark beverages in each of our territories in containers authorized by The Coca-Cola Company, which consist primarily of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles mainly made of PET resin. We use the term presentation to refer to the packaging unit in which we sell our products. Presentation sizes for our *Coca-Cola* trademark beverages range from a 6.5-ounce personal size to a 3-liter multiple serving size. For all of our products excluding water, we consider a multiple serving size as equal to, or larger than, 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. We offer both returnable and non-returnable presentations, which allow us to offer portfolio alternatives based on convenience and affordability to implement revenue management strategies and to target specific distribution channels and population segments in our territories. In addition, we sell some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which we refer to as fountain. We also sell bottled water products in bulk sizes, which refer to presentations equal to or larger than 5.0 liters and up to 20.0 liters, which have a much lower average price per unit case than our other beverage products.

Sales Volume and Transactions Overview

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

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The following table illustrates our historical sales volume and number of transactions for each of our consolidated reporting segments, as well as our unit case and transaction mix by category. The table includes information of Venezuela for 2017, prior to its deconsolidation.

	Sales Volume[1]		Transactions[1]	
	2018	2017	2018	2017
	(Million of unit cases or millions of single units, except percentages)			
Mexico	1,850.2	1,845.0	9,728.2	9,764.5
Central America	214.7	173.0	1,779.3	1,467.2
Mexico & Central America[2]	**2,065.0**	**2,017.9**	**11,507.5**	**11,231.7**
Growth	2.3%	(0.4)%	2.5%	(1.3)%
Colombia	271.4	265.0	2,060.3	2,046.5
Brazil[5]	787.4	765.1	5,125.4	4,857.6
Argentina	175.3	205.9	920.1	1,019.9
Uruguay	22.7		112.4	
South America[4]	**1,256.8**	**1,236.0**	**8,218.2**	**7,924.1**
Growth	1.7%	6.1%	3.7%	4.0%
Venezuela[3]		64.2		441.0
Total	**3,321.8**	**3,318.2**	**19,725.7**	**19,596.8**
Growth	0.1%	(0.5)%	0.7%	(0.9)%

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

	Multiple Serving Presentations[1]		Returnable packaging[1]	
	2018	2017	2018	2017
Mexico	66.4%	65.2%	35.8%	34.8%
Central America[2]	52.1%	56.0%	43.7%	41.7%
Colombia	71.4%	69.4%	35.2%	33.7%
Venezuela		73.3%		18.4%
Brazil	77.5%	77.7%	18.1%	16.6%
Argentina	80.3%	82.1%	25.9%	24.7%
Uruguay	82.5%		23.7%	
Total	69.6%	69.6%	31.0%	29.4%

The following table illustrates our historical sales volume and number of transactions performance by category for each of our operations and our reporting segments for 2018 as compared to 2017:

Year Ended December 31, 2018

	Sparkling	Stills	Water	Bulk	Total
Sales Volume Growth[1]					
Mexico	0.2%	7.3%	4.7%	(3.6)%	0.3%
Central America[2]	27.8%	7.8%	5.8%	1.5%	24.2%
Mexico and Central America	2.9%	7.4%	4.8%	(3.5)%	2.3%
Colombia	4.0%	(21.4)%	9.0%	5.6%	2.4%
Brazil[5]	1.2%	18.2%	15.0%	16.1%	2.9%
Argentina	(15.2)%	(20.5)%	(14.9)%	25.6%	(14.9)%
South America[4][5]	1.1%	(1.1)%	8.0%	10.5%	1.7%
Total	0.0%	3.1%	1.9%	(2.0)%	0.1%

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Number of Transactions Growth[1]				
Mexico	(1.3)%	4.8%	3.8%	(0.4)%
Central America[2]	26.7%	0.0%	4.5%	21.3%
Mexico and Central America	2.2%	3.8%	3.8%	2.5%
Colombia	(0.4)%	(13.0)%	15.6%	0.7%
Brazil[5]	3.9%	15.1%	13.1%	5.5%
Argentina	(9.3)%	(16.0)%	(7.4)%	(9.8)%
South America[4][5]	2.8%	2.6%	12.3%	3.7%
Total	0.1%	2.2%	3.9%	0.7%

The following table illustrates our unit case mix by category for each of our operations and our consolidated reporting segments for 2018:

	Sparkling Beverages		**Stills**		**Water[6]**	
	Years Ended December 31,					
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Unit Case Mix by Category						
Mexico	72.9%	73.0%	6.5%	6.0%	20.6%	21.0%
Central America	85.0%	82.5%	9.6%	11.0%	5.4%	6.4%
Mexico and Central America[2]	**74.2%**	**73.8%**	**6.8%**	**6.5%**	**19.1%**	**19.8%**
Colombia	76.5%	75.4%	6.5%	8.4%	17.1%	16.2%
Brazil	87.5%	88.9%	5.6%	4.9%	6.9%	6.2%
Argentina	80.4%	80.7%	7.1%	7.6%	12.6%	11.7%
Uruguay	91.6%		1.5%		6.9%	
South America[4][5]	**84.2%**	**84.7%**	**5.9%**	**6.1%**	**9.9%**	**9.3%**
Venezuela[3]		84.9%		3.6%		11.4%
Total[1]	78.0%	77.9%	6.5%	6.3%	15.6%	15.8%

(1) Our sales volume and number of transactions for 2018 exclude the sales volume and transactions of KOF Philippines and KOF Venezuela, and our sales volume and number of transactions for 2017 exclude the sales volume and transactions of KOF Philippines.
(2) Includes sales volume and transactions from Guatemala (including the operations of ABASA and Los Volcanes from May 2018), Nicaragua, Costa Rica and Panama.
(3) We stopped consolidating our Venezuelan operations commencing on January 1, 2018.
(4) Includes sales volume and transactions of Monresa from July 2018.
(5) Excludes beer sales volume and transactions.
(6) Includes bulk water volume and transactions.

Seasonality

Sales of our products are seasonal in all of the countries where we operate, as our sales volumes generally increase during the summer of each country and during the year-end holiday season. In Mexico, Central America and Colombia, we typically achieve our highest sales during the summer months of April through August as well as during the year-end holidays in December. In Brazil, Uruguay and Argentina, our highest sales levels occur during the summer months of October through March, including the year-end holidays in December.

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Marketing

We, in conjunction with The Coca-Cola Company, have developed a marketing strategy to promote the sale and consumption of our products. We rely extensively on advertising, sales promotions and retailer support programs to target the particular preferences of our consumers. Our consolidated marketing expenses in 2018 were Ps.5,813 million, net of Ps.3,542 million contributed by The Coca-Cola Company.

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

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

Advertising. We advertise in all major communications media. We focus our advertising efforts on increasing brand recognition by consumers and improving our customer relations. National advertising campaigns are designed and proposed by The Coca-Cola Company   s local affiliates in the countries where we operate, with our input at the local or regional level. Point-of-sale merchandising and advertising efforts are proposed and implemented by us, with a focus on increasing our connection with customers and consumers.

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

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

Product Sales and Distribution

The following table provides an overview of our distribution centers and the retailers to which we sold our products:

	As of December 31, 2018	
	Mexico and Central America[(1)]	**South America**[(2)]
Distribution centers	201	74
Retailers[(3)]	1,045,780	852,091

(1)

Includes Mexico, Guatemala (including the operations of ABASA and Los Volcanes), Nicaragua, Costa Rica and Panama.

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

(3) Estimated.

We continuously evaluate our distribution model in order to fit with the local dynamics of the marketplace and analyze the way we go to market, recognizing different service needs from our customers, while looking for a more efficient distribution model. As part of this strategy, we are rolling out a variety of new distribution models throughout our territories looking for improvements in our distribution network.

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

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

In 2018, no single customer accounted for more than 10.0% of our consolidated total sales.

Our distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to our fleet of trucks, we distribute our products in certain locations through electric carts and hand-trucks in order to comply with local environmental and traffic regulations. In some of our territories, we retain third parties to transport our finished products from our production facilities to our distribution centers within Mexico.

Mexico. We contract with a subsidiary of FEMSA, Solistica, S.A. de C.V. transportation services of finished products from our production facilities to our distribution centers within Mexico. **See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.** From the distribution centers, we distribute our finished products to retailers through our fleet of trucks.

In Mexico, we sell a majority of our beverages at small retail stores to consumers who may take the beverages for consumption at home or elsewhere. We also sell products through modern distribution channels, the on-premise consumption segment, home delivery, supermarkets and other locations. Modern distribution channels include large and organized chain retail outlets such as wholesale supermarkets, discount stores and convenience stores that sell fast-moving consumer goods, where retailers can buy large volumes of products from various producers. The on-premise consumption segment consists of sales through sidewalk stands, restaurants, bars and various types of dispensing machines as well as sales through point-of-sale programs in stadiums, concert halls, auditoriums and theaters.

Brazil. In Brazil, we distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors, including related parties such as FEMSA, while we maintain control over the selling activities. In designated zones in Brazil, third-party distributors purchase our products at a discount from the wholesale price and resell the products to retailers. We also sell our products through the same modern distribution channels used in Mexico.

Territories other than Mexico and Brazil. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors, including related parties such as FEMSA. In most of our territories, an important part of our total sales volume is sold through small retailers.

Principal Competitors

We continue to be leaders in the beverage market, with one out of every nine beverages under the *Coca-Cola* trademarks sold in the world being produced and sold by us.

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

Our principal competitors are local *Pepsi* bottlers and other bottlers and distributors of local beverage brands. We also face competition in many of our territories from producers of low price beverages, commonly referred to as B brands. A number of our competitors in Central America, Brazil, Argentina and Colombia offer beer in addition to sparkling beverages, still beverages, and water, which may enable them to achieve distribution efficiencies.

While competitive conditions are different in each of our territories, we compete mainly in terms of price, packaging, effective promotional activities, access to retail outlets and sufficient shelf space, customer service, product innovation and product alternatives and the ability to identify and satisfy consumer preferences. We compete by seeking to offer products at an attractive price in the different segments in our markets and by building on the value of our brands. We believe that the introduction of new products and new presentations has been a significant competitive advantage that allows us to increase demand for our products, provide different options to consumers and increase new consumption opportunities. **See Our Products and Packaging.**

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

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

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

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

In Argentina, our main competitor is Buenos Aires Embotellador S.A. (BAESA), a *Pepsi* bottler, which is owned by Argentina s principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In the water category, *Levité*, a water brand owned by Danone, is our main competition. In addition, we compete with a number of competitors offering generic, low-priced sparkling beverages as well as many other generic products and private label proprietary supermarket brands.

In Uruguay, our main competitor is Fábricas Nacionales de Cerveza S.A. (FNC), a *Pepsi* bottler and distributor, partially owned by Argentina s principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In the water category, *Salus*, a water brand owned by Danone, is our main competitor. In addition, we compete with low-priced regional producers as well as many other generic and imported products.

Raw Materials

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

In the past, The Coca-Cola Company has increased concentrate prices for Coca-Cola trademark beverages in some of the countries where we operate. For example, The Coca-Cola Company (i) gradually increased concentrate prices for certain *Coca-Cola* trademark beverages in Costa Rica and Panama beginning in 2014 through 2018; (ii) gradually increased concentrate prices for flavored water in Mexico beginning in 2015 through 2018; (iii) increased concentrate prices for certain *Coca-Cola* trademark beverages in Colombia in 2016 and 2017; and (iv) began to gradually increase concentrate prices for certain *Coca-Cola* trademark beverages in Mexico beginning in 2017 and informed us that it would continue to do so through 2019. Based on our estimates, we currently do not expect these increases will have a material adverse effect on our results of operations. The Coca-Cola Company may continue to unilaterally increase concentrate prices in the future, and we may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the prices of our products or our results. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders Cooperation Framework with The Coca-Cola Company.**

In addition to concentrate, we purchase sweeteners, carbon dioxide, PET resin and preforms to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Our bottler agreements provide that these materials may be purchased only from suppliers approved by The Coca-Cola Company. Prices for certain raw materials, including those used in the bottling of our products, mainly PET resin, finished plastic bottles, aluminum cans, HFCS and certain sweeteners, are paid in or determined with reference to the U.S. dollar, and therefore local prices in a particular country may increase based on changes in the applicable exchange rates. Our most significant packaging raw material costs arise from the purchase of PET resin, the price of which is related to crude oil prices and global PET resin supply. The average price that we paid for PET resin in U.S. dollars in 2018 increased 21.8% as compared to 2017 in all our territories, excluding Venezuela prior to its deconsolidation. In addition, given that high currency volatility has affected and continues to affect most of our territories, the average price for PET resin in local currencies was higher in 2018 in Mexico, Colombia, Brazil and Argentina. In 2018, we purchased certain raw materials in advance, implemented a price fixing strategy and entered into certain derivative transactions, which helped us capture opportunities with respect to raw material costs and currency exchange rates.

Under our agreements with The Coca-Cola Company, we may use raw or refined sugar and HFCS in our products. Sugar prices in all of the countries where we operate, other than Brazil, are subject to local regulations and other barriers to market entry that, in certain countries, often cause us to pay for sugar in excess of international market prices. In recent years, international sugar prices experienced significant volatility. Across our territories, our average price for sugar in U.S. dollars, taking into account our financial hedging activities, decreased by approximately 8.4% in 2018 as compared to 2017; however, the average price for sugar in local currency was higher in Argentina and our territories in Central America.

We categorize water as a raw material in our business. We obtain water for the production of some of our natural spring water products, such as *Manantial* in Colombia and *Crystal* in Brazil, from spring water pursuant to concessions granted.

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

Mexico and Central America. In Mexico, we mainly purchase PET resin from Indorama Ventures Polymers México, S. de R.L. de C.V. (formerly Arteva Specialties, S. de R.L. de C.V.) and DAK Resinas Americas Mexico, S.A. de C.V., which Alpla México, S.A. de C.V., known as Alpla, and Envases Universales de México, S.A.P.I. de C.V. manufacture into non-returnable plastic bottles for us. Also, we have introduced into our business Asian global suppliers, such as Far Eastern New Century Corp., known as FENC and SFX Jiangyin Xingyu New Material Co. Ltd., which support our PET resin strategy and are known as the top PET global suppliers.

We purchase all of our cans from Crown Envases México, S.A. de C.V., formerly known as Fábricas de Monterrey, S.A. de C.V., and Envases Universales de México, S.A.P.I. de C.V. We mainly purchase our glass bottles from Vitro America, S. de R.L. de C.V. (formerly Compañía Vidriera, S.A. de C.V.), FEVISA Industrial, S.A. de C.V., known as FEVISA, and Glass & Silice, S.A. de C.V.

We purchase sugar from, among other suppliers, PIASA, Beta San Miguel, S.A. de C.V. or Beta San Miguel, Ingenio La Gloria, S.A. and Impulsora Azucarera del Trópico, S.A. de C.V., all of them sugar cane producers. As of April 5, 2019, we held a 36.4% and 2.7% equity interest in PIASA and Beta San Miguel, respectively. We purchase HFCS from Ingredion México, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

Sugar prices in Mexico are subject to local regulations and other barriers to market entry that often cause us to pay higher prices than those paid in the international market. As a result, prices in Mexico have no correlation to international market prices. In 2018, sugar prices in local currency in Mexico decreased approximately 4.0% as compared to 2017.

In Central America, the majority of our raw materials such as glass and non-returnable plastic bottles are purchased from several local suppliers. We purchase our cans from Envases Universales Rexam de Centro América, S.A. Sugar is available from suppliers that represent several local producers. In Costa Rica, we acquire plastic non-returnable bottles from Alpla C.R. S.A., and in Nicaragua we acquire such plastic bottles from Alpla Nicaragua, S.A.

South America. In Colombia, we use sugar as a sweetener in all of our caloric beverages, which we buy from several domestic sources. Sugar prices in Colombia decreased approximately 19.0% in U.S. dollars and 19.0% in local currency, as compared to 2017. We purchase non-returnable plastic bottles from Amcor Rigid Plastics de Colombia, S.A. and Envases de Tocancipa S.A.S. (affiliate of Envases Universales de México, S.A.P.I. de C.V.). We have historically purchased all of our non-returnable glass bottles from O-I Peldar and other global suppliers in the Middle

East. We purchase all of our cans from Crown Colombiana, S.A. Grupo Ardila Lulle (owners of our competitor Postobón) owns a minority equity interest in certain of our suppliers, including O-I Peldar and Crown Colombiana, S.A.

In Brazil, we also use sugar as a sweetener in all of our caloric beverages, which is available at local market prices, which historically have been similar to international prices. Sugar prices in Brazil decreased approximately 25.0% in U.S. dollars and 14.0% in local currency as compared to 2017. Taking into account our financial hedging activities, our sugar prices in Brazil decreased approximately 15.0% in U.S. dollars and 2.0% in local currency as compared to 2017. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk.** We purchase non-returnable glass bottles, plastic bottles and cans from several domestic and international suppliers. We mainly purchase PET resin from local suppliers such as Companhia Integrada Textil de Pernambuco (recently acquired by Alpek, S.A.B. de C.V.).

In Argentina, we mainly use HFCS that we purchase from several different local suppliers as a sweetener in our products. We purchase glass bottles and other raw materials from several domestic sources. We purchase plastic preforms at competitive prices from Andina Empaques S.A., a local subsidiary of Embotelladora Andina, S.A., a *Coca-Cola* bottler with operations in Chile, Argentina, Brazil and Paraguay, Alpla Avellaneda, S.A., AMCOR Argentina, and other local suppliers.

In Uruguay we also use sugar as a sweetener in all of our caloric beverages, which is available at Brazil s local market prices. Sugar prices in Uruguay decreased approximately 4.7% in U.S. dollars and increased 1.6% in local currency as compared to 2017. Our main supplier of sugar is Nardini Agroindustrial Ltda., which is based in Brazil. We purchase PET resin from Asian suppliers, such as India Reliance Industry (a joint venture with DAK Resinas Americas Mexico, S.A. de C.V.), and we purchase non-returnable plastic bottlers from global PET converters, such as Cristalpet S.A. (affiliate of Envases Universales de México, S.A.P.I. de C.V.).

REGULATION

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

Price Controls

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where we operate. Currently, there are no price controls on our products in any of the territories where we operate, except for voluntary price restraints in Argentina, where authorities directly supervise certain of our products sold through supermarkets as a measure to control inflation. Any changes to applicable law affecting prices could have an adverse effect on our business. **See Item 3. Key Information Risk Factors Regulatory developments may adversely affect our business.**

Taxation of Beverages

All the countries where we operate, except for Panama, impose value-added tax on the sale of sparkling beverages, with a rate of 16.0% in Mexico, 12.0% in Guatemala, 15.0% in Nicaragua, an average percentage of 15.9% in Costa Rica, 19.0% in Colombia (applied only to the first sale in the supply chain prior to December 31, 2018, and applied and transferred throughout the entire supply chain commencing on January 1, 2019), 21.0% in Argentina, 22.0% in Uruguay, and in Brazil 16.0% in the state of Parana, 17.0% in the state of Goias and Santa Catarina, 18.0% in the states of Sao Paulo, Minas Gerais and Rio de Janeiro, and 20.0% in the states of Mato Grosso do Sul and Rio Grande do Sul. The states of Rio de Janeiro, Minas Gerais and Parana also charge an additional 2.0% on sales as a contribution to a poverty eradication fund. In Brazil the value-added tax is grossed-up and added, along with federal sales tax, at the taxable basis. In addition, we are responsible for charging and collecting the value-added tax from each of our retailers in Brazil, based on average retail prices for each state where we operate, defined primarily through a survey conducted by the government of each state, which in 2018 represented an average taxation of approximately 17.4% over net sales. In addition, several of the countries where we operate impose the following excise or other taxes:

- Mexico imposes an excise tax of Ps.1.17 per liter on the production, sale and import of beverages with added sugar and HFCS as of January 1, 2018 (until December 31, 2017 the excise tax was Ps.1.00 per liter). This excise tax is applied only to the first sale and we are responsible for charging and collecting it. The excise tax is subject to increase when accumulated inflation in Mexico reaches 10.0% since the most recent date of adjustment. The increased tax is imposed starting on the fiscal year following such increase (the last increase being in November 2017).

Guatemala imposes an excise tax of 0.18 cents in local currency (Ps.0.46 as of December 31, 2018) per liter of sparkling beverage.

Costa Rica imposes a specific tax on non-alcoholic carbonated bottled beverages based on the combination of packaging and flavor, currently assessed at 19.09 colones (Ps.0.61 as of December 31, 2018) per 250 ml, and an excise tax currently assessed at 6.628 colones (approximately Ps.0.21 as of December 31, 2018) per 250 ml.

Nicaragua imposes a 9.0% tax on consumption, and municipalities impose a 1.0% tax on our Nicaraguan gross income.

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

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

Brazil assesses an average production tax of approximately 4.2% and an average sales tax of approximately 12.3% over net sales. Except for sales to wholesalers, this production and sales taxes apply only to the first sale and we are responsible for charging and collecting these taxes from each of our retailers. For sales to wholesalers, they are entitled to recover the sales tax and charge this tax again upon the resale of our products to retailers.

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

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

Tax Reforms

In 2016, the Brazilian federal production tax rates were reduced and the federal sales tax rates were increased. These rates continued to increase in 2017 and 2018. However, the Supreme Court decided in early 2017 that the value-added tax will not be used as the basis for calculating the federal sales tax, which resulted in a reduction of the federal sales tax. Notwithstanding the above, the tax authorities appealed the Supreme Court s decision and are still waiting for a final resolution. In 2018, the federal production and sales taxes together resulted in an average of 16.5% tax over net sales.

In addition, the excise tax rate on concentrate in Brazil was reduced from 20.0% to 4.0% from September 1, 2018 to December 31, 2018. This excise tax rate was temporarily increased from 4.0% to 12.0% from January 1, 2019 to June 30, 2019, and will be reduced to 8.0% on July 1, 2019 and further reduced to 4.0% on January 1, 2020. The tax credit that we may recognize in our Brazilian operations in connection with purchases of concentrate in the Manaus Free Trade Zone will be affected accordingly.

On January 1, 2018, a tax reform became effective in Argentina. This reform reduced the income tax rate from 35.0% to 30.0% for 2018 and 2019, and then to 25.0% for the following years. In addition, such reform imposed a new tax on dividends paid to non-resident stockholders and resident individuals at a rate of 7.0% for 2018 and 2019, and then to 13.0% for the following years. For sales taxes in the province of Buenos Aires, the tax rate decreased from 1.75% to 1.5% in 2018; however, in the City of Buenos Aires, the tax rate increased from 1.0% to 2.0% in 2018, and will be reduced to 1.5% in 2019, 1.0% in 2020, 0.5% in 2021 and 0.0% in 2022.

On January 1, 2019, the Mexican government eliminated the right to offset any tax credit against any payable tax (universal offset or *compensación universal*). As of such date, tax credits will only be offset against taxes of the same nature, and it will not be possible to offset tax credits against taxes withheld to third parties. Additionally, by Executive Decree, certain tax benefits related to the value-added tax and income tax were provided to businesses located in the northern border of Mexico. Based on the territories where we operate within Mexico, we currently do not expect to take advantage from any of these tax benefits.

On January 1, 2019, a new tax reform became effective in Colombia. This reform will reduce the current 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*) will also be 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 among 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 will be charged on the cost of imported raw materials of national and foreign origin, which we will be able to credit against the value-added tax on the sales price of our products. The municipality sales tax will be 50.0% deductible against payable income tax 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.

On July 1, 2019, a tax reform will become effective in Costa Rica. This reform will allow tax credits on sales taxes to be recorded not only on goods related to production and on administrative services, but on a greater number of goods and services. The value-added tax rate of 13.0% on services provided within Costa Rica will apply for 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 were 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 will provide that interest expenses paid to entities other than members of the Costa Rican financial system that exceed 20.0% of a company s EBITDA will not be deductible for income tax purposes.

Water Supply

As a beverage bottler, efficient water management is essential to our business and our communities. As a result, we are committed to improving our overall water use ratio to 1.5 liters of water per liter of beverage produced by 2020. In 2018, we used 1.59 liters of water per liter of beverage produced.Our goal is to reduce our water consumption and to return to the environment and our communities the same amount of water used to produce our beverages by 2020. Additionally, all our bottling plants have their own or have contracted services for waste water treatment to ensure the quality of the waste water discharge.

In Mexico, we obtain water directly from wells pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the 1992 Water Law (*Ley de Aguas Nacionales de 1992*), as amended, and regulations issued thereunder, which created the National Water Commission (*Comisión Nacional del Agua*). The National Water Commission is in charge of overseeing the national system of water use. Under the 1992 Water Law, concessions for the use of a specific volume of ground or surface water generally run from five to fifty-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms be extended before the expiration of the same. The Mexican government may reduce the volume of ground or surface water granted for use by a concession by whatever volume of water that is not used by the concessionaire for two consecutive years, unless the concessionaire proves that the volume of water not used is because the concessionaire is saving water by an efficient use of it. Our concessions may be terminated if, among other things, we use more water than permitted or we fail to pay required concession-related fees and do not cure such situations in a timely manner. Although we have not undertaken independent studies to confirm the sufficiency of the existing groundwater supply, we believe that our existing concessions satisfy our current water requirements in Mexico.

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

In Brazil, we obtain water and mineral water from wells pursuant to concessions granted by the Brazilian government for each plant. According to the Brazilian Constitution and the National Water Resources Policy, water is considered an asset of common use and can only be exploited for the national interest by Brazilians or companies formed under Brazilian law. Concessionaires and users have the responsibility for any damage to the environment. The exploitation and use of water is regulated by the Code of Mining, Decree Law No. 227/67 (*Código de Mineração*), the Mineral Water Code, Decree Law No. 7841/45 (*Código de Águas Minerais*), the National Water Resources Policy (Decree No. 24.643/1934 and Law No. 9433/97) and by regulations issued thereunder. The companies that exploit water are supervised by the National Mining Agency (*Agência Nacional de Mineração* ANM) and the National Water Agency (*Agência Nacional de Águas*) in connection with federal health agencies, as well as state and municipal authorities. In the Jundiai, Marilia, Curitiba, Maringa, Porto Alegre, Antonio Carlos and Itabirito plants, we do not exploit spring water. We only exploit spring water where we have all the necessary permits.

In Colombia, in addition to natural spring water for *Manantial*, we obtain water directly from wells and from utility companies. We are required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees No. 2811 of 1974 and No. 3930 of 2010. In addition, Decree No. 303 of 2012 requires us to apply for water concessions and for authorization to discharge our water into public waterways. The Ministry of Environment and Sustainable Development and Regional Autonomous Corporations supervises companies that use water as a raw material for their businesses. Furthermore, in Colombia, Law No. 142 of 1994 provides that public sewer services are charged based on volume (usage). The Water and Sewerage Company of the City of Bogota has interpreted this rule to be the volume of water captured, and not the volume of water discharged by users. Based on our production process, our Colombian subsidiary discharges into the public sewer system significantly less water than the water it captures. As a result, our Colombian subsidiary filed monthly claims with the Water and Sewerage Company of the City of Bogota challenging these charges. In 2015, the highest court in Colombia issued a final ruling stating that the Water and Sewerage Company of the City of Bogota is not required to measure the volume of water discharged by users in calculating public sewer services charges. Based

on this ruling, the Water and Sewerage Company of the City of Bogota commenced an administrative proceeding against our Colombian subsidiary requesting payment of Ps.309 million for the sewer services it claims our subsidiary has not properly paid since 2005. In connection with such proceeding, in March 2016, this authority issued an order freezing certain of our bank accounts. See Note 9.2 to our consolidated financial statements. In June 2017, our Colombian subsidiary held conciliatory hearings with the Water and Sewerage Company of the City of Bogota and reached an agreement to settle this matter by payment of Ps.216 million for the sewer services charged from June 2005 to May 2017, which was submitted before the administrative court seeking its judicial endorsement. In May 2018 the settlement agreement was approved. Since then, we have complied with all of our obligations and commitments under the settlement agreement. As a result, the proceeding with the Water and Sewerage Company of Bogotá was terminated.

In Argentina, a state water company provides water to our Alcorta plant on a limited basis; however, we believe the authorized amount meets our requirements for this plant. In our Monte Grande plant in Argentina we pump water from wells, in accordance with Law No. 25.688.

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In Uruguay, we acquire water from the local water system, which is managed by the Organism of Sanitary Works (*Obras Sanitarias del Estado*). Additionally, we are required by the Uruguayan federal government to discharge all of our water excess to the sanitation system for recollection.

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

In addition, we obtain water for the production of some of our natural spring water products, such as *Manantial* in Colombia and *Crystal* in Brazil, from spring water pursuant to concessions granted. **See Regulation Water Supply.**

Environmental Matters

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

During 2018, 50.0% of our total energy requirements were obtained from clean energy sources. Additionally, as part of our waste management strategies, in 2018, 21.0% of our PET resin packaging was comprised of recycled materials and we recycled 95% of the total waste generated.

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

In March 2015, the General Law of Climate Change (*Ley General de Cambio Climático*), its regulation and certain decrees related to such law became effective, imposing upon different industries (including the food and beverage industry) the obligation to report direct or indirect gas emissions exceeding 25,000 tons of carbon dioxide. Currently,

we are not required to report these emissions, since we do not exceed this threshold. We cannot assure you that we will not be required to comply with this reporting requirement in the future.

In our Mexican operations, we established a partnership with The Coca-Cola Company and Alpla, our supplier of plastic bottles in Mexico, to create Industria Mexicana de Reciclaje (IMER), a PET recycling facility located in Toluca, Mexico. In 2018, this facility recycled 11,422 tons of PET resin. We have also continued contributing funds to ECOCE, A.C., a nationwide collector of containers and packaging materials. In 2018, ECOCE collected 58.0% of the total PET resin waste in Mexico.

All of our plants located in Mexico have received a Certificate of Clean Industry (*Certificado de Industria Limpia*).

Our Central American operations are subject to several federal and state laws and regulations related to the protection of the environment and the disposal of hazardous and toxic materials, as well as water usage. Our Costa Rican operations have participated in a joint effort along with the local division of The Coca-Cola Company, Misión Planeta, for the collection and recycling of non-returnable plastic bottles. In Guatemala, we joined the Foundation for Water (*Fundación para el Agua*), through which we will have direct participation in several projects related to the sustainable use of water. Our plants in Central America are certified for ISO 14001.

Our Colombian operations are subject to several Colombian federal and state laws and regulations related to the protection of the environment and the disposal of treated water and toxic and hazardous materials. These laws include the control of atmospheric emissions, noise emissions, disposal of treated water and strict limitations on the use of chlorofluorocarbons. In addition, on February 6, 2012, Colombia promulgated Decree No. 303, which requires us to apply for an authorization to discharge our water into public waterways. We are engaged in nationwide reforestation programs and campaigns for the collection and recycling of glass and plastic bottles, among other programs with positive environmental impacts. We have also obtained and maintained the ISO 9001, ISO 14001, OHSAS 18001, FSSC 22000 and PAS 220 certifications for our plants located in Medellin, Cali, Bogota, Barranquilla, Bucaramanga and La Calera, as recognition for the highest quality and food harmlessness in our production processes, which is evidence of our strict level of compliance with relevant Colombian regulations. Our six plants joined a small group of companies that have obtained these certifications. Our plant located in Tocancipa, which commenced operations in February 2015, obtained the Leadership in Energy and Environmental Design (LEED 2009) certification in April 2017, as well as the ISO 9001/2015, ISO 4000, ISO 8000 and ISO 22000 certifications.

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

Our production plant located in Jundiai has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by applicable law. This production plant has been certified for GAO-Q and GAO-E. In 2017, the Itabirito plant was certified for ISO 9001 and the Leadership in Energy and Environmental Design, which is a globally recognized certification of sustainability achievement. In addition, the plants of Jundiai, Mogi das Cruzes, Campo Grande, Marilia, Maringa, Curitiba, and Bauru have been certified for (i) ISO 9001; (ii) ISO 14001 and; (iii) norm OHSAS 18001. The Jundiai, Campo Grande, Bauru, Marilia, Curitiba, Maringa, Porto Alegre, Antonio Carlos and Mogi das Cruzes plants are certified in standard FSSC 22000.

In May 2008, a municipal regulation of the City of Sao Paulo, implemented pursuant to Law 13.316/2002, came into effect requiring us to collect for recycling a specified annual percentage of plastic bottles made from PET resin sold in the City of Sao Paulo. Beginning in May 2011, we were required to collect 90.0% of PET resin bottles sold. Currently, we are not able to collect the entire required volume of PET resin bottles we sell in the City of Sao Paulo. Since we do not meet the requirements of this regulation, which we believe to be more onerous than those imposed by the countries with the highest recycling standards, we could be fined and be subject to other sanctions, such as the suspension of operations in any of our plants and/or distribution centers located in the City of Sao Paulo. In May 2008, when this law came into effect, we and other bottlers in the City of Sao Paulo, through the Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR (*Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas*), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In November 2009, in response to a request by a municipal authority to provide evidence of the destination of the PET resin bottles sold in Sao Paulo, we filed a motion presenting all of our recycling programs and requesting a more practical timeline to comply with the requirements imposed. In October 2010, the municipal authority of Sao Paulo levied a fine on our Brazilian operating subsidiary of 250,000 Brazilian reais (Ps.1.3 million as of December 31, 2018) on the grounds that the report submitted by our Brazilian operating subsidiary did not comply with the 75.0% proper disposal requirement for the period from May 2008 to May 2010. We filed an appeal against this fine, which was denied by the municipal authority in May 2013. This resolution by the municipal authority is final and not subject to appeal. However, in July 2012, the State Appellate Court of Sao Paulo rendered a decision on an interlocutory appeal filed on behalf of ABIR staying the requirement to pay the fines and other sanctions imposed on

ABIR s associated companies, including our Brazilian subsidiary, pending the final resolution of the appeal. We are still awaiting the final resolution of the appeal filed on behalf of ABIR. In November 2016, the municipal authority filed a tax enforcement claim against our Brazilian subsidiary in order to try to collect the fine imposed in October 2010. In February 2017, we filed a motion for a stay of execution against the collection of the fine based on the decision rendered by the State Appellate Court of Sao Paulo in July 2012. We cannot assure you that these measures will have the desired effect or that we will prevail in any judicial challenge that our Brazilian subsidiary may pursue.

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

2015. In August 2016, the public prosecutor s office of the state of Sao Paulo filed several class actions against the parties that signed this agreement, challenging the validity of certain terms of the agreement and the effectiveness of the mandatory measures to be taken by the companies of the packaging sector, as provided in the agreement. Due to the large number of class actions involving the same parties, same cause of action and same pleas, a motion for resolution of repetitive claims was filed with the purpose of suspending all the class actions until the motion is resolved, and the competent court is appointed. ABIR and other associations are leading the defense.

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

In Uruguay, we own a water treatment plant to reuse water in certain processes. We have established a program for recycling solid wastes and are currently certified for ISO 14001:2015 for our plant in Montevideo and for our distribution center in Paysandú.

For all of our plant operations, we employ the following environmental management system Environmental Administration System, or EKOSYSTEM (*Sistema de Administración Ambiental*).

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

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

Other Regulations

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

regulations under Law No. 12,997. The Ministry of Labor and Employment, with the participation of all interested parties, is in the process of revising Decree No. 1.565/2014. Such revision has not concluded, therefore we cannot assure you that any changes made to Decree No. 1.565/2014 will not have an adverse effect on our business.

In July 2017, the Brazilian government issued Law No. 13,467 (Labor Reform Law), which resulted in significant changes to labor regulations. This law extends the workday from 8 hours to 12 hours, provided that there is a 36-hour break afterwards. With regard to negotiations with any labor union, Law No. 13,467 provides that certain rights, such as constitutional rights and women s rights, cannot be part of the negotiations, as the Constitution and existing law prevails over any collective bargaining agreement. In addition, Law No. 13,467 allows companies to outsource any activity, including the company s principal activity and activities that a company s own employees are carrying out. Furthermore, the law provides that a claimant seeking to enforce his or her rights under this law will have to pay all costs and expenses related to the lawsuit and limits any compensation for moral damages to certain thresholds. We are currently in compliance with these labor regulations.

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In November 2017, the Panamanian government enacted Law No. 75 which regulates the sale of food and beverages in public and private schools (from elementary school through high school). Law No. 75 prohibits the sale of all sparkling beverages and certain still beverages that contain high amounts of sugar or calories in schools. In addition, the Ministry of Education issued a decree with certain products that they recommend should be sold in schools; the products mentioned do not include sparkling beverages, teas and still beverages that contain high amounts of sugar. We cannot assure you that these restrictions and any further restrictions will not have an adverse impact on our results of operations.

In December 2017, the Argentine government enacted Law No. 27,401 (Corporate Criminal Liability Law), which introduced the criminal liability regime for corporate entities who engage in corruption and bribery with governmental agencies. The main purpose of this law is to make corporate entities liable for corruption and bribery carried out directly or indirectly by such corporate entity, either with its participation, on its behalf or to its benefit. Although we believe we are in compliance with this law, if we were found liable for any of these practices, this law may have an adverse effect on our business.

In August 2018, the Uruguayan government enacted Decree No. 272/018, which imposes an obligation to label certain food and beverages products that contain sodium, sugar, fats or saturated fats with health warnings. Although this decree is already enacted, we will not be required to label our products until February 2020.

In recent years, the Colombian government has enacted regulations associated with policies addressing money laundering and finance of terrorism, and cross border anti-bribery programs. Regarding money laundering, the new regulations impose the obligation to implement internal policies and comply with basic requirements such as know-your-counterparty procedures, anti-money laundering and finance of terrorism clauses in agreements and reporting of suspicious operations. Regarding anti bribery programs, companies are required to comply with basic requirements, such as due diligence in merger and acquisition transactions and delivery of gifts, remuneration to contractors, political contributions, donations, whistleblowing channels and anti corruption clauses in agreements. The Colombian authorities conduct audits to ensure the effectiveness of these policies and compliance with relevant regulations, and may impose fines and penalties in the event these policies and regulations are not observed.

BOTTLER AGREEMENTS

Coca-Cola Bottler Agreements

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers. Pursuant to our bottler agreements, we are authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and we are required to purchase concentrate for all *Coca-Cola* trademark beverages in all of our territories from affiliates of The Coca-Cola Company and sweeteners and other raw materials from companies authorized by The Coca-Cola Company.

These bottler agreements also provide that we will purchase our entire requirement of concentrate for *Coca-Cola* trademark beverages at prices, terms of payment and on other terms and conditions of supply as determined from time to time by The Coca-Cola Company at its sole discretion. Concentrate prices for *Coca-Cola* trademark beverages are determined as a percentage of the weighted average retail price in local currency, net of applicable taxes. Although the price multipliers used to calculate the cost of concentrate and the currency of payment, among other terms, are set by The Coca-Cola Company at its sole discretion, we set the price of products sold to customers at our discretion, subject to the applicability of price restraints imposed by authorities in certain territories. We have the exclusive right to distribute *Coca-Cola* trademark beverages for sale in our territories in authorized containers of the nature approved by the bottler agreements and currently used by our company. These containers include various configurations of cans

and returnable and non-returnable bottles made of glass, aluminum and plastic and fountain containers.

The bottler agreements include an acknowledgment by us that The Coca-Cola Company is the sole owner of the trademarks that identify the *Coca-Cola* trademark beverages and of the formulas with which The Coca-Cola Company s concentrates are made. Subject to our exclusive right to distribute *Coca-Cola* trademark beverages in our territories, The Coca-Cola Company reserves the right to import and export *Coca-Cola* trademark beverages to and from each of our territories. Our bottler agreements do not contain restrictions on The Coca-Cola Company s ability to set the price of concentrates and do not impose minimum marketing obligations on The Coca-Cola Company. The prices at which we purchase concentrate under the bottler agreements may vary materially from the prices we have historically paid. However, under our bylaws and the shareholders agreement among The Coca-Cola Company and certain of its subsidiaries and certain of FEMSA s subsidiaries, an adverse action by The Coca-Cola Company under any of the bottler agreements may result in a suspension of certain voting rights of the directors appointed by The Coca-Cola Company. This provides us with limited protection against The Coca-Cola Company s ability to raise concentrate prices to the extent that such increase is deemed detrimental to us pursuant to such shareholder agreement and our bylaws. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.**

The Coca-Cola Company has the ability, at its sole discretion, to reformulate any of the *Coca-Cola* trademark beverages and to discontinue any of the *Coca-Cola* trademark beverages, subject to certain limitations, so long as all *Coca-Cola* trademark beverages are not discontinued. The Coca-Cola Company may also introduce new beverages in our territories in which case we have a right of first refusal with respect to the manufacturing, packaging, distribution and sale of such new beverages subject to the same obligations as then exist with respect to the *Coca-Cola* trademark beverages under the bottler agreements. The bottler agreements prohibit us from producing, bottling or handling beverages other than *Coca-Cola* trademark beverages, or other products or packages that would imitate, infringe upon, or cause confusion with the products, trade dress, containers or trademarks of The Coca-Cola Company, except under the authority of, or with the consent of, The Coca-Cola Company. The bottler agreements also prohibit us from acquiring or holding an interest in a party that engages in such restricted activities. The bottler agreements impose restrictions concerning the use of certain trademarks, authorized containers, packaging and labeling of The Coca-Cola Company so as to conform to policies approved by The Coca-Cola Company. In particular, we are obligated to:

maintain plant and equipment, staff and distribution facilities capable of manufacturing, packaging and distributing the *Coca-Cola* trademark beverages in authorized containers in accordance with our bottler agreements and in sufficient quantities to satisfy fully the demand in our territories;

undertake adequate quality control measures established by The Coca-Cola Company;

develop, stimulate and satisfy fully the demand for *Coca-Cola* trademark beverages using all approved means, which includes the investment in advertising and marketing plans;

maintain a sound financial capacity as may be reasonably necessary to assure performance by us and our subsidiaries of our obligations to The Coca-Cola Company; and

submit annually to The Coca-Cola Company our marketing, management, promotional and advertising plans for the ensuing year.

The Coca-Cola Company contributed a significant portion of our total marketing expenses in our territories during 2018 and has reiterated its intention to continue providing such support as part of our cooperation framework. Although we believe that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement** and **Item 7. Major Shareholders and Related Party Transactions Major Shareholders Cooperation Framework with The Coca-Cola Company.**

We have separate bottler agreements with The Coca-Cola Company for each of the territories where we operate, on substantially the same terms and conditions. These bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement.

As of the date of this report, and as a result of our agreement with The Coca-Cola Company to consolidate the nine bottlers agreements we had in Mexico into four agreements, and the nine bottler agreements we had in Brazil into two agreements, we had:

four bottler agreements in Mexico: (i) the agreement for the Valley of Mexico territory, which is up for renewal in June 2023, (ii) the agreement for the southeast territory, which is up for renewal in June 2023, (iii) the agreement for the Bajio territory, which is up for renewal in May 2025, and (iv) the agreement for the Gulf territory, which is up for renewal in May 2025;

two bottler agreements in Brazil, which are up for renewal in October 2027;

three bottler agreements in Guatemala, one of which is up for renewal in March 2025 and two in April 2028;

- one bottler agreement in Argentina, which is up for renewal in September 2024;
- one bottler agreement in Colombia, which is up for renewal in June 2024;
- one bottler agreement in Costa Rica, which is up for renewal in September 2027;
- one bottler agreement in Nicaragua, which is up for renewal in May 2026;
- one bottler agreement in Panama, which is up for renewal in November 2024; and
- one bottler agreement in Uruguay, which is up for renewal in June 2028.

As of the date of this report, our investee KOF Venezuela had one bottler agreement, which is up for renewal in August 2026.

The bottler agreements are subject to termination by The Coca-Cola Company in the event of default by us. The default provisions include limitations on the change in ownership or control of our company and the assignment or transfer of the bottler agreements and are designed to preclude any person not acceptable to The Coca-Cola Company from obtaining an assignment of a bottler agreement or from acquiring our company independently of other rights set forth in the shareholders agreement. These provisions may prevent changes in our principal shareholders, including mergers or acquisitions involving sales or dispositions of our capital stock, which will involve an effective change of control, without the consent of The Coca-Cola Company. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.**

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We have also entered into tradename license agreements with The Coca-Cola Company pursuant to which we are authorized to use certain trademark names of The Coca-Cola Company with our corporate name. These agreements have a ten-year term and are automatically renewed for ten-year terms, but are terminated if we cease to manufacture, market, sell and distribute *Coca-Cola* trademark products pursuant to the bottler agreements or if the shareholders agreement is terminated. The Coca-Cola Company also has the right to terminate any license agreement if we use its trademark names in a manner not authorized by the bottler agreements.

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DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2018, we owned 49 bottling plants company-wide. By country, as of such date, we had 17 bottling facilities and 5 secondary facilities for a total of 22 in Mexico, 7 in Central America, 7 in Colombia, 10 in Brazil, 2 in Argentina, and 1 in Uruguay. In 2018, we changed the criteria to account for bottling facilities in Mexico to include small capacity bottling facilities mainly for bulk water. In addition, our investee KOF Venezuela owned 4 bottling plants as of December 31, 2018.

As of December 31, 2018, we operated 275 distribution centers, approximately 52.7% of which were in our Mexican territories. As of such date, we owned more than 73.4% of these distribution centers and leased the remainder. In addition, our investee KOF Venezuela operated 22 distribution centers. **See The Company Product Sales and Distribution.**

We maintain an all-risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disaster, including hurricane, hail, earthquake and damages caused by human acts, including explosion, fire, vandalism and riot; we also maintain a freight transport insurance policy that covers damages to goods in transit. In addition, we maintain a liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. We believe that our coverage is consistent with the coverage maintained by similar companies.

Certain factors may affect utilization levels of our bottling facilities, such as seasonality of demand for our products, supply chain planning due to different geographies and different packaging capacities of our production lines. As a result, we are exposed to seasonality and peak months of demand for our products, which may lead us to have excess capacity during certain months in certain countries.

The table below summarizes by country installed capacity, average annual utilization and utilization during peak month of our production facilities:

Bottling Facility Summary

As of December 31, 2018

Country	Installed Capacity (thousands of unit cases)	Average Annual Utilization[1][2] (%)	Utilization in Peak Month[1] (%)
Mexico	2,818,533	63	78
Guatemala	101,536	76	86
Nicaragua	98,706	51	63
Costa Rica	86,557	54	61
Panama	72,833	46	53
Colombia	664,429	40	44
Brazil	1,419,984	53	64
Argentina	417,263	40	53
Uruguay	120,310	36	54

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

(2) Annualized rate.

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The table below summarizes our main production facilities in terms of installed capacity, including their location and facility area:

Main Bottling Facility by Location

As of December 31, 2018

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	Toluca, Estado de Mexico	317
	Leon, Guanajuato	124
	Morelia, Michoacan	50
	Ixtacomitan, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	La Pureza Altamira, Tamaulipas	300
	San Juan del Rio, Queretaro	84
Guatemala	Guatemala City	46
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San Jose	52
Panama	Panama City	29
Colombia	Barranquilla, Atlántico	37
	Bogota, DC	105
	Tocancipa, Cundinamarca	298
Brazil	Jundiai, Sao Paulo	191
	Marilia, Sao Paulo	159
	Curitiba, Paraná	119
	Itabirito, Minas Gerais	320
	Porto Alegre, Río Grande do Sul	196
Argentina	Alcorta, Buenos Aires	73
Uruguay	Montevideo, Montevideo	119

SIGNIFICANT SUBSIDIARIES

The table below sets forth all of our direct and indirect significant subsidiaries and the percentage of equity of each subsidiary we owned directly or indirectly as of December 31, 2018:

Name of Company	Jurisdiction of Incorporation	Percentage Owned	Description
Propimex, S. de R.L. de C.V.	Mexico	100.0%	Distributor of bottled beverages.
Controladora Interamericana de Bebidas, S. de R.L. de C.V.	Mexico	100.0%	Holding company of manufacturers and distributors of bottled beverages.
Spal Indústria Brasileira de Bebidas, S.A.	Brazil	96.1%	Manufacturer and distributor of bottled beverages.
Distribuidora y Manufacturera del Valle de México, S. de R.L. de C.V.	Mexico	100.0%	Manufacturer and distributor of bottled beverages.
Servicios Refresqueros del Golfo, S. de R.L. de C.V.	Mexico	100.0%	Manufacturer and distributor of bottled beverages.

For further information regarding our investment in associates and joint ventures, see Note 10 to our consolidated financial statements.

Item 4.A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

General

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements including the notes thereto. Our consolidated financial statements were prepared in accordance with IFRS as issued by the IASB.

Average Price Per Unit Case. We use average price per unit case to analyze average pricing trends in the different territories where we operate. We calculate average price per unit case by dividing net sales by total sales volume. Sales of beer in Brazil, which are not included in our sales volumes, are excluded from this calculation.

Effects of Changes in Economic Conditions. Our results are affected by changes in economic conditions in Mexico, Brazil and in the other countries where we operate. For the year ended December 31, 2018, approximately 77.3% of our total revenues were attributable to Mexico and Brazil. Our results are affected by the economic conditions in the countries where we conduct operations. Some of these economies continue to be influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect these economies. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our results and financial condition. Our business may also be significantly affected by the interest rates, inflation rates and exchange rates of the local currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. In addition, an increase in interest rates would increase the cost to us of variable rate funding, which would have an adverse effect on our financial position.

Changes to the Accounting Method for our Venezuelan Operations. As disclosed in Note 3.3 to our consolidated financial statements, effective as of December 31, 2017, we determined that deteriorating conditions in Venezuela had led us to no longer meet the accounting criteria to consolidate the results of operations of KOF Venezuela. Such deteriorating conditions had significantly impacted our ability to manage our capital structure and our capacity to import and purchase raw materials and had imposed limitations on our portfolio dynamics. In addition, government controls over the pricing of certain products, labor law restrictions and an inability to obtain U.S. dollars and import raw materials have affected the normal course of our business. Therefore, as a result of the deconsolidation of our Venezuelan operations in 2017, we recorded an extraordinary loss in other expenses of Ps.28,177 million as of December 31, 2017, including Ps.26,123 million which were previously recorded in accumulated foreign currency translation losses in equity, and we changed the method of accounting for the results of operations of KOF Venezuela from consolidation to fair value method. In 2018, we recognized in other comprehensive income a fair value loss on the investment of Ps.1,039 million as of December 31, 2018 and an impairment remeasurement of Ps.210 million as of December 31, 2017. Gains and losses on the investment since January 1, 2018 are recognized in other comprehensive income in accordance with IFRS 9, *Financial Instruments*. See Note 10 to our consolidated financial statements.

We reported the results of operations of KOF Venezuela as a consolidated reporting segment for the periods ended December 31, 2017 and 2016. Since January 1, 2018, we no longer include the results of operations of KOF Venezuela in our consolidated financial statements.

Treatment of Argentina as a Hyperinflationary Economy. On July 1, 2018, Argentina s economy satisfied the conditions to be treated as a hyperinflationary economy based on various economic factors, including that Argentina s cumulative inflation over the three-year period prior to such date exceeded 100%, according to available indexes in the country. Effective as of January 1, 2018, we adjusted the financial information of our Argentine operations to recognize inflationary effects and functional currency was converted to Mexican pesos using the exchange rates at the

end of the period ended December 31, 2018. See Note 3.4 to our consolidated financial statements.

Sale of Equity Participation in KOF Philippines. In August 2018, our subsidiary, CIBR, notified The Coca-Cola Company of its decision to exercise its option to sell its 51.0% stake in KOF Philippines and, on December 13, 2018, CIBR completed this sale. As a result, KOF Philippines was classified as an asset held for sale commencing on August 31, 2018 and as a discontinued operation for the year ended December 31, 2018, and the corresponding results for 2017 were restated for comparative purposes. Commencing on January 1, 2018, we stopped accounting for KOF Philippines and, specifically our Asia division, as a separate reporting segment. The net gain derived from the sale of KOF Philippines, as well as KOF Philippines results of operations from January 1, 2018 through December 12, 2018 were recorded in our consolidated financial statements as part of our Mexico and Central America consolidated reporting segment. See Notes 5 and 26 to our consolidated financial statements.

Recent Acquisitions. In April 2018, Compañía Inversionista en Bebidas del Norte, S.L., one of our subsidiaries, acquired from The Coca-Cola Company, ABASA, a Guatemalan bottler of *Coca-Cola* trademark products with operation in the northeast region of Guatemala, and Compañía de Inversiones Moderna, S.L., another of our subsidiaries, acquired from The Coca-Cola Company, Los Volcanes, a Guatemalan bottler of *Coca-Cola* trademark products with operations in the southwest region of Guatemala. In June 2018, Inversiones en Bebidas Refrescantes Ibérica, S.L., one of our subsidiaries, acquired from The Coca-Cola Company, Monresa, the Uruguayan bottler of *Coca-Cola* trademark products.

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Recent Developments Relating to Our Indebtedness. In 2018, we entered into certain bank loans in Mexican and Uruguayan pesos for an aggregate principal amount of Ps.10,100 million and 2,212 million Uruguayan pesos (Ps.1,344 million, based on an exchange rate of 0.61 Mexican pesos per Uruguayan peso), respectively. In January 2019, we prepaid three bank loans in Mexican pesos for an aggregate amount of Ps.4,700 million. On November 26, 2018 our 2.375% Notes due 2018 matured and were repaid in full.

Critical Accounting Judgments and Estimates

In the application of our accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered 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. For a description of all of our critical accounting judgments and estimates, see Note 2.3 to our consolidated financial statements.

New Accounting Pronouncements

For a description of the new IFRS and amendments to IFRS adopted during 2018, see Note 2.4 to our consolidated financial statements. In addition, for a description of the recently issued accounting standards effective in 2019 and 2020, see Note 27 to our consolidated financial statements.

Results

The following table sets forth our consolidated income statements for the years ended December 31 2018, 2017 and 2016.

	Year Ended December 31,			
	2018[(1)(2)]	**2018[(2)]**	**2017[(3)]**	**2016[(4)]**
	(in millions of Mexican pesos or millions of U.S. dollars, except per share data)			
Revenues:				
Net sales	US$ 9,260	Ps. 181,823	Ps. 182,850	Ps. 177,082
Other operating revenues	26	519	406	636
Total revenues	9,286	182,342	183,256	177,718
Cost of goods sold	5,012	98,404	99,748	98,056
Gross profit	4,274	83,938	83,508	79,662
Costs and expenses:				
Administrative expenses	407	7,999	7,693	7,423
Selling expenses	2,543	49,925	50,351	48,039
Other income	29	569	1,542	1,281
Other expenses	125	2,450	32,899[(5)]	5,093

Interest expenses	385	7,568	8,777	7,471
Interest income	51	1,004	791	715
Foreign exchange gain (loss), net	(14)	(277)	788	(1,792)
Gain (loss) on monetary position for subsidiaries in hyperinflationary economies	11	212	1,590	2,417
Market value gain (loss) on financial instruments	(16)	(314)	246	51
Income (loss) before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	875	17,190	(11,255)	14,308
Income taxes	268	5,260	4,184	3,928
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	(12)	(226)	60	147
Net income (loss) for continuing operations	596	11,704	(15,379)	10,527
Net income (loss) for discontinued operations	172	3,366	3,725	

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	Year Ended December 31,			
	2018[(1)(2)]	2018[(2)]	2017[(3)]	2016[(4)]
	(in millions of Mexican pesos or millions of U.S. dollars, except per share data)			
Consolidated net income (loss)	768	15,070	(11,654)	10,527
Attributable to:				
Equity holders of the parent for continuing operations	557	10,936	(16,058)	10,070
Equity holders of the parent for discontinued operations	152	2,975	3,256	
Non-controlling interest for continuing operations	39	768	679	457
Non-controlling interest for discontinued operations	20	391	469	
Consolidated net income (loss)	768	15,070	(11,654)	10,527
Per share data[(6)]:				
Basic earnings (loss) per share from[(7)]:				
Continuing operations	0.03	0.65	(0.96)	0.61
Discontinued operations	0.01	0.18	0.19	
Diluted earnings (loss) per share from[(8)]:				
Continuing operations	0.03	0.65	(0.96)	0.61
Discontinued operations	0.01	0.18	0.19	

(1) Translation to U.S. dollar amounts at an exchange rate of Ps.19.64 to US$1.00 solely for the convenience of the reader.
(2) Includes results of ABASA and Los Volcanes from May 2018 and Monresa from July 2018. See **Item 4. Information on the Company The Company Corporate History**.
(3) Our consolidated statements of income for 2017 were restated for comparative purposes, as a result of the sale of our equity participation in KOF Philippines. For further information **see General Sale of Equity Participation in KOF Philippines.**
(4) Includes results of Vonpar from December 2016. **See Item 4. Information on the Company The Company Corporate History.**
(5) See Note 19 to our consolidated financial statements.
(6) Per share data has been restated to give effect to the Stock Split.
(7) Computed on the basis of the weighted average number of shares outstanding during the period: 16,806.7 million in 2018, 16,730.8 million in 2017 and 16,598.7 million in 2016.
(8) The diluted earnings per share calculation was computed on the basis of the diluted weighted average number of shares outstanding during the period: 16,806.7 million in 2018, 16,730.8 million in 2017 and 16,598.7 million in 2016 (which reflects the commitment to deliver Series L shares to the sellers of Vonpar, without changing the number of shares for 2016). For further information see Note 3.26 to our consolidated financial statements.

Operations by Consolidated Reporting Segment

The following table sets forth certain financial information for each of our consolidated reporting segments for the years ended December 31, 2018, 2017 and 2016. See Note 26 to our consolidated financial statements for additional information about all of our consolidated reporting segments.

	Year Ended December 31,		
	2018[1]	2017[1]	2016[1]
	(in millions of Mexican pesos)		
Total revenues			
Mexico and Central America[1]	100,162	92,643	87,557
South America[2]	82,180	86,608	71,293
Venezuela[3]		4,005	18,868
Gross profit			
Mexico and Central America[1]	48,162	45,106	43,569
South America[2]	35,776	37,756	29,263
Venezuela[3]		646	6,830

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama. Includes results of ABASA and Los Volcanes from May 2018.

(2) Includes Colombia, Brazil, Argentina and Uruguay. Includes results of Vonpar from December 2016 and Monresa from July 2018.

(3) We stopped consolidating our Venezuelan operations commencing on January 1, 2018.

Results for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Consolidated Results

The comparability of our financial and operating performance in 2018 as compared to 2017 was affected by the following factors: (1) the ongoing integration of mergers, acquisitions, and divestitures completed in recent years, specifically the acquisitions in Guatemala and Uruguay in April and June 2018, respectively; (2) translation effects from fluctuations in exchange rates; (3) our results in Argentina, which effective as of January 1, 2018 is considered a hyperinflationary economy; (4) the deconsolidation of our Venezuelan operations effective as of December 31, 2017; and (5) the classification of KOF Philippines as a discontinued operation effective as of January 1, 2018 and the restatement for comparative purposes of the corresponding results for 2017 to exclude the results of KOF Philippines, as if such operation had been discontinued as of February 1, 2017, the date we commenced consolidating the financial results of KOF Philippines in our financial statements. To translate the full-year 2018 results of Argentina, we used the end-of-period exchange rate of 37.70 Argentine pesos per U.S. dollar. The depreciation of the Argentine peso at December 31, 2018, as compared to the average exchange rate for 2017, was 127.7%. In addition, the average depreciation of currencies used in our main operations relative to the U.S. dollar in 2018, as compared to 2017, were: 14.5% for the Brazilian real, 1.6% for the Mexican peso, 0.2% for the Colombian peso and 7.2% for the Uruguayan peso.

Total Revenues. Our consolidated total revenues decreased by 0.5% to Ps.182,342 million in 2018, mainly as a result of the depreciation of the Argentine peso, the Brazilian real and the Colombian peso, in each case as compared to the Mexican peso, and the deconsolidation of KOF Venezuela effective as of December 31, 2017, which were partially offset by price increases aligned with or above inflation and volume growth in key territories. On a comparable basis, total revenues would have increased by 5.9%, mainly as a result of an increase in the average price per unit case across our operations and volume growth in Brazil, Central America and Colombia.

Total sales volume remained flat at 3,321.8 million unit cases in 2018 as compared to 2017. On a comparable basis, total sales volume would have increased by 1.3% in 2018 as compared to 2017.

Sales volume of our sparkling beverage portfolio remained flat as compared to 2017; sales volume of our colas portfolio increased by 2.3%, while sales volume of our flavored sparkling beverage portfolio declined by 8.2%. On a comparable basis, sales volume of our sparkling beverage portfolio would have increased by 1.0% as compared to 2017, driven by growth across all of our operations (except for Mexico which had a flat performance). Sales volume of our colas portfolio would have increased by 2.8%, mainly due to volume growth in most of our territories, and sales volume of our flavored sparkling beverages portfolio would have declined by 5.6%.

Sales volume of our still beverage portfolio increased by 3.1% as compared to 2017. On a comparable basis, sales volume of our still beverage portfolio would have increased by 5.8%, driven by growth in Brazil, Central America and Mexico, which was partially offset by a volume contraction in Colombia.

Sales volume of our bottled water category, excluding bulk water, increased by 1.9% as compared to 2017. On a comparable basis, sales volume of our water portfolio would have increased by 7.2%, driven by growth in Brazil, Colombia and Mexico, which was partially offset by a volume

contraction in Central America.

Sales volume of our bulk water category declined by 2.0%. On a comparable basis, sales volume of our bulk water portfolio would have decreased by 2.6%, mainly as a result of volume contraction in Mexico, which was partially offset by volume growth in Brazil, Central America and Colombia.

Consolidated average price per unit case decreased by 1.4% to Ps.50.57 in 2018, as compared to Ps.51.31 in 2017, mainly as a result of the negative translation effect resulting from depreciation of the Argentine peso and the Brazilian real relative to the Mexican peso, which was partially offset by the positive translation effect resulting from the appreciation of the Colombian peso relative to the Mexican peso. On a comparable basis, average price per unit case would have increased by 3.1% in 2018, driven by average price per unit case increases in local currency in Mexico and Brazil.

Gross Profit. Our gross profit increased by 0.5% to Ps.83,938 million in 2018; with a gross margin expansion of 40 basis points to reach 46.0% in 2018 as compared to 2017. On a comparable basis, our gross profit would have increased by 5.5% in 2018, as compared to 2017. Our pricing initiatives, together with lower sweetener prices in most of our operations, were offset by higher PET resin costs across most of our operations, higher concentrate costs in Mexico, and the depreciation in the average exchange rate of all of our operating currencies as applied to U.S. dollar-denominated raw material costs.

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

Administrative and Selling Expenses. Our administrative and selling expenses decreased by 0.2% to Ps.57,924 in 2018 as compared to 2017. Our administrative and selling expenses as a percentage of total revenues increased by 10 basis points to 31.8% in 2018 as compared to 2017, mainly as a result of an increase in labor and freight costs, which were partially offset by the effects of favorable foreign exchange translations. In 2018, we continued investing across our territories to support marketplace execution, increase our cooler coverage, and bolster our returnable presentation base.

Other Expenses Net. We recorded other expenses net of Ps.1,880 million in 2018 as compared to Ps.31,357 million in 2017, which decrease was mainly as a result of a one-time non-cash charge related to the deconsolidation of KOF Venezuela as of December 31, 2017. Our non-operating expenses net in 2018 were mainly comprised of an impairment of Ps.432 million of our investment in Compañía Panameña de Bebidas, S.A.P.I. de C.V. (Estrella Azul) along with provisions related to contingencies in Brazil and Colombia. For more information, see Notes 3.3 (Venezuela) and 10 (Estrella Azul) to our consolidated financial statements.

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

Comprehensive financing result in 2018 recorded an expense of Ps.6,943 million as compared to an expense of Ps.5,362 million in 2017. This 29.5% increase was mainly driven by a foreign exchange loss of Ps.277 million in 2018 as compared to a foreign exchange gain of Ps.788 million in 2017, as a result of the depreciation of the Mexican peso relative to the U.S. dollar as applied to our U.S. dollar-denominated cash position, that included US$715 million of proceeds received from the sale of our equity interest in KOF Philippines. This foreign exchange loss was partially offset by a 13.8% decrease in interest expense in 2018 as compared to 2017. In 2018 we recognized a Ps.212 million gain in monetary position in hyperinflationary subsidiaries related to our operations in Argentina, as compared to a gain of Ps.1,591 million in 2017 related to our operations in Venezuela prior to the deconsolidation.

Income Taxes. In 2018, our effective income tax rate was 31.0%, reaching Ps.5,260 million in 2018, as compared to Ps.4,184 million in 2017. This increase was mainly driven by higher tax rates in Brazil as compared to tax rates in

other jurisdictions where we operate, considering the relative weight of Brazil s profits in our consolidated results, as well as the deconsolidation of KOF Venezuela, which had deferred taxes in 2017. For more information, see Note 24 to our consolidated financial statements.

Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method, Net of Taxes. In 2018, we recorded a loss of Ps.226 million in the share of the profits of associates and joint ventures accounted for using the equity method, net of taxes, mainly due to a loss in Compañía Panameña de Bebidas, S.A.P.I. de C.V. (Estrella Azul) and Jugos del Valle; this loss was partially offset by gains in our joint ventures in Brazil.

Net Income (Equity holders of the parent). We reported a net controlling interest income of Ps.13,911 million in 2018, as compared to a net controlling interest loss of Ps.12,802 million in 2017. This was mainly driven by a decrease in other non-operating expenses net as described above. Our net controlling interest income from continuing operations was Ps.10,936 million in 2018, as compared to a net controlling interest loss from continuing operations of Ps.16,058 million in 2017.

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Results by Consolidated Reporting Segment

Mexico and Central America

Total Revenues. Total revenues in our Mexico and Central America consolidated reporting segment increased by 8.1% to Ps.100,162.4 million in 2018 as compared to 2017, mainly as a result of an increase in the average price per unit case in Mexico and the consolidation of our acquisitions of ABASA and Los Volcanes in Guatemala.

Total sales volume in our Mexico and Central America consolidated reporting segment increased by 2.3% to 2,065.0 million unit cases in 2018 as compared to 2017, as a result of volume growth in Central America.

Sales volume of our sparkling beverage portfolio increased by 2.9%, mainly driven by a 3.6% increase in our colas portfolio, which was partially offset by a flat performance of our flavored sparkling beverage portfolio. On a comparable basis, sales volume of our sparkling beverage portfolio would have increased by 0.5% as compared to 2017, driven by growth across all of our operations. Sales volume of our colas portfolio would have increased by 0.8%, while sales volume of our flavored sparkling beverage portfolio would have declined by 0.9%.

Sales volume of our still beverage portfolio increased by 7.4%, mainly due to growth in both Mexico and Central America. On a comparable basis, sales volume of our still beverage portfolio would have increased by 6.9% as compared to 2017, driven by growth across all of our territories.

Sales volume of bottled water, excluding bulk water, increased by 4.8%, as Mexico and Central America had a positive performance. On a comparable basis, sales volume of our bottled water portfolio would have increased by 3.9% as compared to 2017, driven by growth in Mexico.

Sales volume of our bulk water portfolio declined 3.5%.

Sales volume in Mexico slightly increased by 0.3% to 1,850.2 million unit cases in 2018, as compared to 1,845.0 million unit cases in 2017.

Sales volume of our sparkling beverage portfolio increased by 0.2%, driven by a 0.3% increase in our colas portfolio, which was partially offset by a 0.2% decrease in sales volume of our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio increased by 7.3%.

Sales volume of bottled water, excluding bulk water, increased by 4.7%.

Sales volume of our bulk water portfolio decreased by 3.6%.

Sales volume in Central America increased by 24.2% to 214.8 million unit cases in 2018, as compared to 173.0 million unit cases in 2017, mainly as a result of the acquisitions of ABASA and Los Volcanes in Guatemala.

Sales volume of our sparkling beverage portfolio increased by 27.8%, driven by a 37.1% increase in sales volume of our colas portfolio and a 0.7% increase in sales volume of our flavored sparkling beverage portfolio. On a comparable basis, sales volume of our sparkling beverage portfolio would have increased by 3.0% as compared to 2017; sales volume of our colas portfolio would have increased by 6.0%, while sales volume of our flavored sparkling beverage portfolio would have declined by 5.7%.

Sales volume of our still beverage portfolio increased by 7.8%. On a comparable basis, sales volume of our still beverage portfolio would have increased by 4.4% as compared to 2017.

Sales volume of bottled water, excluding bulk water, increased by 5.8%. On a comparable basis, sales volume of our bottled water portfolio would have decreased by 2.8% as compared to 2017.

Sales volume of our bulk water portfolio grew by 1.5%.

Gross Profit. Our gross profit in this consolidated reporting segment increased by 6.8% to Ps.48,162.3 million in 2018 as compared to 2017; however, gross profit margin decreased by 60 basis points to 48.1% in 2018. Gross profit margin decreased mainly as a result of higher PET resin prices, increases in concentrate prices in Mexico and the depreciation of the average exchange rates of the Mexican peso, the Guatemalan quetzal, the Costa Rican colon and the Nicaraguan Cordoba, in each case as applied to our U.S. dollar-denominated raw material costs, which factors were partially offset by our pricing initiatives, a favorable currency hedging position and the decline of sweeteners costs.

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Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment increased by 50 basis points to 33.7% in 2018 as compared with the same period in 2017. Administrative and selling expenses, in absolute terms, increased 9.7% as compared to 2017 driven mainly by increases in freight and labor costs in Mexico.

South America

Total Revenues. Total revenues in our South America consolidated reporting segment decreased by 5.1% to Ps.82,179.6 million in 2018 as compared to 2017, mainly as a result of negative translation effects due to the depreciation of the Argentine peso, the Brazilian real and the Colombian peso, in each case as compared to the Mexican peso. These effects were partially offset by volume growth in Brazil and Colombia together with average price per unit case growth across our territories and the consolidation of our new acquisition in Uruguay. Total revenues for beer amounted to Ps.13,848.5 million in 2018. On a comparable basis, total revenues would have increased by 6.9%, driven by volume growth and average price per unit case increases in local currencies across our territories.

Total sales volume in our South America consolidated reporting segment increased by 1.7% to 1,256.8 million unit cases in 2018 as compared to 2017, mainly as a result of volume growth in Brazil and Colombia, which was partially offset by volume contraction in Argentina. On a comparable basis, total sales volume would have increased by 2.8% in 2018 as compared to 2017, as a result of volume growth in all of our South America operations.

Sales volume of our sparkling beverage portfolio increased by 1.1% as compared to 2017. On a comparable basis, sales volume of our sparkling beverage portfolio would have increased by 1.9%, mainly due to volume growth of our colas portfolio in all our South American territories, and a volume contraction in our flavored sparkling beverages in Brazil and Colombia.

Sales volume of our still beverage portfolio decreased by 1.1% as compared to 2017. On a comparable basis, sales volume of our still beverage portfolio would have increased by 3.4%, mainly driven by volume growth in Brazil, which was partially offset by volume decline in Colombia.

Sales volume of our bottled water category, excluding bulk water, increased by 8.0% as compared to 2017. On a comparable basis, sales volume of our bottled water category, excluding bulk water, would have increased by 12.8% as compared to 2017, with volume expansions in Brazil and Colombia.

Sales volume of our bulk water portfolio increased by 10.5% as compared to 2017. On a comparable basis, sales volume of our bulk water portfolio would have increased by 8.3%, mainly driven by a volume growth in Colombia and Brazil.

Sales volume in Brazil increased by 2.9% to 787.4 million unit cases in 2018, as compared to 765.1 million unit cases in 2017.

Sales volume of our sparkling beverage portfolio increased by 1.2% as compared to 2017, as a result of a 4.7% increase in our colas portfolio, which was partially offset by a 8.5% decrease in sales volume of our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio increased by 18.2% as compared to 2017.

Sales volume of our bottled water, excluding bulk water, increased by 15.0% as compared to 2017.

Sales volume of our bulk water portfolio increased by 16.1%.

Sales volume in Colombia increased by 2.4% to 271.4 million unit cases in 2018, as compared to 265.0 million unit cases in 2017.

Sales volume of our sparkling beverage portfolio increased by 4.0% as compared to 2017, mainly driven by a 11.4% increase in our colas portfolio, which was partially offset by a 29.4% decrease of sales volume of our flavored sparkling beverages portfolio.

Sales volume of our still beverage portfolio decreased by 21.4% during 2018, as compared to 2017.

- Sales volume of bottled water, excluding bulk water, increased by 9.0% as compared to 2017.

- Sales volume of our bulk water portfolio increased by 5.6%.

Sales volume in Argentina decreased by 14.9% to 175.3 million unit cases in 2018, as compared to 205.9 million unit cases in 2017.

- Sales volume of our sparkling beverage portfolio decreased by 15.2% as compared to 2017, mainly driven by a decrease in sales volume of our colas portfolio and our flavored sparkling beverage portfolio.

- Sales volume of our still beverage portfolio decreased by 20.5% as compared to 2017.

- Sales volume of bottled water, excluding bulk water, decreased by 14.9%.

- Sales volume of our bulk water portfolio increased by 25.6%.

Sales volume in Uruguay amounted to 22.7 million unit cases in 2018. Our sparkling beverage category represented 91.6% of our total sales volume. Our still beverage category represented 1.5% of our total sales volume. Our water portfolio represented 6.9% of our total sales volume.

Gross Profit. Gross profit in this consolidated reporting segment amounted to Ps.35,776.0 million, a decrease of 5.2% in 2018 as compared to 2017, with a 110 basis point margin contraction to 43.5%. This decrease in gross profit was mainly driven by higher PET resin prices in the segment, an unfavorable raw material hedging position in Brazil, and the depreciation of the Argentine peso, Brazilian real and the Colombian peso as applied to U.S. dollar-denominated raw material costs, which factors were partially offset by lower sweetener prices, a favorable currency hedging position in the segment and our pricing initiatives.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment increased by 10 basis points to 29.5% in 2018 as compared to 2017. Administrative and selling expenses, in absolute terms, decreased by 4.8% as compared to 2017, driven mainly by operating expense efficiencies in Brazil.

Results for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Consolidated Results

The comparability of our financial and operating performance in 2017 as compared to 2016 was affected by the following factors: (1) the ongoing integration of mergers, acquisitions, and divestitures completed in recent years; (2) translation effects from fluctuations in exchange rates; and (3) our results in Venezuela, which is considered a hyperinflationary economy, and the non-recurrent charges as a result of the deconsolidation of our Venezuelan operations. In certain information presented below, we have excluded the effects of (i) translation effects resulting from exchange rate fluctuations, (ii) our acquisition of Vonpar in Brazil, and (iii) our operations in Venezuela, in order to better describe the performance of our business on a comparable basis in 2017 as compared to 2016. To translate the results of our Venezuelan operations in 2017, we used the exchange rate of 22,793 bolivars per U.S. dollar, as

compared to 673.76 bolivars per U.S. dollar used to translate our 2016 reported results. In addition, the average depreciation of currencies used in our main operations relative to the U.S. dollar in 2017, as compared to 2016, were: 12.1% for the Argentine peso and 1.5% for the Mexican peso. Moreover, the average appreciation of currencies used in our main operations relative to the U.S. dollar in 2017, as compared to 2016, were: 3.4% for the Colombian peso and 8.5% for the Brazilian real.

Total Revenues. Our consolidated total revenues increased by 3.1% to Ps.183,256 million in 2017, as a result of the acquisition of Vonpar in Brazil. Total revenues were also driven by average price per unit case increases in local currency aligned with or above inflation in key territories, supported by the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso, despite the depreciation of the Argentine peso, and the Venezuelan bolivar; in each case relative to the Mexican peso. On a comparable basis, total revenues would have increased by 3.6%, driven by growth in our average price per unit case across most of our operations, which were partially offset by volume declines in our South American (excluding Venezuela) consolidated reporting segment.

Total sales volume decreased by 0.5% to 3,318.2 million unit cases in 2017 as compared to 2016, mainly as a result of volume contraction in Argentina, Colombia and Venezuela as discussed below, which was partially offset by the acquisition of Vonpar. On a comparable basis, total sales volume would have decreased by 2.5% in 2017 as compared to 2016.

Sales volume of our sparkling beverage portfolio remained flat as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 2.6%, driven by volume contractions across our operations. On the same basis, sales volume of our colas portfolio would have declined by 2.2%, while sales volume of our flavored sparkling beverage portfolio would have declined by 4.1%.

Sales volume of our still beverage portfolio declined by 2.1%, as compared to 2016. On a comparable basis, sales volume of our still beverage portfolio would have declined by 1.6%, mainly due to volume contractions in Brazil and Colombia, which were partially offset by volume growth in Mexico and Argentina.

Sales volume of our bottled water category, excluding bulk water, declined 2.7% as compared to 2016. On a comparable basis, sales volume of our bottled water category, excluding bulk water, would have declined by 1.2%, driven mainly by growth in Mexico and Central America, which was partially offset by volume contractions in South America.

Sales volume of our bulk water portfolio decreased by 1.6%, as compared to 2016. On a comparable basis, sales volume of our bulk water portfolio would have declined by 2.2%, driven mainly by a volume contraction in Colombia, which was partially offset by volume growth in Argentina and Brazil.

Consolidated average price per unit case increased by 1.1% to Ps.51.31 in 2017, as compared to Ps.50.75 in 2016, mainly as a result of the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso, in each case relative to the Mexican peso, which was partially offset by the negative translation effect resulting from depreciation of the Argentine peso and the Venezuelan bolivar relative to the Mexican peso. On a comparable basis, average price per unit case would have increased by 6.4% in 2017, driven by average price per unit case increases in local currency in Mexico, Argentina, Brazil and Colombia.

Gross Profit. Our gross profit increased by 4.8% to Ps.83,507 million in 2017; our gross profit margin increased by 80 basis points to reach 45.6% in 2017 as compared to 2016. On a comparable basis, our gross profit would have increased by 5.9% in 2017, as compared to 2016. Our pricing initiatives, together with our currency and raw material hedging strategies, offset higher costs resulting from higher sweetener and concentrate prices in Mexico and the depreciation in the average exchange rate of the Mexican peso and the Argentine peso, as applied to U.S. dollar-denominated raw material costs.

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

Administrative and Selling Expenses. Our administrative and selling expenses as a percentage of total revenues increased by 50 basis points to 31.7% in 2017 as compared to 2016. Our administrative and selling expenses in absolute terms increased by 4.7% to Ps.58,045 million as compared to Ps.55,462 million in 2016, mainly as a result of the acquisition of Vonpar; however, this increase was partially offset by the effects of foreign exchange translations. In 2017, we continued investing across our territories to support marketplace execution, increase our cooler coverage, and bolster our returnable presentation base.

Other Expenses Net. We recorded other expenses net of Ps.31,357 million in 2017 as compared to Ps.3,812 million in 2016, mainly due to the deconsolidation of Venezuela. For more information, see Note 3.3 to our consolidated financial statements.

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

Comprehensive financing result in 2017 recorded an expense of Ps.5,362 million as compared to an expense of Ps.6,080 million in 2016. This decrease was mainly driven by an increase in interest expenses of Ps.8,778 million in 2017 as compared to interest expenses of Ps.7,471 million in 2016, which was more than offset by a foreign exchange gain of Ps.788 million in 2017 as compared to a foreign exchange loss of Ps.1,792 million in 2016, such gain resulting from the appreciation of the end-of-period exchange rate of the Mexican peso relative to the U.S. dollar as applied to our U.S. dollar-denominated debt.

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Income Taxes. In 2017, reported income tax was Ps.4,184 million as compared to Ps.3,928 million in 2016.

Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method, Net of Taxes. In 2017, we recorded a gain of Ps.60 million in the share of the profits of associates and joint ventures accounted for using the equity method, net of taxes; mainly as a result of gains in our joint ventures in Brazil.

Net Income (Equity holders of the parent). Consolidated net controlling interest loss was Ps.12,802 million during 2017, mainly as a result of the deconsolidation of our Venezuelan operations, which resulted in the reclassification of an accumulated non-cash item as a one-time charge to the other expenses line of the income statement in accordance with IFRS standards. On a comparable basis, controlling net income would have grown 30.4% in 2017.

Results by Consolidated Reporting Segment

Mexico and Central America

Total Revenues. Total revenues in our Mexico and Central America consolidated reporting segment increased by 5.8% to Ps.92,643 million in 2017 as compared to 2016, mainly as a result of an increase in the average price per unit case in Mexico.

Total sales volume in our Mexico and Central America consolidated reporting segment decreased by 0.4% to 2,017.9 million unit cases in 2017 as compared to 2016, as a result of volume contraction in both Mexico and Central America as discussed below.

Sales volume of our sparkling beverage portfolio decreased by 0.9%, mainly driven by a 1.4% decrease in sales volume of our colas portfolio, which was partially offset by a 1.1% increase in sales volume of our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio increased by 3.8%, mainly due to growth in both Mexico and Central America.

Sales volume of our bottled water category, excluding bulk water, increased by 2.6%, as Mexico and Central America had a positive performance.

Sales volume of our bulk water portfolio declined by 0.7%.

Sales volume in Mexico decreased by 0.3% to 1,845.0 million unit cases in 2017, as compared to 1,850.7 million unit cases in 2016.

Sales volume of our sparkling beverage portfolio decreased by 0.8%, driven by a 1.3% volume decrease in our colas portfolio, which was partially offset by a 1.6% volume increase in our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio increased by 4.4%.

Sales volume of our bottled water category, excluding bulk water, increased by 2.3%.

Sales volume of our bulk water portfolio declined by 0.6%.

Sales volume in Central America decreased by 1.1% to 173.0 million unit cases in 2017, as compared to 174.9 million unit cases in 2016.

Sales volume of our sparkling beverage portfolio decreased by 1.8%, driven by a 1.7% volume decrease in our colas portfolio and a 2.0% volume decrease in our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio increased slightly by 0.5%.

Sales volume of our bottled water category, excluding bulk water, increased by 5.7%.

Sales volume of our bulk water portfolio declined by 3.9%.

Gross Profit. Our gross profit in this consolidated reporting segment increased by 3.5% to Ps.45,106 million in 2017 as compared to 2016; however, gross profit margin decreased by 110 basis points to 48.7% in 2017. Gross profit margin decreased mainly as a result of higher sugar prices, increases in concentrate prices, and the depreciation of the average exchange rate of the Mexican peso as applied to our U.S. dollar-denominated raw material costs. This decrease was partially offset by our pricing initiatives and lower PET resin prices in the segment.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment increased by 60 basis points to 33.2% in 2017 as compared with the same period in 2016. Administrative and selling expenses, in absolute terms, increased 7.6% as compared to 2016.

South America

Total Revenues. Total revenues in our South America consolidated reporting segment increased by 21.5% to Ps.86,608 million in 2017 as compared to 2016, mainly as a result of the acquisition of Vonpar in Brazil and driven by average price per unit case increases together with the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso. Total revenues for beer amounted to Ps.12,608 million.

Total sales volume in our South America consolidated reporting segment increased by 6.1% to 1,236.0 million unit cases in 2017 as compared to 2016, mainly as a result of the acquisition of Vonpar in Brazil. On a comparable basis, total sales volume would have decreased by 6.0% in 2017 as compared to 2016, as a result of a volume contraction in all of our South America operations.

Sales volume of our sparkling beverage portfolio increased by 5.1% as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 5.3%, mainly due to volume contraction of our colas portfolio in all our South American territories and volume contraction in our flavored sparkling beverages portfolio in Brazil and Colombia.

Sales volume of our still beverage portfolio decreased by 3.3% as compared to 2016. On a comparable basis, sales volume of our still beverage portfolio would have decreased by 10.4%, mainly driven by a volume contraction in Colombia, which was partially offset by volume growth in Argentina.

Sales volume of our bottled water category, excluding bulk water, decreased by 2.4% as compared to 2016. On a comparable basis, sales volume of our bottled water category, excluding bulk water, would have decreased by 7.7% as compared to 2016, with volume contractions in Argentina, Brazil and Colombia.

Sales volume of our bulk water portfolio decreased by 8.0% as compared to 2016. On a comparable basis, sales volume of our bulk water portfolio would have declined by 11.1%, mainly driven by volume decline in Colombia, which was partially offset by volume growth in Argentina and Brazil.

Sales volume in Brazil increased by 17.9% to 765.1 million unit cases in 2017, as compared to 648.9 million unit cases in 2016, mainly as a result of the acquisition of Vonpar in Brazil. On a comparable basis, sales volume would have decreased by 3.8%.

Sales volume of our sparkling beverage portfolio increased by 18.8% as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 3.9%, as a result of a 3.2% volume decrease in our colas portfolio and a 5.8% volume decrease in our flavored sparkling beverage

portfolio.

Sales volume of our still beverage portfolio increased by 14.9% as compared to 2016. On a comparable basis, sales volume of our still beverage portfolio would have decreased by 2.1%.

Sales volume of our bottled water, excluding bulk water, increased by 7.4% as compared to 2016, while sales volume of our bulk water portfolio increased by 18.0%. On a comparable basis, sales volume of our bottled water category, excluding bulk water, would have decreased by 4.8%, while our bulk water portfolio would have increased by 2.5%.

Sales volume in Colombia decreased by 13.7% to 265.0 million unit cases in 2017, as compared to 307.0 million unit cases in 2016.

Sales volume of our sparkling beverage portfolio decreased by 11.8% as compared to 2016, mainly driven by a 6.0% volume decrease in our colas portfolio and a 31.2% volume decrease in our flavored sparkling beverages portfolio.

Sales volume of our still beverage portfolio decreased by 29.1% during 2017, as compared to 2016.

Sales volume of our bottled water category, excluding bulk water, decreased by 8.1% as compared to 2016, while sales volume of our bulk water portfolio decreased by 18.1%.

Sales volume in Argentina decreased by 1.5% to 205.9 million unit cases in 2017, as compared to 209.1 million unit cases in 2016.

Sales volume of our sparkling beverage portfolio decreased by 1.5% as compared to 2016, mainly driven by volume decrease in our colas portfolio.

Sales volume of our still beverage portfolio increased by 12.3% as compared to 2016.

Sales volume of our bottled water category, excluding bulk water, decreased by 7.7%, while our bulk water portfolio decreased by 11.1%.

Gross Profit. Gross profit in this consolidated reporting segment reached Ps.37,756 million, an increase of 23.5% in 2017 as compared to 2016, with a 280 basis point margin expansion to 43.6%. This increase in gross profit margin was mainly driven by lower costs resulting from lower PET resin and sweetener prices and the appreciation of the Brazilian real and the Colombian peso as applied to U.S. dollar-denominated raw material costs, which increase was partially offset by higher aluminum prices and the depreciation of the average exchange rate of the Argentine peso as applied to U.S. dollar-denominated raw material costs.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment decreased by 10 basis points to 29.4% in 2017 as compared to 2016. Administrative and selling expenses, in absolute terms, increased by 15.1% as compared to 2016, driven mainly by the acquisition of Vonpar in Brazil.

Venezuela

We stopped accounting for our Venezuelan operations as a separate consolidated reporting segment commencing on January 1, 2018.

Total Revenues. Total revenues in Venezuela decreased by 78.8% to Ps.4,005 million in 2017 as compared to 2016, mainly driven by a volume decline and the negative translation effect resulting from the devaluation of the Venezuelan bolivar relative to the Mexican peso. These effects were partially offset by an average price per unit case increase.

Total sales volume in Venezuela decreased by 55.1% to 64.2 million unit cases in 2017 as compared to 2016, mainly due to an overall sales volume contraction in all our categories as a result of the conditions in the country, facing high inflation and scarcity of raw materials.

Sales volume of our sparkling beverage portfolio decreased by 54.5%.

Sales volume of our still beverage portfolio decreased by 29.1%.

Sales volume of our bottled water category, including bulk water, decreased by 48.8%.

Gross Profit. For the reasons explained above, gross profit in Venezuela reached Ps.645 million in 2017, a decrease of 90.6% as compared to 2016.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment increased by 16.2% to 47.2% in 2017 as compared to 2016. Administrative and selling expenses, in absolute terms, decreased by 67.7% as compared to 2016.

Liquidity and Capital Resources

Liquidity. The principal source of our liquidity is cash generated from operations. A significant majority of our sales are on a cash basis with the remainder on a short-term credit basis. We have traditionally been able to rely on cash generated from operations to fund our working capital requirements and our capital expenditures. Our working capital benefits from the fact that most of our sales are made on a cash basis, while we generally pay our suppliers on credit. We have used a combination of borrowings from Mexican and international banks and bond issuances in the Mexican and international capital markets.

Our total indebtedness was Ps.81,805 million as of December 31, 2018, as compared to Ps.83,360 million as of December 31, 2017. Short-term debt and long-term debt were Ps.11,604 million and Ps.70,201 million, respectively, as of December 31, 2018, as compared to Ps.12,171 million and Ps.71,189 million, respectively, as of December 31, 2017. Total debt decreased Ps.1,555 million in 2018, compared to year end 2017. As of December 31, 2018, our cash and cash equivalents were Ps.23,727 million, as compared to Ps.18,767 million as of December 31, 2017. We had a non-recurrent cash inflow of US$715 million (Ps.14,547 million as of December 31, 2018) in 2018 as a result of the sale of our 51.0% stake in KOF Philippines to The Coca-Cola Company. Additionally, we had cash outflows in 2018 mainly resulting from dividend payments and the repayment of our 2.375% Notes due 2018. As of December 31, 2018, our cash and cash equivalents were comprised of 66.0% U.S. dollars, 15.0% Mexican pesos, 12.0% Brazilian reais, 2.0% Argentine pesos, 2.0% Colombian pesos and 3.0% other legal currencies. As of March 31, 2019, our cash and cash equivalents balance was Ps.23,615 million, including US$574 million denominated in U.S. dollars. We believe that these funds, in addition to the cash generated by our operations, are sufficient to meet our operating requirements.

Future currency devaluations or the imposition of exchange controls in any of the countries where we have operations could have an adverse effect on our financial position and liquidity.

As part of our financing policy, we expect to continue to finance our liquidity needs mainly with cash flows from our operating activities. Nonetheless, as a result of regulations in certain countries where we operate, it may not be beneficial or practicable for us to remit cash generated in local operations to fund cash requirements in other countries. Exchange controls may also increase the real price of remitting cash to fund debt requirements in other countries. In the event that cash in these countries is not sufficient to fund future working capital requirements and capital expenditures, we 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 we may finance our working capital and capital expenditure needs with short-term or other borrowings.

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

Our financing, treasury and derivatives policies provide that our finance and planning committee is responsible for determining the company s overall financial strategy, including the dividends policy, investments of our funds, cash flow and working capital strategies, mergers and acquisitions, debt and equity issuances, repurchases of shares, contract of financial derivative instruments (only for hedging purposes), purchase and lease of assets and indebtedness of the company, among others; which is ultimately approved by our board of directors and implemented by our corporate finance department.

Sources and Uses of Cash. The following table summarizes the sources and uses of cash for the years ended December 31, 2018, 2017 and 2016, from our consolidated statements of changes in cash flows:

	Year Ended December 31,		
	2018	**2017**	**2016**
	(in millions of Mexican pesos)		
Net cash flows from operating activities			
Continuing operations	27,581	26,536	32,446
Discontinued operations	1,962	6,700	
Net cash flows used in investing activities[(1)]			
Continuing operations[(2)]	(8,291)	(13,710)	(26,915)
Discontinued operations	(962)	2,820	
Net cash flows used in financing activities			
Continuing operations	(14,235)	(10,290)	(9,734)
Discontinued operations	(37)	(485)	
Dividends paid	(7,038)	(6,992)	(7,014)

(1) Includes purchases of property, plant and equipment, the payment of a portion of the purchase price for our acquisitions of ABASA, Los Volcanes and Monresa in 2018 and Vonpar in 2016 and investments in other assets.

(2) Includes cash for the sale of KOF Philippines, net of cash balances in KOF Philippines.

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Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2018:

	As of December 31, 2018				
	Maturity less than 1 year	Maturity 1 3 years	Maturity 4 5 years	Maturity in excess of 5 years	Total
	(in millions of Mexican pesos)				
Debt[1]					
Mexican pesos	4,700	7,898	8,992	8,488	30,078
U.S. dollars	10	13,854	17,557	11,818	43,239
Brazilian reais	5,088[2]	462	111	24	5,685
Colombian pesos	878	424			1,302
Argentine pesos	157				157
Uruguayan pesos	771	573			1,344
Interest Payments on Debt[3]					
Mexican pesos	2,193	3,292	1,987	2,395	9,867
U.S. dollars	1,890	2,304	1,964	13,815	19,973
Brazilian reais	79	57	12	2	149
Colombian pesos	63	3			66
Argentine pesos	27				27
Uruguayan pesos	111	41			152
Cross Currency Swaps					
U.S. dollars to Mexican pesos[4]		(386)	(135)	(160)	(681)
U.S. dollars to Brazilian reais[5]	(498)	(1,090)	390		(1,198)
Interest Rate Swaps					
Brazilian variable interest rate to fixed rate[6]	49	222			271
Options					
U.S. dollars to Mexican pesos[7]	(23)				(23)
U.S. dollars to Colombian pesos[8]	(1)				(1)
Forwards					
U.S. dollars to Mexican pesos[9]	45				45
U.S. dollars to Brazilian reais[10]	(39)				(39)
U.S. dollars to Colombian pesos[11]	(59)				(59)
U.S. dollars to Argentine pesos[12]	14				14
U.S. dollars to Uruguayan pesos[13]	(4)				(4)
Commodity Hedge Contracts					
Sugar[14]	88				88
Aluminum[15]	17				17
PET resin[16]	131				131
Expected Benefits to be Paid for Pension and Retirement Plans, Seniority Premiums and Post-employment	353	491	495	1,701	3,040

(1) Excludes the effect of cross currency swaps.
(2) Part of our debt denominated in Brazilian reais consists of a promissory note for 1,166 million Brazilian reais, which was partially offset on November 14, 2018 as a result of the occurrence of certain contingencies for which the holders of such debt agreed to indemnify us, resulting in an outstanding amount of 916 million Brazilian reais (Ps.4,653 million as of December 31, 2018). This promissory note is denominated and payable in Brazilian reais; however, it is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.
(3) Interest was calculated using the contractual debt and nominal interest rates as of December 31, 2018. Liabilities denominated in U.S. dollars were converted to Mexican pesos at an exchange rate of Ps.19.68 per U.S. dollar, the exchange rate reported by *Banco de México* quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2018.
(4) Cross-currency swaps used to convert U.S. dollar-denominated debt into Mexican peso-denominated debt with a notional amount of Ps.18,502 million. These cross-currency swaps are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.

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(5) Cross-currency swaps used to convert U.S. dollar-denominated debt into Brazilian real-denominated debt with a notional amount of Ps.22,694 million. These cross-currency swaps are considered hedges for accounting purposes and the amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(6) Reflects the market value as of December 31, 2018 of the interest rate swaps used to hedge Brazilian interest rate variation. These interest rate swaps are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(7) Reflects the market value as of December 31, 2018 of a collar option derivative instrument used to hedge against fluctuation in the Mexican peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(8) Reflects the market value as of December 31, 2018 of a collar option derivative instrument used to hedge against fluctuation in the Colombian peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(9) Reflects the market value as of December 31, 2018 of forward derivative instruments used to hedge against fluctuation in the Mexican peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(10) Reflects the market value as of December 31, 2018 of forward derivative instruments used to hedge against fluctuation in the Brazilian real. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(11) Reflects the market value as of December 31, 2018 of forward derivative instruments used to hedge against fluctuation in the Colombian peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(12) Reflects the market value as of December 31, 2018 of forward derivative instruments used to hedge against fluctuation in the Argentine peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(13) Reflects the market value as of December 31, 2018 of forward derivative instruments used to hedge against fluctuation in the Uruguayan peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(14) Reflects the market value as of December 31, 2018 of futures contracts used to hedge sugar cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(15) Reflects the market value as of December 31, 2018 of futures contracts used to hedge aluminum cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(16) Reflects the market value as of December 31, 2018 of futures contracts used to hedge PET resin cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.

Debt Structure

The following chart sets forth the debt breakdown of our company and its subsidiaries by currency and interest rate type as of December 31, 2018:

Currency	Percentage of Total Debt[1][2]	Average Nominal Rate[3]	Average Adjusted Rate[1][4]
Mexican pesos	60.4%	7.6%	8.4%
U.S. dollars	8.3%	3.9%	3.9%
Brazilian reais	27.8%	7.7%	8.9%
Colombian pesos	1.6%	5.6%	5.6%

Argentine pesos	0.2%	36.8%	36.8%
Uruguayan pesos	1.7%	10.0%	10.0%

(1) Includes the effects of our derivative contracts as of December 31, 2018, including cross currency swaps from U.S. dollars to Mexican pesos and U.S. dollars to Brazilian reais.

(2) Due to rounding, these figures may not add up to 100.0%.

(3) Annual weighted average interest rate per currency as of December 31, 2018.

(4) Annual weighted average interest rate per currency as of December 31, 2018 after giving effect to interest rate swaps and cross currency swaps. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.**

Summary of Significant Debt Instruments

The following is a brief summary of our significant long-term indebtedness with restrictive covenants outstanding as of the date of this annual report:

Mexican Peso-Denominated Bonds (Certificados Bursátiles).

On April 18, 2011, we issued Ps.2,500 million aggregate amount of 10-year fixed rate *certificados bursátiles* bearing an annual interest rate of 8.27% and due April 2021. This series of *certificados bursátiles* is guaranteed by Propimex, our main operating subsidiary in Mexico, Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V. (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.), Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., or the Guarantors.

On May 24, 2013, we issued Ps.7,500 million aggregate principal amount of *certificados bursátiles* bearing an annual interest rate of 5.46% and due May 2023. This series of *certificados bursátiles* is guaranteed by the Guarantors.

On June 30, 2017, we issued (i) Ps.8,500 million aggregate amount of 10-year fixed rate *certificados bursátiles* bearing an annual interest rate of 7.87% and due June 2027, and (ii) Ps.1,500 million aggregate amount of 5-year floating rate *certificados bursátiles*, priced at 28-day *Tasa de Interés Interbancaria de Equilibrio* (Equilibrium Interbank Interest Rate, or TIIE) plus 0.25% and due June 2022. These series of *certificados bursátiles* are guaranteed by the Guarantors.

As of December 31, 2018, we had the following *certificados bursátiles* outstanding in the Mexican securities market:

Issue Year	Maturity	Amount	Rate
2017	June 18, 2027	Ps.8,500 million	7.87%
2017	June 24, 2022	Ps.1,500 million	28-day TIIE + 0.25%
2013	May 12, 2023	Ps.7,500 million	5.46%
2011	April 5, 2021	Ps.2,500 million	8.27%

Our *certificados bursátiles* contain reporting obligations pursuant to which we must furnish to the bondholders consolidated audited annual financial reports and consolidated quarterly financial reports.

2.375% Notes due 2018. On November 26, 2013, we issued US$1 billion aggregate principal amount of 2.375% senior notes due November 26, 2018. On August 18, 2017, we redeemed 55.5% of the face value of the 2.375% senior notes in a principal amount of US$555 million. These notes matured and were repaid in full on November 26, 2018.

4.625% Notes due 2020. On February 2, 2010, we issued US$500 million aggregate principal amount of 4.625% senior notes due February 15, 2020. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and the entering into sale and leaseback transactions by us and our significant subsidiaries.

3.875% Notes due 2023. On November 26, 2013, we issued US$750 million aggregate principal amount of 3.875% senior notes due November 26, 2023. On January 21, 2014, we issued US$150 million aggregate principal amount of additional notes under this series. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and the entering into sale and leaseback transactions by us and our significant subsidiaries.

5.250% Notes due 2043. On November 26, 2013, we issued US$400 million aggregate principal amount of 5.250% senior notes due November 26, 2043. On January 21, 2014, we issued US$200 million aggregate principal amount of additional notes under this series. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and the entering into sale and leaseback transactions by us and our significant subsidiaries.

Bank Loans. As of December 31, 2018, we had a number of bank loans in U.S. dollars, Colombian pesos, Brazilian reais, Argentine pesos, Mexican pesos and Uruguayan pesos with an aggregate principal amount of Ps.17,955 million. Our bank loans in U.S. dollars and Mexican pesos are guaranteed by the Guarantors.

In January 2019, we prepaid three bank loans in Mexican pesos for an aggregate amount of Ps.4,700 million.

Promissory Note (Vonpar Acquisition). On December 6, 2016, as part of the purchase price paid for our acquisition of Vonpar, we issued and delivered a three-year promissory note to the sellers, for a total amount of 1,166 million Brazilian reais, which was partially offset on November 14, 2018 as a result of the occurrence of certain contingencies for which the sellers agreed to indemnify us, resulting in an outstanding amount of 916 million Brazilian reais (Ps.4,653 million as of December 31, 2018). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

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

Off-Balance Sheet Arrangements

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

Contingencies

We are subject to various claims and contingencies related to tax, labor and other legal proceedings. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions.

We have various losses related to tax, labor and other legal proceedings. We periodically assess the probability of loss for such contingencies and accrue a provision and/or disclose the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a provision for the estimated loss. See Note 25 to our consolidated financial statements. We use outside legal counsel for certain complex legal proceedings. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2018:

	As of December 31, 2018 (in millions of Mexican pesos)	
Tax	Ps.	5,038
Labor		2,340
Legal		920
Total	Ps.	8,298

In recent years, our Mexican subsidiaries have been required to submit certain information to relevant authorities regarding alleged monopolistic practices. **See Item 8. Financial Information Legal Proceedings Mexico Antitrust Matters.** Such proceedings are a normal occurrence in the beverage industry and we do not expect any significant liability to arise from these contingencies.

As is customary in Brazil, we have been required by the relevant authorities to collateralize tax contingencies currently in litigation amounting to Ps.7,739 million, Ps.9,433 million and Ps.8,093 million as of December 31, 2018, 2017 and 2016, respectively, by pledging fixed assets, or providing bank guarantees.

In connection with our acquisitions, sellers normally agree to indemnify us against certain contingencies that may arise as a result of the management of the businesses prior to the acquisition, subject to survival provisions and other limitations.

Capital Expenditures

The following table sets forth our capital expenditures, including investment in property, plant and equipment, deferred charges and other investments for the periods indicated on a consolidated basis and by consolidated reporting segment:

	Year Ended December 31,		
	2018	**2017**[(1)]	**2016**
	(in millions of Mexican pesos)		
Mexico and Central America[(2)]	6,574	8,231	6,597
South America[(3)]	4,495	4,686	4,240
Venezuela[(4)]			1,554
Capital expenditures, net	11,069	12,917	12,391[(5)]

(1) Excludes the capital expenditures made by KOF Philippines in 2017.
(2) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama. Includes capital expenditures of ABASA and Los Volcanes from May 2018.
(3) Includes Colombia, Brazil, Argentina and Uruguay. Includes capital expenditures of Monresa from July 2018.
(4) Includes the effects of inflation.
(5) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets of our Venezuelan operations.

In 2018, 2017 and 2016, we focused our capital expenditures on investments in (i) increasing production capacity; (ii) placing coolers with retailers; (iii) returnable bottles and cases; (iv) improving the efficiency of our distribution infrastructure; and (v) information technology.

We have budgeted approximately US$579 million (Ps.11,369 million as of December 31, 2018) for our capital expenditures in 2019. Our capital expenditures in 2019 are primarily intended for:

- investments in production capacity;
- market investments;
- returnable bottles and cases;
- improvements throughout our distribution network; and
- investments in information technology.

We estimate that of our projected capital expenditures for 2019, approximately 42.0% will be for our Mexican territories and the remaining will be for our non-Mexican territories. We believe that internally generated funds will be sufficient to meet our budgeted capital expenditure for 2019. Our capital expenditure plan for 2019 may change based on market and other conditions, our results and financial resources.

Historically, The Coca-Cola Company has contributed resources in addition to our own capital expenditures. We generally use these contributions for initiatives that promote volume growth of *Coca-Cola* trademark beverages, including the placement of coolers with retailers. Such contributions may result in a reduction in our selling expenses line. Contributions by The Coca-Cola Company are made on a discretionary basis. Although we believe that The Coca-Cola Company will make additional contributions in the future to assist our capital expenditure program based on past practice and the benefits to The Coca-Cola Company as owner of the *Coca-Cola* brands from investments that support the strength of the brands in our territories, we can give no assurance that any such contributions will be made.

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Hedging Activities

We hold or enter into derivative instruments to hedge our exposure to market risks related to changes in interest rates, foreign currency exchange rates and commodity price risk. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk.**

The following table provides a summary of the fair value of derivative instruments as of December 31, 2018. The fair market value is estimated using market prices that would apply to terminate the contracts at the end of the period and are confirmed by external sources, which generally are also our counterparties to the relevant contracts.

	Fair Value as of December 31, 2018				
	Maturity less than 1 year	**Maturity 1 3 years**	**Maturity 4 5 years**	**Maturity in excess of 5 years**	**Total fair value**
	(in millions of Mexican pesos)				
Cross Currency Swaps					
U.S. dollars to Mexican pesos		(386)	(135)	(160)	(681)
U.S. dollars to Brazilian reais	(498)	(1,090)	390		(1,198)
Interest Rate Swaps					
Brazilian variable interest rate to fixed rate	49	222			271
Options					
U.S. dollars to Mexican pesos	(23)				(23)
U.S. dollars to Colombian pesos	(1)				(1)
Forwards					
U.S. dollars to Mexican pesos	45				45
U.S. dollars to Brazilian reais	(39)				(39)
U.S. dollars to Colombian pesos	(59)				(59)
U.S. dollars to Argentine pesos	14				14
U.S. dollars to Uruguayan pesos	(4)				(4)
Commodity Hedge Contracts					
Sugar	88				88
Aluminum	17				17
PET resin	131				131

Item 6. Directors, Senior Management and Employees

Directors

Management of our business is vested in our board of directors and in our chief executive officer. In accordance with our bylaws and Article 24 of the Mexican Securities Market Law, our board of directors will consist of no more than 21 directors, elected at the annual ordinary shareholders meeting for terms of one year. Up to 13 directors may be elected by the Series A shares voting as a class; up to five directors may be elected by the Series D shares voting as a class; and up to three directors may be elected by the Series L shares voting as a class. Directors may only be elected by a majority of shareholders of the appropriate series, voting as a class. Our bylaws further provide that for every 10.0% of issued and paid Series B shares held by shareholders, either individually or as a group, such shareholders shall have the right to appoint and revoke one director and her corresponding alternate, pursuant to Article 50 of the

Mexican Securities Market Law. The shareholders meeting will decide, in the event the Series B shares, individually or as a group, are entitled to appoint a director, which series of shares is to reduce the number of directors that such series is entitled to appoint; provided that, the number of directors entitled to be appointed by the Series D shares shall remain unchanged, unless otherwise agreed. In accordance with our bylaws and Article 24 of the Mexican Securities Market Law, at least 25.0% of the members of our board of directors must be independent (as defined by the Mexican Securities Market Law). The board of directors may designate interim directors in the case that a director is absent or an elected director and corresponding alternate are unable to serve; the interim directors serve until the next shareholders meeting, at which the shareholders elect a replacement.

Our bylaws provide that the board of directors shall meet at least four times a year. Since our major shareholders amended their Shareholders Agreement in February 2010, our bylaws were modified accordingly establishing that actions by the board of directors must be approved by at least a majority of the directors present and voting, except under certain limited circumstances which must include the favorable vote of at least two directors elected by the Series D shares. **See Item 7. Major Shareholders and Related**

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Party Transactions Major Shareholders The Shareholders Agreement. The chairman of the board of directors, the chairman of our Audit Committee, the chairman of our Corporate Practices Committee, or at least 25.0% of our directors may call a board of directors meeting and include matters in the meeting agenda.

At our general ordinary shareholders meeting held on March 14, 2019, the following directors were appointed or confirmed: 11 directors were appointed or confirmed by the Series A shares, four directors were appointed or confirmed by the Series D shares and three directors were appointed or confirmed by the Series L shares. Our board of directors is currently comprised of 18 members.

See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions for information on relationships with certain directors and senior management.

As of the date of this annual report, our board of directors had the following members:

Series A Directors

José Antonio Vicente Fernández Carbajal	Born:	February 1954
	Gender:	Male
	First elected:	1993, as director; 2001 as chairman.
Chairman	Term expires:	2020
	Principal occupation:	Executive Chairman of the board of directors of FEMSA.
	Other directorships:	Chairman of the board of directors of Fundación FEMSA, A.C. and Instituto Tecnológico y de Estudios Superiores de Monterrey, or ITESM. Chairman Emeritus of the US Mexico Foundation. Member of the board of directors of Heineken Holding, N.V. and vice-chairman of the supervisory board of Heineken, N.V. Chairman of the America s committee and member of the preparatory committee and selection and appointment committee of Heineken, N.V. Member of the board of directors of Industrias Peñoles, S.A.B. de C.V. Co-Chairman of the advisory board of Woodrow Wilson Center, Mexico Chapter and member of the board of trustees of the Massachusetts Institute of Technology Corporation.
	Business experience:	Joined the strategic planning department of FEMSA in 1988, after which he held managerial positions at FEMSA Cerveza s commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991 and Chief Executive Officer in 1995, a position he held until December 31, 2013. As of January 1, 2014, he was appointed Executive Chairman of the board of directors of FEMSA.
	Education:	Holds a degree in Industrial Engineering and a Master in Business Administration, or MBA, from ITESM.

Federico José Reyes García *Director*	Born:	September 1945
	Gender:	Male
	First elected:	1993
	Term expires:	2020
	Principal occupation:	Independent consultant.
	Other directorships:	Alternate member of the board of directors of FEMSA, and member of the board of directors of Fundación FEMSA and Tec Salud.
	Business experience:	At FEMSA, he held the position of Executive Vice-President of Corporate Development from 1992 to 1993, Chief Financial Officer from 1999 to 2006, and Corporate Development Officer until 2015.
	Education:	Holds a degree in Business and Finance from ITESM.
	Alternate director:	Javier Gerardo Astaburuaga Sanjines
John Anthony Santa Maria Otazua *Director*	Born:	August 1957
	Gender:	Male
	First elected:	2014
	Term expires:	2020
	Principal occupation:	Our Chief Executive Officer.
	Business experience:	Has served as our Strategic Planning and Business Development Officer and Chief Operating Officer of our Mexican operations. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of our South America division. He also has experience in several areas of our company, namely development of new products and mergers and acquisitions. Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management.
	Other directorships:	Member of the board of directors of Gentera, S.A.B. de C.V., or Gentera and member of the board of directors and commercial committee of Banco Compartamos, S.A., Institución de Banca Múltiple.
	Education:	Holds a Bachelor s degree in Business Administration and a MBA with a major in Finance from Southern Methodist University.
Ricardo Guajardo Touché *Independent Director*	Born:	May 1948
	Gender:	Male
	First elected:	1993
	Term expires:	2020
	Principal occupation:	Chairman of the board of directors of Solfi, S.A. de C.V.
	Other directorships:	Member of the board of directors of FEMSA, El Puerto de Liverpool, S.A.B. de C.V., Alfa, Grupo Financiero BBVA Bancomer, BBVA Bancomer, S.A., Institución de Banca Múltiple, or BBVA Bancomer, Grupo Aeroportuario del Sureste, S.A.B. de C.V., Grupo Bimbo, S.A.B. de C.V., or Bimbo, Grupo Coppel, S.A. de C.V., ITESM and Vitro, S.A.B. de C.V.
	Business experience:	Has held senior executive positions at FEMSA, Grupo AXA, S.A. de C.V. and Grupo Valores de Monterrey, S.A.B. de C.V.

	Education:	Holds a degree in Electrical Engineering from ITESM and the University of Wisconsin and a Master s degree from the University of California at Berkeley.
Alfonso González Migoya	Born:	January 1945
	Gender:	Male
	First elected:	2006
Independent Director	Term expires:	2020
	Principal occupation:	Chairman of the board of directors of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (Volaris), and managing partner of Acumen Empresarial, S.A. de C.V.
	Other directorships:	Member of the board of directors of FEMSA, Nemak, S.A.B. de C.V., Bolsa Mexicana de Valores, S.A.B. de C.V., Regional, S.A.B. de C.V., Grupo Cuprum, S.A.P.I. de C.V., Berel, S.A. de C.V., Servicios Corporativos Javer, S.A.B. de C.V. and Invercap Holdings, S.A.P.I. de C.V.

	Business experience:	Served as Corporate Director of Alfa from 1995 to 2005 and as Chairman of the board of directors and Chief Executive Officer of Grupo Industrial Saltillo, S.A.B. de C.V. from 2009 to 2014.
	Education:	Holds a degree in Mechanical Engineering from ITESM and a MBA from the Stanford University Graduate School of Business.
Enrique F. Senior Hernández	Born:	August 1943
	Gender:	Male
	First elected:	2004
Independent Director	Term expires:	2020
	Principal occupation:	Managing Director of Allen & Company, LLC.
	Other directorship:	Alternate member of the board of directors of FEMSA, and member of the board of directors of Grupo Televisa, S.A.B. de C.V., Cinemark USA, Inc. and Univision Communications, Inc.
	Business experience:	Among other clients, has provided financial advisory services to FEMSA and Coca-Cola FEMSA.
	Education:	Holds a law degree from Yale University, an Honorary Law Doctorate from Emerson College and a MBA from Harvard University Business School.
Miguel Eduardo Padilla Silva	Born:	January 1955
	Gender:	Male
	First elected:	2016
Director	Term expires:	2020
	Principal occupation:	Chief Executive Officer of FEMSA.
	Other directorships:	Member of the board of directors of FEMSA, Grupo Lamosa, S.A.B. de C.V., Club Industrial, A.C., Universidad Tec Milenio and Grupo Coppel, S.A. de C.V.
	Business experience:	He held the position of Chief Financial and Corporate Officer of FEMSA from 2016 to 2018 and Chief Executive Officer of FEMSA Comercio from 2004 to 2016. Also, he held the positions of Planning and Control Officer of FEMSA from 1997 to 1999 and Chief Executive Officer of the Strategic Procurement Business Division of FEMSA from 2000 to 2003. He had a 20-year career in Alfa, S.A.B. de C.V., or Alfa, and held a position in Terza, S.A. de C.V. as Chief Executive Officer.
	Education:	Holds a degree in Mechanical Engineering from ITESM, a MBA from Cornell University and executive management studies at Instituto Panamericano de Alta Dirección de Empresa, or IPADE.
Luis Rubio Freidberg	Born:	August 1955
	Gender:	Male
Independent Director	First elected:	2015
	Term expires:	2020
	Principal occupation:	President of México Evalúa, A.C. and Centro de Investigación para el Desarrollo.
	Other directorships:	Member of the board of directors of Xanthrus, The India Fund, Inc. and The Tinker Foundation.
	Business experience:	

		He is a contributing editor of the newspaper Reforma. In the 1970s he was Planning Director at Citibank in Mexico and served as an adviser to Mexico s Secretary of the Treasury.
	Education:	Holds a degree in Financial Administration, a multinational MBA and a Master s degree and PhD in political science from Brandeis University.
	Alternate director:	Jaime A. El Koury (independent director)
Daniel Javier Servitje Montull	Born:	April 1959
	Gender:	Male
	First elected:	1998
Independent Director	Term expires:	2020
	Principal occupation:	Chief Executive Officer and Chairman of the board of directors of Bimbo.

	Other directorships:	Member of the board of directors of Grupo Financiero Banamex, S.A. de C.V., Instituto Mexicano para la Competitividad, A.C., The Consumer Goods Forum, and Latin America Conservation Council (The Nature Conservancy). Member of Stanford GSB Advisory Council and Wal-Mart Mexico Advisory Board of Suppliers. Chairman of the board of directors of Corporación Aura Solar, S.A.P.I. de C.V., Servicios Comerciales de Energía, S.A. de C.V., and Aura Solar II Corp.
	Business experience:	Served as Vice-President of Bimbo.
	Education:	Holds a degree in Business Administration from the Universidad Iberoamericana in Mexico and a MBA from the Stanford University Graduate School of Business.
José Luis Cutrale	Born:	September 1946
	Gender:	Male
Director	First elected:	2004
	Term expires:	2020
	Principal occupation:	Chairman of the board of directors of Sucocítrico Cutrale, Ltda.
	Other directorships:	Member of the board of directors of Cutrale North America, Inc., Cutrale Citrus Juice USA, Inc., Citrus Products, Inc. and Chiquita Brands International,
	Business experience:	Founding partner of Sucocítrico Cutrale, Ltda.
	Education:	Holds a degree in Business Administration.
	Alternate director:	José Luis Cutrale, Jr.
Luis Alfonso Nicolau Gutiérrez	Born:	June 1961
	Gender:	Male
Independent Director	First elected:	2018
	Term expires:	2020
	Principal occupation:	Partner at Ritch, Mueller, Heather y Nicolau, S.C. and member of the firm s executive committee.
	Other directorships:	Member of the boards of directors of Morgan Stanley, Casa de Bolsa, S.A. de C.V. UBS Asesores México, S.A. de C.V., Grupo Posadas, S.A.B. de C.V. Ignia s Public Fund (*Fideicomiso Ignia*), Gentera, S.A.B. de C.V., Grupo Cementos de Chihuahua, S.A.B. de C.V., Grupo Coppel, S.A. de C.V. and KIO Networks. Member of the investment committee of Ignia Fund and Promotora Social México and independent member of the supervisory board of Bolsa Mexicana de Valores, S.A.B. de C.V.
	Business experience:	Has been a partner at Ritch Mueller since 1990, specializes in mergers and acquisitions, debt and equity capital markets transactions and banking and finance. He is a leading expert in assisting underwriters and issuers in debt and equity offerings in Mexico and abroad. Also, he worked as a foreign associate for Johnson & Gibbs, Dallas and Shearman & Sterling, New York.
	Education:	Holds a Law degree from the Escuela Libre de Derecho and a Master in Law from Columbia University.

Series D Directors

José Octavio Reyes Lagunes	Born:	March 1952
	Gender:	Male
Director	First elected:	2016
	Term expires:	2020
	Principal occupation:	Retired.
	Other directorships:	Member of the board of directors and President of the resources committee of MasterCard Worldwide. Member of the board of directors and member of the sustainability committee of Coca-Cola Hellenic Bottling Company.

	Business experience:	He began his career with The Coca-Cola Company in 1980 as Manager of Strategic Planning at Coca-Cola de México, was appointed Manager of the *Sprite* and *Diet Coke* brands at the corporate headquarters in Atlanta in 1987, became Marketing Director for the Brazil Division in 1990, was named Marketing and Operations Vice President of the Mexico Division and became President of the Mexico Division in 1996. He served as President of the Latin American Group of The Coca-Cola Company from 2002 to 2012.
	Education:	Holds a degree in Chemical Engineering from the Universidad Nacional Autónoma de México and a MBA from ITESM.
	Alternate director:	Theresa Robin Rodgers Moore
John Murphy	Born:	February 1962
	Gender:	Male
Director	First elected:	2019
	Term expires:	2020
	Principal occupation:	Executive Vice President and Chief Financial Officer of The Coca-Cola Company.
	Other directorships:	Member of the board of directors of Coca-Cola Beverages Japan Holdings Inc., China Beverages Ltd. and Lindley Corporation.
	Business experience:	From 2016 to 2018 he served as president of the Asia Pacific Group of The Coca-Cola Company and from 2013 to 2016 as president of the South Latin business unit. Prior to this role, from 2008 to 2012, he was president of the Latin Center business unit. During his three-decade career with The Coca-Cola Company, he has held a variety of general management, finance and strategic planning roles.
	Education:	Holds a Bachelor s degree in Business Studies from Trinity College in Dublin and a diploma in professional accounting from the University College in Dublin. He qualified as a chartered accountant of the Irish Institute of Chartered Accountants.
	Alternate director:	Sunil Krishna Ghatnekar
Charles H. McTier	Born:	January 1939
	Gender:	Male
Independent Director	First elected:	1998
	Term expires:	2020
	Principal occupation:	Retired.
	Business experience:	Was associated with the Robert W. Woodruff Foundation for over forty years, serving as its President from 1988-2006 and served as a trustee from 2006-2015. Served on the board of directors of nine U.S. Coca-Cola bottling companies in the 1970s and 1980s.
	Education:	Holds a Bachelor s degree in Business Administration from Emory University.
Brian John Smith	Born:	December 1955

Director	Gender:	Male
	First elected:	2017
	Term expires:	2020
	Principal occupation:	President and Chief Operating Officer of The Coca-Cola Company.
	Other directorships:	Member of the board of directors, the compensation committee and audit committee of Evertec, Inc.
	Business experience:	Joined The Coca-Cola Company in 1997 as Latin America Group Manager for Mergers and Acquisitions until 2001. From July 2001 to July 2002 he worked as Executive Assistant to the Chief Operating Officer and Vice-Chairman of The Coca-Cola Company. From August 2002 to October 2008 he was President of the Brazil Division and from 2008 to 2012 he was President of the Mexico Division. From 2013 to 2016 he was Group President of Latin America and from 2016 to 2018, he was Group President for Europe, Middle East and Africa.
	Education:	Holds a MBA from the University of Chicago.
	Alternate director:	Marie D. Quintero-Johnson

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Series L Directors

Herman Harris Fleishman Cahn	Born:	May 1951
	Gender:	Male
	First elected:	2012
Independent Director	Term expires:	2020
	Principal occupation:	President of Grupo Tampico, S.A.P.I. de C.V.
	Other directorships:	Chairman of the board of trustees of Fundación Fleishman, Instituto Fray Andrés de Olmos and Ciudad del Niño San Juan Bosco. Member of the boards of trustees of Universidad Autónoma de Tamaulipas, Tecnológico de Monterrey Campus Tampico, and Instituto Cultural Tampico, A.C. Member of the national board of Teléfonos de México, S.A., and Banco de México. Member of the regional board of Banco Nacional de México, S.A., and BBVA Bancomer.
	Education:	Holds a Bachelor s degree in Business Administration and postgraduate studies.
	Alternate director:	Robert Alan Fleishman Cahn (independent director)
Victor Alberto Tiburcio Celorio	Born:	February 1951
	Gender:	Male
	First elected:	2018
Independent Director	Term expires:	2020
	Principal occupation:	Independent consultant.
	Other directorships:	Member of the board of directors and member of the audit committee of FEMSA, Grupo Palacio de Hierro, S.A.B. de C.V., Grupo Financiero Scotiabank Inverlat, S.A. de C.V., Profuturo Afore, S.A. de C.V., Grupo Nacional Provincial S.A.B., Fresnillo, PLC and Instituto Tecnológico Autónomo de México (ITAM).
	Business experience:	Worked for over forty-three years at Mancera, S.C. (Ernst & Young Mexico), serving as partner for thirty three years and as Chief Executive Officer and Chairman of the board of directors for thirteen years until his retirement in 2013. He was chairman of the board of the Mexican Financial Reporting Standards and served as President of the Mexican Institute of Public Accountants.
	Education:	Holds a degree in Accounting from the Universidad Iberoamericana in Mexico and a MBA from Instituto Tecnológico Autónomo de México (ITAM).
Francisco Zambrano Rodríguez	Born:	January 1953
	Gender:	Male
	First elected:	2003
Independent Director	Term expires:	2020
	Principal occupation:	Managing Partner of FORTE Estate Planning S.C.
	Other directorships:	Alternate member of the board of directors of FEMSA. Co-Chief Executive Officer and member of the board of directors of Desarrollo Inmobiliario y de Valores, S.A. de C.V., Corporativo Zeta DIVASA, S.A.P.I. de C.V. and IPFC Inmuebles, S.A.P.I. de

	C.V. Member of the supervisory board of ITESM.
Business experience:	Has extensive experience in investment banking and private investment services in Mexico, real estate projects, and as patrimonial and probate consultant.
Education:	Holds a degree in Chemical Engineering from ITESM and a MBA from the University of Texas at Austin.

The secretary of the board of directors is Carlos Eduardo Aldrete Ancira and the alternate secretary of the board of directors is Carlos Luis Díaz Sáenz, our general counsel.

In June 2004, a group of Brazilian investors, among them José Luis Cutrale, a member of our board of directors, made a capital contribution equivalent to approximately US$50 million to our Brazilian operations in exchange for approximately 16.9% equity stake in these operations. We have entered into an agreement with Mr. Cutrale pursuant to which he was invited to serve as a director of our company. The agreement also provides for a right of first offer on transfers by the investors, tag-along and drag-along rights and certain rights upon a change of control of either party, with respect to our Brazilian operations.

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Executive Officers

The following are the executive officers of our company:

John Anthony Santa Maria Otazua *Chief Executive Officer*	Born:	August 1957
	Gender:	Male
	Joined:	1995
	Appointed to current position:	2014
	Business experience with us:	Has served as our Strategic Planning and Business Development Officer and Chief Operating Officer of our Mexican operations. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of our South America division. He also has experience in several areas of our company, namely development of new products and mergers and acquisitions.
	Other business experience:	Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management.
	Education:	Holds a Bachelor s degree in Business Administration and a MBA with a major in Finance from Southern Methodist University.
Constantino Spas Montesinos *Chief Financial Officer*	Born:	May 1970
	Gender:	Male
	Joined:	2018
	Appointed to current position:	2019
	Business experience with us:	Served as our Strategic Planning Officer.
	Other business experience:	Has 24 years of experience in the food and beverage sector in companies such as Grupo Mavesa and Empresas Polar in Venezuela, Kraft Foods, SAB Miller in Latin America and Bacardi in Mexico, occupying different positions in marketing, as regional officer and as VP Managing Director.
	Education:	Holds a Bachelor s Degree in Business Administration from Universidad Metropolitana in Caracas and a MBA from Emory University-Goizueta Business School in Atlanta, Georgia.
Xiemar Zarazua López *Business Strategy Officer*	Born:	June 1963
	Gender:	Male
	Joined:	2017
	Appointed to current position:	2019

	Business experience with us:	Joined our company in January 2017 as Chief Operating Officer of Mexico.
	Other business experience:	Has served for more than 30 years in The Coca-Cola Company in different positions including Chief Executive Officer of the Brazil Business Unit from 2008 to 2016 and Chief Executive Officer of the Latin America Business Unit from 2006 to 2008. He also served in different areas in Mexico and Central America.
	Education:	Holds a Bachelor s degree in Economics from Universidad Autónoma de Nuevo León and Finance postgraduate studies from ITESM.
Tanya Cecilia Avellan Pinoargote	Born:	May 1966
	Gender:	Female
Information Technology and Commercial Officer	Joined:	2002
	Appointed to current position:	2015
	Business experience with us:	Joined our company in 2002 as Strategic Planning Officer. In 2007 was appointed Commercial Planning and Strategic Development Officer and in 2009 was appointed Chief Operations Officer at our Central America division. From 2011 to 2014 she served as Strategic Planning Officer at FEMSA.
	Other business experience:	Worked for 8 years at Bain and Company and has undertaken responsibilities in different multinational companies with vast experience in mass consumer goods.
	Education:	Holds a degree in Communications from Universidad Politécnica del Ecuador and a MBA specialized in marketing from INCAE Business School.

Karina Paola Awad Pérez	Born:	February 1968
	Gender:	Female
Human Resources Officer	Joined:	2018
	Appointed to current position:	2018
	Business experience with us:	Joined our company in 2018 as Human Resources Officer.
	Other business experience:	Has served for more than 25 years in several areas of human resources. In 2010, she occupied the position of Vice President of Human Resources for Wal-Mart Chile and in 2013 she was named Senior Vice President of Human Resources for Wal-Mart Mexico and Central America.
	Education:	Holds a degree in psychology from the Pontificia Universidad Católica de Chile and a MBA from the UAI de Chile.
José Ramón de Jesús Martínez Alonso	Born:	July 1961
	Gender:	Male
	Joined:	2012
Corporate Affairs Officer	Appointed to current position:	2016
	Business experience with us:	In 2012, he joined our company as Corporate Affairs Officer for Mexico and Central America division. He further occupied the position as Strategic Planning Officer for South America division and previous to his current position he occupied the position as Chief Operating Officer for Brazil.
	Other business experience:	More than 30 years of experience in the Coca-Cola system. He began his career at Panamco where he developed various activities related with the business operation including sugar production and concentrates. In 1994, he occupied the position as Operations Officer of Panamco in Mexico and the following year he occupied the position as Operations Officer of Panamco in Venezuela. From 2005 to 2012, he was Chief Executive Officer of the *Asociación Mexicana de Embotelladores* de Coca-Cola (ASCOCA).
	Education:	Holds a degree in Chemical Engineering from La Salle University, an MBA from IPADE and postgraduate studies in production administration from the Georgia Institute of Technology; Strategic Direction from Stanford University; and Finance Management from John E. Anderson Graduate School of the University of California, Los Angeles.
Rafael Ramos Casas	Born:	April 1961
	Gender:	Male
Supply Chain and Engineering Officer	Joined:	1999
	Appointed to current position:	2018
	Business experience with us:	Has served as Supply Chain Officer of FEMSA and OXXO. He held several positions in Propimex for our division in Mexico.

Other business experience:	He has experience with a different bottler company in Mexico in positions such as Chief Operating Officer, Manufacturing Director and plant manager.
Education:	Holds a degree in Biochemical Engineering with a minor in Administration and a Master s degree in Business Administration of Agricultural Enterprises.

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Washington Fabricio Ponce García	Born:	April 1968
	Gender:	Male
	Joined:	1998
Chief Operating Officer Mexico	Appointed to current position:	2019
	Business experience with us:	Has served as head of our Asia division and as head of our Colombian operations. Has served as Managing Director of Central America, Argentina, Brazil, Colombia and Strategic Planning Director for our operations in Latin America.
	Other business experience:	He worked for three years with Bain & Company.
	Education:	Holds a Master´s degree in Business Economics from INCAE, Costa Rica.
Eduardo Guillermo Hernández Peña	Born:	October 1965
	Gender:	Male
	Joined:	2015
Chief Operating Officer Latin America	Appointed to current position:	2018
	Business experience with us:	Served as New Businesses Officer in 2016 and as Strategic Planning Officer in 2017.
	Other business experience:	At Empresas Polar he held several positions in the beer, wine and food business. From 2012 to 2015 he served as Chief Executive Officer of Gloria, S.A.
	Education:	Holds a Bachelor s degree in Business Administration from Universidad Metropolitana of Venezuela, a degree in Marketing from Harvard University and a MBA from Northwestern University.
Ian Marcel Craig García	Born:	May 1972
	Gender:	Male
Chief Operating Officer Brazil	Joined:	1994
	Appointed to current position:	2016
	Business experience with us:	Has served as Chief Operating Officer of Argentina. Has served as Chief Financial Officer of our South America division, and also as Corporate Finance and Treasury Director of Coca-Cola FEMSA.
	Other business experience:	Within the group he has worked in a Corporate Finance position and Beer Division Supply Chain position. Also, he worked in other companies in the area of strategic planning.
	Education:	Holds a Bachelor s degree in Industrial Engineering from ITESM, a MBA from the University of Chicago Booth School of Business and a Master s degree in International Commercial Law from ITESM.
Rafael Alberto Suárez Olaguibel	Born:	April 1960
	Gender:	Male
Transformation	Joined:	1986

Officer		
	Appointed to current position:	2019
	Business experience with us:	Has served as Operational Integration Officer, Chief Operating Officer of Latin America and Latincentro Divisions, Commercial Planning and Strategic Development Officer, Chief Operating Officer of Mexico, Chief Operating Officer of Argentina, Distribution and Sales Director of Valley of Mexico and Marketing Director of Valley of Mexico.
	Other business experience:	Has worked as Franchises Manager and in other positions at The Coca-Cola Company in Mexico and as professor at ITESM.
	Education:	Holds a degree in Economics and a MBA from ITESM.

Compensation of Directors and Officers

For the year ended December 31, 2018, the aggregate compensation of all of our executive officers paid or accrued for services in all capacities was Ps.266.1 million. The aggregate compensation amount includes Ps.87.2 million of cash bonus awards and bonuses paid to certain of our executive officers pursuant to our incentive plan for stock purchases. **See Bonus Program.**

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The aggregate compensation for directors during 2018 was Ps.30 million. For each meeting attended we paid US$13,000 to each director with foreign residence and US$9,000 to all other directors with residence in Mexico in 2018.

We paid US$5,000 to each of the members of the Audit, Finance and Planning and the Corporate Practices Committees per each meeting attended, and we paid US$6,500 to the chairman of the Audit Committee per meeting attended.

Our executive officers and senior executives participate in our benefit plans in the same terms as our other employees. Members of our board of directors do not participate in our benefit plans. As of December 31, 2018, amounts accrued for all employees under our pension and retirement plans were Ps.3,385 million, of which Ps.1,031 million are already funded.

Bonus Program

Cash-based payment bonus plan. Our bonus program for executives officers and senior executives is based on complying with certain goals established annually by management, which include quantitative and qualitative objectives as well as the completion of special projects.

The quantitative objectives represent approximately 50.0% of the bonus and are based on the Economic Value Added, or EVA, methodology. The quantitative objectives established for our executive officers and senior executives are based on a combination of the EVA generated by our company and the EVA generated by our parent company, FEMSA. The quantitative objectives established for managers are based only on the EVA generated by our company. The qualitative goals and special projects represent the remaining 50.0% of the annual bonus and are based on the critical success factors established at the beginning of the year for each eligible participant. The bonus amount is determined based on each eligible participant s level of responsibility. This formula is calculated 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 compliance with the goals established every year. The bonuses are recorded as a part of the income statement and are paid in cash the following year.

Share-based payment bonus plan. We have a stock incentive plan for the benefit of our executive officers and senior executives. This plan uses as its main evaluation metric the EVA methodology. Under the EVA stock incentive plan, eligible executive officers and senior executives are entitled to receive a special annual bonus to purchase FEMSA and Coca-Cola FEMSA shares traded in the Mexican Stock Exchange, based on the executive s responsibility in the organization and their business s EVA result. The special bonus is granted to eligible executive officers and senior executives on an annual basis and after withholding applicable taxes. We contribute the individual executive s special bonus 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). The acquired shares are deposited in a trust, and the executive officers and senior executives accessed them one year after they are vested, at 33.0% per year. The executive officers and senior executives may access their acquired shares ratably over a three-year period. Fifty percent of our annual executive bonus under our stock incentive plan is to be used to purchase FEMSA shares and the remaining 50.0% to purchase our company s shares.

During the years ended December 31, 2018, 2017 and 2016, the cash-based and share-based bonus expense paid to executive officers, senior executives and managers pursuant to our bonus program amounted to Ps.659 million, Ps.701 million and Ps.706 million, respectively.

Share Ownership

None of our directors, alternate directors or executive officers is the beneficial owner of more than 1% of any class of our capital stock. See Note 17 to our consolidated financial statements.

Board Practices and Committees

Our bylaws state that the board of directors will meet at least four times a year to discuss our operating results and progress in achieving strategic objectives. It is the practice of our board of directors to meet following the end of each quarter. Our board of directors can also hold extraordinary meetings. **See Item 10. Additional Information Bylaws.**

Under our bylaws, directors serve one-year terms although they continue in office for up to 30 days until successors are appointed. If no successor is appointed during this period, the board of directors may appoint interim members, who will be ratified or substituted at the next shareholders meeting after such event occurs. None of the members of our board of directors or senior management of our subsidiaries has service agreements providing for benefits upon termination of employment.

Our board of directors is supported by committees, which are working groups approved at our annual shareholders meeting that analyze issues and provide recommendations to the board of directors regarding their respective areas of focus. The executive officers interact periodically with the committees to address management issues. The following are the three committees of the board of directors:

Finance and Planning Committee. The Finance and Planning Committee works with management to set our annual and long-term strategic and financial plans and monitors adherence to these plans. It is responsible for setting our optimal capital structure and recommends the appropriate level of borrowing as well as the issuance of securities. Financial risk management is another responsibility of the Finance and Planning Committee. Ricardo Guajardo Touché is the chairman of the Finance and Planning Committee. The other members include: Federico Reyes García, John Murphy, Enrique F. Senior Hernández and Miguel Eduardo Padilla Silva. The secretary non-member of the Finance and Planning Committee is Constantino Spas Montesinos, our Chief Financial Officer.

Audit Committee. The Audit Committee is responsible for reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee, (such appointment and compensation being subject to the approval of our board of directors); the internal auditing function also reports to the Audit Committee. The Audit Committee has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters. To carry out its duties, the Audit Committee may hire independent counsel and other advisors. As necessary, we compensate the independent auditor and any outside advisor hired by the Audit Committee and provide funding for ordinary administrative expenses incurred by the Audit Committee in the course of its duties. Victor Alberto Tiburcio Celorio is the chairman of the Audit Committee and the audit committee financial expert. Pursuant to the Mexican Securities Market Law, the chairman of the Audit Committee is elected at our shareholders meeting. The other members are: Alfonso González Migoya, Charles H. McTier and Francisco Zambrano Rodríguez. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Market Law and applicable New York Stock Exchange listing standards. The secretary non-member of the Audit Committee is José González Ornelas, vice-president of FEMSA s internal corporate control department.

Corporate Practices Committee. The Corporate Practices Committee, which consists exclusively of independent directors, is responsible for preventing or reducing the risk of performing operations that could damage the value of our company or that benefit a particular group of shareholders. The committee may call a shareholders meeting and include matters on the agenda for that meeting that it deems appropriate, approve policies on related party transactions, approve the compensation plan of the chief executive officer and relevant officers, and support our board of directors in the elaboration of related reports. The chairman of the Corporate Practices Committee is Daniel Javier Servitje Montull. Pursuant to the Mexican Securities Market Law, the chairman of the Corporate Practices Committee is elected at our shareholders meeting. The other members include: Jaime A. El Koury, Luis Rubio Freidberg, Luis A. Nicolau Gutiérrez, and two permanent non-member guests, Miguel Eduardo Padilla Silva and José Octavio Reyes Lagunes. The secretary non-member of the Corporate Practices Committee is Karina Paola Awad Pérez.

We also have an Advisory Board whose main role is to advise and propose initiatives to our board of directors through the Chief Executive Officer. This Advisory Board is mainly comprised of former shareholders of the various bottling businesses that merged with us, whose experience constitutes an important contribution to our operations.

Employees

As of December 31, 2018, our headcount was as follows: 54,095 in Mexico and Central America, and 29,269 in South America. As of such date, the headcount in our investee KOF Venezuela was 4,615. In the headcount we include the employees of third party distributors. The table below sets forth headcount by category for the periods indicated:

	As of December 31,		
	2018(1)	**2017**(2)	**2016**
Executives	999	940	935
Non-union	24,548	24,280	25,916
Union	48,350	47,132	51,134
Employees of third party distributors	9,467	7,284	7,155
Total	83,364	79,636	85,140

(1) Includes employees of ABASA and Los Volcanes from May 2018, and Monresa from July 2018.

(2) Excludes employees of KOF Philippines and KOF Venezuela for 2017.

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As of December 31, 2018, approximately 57.97% of our employees, most of whom were employed in Mexico, were members of labor unions. We had 191 separate collective bargaining agreements with 105 labor unions. In general, we have a good relationship with the labor unions throughout our operations. **See Item 8. Financial Information Consolidated Statements and Other Financial Information.**

Insurance Policies for Employees

We maintain a number of different types of insurance policies for all employees. These policies mitigate the risk of having to pay death benefits in the event of an industrial accident. We maintain directors and officers insurance policies covering all directors and certain key executive officers for liabilities incurred in their capacities as directors and officers.

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Item 7. Major Shareholders and Related Party Transactions

MAJOR SHAREHOLDERS

As of the date of this report, our outstanding capital stock consists of four classes of securities: Series A shares held by FEMSA, Series D shares held by The Coca-Cola Company, and Series B and Series L shares held by the public, which trade as units (each unit consisting of 3 Series B shares and 5 Series L shares). The following table sets forth our major shareholders:

Owner	Outstanding Capital Stock	Percentage Ownership of Outstanding Capital Stock	Percentage of Voting Rights
FEMSA (Series A shares)[1]	7,936,628,152	47.2%	56.0%
The Coca-Cola Company (Series D Shares)[2]	4,668,365,424	27.8%	32.9%
Public (Series B shares)[3]	1,575,624,195	9.4%	11.1%
Public (Series L shares)[3]	2,626,040,325	15.6%	%
Total	16,806,658,096	100.0%	100.0%

(1) FEMSA owns these shares through its wholly owned subsidiary Compañía Internacional de Bebidas, S.A. de C.V. Approximately 74.9% of the voting stock of FEMSA is owned by the technical committee and trust participants under Irrevocable Trust No. 463 established at Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero, as Trustee. As a consequence of the voting trust s internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power of the shares deposited in the voting trust: BBVA Bancomer, S.A., as Trustee under Trust No. F/25078-7 (controlled by the estate of Max Michel Suberville), J.P. Morgan Trust Company (New Zealand) Limited as Trustee under a trust controlled by Paulina Garza Lagüera Gonda, Max Brittingham, Maia Brittingham, Bárbara Garza Lagüera Gonda, Bárbara Braniff Garza Lagüera, Eugenia Braniff Garza Lagüera, Lorenza Braniff Garza Lagüera, Mariana Garza Lagüera Gonda, Paula Treviño Garza Lagüera, Inés Treviño Garza Lagüera, Eva Maria Garza Lagüera Gonda, Eugenio Fernández Garza Lagüera, Daniela Fernández Garza Lagüera, Eva María Fernández Garza Lagüera, José Antonio Fernández Garza Lagüera, Eva Gonda Rivera, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by the Garza Lagüera family), Consuelo Garza Lagüera de Garza, Alfonso Garza Garza, Juan Pablo Garza García, Alfonso Garza García, María José Garza García, Eugenia Maria Garza García, Patricio Garza Garza, Viviana Garza Zambrano, Patricio Garza Zambrano, Marigel Garza Zambrano, Ana Isabel Garza Zambrano, Juan Carlos Garza Garza, José Miguel Garza Celada, Gabriel Eugenio Garza Celada, Ana Cristina Garza Celada, Juan Carlos Garza Celada, Eduardo Garza Garza, Eduardo Garza Páez, Balbina Consuelo Garza Páez, Eugenio Andrés Garza Páez, Eugenio Garza Garza, Camila Garza Garza, Ana Sofía Garza Garza, Celina Garza Garza, Marcela Garza Garza, Carolina Garza Villarreal, Alepage, S.A. (controlled by Consuelo Garza Lagüera de Garza), Alberto Bailleres González, Maria Teresa Gual de Bailleres, Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), BBVA Bancomer, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres),

Magdalena Michel de David, the estate of Max Michel Suberville, Max David Michel, Juan David Michel, Monique David de VanLathem, Renee Michel de Guichard, Magdalena Guichard Michel, Rene Guichard Michel, Miguel Guichard Michel, Graciano Guichard Michel, Juan Guichard Michel, BBVA Bancomer, S.A., as Trustee under Trust No. F/710004 (controlled by Magdalena Michel de David), BBVA Bancomer, S.A., as Trustee under Trust No. F/700005 (controlled by Renee Michel de Guichard), Franca Servicios, S.A. de C.V. (controlled by the Calderón Rojas family), and BBVA Bancomer, S.A. as Trustee under Trust No. F/29013-0 (controlled by the Calderón Rojas family).

(2) The Coca-Cola Company indirectly owns these shares through its wholly owned subsidiaries, The Inmex Corporation and Dulux CBAI 2003 B.V.

(3) Series B shares and Series L shares trade together as units (each unit consisting of 3 Series B shares and 5 Series L shares). Series B shares grant full voting rights and Series L shares only grant the right to vote in limited circumstances. Holders of ADSs are entitled, subject to certain exceptions, to instruct The Bank of New York Mellon, the ADS depositary, as to the voting rights pertaining to the Series B shares and the limited voting rights pertaining to the Series L shares, in each case underlying our units represented by ADSs. **See Item 10. Additional Information Bylaws.**

As of the date of this report, the Bill and Melinda Gates Foundation Trust held 62,147,190 units, or 11.83% of the total amount of our units, which represented 186,441,570 Series B shares, or 11.83% of the total amount of our Series B shares, and 310,735,950 Series L shares, or 11.83% of the total amount of our Series L shares.

As of the date of this report, Blackrock, Inc. held 44,855,137 units, or 8.54% of the total amount of our units, which represented 134,565,411 Series B shares, or 8.54% of the total amount of our Series B shares, and 224,275,685 Series L shares, or 8.54% of the total amount of our Series L shares.

Our Series A shares, owned by FEMSA, are held in Mexico and our Series D shares, owned by The Coca-Cola Company, are held outside of Mexico.

As of the date of this report, we had approximately 18,881,748 ADSs outstanding, representing 36.0% of the total amount of our units, or 36.0% of the total amount of our Series B shares and 36.0% of the total amount of our Series L shares, held by approximately 315 registered holders (including The Depositary Trust Company) with registered addresses outside of Mexico.

The sellers of Vonpar contributed into a Mexican company Ps.4,082 million, which company in turn was merged into Coca-Cola FEMSA on May 4, 2017 in exchange for approximately 27.9 million newly issued Series L shares. A portion of the purchase price was paid through the issuance and delivery of a three-year promissory note to the sellers for a total amount of 1,166 million Brazilian reais, which was partially offset on November 14, 2018 as a result of the occurrence of certain contingencies for which the sellers agreed to indemnify us, resulting in an outstanding amount of 916 million Brazilian reais (Ps.4,653 million as of December 31, 2018). The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note but effective at the maturity of the note, to capitalize the Mexican peso amount equivalent to the outstanding principal amount of the promissory note into a recently incorporated Mexican company which would then be merged into Coca-Cola FEMSA in exchange for units of the company at a strike price of Ps.178.5 per unit. Such capitalization and issuance of new units and the corresponding shares underlying such units is subject to us having a sufficient number of shares available for issuance. For further information see Notes 4.1.2 and 20.7 to our consolidated financial statements.

The Shareholders Agreement

We operate pursuant to a shareholders agreement among two subsidiaries of FEMSA, The Coca-Cola Company and certain of its subsidiaries. This agreement, together with our bylaws, sets forth the basic rules pursuant to which we operate.

In February 2010, our main shareholders, FEMSA and The Coca-Cola Company, amended the shareholders agreement, and our bylaws were amended accordingly. The amendment mainly related to changes in the voting requirements for decisions on: (1) ordinary operations within an annual business plan and (2) appointment of the chief executive officer and all officers reporting to him, all of which may be taken by the board of directors by simple majority voting. Also, the amendment provided that payment of dividends, up to an amount equivalent to 20.0% of the preceding years retained earnings, may be approved by a simple majority of the voting capital stock and any payment of dividends above 20.0% of the preceding years retained earnings shall require the approval of a majority of the voting capital stock, which majority must also include a majority of the Series D shares. Any decision on extraordinary matters, as they are defined by our bylaws and which include any new business acquisition, business combinations or any change in the existing line of business, among other things, shall require the approval of the majority of the members of the board of directors, with the vote of two of the members appointed by The Coca-Cola Company.

Under our bylaws and shareholders agreement, our Series A shares, Series B shares and Series D shares are the only shares with full voting rights.

The shareholders agreement also sets forth the principal shareholders understanding as to the effect of adverse actions of The Coca-Cola Company under the bottler agreements. Our bylaws and shareholders agreement provide that a

majority of the directors appointed by the holders of Series A shares, upon making a reasonable, good faith determination that any action of The Coca-Cola Company under any bottler agreement between The Coca-Cola Company and our company or any of our subsidiaries is materially adverse to our business interests and that The Coca-Cola Company has failed to cure such action within 60 days of notice, may declare a simple majority period, as defined in our bylaws, at any time within 90 days after giving notice. During the simple majority period certain decisions, namely the approval of material changes in our business plans, the introduction of a new, or termination of an existing line of business, and related party transactions outside the ordinary course of business, to the extent the presence and approval of at least two Series D directors would otherwise be required, can be made by a simple majority vote of our entire board of directors, without requiring the presence or approval of any Series D director. A majority of the Series A directors may terminate a simple majority period but, once having done so, cannot declare another simple majority period for one year after the termination. If a simple majority period persists for one year or more, the provisions of the shareholders agreement for resolution of irreconcilable differences may be triggered, with the consequences outlined in the following paragraph.

In addition to the rights of first refusal provided for in our bylaws regarding proposed transfers of Series A shares or Series D shares, the shareholders agreement contemplates three circumstances under which one principal shareholder may purchase the interest of the other in our company: (1) a change in control in a principal shareholder, (2) the existence of irreconcilable differences between the principal shareholders or (3) the occurrence of certain specified events of default.

In the event that (1) one of the principal shareholders buys the other s interest in our company in any of the circumstances described above or (2) the beneficial ownership of The Coca-Cola Company or FEMSA is reduced below 20.0% of our outstanding voting stock, and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement will be terminated and our bylaws will be amended to eliminate all share transfer restrictions and all special-majority voting and quorum requirements.

The shareholders agreement also contains provisions relating to the principal shareholders understanding as to our growth. It states that it is The Coca-Cola Company s intention that we will be viewed as one of a small number of its anchor bottlers in Latin America. In particular, the parties agree that it is desirable that we expand by acquiring additional bottler territories in Mexico and other Latin American countries in the event any become available through horizontal growth. In addition, The Coca-Cola Company has agreed, subject to a number of conditions, that if it obtains ownership of a bottler territory that fits with our operations, it will give us the option to acquire such territory. The Coca-Cola Company has also agreed to support reasonable and sound modifications to our capital structure to support horizontal growth. The Coca-Cola Company s agreement as to horizontal growth expires upon either the elimination of the super-majority voting requirements described above or The Coca-Cola Company s election to terminate the agreement as a result of a default.

The Coca-Cola Memorandum

In connection with the acquisition of Panamco in 2003, we established certain understandings primarily relating to operational and business issues with both The Coca-Cola Company and FEMSA that were memorialized in writing prior to completion of the acquisition. Although The Coca-Cola Memorandum has not been amended, we continue to develop our relationship with The Coca-Cola Company (i.e. through, *inter alia*, acquisitions and taking on new product categories), and we therefore believe that The Coca-Cola Memorandum should be interpreted in the context of subsequent events, some of which have been noted in the description below. The main terms are as follows:

The shareholder arrangements between two subsidiaries of FEMSA and The Coca-Cola Company and certain of its subsidiaries will continue in place. On February 1, 2010, FEMSA amended its shareholders agreement with The Coca-Cola Company. **See The Shareholders Agreement.**

FEMSA will continue to consolidate our financial results under Mexican financial reporting standards. (We have complied with Mexican law by transitioning to IFRS as of 2011 and FEMSA currently consolidates our financial results under IFRS).

The Coca-Cola Company and FEMSA will continue to discuss in good faith the possibility of implementing changes to our capital structure in the future.

The Coca-Cola Company may require the establishment of a different long-term strategy for Brazil. If, after taking into account our performance in Brazil, The Coca-Cola Company does not consider us to be part of this long-term strategic solution for Brazil, then we will sell our Brazilian franchise to The Coca-Cola Company or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures. In light of the performance of our business in Brazil and the fact that The Coca-Cola Company authorized us to acquire

four Coca-Cola bottlers in Brazil from 2008 to 2017 and participate in the acquisition of the Brazilian operations of Jugos del Valle, Leão Alimentos, Laticínios Verde Campo Ltda. and the AdeS business in Brazil, we believe that this provision is no longer applicable.

We would like to keep open strategic alternatives that relate to the integration of sparkling beverages and beer. The Coca-Cola Company, FEMSA and we would explore these alternatives on a market-by-market basis at the appropriate time.

The Coca-Cola Company agreed to sell to a subsidiary of FEMSA sufficient shares to permit FEMSA to beneficially own 51.0% of our outstanding capital stock (assuming that this subsidiary of FEMSA does not sell any shares and that there are no issuances of our stock other than as contemplated by the acquisition). As a result of this understanding, in November 2006, FEMSA acquired, through a subsidiary, 148,000,000 of our Series D shares from certain subsidiaries of The Coca-Cola Company, representing 9.4% of the total outstanding voting shares and 8.0% of our total outstanding equity, at a price of US$2.888 per share for an aggregate amount of US$427.4 million. Pursuant to our bylaws, the acquired shares were converted from Series D shares to Series A shares.

We may be entering some markets where significant infrastructure investment may be required. The Coca-Cola Company and FEMSA will conduct a joint study that will outline strategies for these markets, as well as the investment levels required to execute these strategies. Subsequently, it is intended that FEMSA and The Coca-Cola Company will reach an agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome for either partner.

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Cooperation Framework with The Coca-Cola Company

In July 2016, we announced a new, comprehensive cooperation framework with The Coca-Cola Company. This cooperation framework seeks to maintain a mutually beneficial business relationship over the long term, which will allow both companies to focus on continuing to drive the business forward and generate profitable growth. The cooperation framework contemplates the following main objectives:

Long-term guidelines in relationship economics: Concentrate prices for sparkling beverages in Mexico will gradually increase beginning in July 2017 through July 2019. Based on our internal estimates for revenues and sales volume mix, we currently expect the incremental cost in Mexico to be the Mexican peso equivalent to approximately US$35 million per year for each year during such period.

Other Concentrate Price Adjustments. Potential future concentrate price adjustments for sparkling beverages and flavored water in Mexico will consider investment and profitability levels that are beneficial both to us and The Coca-Cola Company.

Marketing and commercial strategies. We and The Coca-Cola Company are committed to implement marketing and commercial strategies, and productivity programs to maximize profitability. We believe that these initiatives will partially mitigate the effects of concentrate price adjustments.

The Coca-Cola Company also recognizes our strong operating model and execution capabilities. With respect to The Coca-Cola Company s Bottling Investments Group territories it may divest in the future, we have reached an understanding with The Coca-Cola Company to assess, on a preferred basis, the acquisition of available territories.

RELATED PARTY TRANSACTIONS

We believe that our transactions with related parties are on terms comparable to those that would result from arm s length negotiations with unaffiliated parties and are reviewed and approved by our Corporate Practices Committee and our board of directors.

FEMSA

We regularly engage in transactions with FEMSA and its subsidiaries, including sales of our products. The aggregate amount of these sales was Ps.5,200 million, Ps.4,761 million and Ps.4,274 million in 2018, 2017 and 2016, respectively. Substantially all of these sales consist of sales to FEMSA Comercio, which operates OXXO, the chain of convenience stores.

We also purchase products and receive services from FEMSA and its subsidiaries. The aggregate amount of these purchases was Ps.8,878 million, Ps.7,773 million and Ps.8,328 million in 2018, 2017 and 2016, respectively. These amounts principally relate to raw materials, assets and services provided to us by FEMSA. In 2017, we renewed our service agreement with a subsidiary of FEMSA, which provides for the continued provision of administrative services relating to insurance, legal and tax advice, consulting and advisory services, relations with governmental authorities and certain administrative and internal auditing services that it has been providing since June 1993. In November 2000, we entered into a service agreement with a subsidiary of FEMSA, Solistica, S.A. de C.V., for transportation services of finished products from our production facilities to our distribution centers within Mexico. Additionally, FEMSA, through its strategic businesses unit, provides logistics services, point-of-sale refrigeration solutions and plastics solutions to us in the countries where we operate.

We also purchase products from Heineken and its subsidiaries. The aggregate amount of these purchases was Ps.14,959 million, Ps.13,608 million and Ps.8,823 million in 2018, 2017 and 2016, respectively. These amounts principally relate to beer and other products.

We continue to distribute and sell *Heineken* beer products in our Brazilian territories pursuant to our agreement with Heineken Brazil. This agreement is scheduled to expire in 2022; however, we are currently involved in an arbitration proceeding with Heineken Brazil as a result of the notice received from Heineken Brazil in July 2017 regarding the early termination of the agreement. **See Item 8. Financial Information Legal Proceedings.**

FEMSA is also a party to the understandings we have with The Coca-Cola Company relating to specified operational and business issues. A summary of these understandings is set forth under **Major Shareholders The Coca-Cola Memorandum.**

The Coca-Cola Company

We regularly engage in transactions with The Coca-Cola Company and its affiliates. We purchase all of our concentrate requirements for *Coca-Cola* trademark beverages from affiliates of The Coca-Cola Company. Total expenses charged to us by The Coca-Cola Company for concentrates were Ps.32,379 million, Ps.33,898 million and Ps.38,146 million in 2018, 2017 and 2016, respectively. Our company and The Coca-Cola Company pay and reimburse each other for marketing expenditures. The Coca-Cola Company also makes contributions to us that we generally use for initiatives that promote volume growth of *Coca-Cola* trademark beverages, including the placement of coolers with retailers. We received contributions to our marketing expenses of Ps.3,542 million, Ps.4,023 million and Ps.4,518 million in 2018, 2017 and 2016, respectively.

In December 2007 and May 2008, we sold most of our proprietary brands to The Coca-Cola Company. The proprietary brands are licensed back to us by The Coca-Cola Company pursuant to our bottler agreements.

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

We purchase products from Jugos del Valle, a Mexican joint business acquired together with The Coca-Cola Company, in the amount of Ps.2,872 million, Ps.2,604 million and Ps.2,428 million in 2018, 2017 and 2016, respectively, which is mainly related to certain juice-based beverages and dairy products that are part of our product portfolio. As of April 5, 2019, we held a 26.3% interest in Jugos del Valle.

We purchase products from Leão Alimentos, a Brazilian business acquired together with The Coca-Cola Company, in the amount of Ps.2,654 million, Ps.4,010 million, and Ps.3,448 in 2018, 2017 and 2016, respectively, which is mainly related to certain juice-based beverages and teas that are part of our product portfolio. As of April 5, 2019, we held a 24.4% indirect interest in Leão Alimentos.

See **Item 4. Information on the Company The Company Corporate History** for a description of certain acquisitions that we have completed together with The Coca-Cola Company.

Associated Companies

We also regularly engage in transactions with companies in which we own an equity interest that are not affiliated with The Coca-Cola Company, as described under **The Coca-Cola Company.** We believe these transactions are on terms comparable to those that would result from arm s length negotiations with unaffiliated third parties.

In Mexico, we purchase sparkling beverages in cans from Industria Envasadora de Querétaro, S.A. de C.V., or IEQSA, in which, as of April 5, 2019, we held a 26.5% equity interest. We paid IEQSA Ps.596 million, Ps.804 million and Ps.798 million in 2018, 2017 and 2016, respectively. We also purchase sugar from Beta San Miguel and PIASA, both sugar-cane producers in which, as of April 5, 2019, we held a 2.7% and 36.4% equity interest, respectively. We paid Ps.651 million, Ps.1,827 million and Ps.1,349 million to Beta San Miguel in 2018, 2017 and 2016, respectively. We paid Ps.2,604 million, Ps.1,885 million and Ps.1,765 million to PIASA in 2018, 2017 and 2016, respectively. We purchased cans from PROMESA, a cooperative of *Coca-Cola* bottlers, in which, as of April 5, 2019, we held a 35.0% interest. We purchased from PROMESA Ps.839 million and Ps.759 million in 2017 and 2016, respectively. We stopped purchasing cans from PROMESA in 2018.

Other Related Party Transactions

José Antonio Fernández Carbajal, our chairman of the board of directors, is also the chairman of the board of directors of ITESM, a Mexican private university that routinely receives donations from us.

Ricardo Guajardo Touché, a member of our board of directors, is also a member of the board of directors of ITESM.

Allen & Company LLC provides investment banking services to us in the ordinary course of its business. Enrique F. Senior Hernández, one of our directors, is a Managing Director of Allen & Company LLC.

See Notes 7 and 14 to our consolidated financial statements for more information on our related party transactions, including transactions with parties that fall within the related party definition pursuant to IFRS rules.

Item 8. Financial Information

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated Financial Statements

See Item 18. Financial Statements beginning on page F-1.

Dividend Policy

For a discussion of our dividend policy, **see Item 3. Key Information Dividends and Dividend Policy.**

Significant Changes

Except as disclosed under **Item 5. Operating and Financial Review and Prospects General Sale of Equity Participation in KOF Philippines,** no significant changes have occurred since the date of the annual financial statements included in this annual report.

LEGAL PROCEEDINGS

We are party to various legal proceedings in the ordinary course of business, including with regard to labor, tax and commercial matters. We believe we have appropriate reserves for these litigation proceedings as of December 31, 2018. Other than as disclosed in this annual report, we are not currently involved in any litigation or arbitration proceeding, including any proceeding that is pending or threatened of which we are aware, which we believe will have, or has had, a material adverse effect on our company. Other legal proceedings that are pending against or involve us and our subsidiaries are incidental to the conduct of our and their business. We believe that the ultimate resolution of such other proceedings individually or in an aggregate basis will not have a material adverse effect on our consolidated financial condition or results.

Mexico

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

In addition, among the companies involved in the 2000 complaint filed by PepsiCo and other bottlers in Mexico, were some of our less significant subsidiaries acquired with the Grupo Yoli merger. On June 30, 2005, the COFECE

imposed a fine on one of our subsidiaries for Ps.10.5 million. A motion for reconsideration on this matter was filed on September 21, 2005, which was resolved by the COFECE confirming the original resolution on December 1, 2005. A constitutional challenge (*amparo)* was filed against said resolution and a Federal Court issued a favorable resolution in our benefit. Both the COFECE and PepsiCo filed appeals against said resolution and a Circuit Court in Acapulco, Guerrero resolved to request the COFECE to issue a new resolution regarding the Ps.10.5 million fine. COFECE then fined our subsidiary again, for the same amount. A new *amparo* claim was filed against said resolution; such *amparo* claim was resolved in favor of the COFECE in 2018 confirming the original resolution and requiring the payment of the fine together with surcharges for an amount of approximately Ps.17 million. We duly and timely paid this fine in full in October 2018.

Brazil

In July 2017, Heineken Brazil issued a notice of termination with respect to the agreement under which we distribute and sell *Heineken* beer products in our Brazilian territories. Because the agreement is scheduled to expire in 2022, this dispute was submitted to an arbitration proceeding. We continue to operate and *Heineken* Brazil continues to be obligated to perform under this agreement while the proceedings are ongoing. An unfavorable outcome in this proceeding would result in the termination of the agreement, causing a significant impact on our operations in Brazil.

In May 2018, Unilever Brazil notified us of its decision to add certain charges to the selling price of AdeS products under the supply agreement with us and other Brazilian bottlers. We and the other Brazilian bottlers disagreed with such charges, and an arbitration proceeding was brought by Unilever Brazil against us and the other Brazilian bottlers. The arbitration panel has been installed, and the process in currently ongoing. An unfavorable outcome in this proceeding could have an adverse impact on our Brazilian AdeS business.

Item 9. The Offer and Listing

ADSs representing our units are listed and trade on the NYSE, and our units are listed and trade on the Mexican Stock Exchange. Each ADS represents 10 units, each unit consisting of 3 Series B shares and 5 Series L shares, in each case deposited under the deposit agreement with the ADS depositary, as amended.

The NYSE trading symbol for the ADSs is KOF and the Mexican Stock Exchange trading symbol for our units is KOF UBL .

TRADING ON THE BOLSA MEXICANA DE VALORES, S.A.B. DE C.V.

AND BOLSA INSTITUCIONAL DE VALORES, S.A. DE C.V.

The Mexican Stock Exchange or the *Bolsa Mexicana de Valores, S.A.B. de C.V.* and the *Bolsa Institucional de Valores, S.A. de C.V.* are both located in Mexico City, and are the two stock exchanges operating in Mexico. The *Bolsa Institucional de Valores, S.A. de C.V.* launched operations in July 2018. Trading takes place principally through automated systems that are open between the hours of 8:30 a.m. and 3:00 p.m. Mexico City time, each business day. Beginning in March 2008, during daylight savings time, trading hours change to match the NYSE trading hours, opening at 7:30 a.m. and closing at 2:00 p.m. local time. Both stock exchanges operate a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the units represented by ADSs that are directly or indirectly quoted on a stock exchange outside of Mexico.

Settlement is effected two business days after a share transaction. Deferred settlement, even by mutual agreement, is not permitted without the approval of the Mexican Stock Exchange or the *Bolsa Institucional de Valores, S.A. de C.V.* Most securities traded on the Mexican Stock Exchange and on the *Bolsa Institucional de Valores, S.A. de C.V.,* including our units, are on deposit with S.D. Indeval Instituto para el Depósito de Valores, S.A. de C.V., which we refer to as Indeval, a privately owned securities depositary that acts as a clearinghouse for transactions on the Mexican Stock Exchange and on the *Bolsa Institucional de Valores, S.A. de C.V.*

Item 10. Additional Information

BYLAWS

The following is a summary of the material provisions of our bylaws and applicable Mexican law. The last amendments of our bylaws were approved on January 31, 2019 and March 8, 2019. For a description of the provisions of our bylaws relating to our board of directors and executive officers, **see Item 6. Directors, Senior Management and Employees.**

The main changes made to our bylaws on January 31, 2019 were the following:

- Article 6 was amended to:

  - include the number of shares of our minimum fixed capital stock issued as a result of the Stock Split approved in this meeting;

  - modify the limitations on share ownership of Series A shares from representing no less than 51.0% of the outstanding common shares with full voting rights to representing no less than 50.1% of the outstanding common shares with full voting rights;

  - modify the limitations on share ownership of Series B shares and Series D shares from jointly representing no more than 49.0% of the outstanding common shares with full voting rights to representing no more than 49.9% of the outstanding common shares with full voting rights;

  - include the possibility to unwind in 2024 the units of shares allowing Series B shares and Series L shares to trade separately, through a special shareholders meeting that will require 75.0% of each of the Series B shares and the Series L shares to be present or represented at the meeting, and the favorable vote of holders that represent 51.0% of each of the Series L shares and Series B shares, such unwind becoming effective one year after the approval.

- Several other articles were amended to implement and give effect to the issuance of our units, each unit being comprised of 3 Series B shares and 5 Series L shares.

- Article 26 was amended to provide that the shareholders meeting will determine which series of shares is to reduce the number of directors that such series is entitled to appoint; provided that, the number of directors entitled to be appointed by holders of Series D shares shall remain unchanged, unless otherwise agreed.

Additionally, on March 8, 2019, Article 25 and Article 26 of our bylaws were amended to include that Series A shareholders are entitled to appoint up to 13 directors and Series D shareholders are entitled to appoint up to 5 directors. Previously, Series A shareholders appointed 13 directors and Series D shareholders appointed 5 directors.

In this summary of our bylaws, references to the rights or restrictions of holders of Series B shares or holders of Series L shares refer to the rights and restrictions that apply to the holders of our units, as the indirect holders of the Series B shares and Series L shares comprising such units.

Organization and Register

We were incorporated on October 30, 1991, as a stock corporation with variable capital (*sociedad anónima de capital variable*) in accordance with the Mexican General Corporations Law (*Ley General de Sociedades Mercantiles*). On December 5, 2006, we became a publicly traded stock corporation with variable capital (*sociedad anónima bursátil de capital variable*) and amended our bylaws in accordance with the Mexican Securities Market Law. We were registered in the Public Registry of Property and Commerce (*Registro Público de la Propiedad y del Comercio*) of Monterrey, Nuevo León, Mexico on November 22, 1991 under mercantile number 2986, folio 171, volume 365, third book of the commerce section. In addition, due to the change of address of our company to Mexico City, we have also been registered in the Public Registry of Property and Commerce of Mexico City since June 28, 1993 under mercantile number 176,543.

Purposes

The main corporate purposes of our company include the following:

- to establish, promote and create corporations or companies of any type, as well as to acquire and possess shares or equity participations in such entities;

- to subscribe, buy, sell and carry out all types of transactions involving bonds, shares, equity, participations and securities of any type;

- to provide or receive advisory, consulting or other types of services;

- to conduct business with equipment, raw materials and any other items necessary to the companies in which we have an interest in or with whom we have commercial relations;

- to acquire and dispose of trademarks, tradenames, commercial names, copyrights, patents, inventions, franchises, distributions, concessions and processes;

- to possess, build, lease and operate real and personal property, install or by any other title operate plants, warehouses, workshops, retail or deposits necessary to comply with our corporate purpose; and

- to draw, accept, make, endorse or guarantee negotiable instruments, issue bonds secured with real property or unsecured, and to make us jointly liable, to grant security of any type with regard to obligations entered into by us or by third parties, and in general, to perform the acts, enter into the agreements and carry out other transactions as may be necessary or conducive to our business purpose.

Voting Rights, Transfer Restrictions and Certain Minority Rights

Series A shares and Series D shares have full voting rights and are subject to transfer restrictions. Series B shares have full voting rights, and Series L shares have limited voting rights. Series B shares and Series L shares are freely transferable in the form of units, for so long as Series B shares and Series L shares trade together as units. If the units are unwound, as described below, the underlying Series B shares and Series L shares will be freely transferable on an individual basis. None of our shares are exchangeable for shares of a different series. The rights of all series of our capital stock are substantially identical except as provided herein.

Under our bylaws, holders of Series L shares are entitled to vote in limited circumstances. They may appoint for election and elect up to three of our maximum of 21 directors and, in certain circumstances where holders of Series L shares have not voted for the director elected by holders of the majority of these series of shares, they may be entitled to elect and remove one director, through a general shareholders meeting, for every 10.0% they own of all issued, subscribed and paid shares of our capital stock, pursuant to the Mexican Securities Market Law, up to a maximum number of three directors out of the total of 21 directors. **See Item 6. Directors, Senior Management and Employees.** In addition, they are entitled to vote on certain matters, including certain changes in our corporate form, mergers involving our company when our company is the merged entity or when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, and the cancellation of the registration of our shares in the Mexican Stock Exchange or any other foreign stock exchange.

Pursuant to the Mexican Securities Market Law, minority shareholders are entitled to a number of protections. These protections include provisions that permit:

holders of 10.0% of our outstanding capital stock entitled to vote, including in a limited or restricted manner, either individually or as a group, to require the chairman of the board of directors or the chairmen of the Audit or Corporate Practices Committees to call a shareholders meeting;

holders of 5.0% of our outstanding capital stock, either individually or as a group, to bring an action for liability against our directors, the secretary of the board of directors and certain key officers;

holders of 10.0% of our outstanding capital stock who are entitled to vote, including in a limited or restricted manner, either individually or as a group, to request at any shareholders meeting that resolutions be postponed with respect to any matter on which they considered they were not sufficiently informed;

holders of 20.0% of our outstanding capital stock, either individually or as a group, to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote and file a petition for a court order to suspend the resolution temporarily within 15 days following the adjournment of the meeting at which the action was taken, provided that (1) the challenged resolution violates Mexican law or our bylaws, (2) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution and (3) the opposing shareholders deliver a bond to the court to secure payment for any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder; and

for every 10.0% of our outstanding capital stock who are entitled to vote, including in a limited or restricted manner, held either individually or as a group, to appoint one member of our board of directors and one alternate member of our board of directors up to the maximum number of directors that each series is entitled to appoint under our bylaws; if a holder or group of holders of Series B shares are entitled to appoint a director, the shareholders meeting will reduce the number of directors entitled to be appointed by holders of another series of shares; provided that, the number of directors entitled to be appointed by holders of Series D shares will remain unchanged, unless otherwise agreed.

Shareholders Meetings

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary meetings are those called to consider certain specific matters including: amendments to our bylaws, liquidation, dissolution, merger and transformation from one form of company to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. In addition, our bylaws require an extraordinary meeting to consider the cancellation of the registration of our equity securities with the RNV maintained by the CNBV and the delisting of our equity securities from the Mexican Stock Exchange or any other foreign stock exchanges on which our equity securities may be listed, the amortization of distributable earnings into capital stock, and issuances of treasury shares for future subscription and payment. All other matters, including increases or decreases affecting the variable portion of our capital stock, are considered at an ordinary meeting.

Pursuant to Mexican law, an ordinary annual meeting must be held at least once each year (1) to consider the approval of our financial statements for the preceding fiscal year, (2) to determine the allocation of the profits of the preceding fiscal year and (3) to appoint, remove or ratify the members of our board of directors. The holders of Series A, Series D and Series B shares are entitled to vote in such ordinary annual meeting regarding all three matters mentioned above, and the holders of Series L shares are exclusively entitled to vote in relation to the appointment of members of the board of directors (i.e. up to three directors and their respective alternate directors). Further, any transaction to be entered into by us or our subsidiaries within the following fiscal year that represents 20.0% or more of our consolidated assets must be approved at an ordinary shareholders meeting at which holders of Series L shares are entitled to vote.

The quorum for ordinary and extraordinary meetings at which holders of Series L shares are not entitled to vote is 76.0% of the holders of our fully subscribed and paid voting shares. Resolutions adopted at such ordinary or extraordinary shareholders meetings are valid when adopted with the affirmative vote of holders of at least a majority of our fully subscribed and paid voting shares voting (and not abstaining) at the meeting, including the affirmative vote of holders of a majority of the Series D shares. However, for a shareholders meeting to vote on a payment of dividends in an amount not to exceed 20.0% of the preceding years retained earnings, the approval of our financial statements for the preceding fiscal year with an unqualified auditor s opinion, or our normal operations plan, our bylaws only require a quorum of a majority of our fully subscribed and paid voting shares and resolutions are validly adopted at such meeting with the affirmative vote of a majority of the holders of our voting shares voting (and not abstaining) at the meeting.

Under our bylaws, holders of Series B shares are entitled to vote on all matters discussed at an ordinary or extraordinary meeting. These holders are entitled to elect and remove one director for every 10.0% of all issued, subscribed and paid shares of our capital stock that they may hold either individually or as a group, up to a maximum number of three directors out of the total of 21 directors.

The quorum for an extraordinary meeting at which holders of Series L shares are entitled to vote is 82.0% of all of our fully subscribed and paid shares. The following matters may be approved in such a meeting:

- changes in our corporate form from one type of company to another (other than changing from a variable capital to fixed-capital corporation and vice versa); and

- any merger where we are not the surviving entity or any merger with an entity whose principal corporate purposes are different from those of the Registrant or its subsidiaries.

Series L shares will also be entitled to vote on any other matters for which the Mexican Securities Market Law expressly allows Series L shares to vote.

In the event of cancellation of the registration of any of our shares with the RNV, whether by order of the CNBV or at our request with the prior consent of 95.0% of the holders of our outstanding capital stock, our bylaws and the Mexican Securities Market Law require us to make a public offer to acquire these shares prior to their cancellation.

Holders of Series L shares may attend, but not address, meetings of shareholders at which they are not entitled to vote.

Holders of our shares in the form of ADSs will receive notice of shareholders meetings from the ADS depositary in sufficient time to enable such holders to return voting instructions to the ADS depositary in a timely manner. Our past practice, which we intend to continue, has been to inform the depositary to timely notify holders of our shares in the form of ADSs of upcoming votes and ask for their instructions.

Mexican law provides for a special meeting of shareholders to allow holders of shares of a specific series to vote as a class on any action that would prejudice exclusively the rights of holders of such series. There are no procedures for determining whether a particular proposed shareholder action requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination. Holders of Series A, Series B, Series D and Series L shares at their respective special meetings or at an annual ordinary meeting, must appoint, remove or ratify directors, as well as determine their compensation. The quorum for special meetings of any series of shares is 75.0% of the holders of the fully subscribed and paid shares of the series entitled to attend such special meeting. Except for resolutions to unwind the units into individual Series B and Series L shares as described above, resolutions adopted at a special shareholders meeting are valid when adopted by the holders of at least a majority of the fully subscribed and paid shares of the series entitled to attend such special meeting. Resolutions to unwind the units into individual Series B shares and Series L shares as described above are valid when adopted by the holders of at least 51.0% of each of the fully subscribed and paid Series B shares and Series L shares.

Shareholders meetings may be called by the board of directors, the Audit Committee or the Corporate Practices Committee and, under certain circumstances, a Mexican court. For every 10.0% or more of our capital stock held by holders, either individually or as a group, such holders may require the chairman of the board of directors, or the chairmen of the Audit Committee or Corporate Practices Committee to call a shareholders meeting. A notice of meeting and an agenda must be published in a newspaper of general circulation in Mexico City or in the electronic system maintained by the Mexican Ministry of Economy at least 15 days prior to the meeting. Notices must set forth the place, date and time of the meeting and the matters to be addressed and must be signed by whoever convened the meeting. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice. To attend a meeting, shareholders must deposit their shares with the corresponding trust institution or with Indeval, or an institution for the deposit of securities prior to the meeting as indicated in the notice. If entitled to attend the meeting, a shareholder may be represented by an attorney-in-fact or vote by proxy.

Additional Transfer Restrictions Applicable to Series A and Series D Shares

Our bylaws provide that no holder of Series A or Series D shares may sell its shares unless it has disclosed the terms of the proposed sale and the name of the proposed buyer and has previously offered to sell the shares to the holders of the other series for the same price and terms as it intended to sell the shares to a third party. If the shareholders being offered shares do not choose to purchase the shares within 90 days of the offer, the selling shareholder is free to sell the shares to the third party at the price and under the specified terms. In addition, our bylaws impose certain procedures in connection with the pledge of any Series A or Series D shares to any financial institution that are designed, among other things, to ensure that the pledged shares will be offered to the holders of the other series at market value prior to any foreclosure. Finally, a proposed transfer of Series A or Series D shares other than a proposed sale or a pledge, or a change of control of a holder of Series A or Series D shares to a company that is a subsidiary of a principal shareholder, would not trigger rights of first refusal to purchase the shares at market value. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.**

Dividend Rights

At the annual ordinary meeting of holders of Series A, Series B, and Series D shares, the board of directors submits our financial statements for the previous fiscal year, together with a report thereon by the board of directors. Once the holders have approved the financial statements, they determine the allocation of our net income for the preceding year. Mexican law requires the allocation of at least 5.0% of net income to a legal reserve, which is not subsequently available for distribution until the amount of the legal reserve equals 20.0% of our capital stock. Thereafter, the holders of Series A, Series B and Series D shares may determine and allocate a certain percentage of net income to any general or special reserve, including a reserve for open-market purchases of our shares. The remainder of net income is available for distribution in the form of dividends to the shareholders.

All shares outstanding and fully paid (including Series L shares) at the time a dividend or other distribution is declared are entitled to share equally in the dividend or other distribution. No series of shares is entitled to a preferred dividend. Shares that are only partially paid, participate in a dividend or other distributions proportionately based on the amount actually paid at the time of the dividend or other distributions. Treasury shares are not entitled to dividends or other distributions.

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Change in Capital

According to our bylaws, any change in our authorized capital stock requires a resolution of a shareholders meeting. We are permitted to issue shares representing fixed capital and shares representing variable capital. The fixed portion of our capital stock may be increased or decreased only by amendment of our bylaws adopted by a resolution at an extraordinary shareholders meeting. The variable portion of our capital stock may be increased or decreased by resolution of an ordinary shareholders meeting without amending our bylaws. All changes in the fixed or variable capital have to be registered in our capital variation registry book, as required by the applicable law.

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

Preemptive Rights

The Mexican Securities Market Law permits the issuance and sale of shares through a public offering without granting shareholders preemptive rights, if permitted by the bylaws and upon, among other things, authorization of the CNBV and the approval of the extraordinary shareholders meeting called for such purpose. Under Mexican law and our bylaws, except in limited circumstances (including mergers, sale of repurchased shares, convertible securities into shares and capital increases by means of payment in kind for shares or shares issued in return for the cancellation of debt), in the event of an increase in our capital stock, a holder of record generally has the right to subscribe shares of a series held by such holder sufficient to maintain such holder s existing proportionate holding of shares of that series. Preemptive rights must be exercised during a term fixed by the shareholders at the meeting declaring the capital increase, which term must last at least 15 days following the publication of notice of the capital increase through an electronic system of the Mexican Ministry of Economy. As a result of applicable United States securities laws, holders of ADSs may be restricted in their ability to participate in the exercise of preemptive rights as provided in the deposit agreement with the ADSs depositary, as amended. Shares subject to a preemptive rights offering, with respect to which preemptive rights have not been exercised, may be sold by us to third parties on the same terms and conditions previously approved by the shareholders or the board of directors. Under Mexican law, preemptive rights cannot be waived in advance or be assigned, or be represented by an instrument that is negotiable separately from the corresponding shares.

Limitations on Share Ownership

Our bylaws provide that Series A shares must at all times constitute no less than 50.1% of all outstanding common shares with full voting rights (excluding Series L shares) and may only be held by Mexican investors. Under our bylaws, in the event Series A shares are subscribed or acquired by any other shareholders holding shares of any other series, and the shareholder is of a citizenship other than Mexican, these Series A shares are automatically converted into shares of the same series of stock that this shareholder owns, and this conversion will be considered perfected at the same time as the subscription or acquisition. Additionally our bylaws provide that Series B shares jointly with the Series D shares shall not exceed 49.9% of all outstanding common shares with full voting rights (excluding Series L shares).

Other Provisions

Authority of the Board of Directors. The board of directors is our main managing body and is authorized to take any action in connection with our operations not expressly reserved to our shareholders. Pursuant to our bylaws, the board of directors must approve, observing at all moments their duty of care and duty of loyalty, among other matters the

following:

- any related party transactions outside the ordinary course of our business;
- significant asset transfers or acquisitions;
- guarantees or collateral that represent more than 30.0% of our consolidated assets;
- appointment of officers and managers deemed necessary, as well as the creation of the necessary committees;
- the annual business plan and the five-year business plan and its modifications;
- internal policies
- the compensation of our chief executive officer and the senior management reporting to the chief executive officer; and
- other transactions that represent more than 1% of our consolidated assets.

Meetings of the board of directors are validly convened and held if a majority of the members are present. Resolutions passed at these meetings will be valid if approved by a majority of the directors voting (and not abstaining). The majority of the members, which shall include the vote of at least two Series D shares directors, shall approve any extraordinary decision including any new business acquisition or combination or any change in the existing line of business, among others.

See Item 6. Directors, Senior Management and Employees Directors and Item 6. Directors, Senior Management and Employees Board Practices.

Redemption. Our fully paid shares are subject to redemption in connection with either (1) a reduction of capital stock or (2) a redemption with distributable earnings, which, in either case, must be approved by our shareholders. The shares subject to any such redemption would be selected by us by lot or in the case of redemption with distributable earnings, by purchasing shares by means of a tender offer conducted on the Mexican Stock Exchange, in accordance with the Mexican General Corporations Law and the Mexican Securities Market Law.

Repurchase of Shares. According to our bylaws, and subject to the provisions of the Mexican Securities Market Law and under rules promulgated by the CNBV, we may freely repurchase our own shares for a maximum amount in Mexican pesos previously approved by our shareholders meeting.

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

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

Duration. Our bylaws provide that our company s term is for 99 years from its date of incorporation, unless extended through a resolution of an extraordinary shareholders meeting.

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

- request information about us or our subsidiaries that is reasonably necessary to fulfill its duties;

- require our officers and certain other persons, including the external auditors, to appear at board of directors meetings to report to the board of directors;

- postpone board of directors meetings for up to three days when a director has not been given sufficient notice of the meeting or in the event that a director has not been provided with the information provided to the other directors; and

require a matter be discussed and voted upon by the full board of directors in the presence of the secretary of the board of directors.

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

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

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

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

Appraisal Rights. Whenever the shareholders approve a change of corporate purpose, change of nationality or change the corporate form of our company, any shareholder entitled to vote on such change that has voted against it, may withdraw as a shareholder of our company and have its shares redeemed at a price per share calculated as specified under applicable Mexican law, provided that it exercises its right within 15 days following the adjournment of the meeting at which the change was approved. In this case, the shareholder would be entitled to the reimbursement of its shares, in proportion to our assets in accordance with the last approved balance sheet. Because holders of Series L shares are not entitled to vote on certain types of these changes, these withdrawal rights are available to holders of Series L shares in fewer cases than to holders of other series of our capital stock.

Liquidation. Upon our liquidation, one or more liquidators may be appointed to wind up our affairs. All fully paid and outstanding shares of capital stock (including Series L and Series B shares) will be entitled to participate equally in any distribution upon liquidation. Shares that are only partially paid participate in any distribution upon liquidation in the proportion that they have been paid at the time of liquidation. There are no liquidation preferences for any series of our shares.

Actions Against Directors. Shareholders (including holders of Series L and Series B shares) representing, in the aggregate, not less than 5.0% of the capital stock may directly bring an action against directors.

In the event of actions derived from any breach of the duty of care and the duty of loyalty, liability is exclusively in our favor. The Mexican Securities Market Law establishes that liability may be imposed on the members and the

secretary of the board of directors, as well as to the relevant officers.

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

Limited Liability. The liability of shareholders for our company s losses is limited to their participation in our company.

MATERIAL AGREEMENTS

We manufacture, package, distribute and sell *Coca-Cola* trademark beverages under bottler agreements with The Coca-Cola Company. In addition, pursuant to a tradename license agreement with The Coca-Cola Company, we are authorized to use certain trademark names of The Coca-Cola Company. For a discussion of the terms of these agreements, **see Item 4. Information on the Company Bottler Agreements.**

We operate pursuant to a shareholders agreement, as amended from time to time, among certain subsidiaries of FEMSA, The Coca-Cola Company and certain of its subsidiaries. For a discussion of the terms of this agreement, **see Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.**

We purchase the majority of our non-returnable plastic bottles from Alpla, a provider authorized by The Coca-Cola Company, pursuant to an agreement we entered into in April 1998 for our original operations in Mexico. Under this agreement, we rent plant space to Alpla, where it produces plastic bottles to certain specifications and quantities for our use.

In July 2015, we executed new agreements with DXC Technology (formerly Hewlett Packard) for the outsourcing of technology services in all of our territories. These agreements are valid until July 2020, unless terminated by us through previous notice to DXC Technology.

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

See Item 5. Operating and Financial Review and Prospects Summary of Significant Debt Instruments for a brief discussion of certain terms of our significant debt agreements.

See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions for a discussion of other transactions and agreements with our affiliates and associated companies.

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TAXATION

The following summary contains a description of certain U.S. federal income and Mexican federal tax consequences of the purchase, ownership and disposition of our units or ADSs by a holder that is a citizen or resident of the United States, a U.S. domestic corporation or a person or entity that otherwise will be subject to U.S. federal income tax on a net income basis in respect of the units or ADSs, which we refer to as a U.S. holder, but it does not purport to be a description of all of the possible tax considerations that may be relevant to a decision to purchase, hold or dispose of the units or ADSs. In particular, this discussion does not address all Mexican or U.S. federal income tax considerations that may be relevant to a particular investor, nor does it address the special tax rules applicable to certain categories of investors, such as banks, dealers, traders who elect to mark to market, tax-exempt entities, insurance companies, certain short-term holders of units or ADSs or investors who hold the units or ADSs as part of a hedge, straddle, conversion or integrated transaction, partnerships or partners therein, non-resident alien individuals present in the United States for 183 days or more or investors who have a functional currency other than the U.S. dollar. U.S. holders should be aware that the tax consequences of holding the units or ADSs may be materially different for investors described in the preceding sentence. This summary deals only with U.S. holders that will hold the units or ADSs as capital assets and does not address the tax treatment of a U.S. holder that owns or is treated as owning 10.0% or more of the shares by vote or value (including units) of our company.

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

Mexican Taxation

For purposes of this summary, the term non-resident holder means a holder that is not a resident of Mexico and that does not hold the units, or ADSs in connection with the conduct of a trade or business through a permanent establishment in Mexico. For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her home in Mexico, or if he or she has another home outside Mexico but his or her center of vital interests (as defined in the Mexican Tax Code) is located in Mexico. The center of vital interests of an individual is situated in Mexico when, among other circumstances, more than 50.0% of that person s total income during a calendar year originates from within Mexico. A legal entity is a resident of Mexico if it has its principal place of business or its place of effective management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless such a person can demonstrate that the contrary is true. If a legal entity or an individual is deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to such a permanent establishment will be subject to Mexican taxes, in accordance with applicable tax laws. The Stock Split is not a taxable event under Mexican income tax laws.

Tax Considerations Relating to the Units and the ADSs

Taxation of Dividends. Effective as of January 1, 2014, under Mexican income tax laws, dividends, either in cash or in kind, paid to individuals that are Mexican residents or individuals or companies that are non-Mexican residents, on the Series B shares and Series L shares underlying our units or ADSs, are subject to a 10.0% withholding tax, or a lower rate if covered by a tax treaty. Profits that were earned and subject to income tax before January 1, 2014 are exempt from this withholding tax.

Taxation of Dispositions of ADSs or Units. Effective as of January 1, 2014, gains from the sale or disposition of units carried out on the Mexican Stock Exchange or another approved securities market in Mexico by individuals that are Mexican residents will be subject to an income tax rate of 10.0%, and gains from the sale or disposition of units carried out on the Mexican Stock Exchange or another approved securities market in Mexico by individuals and companies that are non-Mexican residents will be subject to a 10.0% Mexican withholding tax. The cost at which shares were acquired prior to January 1, 2014, is calculated by using the average closing price per share in the last twenty-two days. If the closing price per share in the last twenty-two days is considered unusual as compared to the closing prices in the last six months, then the calculation is made using the average closing price per share in the last six months. However, a holder that is eligible to claim benefits from any tax treaty will be exempt from Mexican withholding tax on gains realized on a sale or other disposition of units, provided certain additional requirements are met.

Gains on the sale or other disposition of units or ADSs made in a transaction that is not carried out through the Mexican Stock Exchange or other approved securities market in Mexico generally would be subject to Mexican tax, regardless of the nationality or residence of the transferor. However, under the Tax Treaty, a holder that is eligible to claim the benefits of the Tax Treaty will be exempt from Mexican tax on gains realized on such a sale or other disposition of units or ADSs, so long as the holder did not own, directly or indirectly, 25.0% or more of our total capital stock (including units represented by ADSs) within the 12-month period preceding such sale or other disposition and provided that the gains are not attributable to a permanent establishment or a fixed base in Mexico. Deposits of units in exchange for ADSs and withdrawals of units in exchange for ADSs will not give rise to Mexican tax.

Other Mexican Taxes

There are no Mexican inheritance, gift, succession or value-added taxes applicable to the ownership, transfer, exchange or disposition of the ADSs or units, although gratuitous transfers of units may in certain circumstances cause a Mexican federal tax to be imposed upon the recipient. There are no Mexican stamp, issue, registration or similar taxes or duties payable by holders of units.

United States Taxation

Tax Considerations Relating to the Units and the ADSs

In general, for U.S. federal income tax purposes, holders of ADSs will be treated as the owners of the units represented by those ADSs.

Taxation of Dividends. The gross amount of any distributions paid to holders of our units or the ADSs, to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, generally will be included in the gross income of a U.S. holder as foreign source dividend income on the day on which the dividends are received by the U.S. holder, in the case of our units, or by the depositary, in the case of our units represented by ADSs, and will not be eligible for the dividends received deduction allowed to corporations under the Internal Revenue Code of 1986, as amended. Because we do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, it is expected that distributions paid to U.S. holders generally will be reported as dividends.

Dividends, which will be paid in Mexican pesos, will be included in the income of a U.S. holder in a U.S. dollar amount calculated, in general, by reference to the exchange rate in effect on the date that they are received by the U.S. holder, in the case of our units, or by the depositary, in the case of our units represented by ADSs (regardless of whether such Mexican pesos are in fact converted into U.S. dollars on such date). If such dividends are converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received by a U.S. holder or depositary that are converted into U.S. dollars on a date subsequent to receipt.

The amount of Mexican tax withheld generally will give rise to a foreign tax credit or deduction for U.S. federal income tax purposes. Dividends generally will constitute passive category income for purposes of the foreign tax credit (or in the case of certain U.S. holders, general category income). The foreign tax credit rules are complex. U.S. holders should consult their own tax advisors with respect to the implications of those rules for their investments in our units or ADSs.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder of our units or ADSs generally is subject to taxation at the preferential rates applicable to long-term capital gains if the dividends are qualified dividends. Dividends paid to holders of our units or ADSs will be treated as qualified dividends if (1) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules, or the dividends are paid with respect to ADSs that are readily tradable on an established U.S. securities market and (2) the issuer was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid a passive foreign investment company. The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our

audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2018 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2019 taxable year.

Distributions to U.S. holders of additional units with respect to their units or ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Taxation of Capital Gains. A gain or loss realized by a U.S. holder on the sale or other disposition of ADSs or units will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the disposition and such U.S. holder s tax basis in the ADSs or units. Any such gain or loss will be a long-term capital gain or loss if the ADSs or units were held for more than one year on the date of such sale. Long-term capital gain recognized by a U.S. holder that is an individual is subject to reduced rates of federal income taxation. The deduction of capital loss is subject to limitations for U.S. federal income tax purposes. Deposits and withdrawals of units by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Gain, if any, realized by a U.S. holder on the sale or other disposition of units or ADSs will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if a Mexican withholding tax is imposed on the sale or disposition of the units or ADSs, a U.S. holder that does not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of these Mexican taxes. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, units or ADSs.

United States Backup Withholding and Information Reporting. A U.S. holder of units or ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain payments to such U.S. holder, such as dividends or the proceeds of a sale or disposition of units or ADSs unless such holder (1) comes within certain exempt categories and demonstrates this fact when so required, or (2) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules does not constitute a separate tax and will be creditable against the holder s U.S. federal income tax liability.

Specified Foreign Financial Assets. Certain U.S. holders that own specified foreign financial assets with an aggregate value in excess of US$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the units and ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the units or ADSs, including the application of the rules to their particular circumstances.

Taxation of Stock Split. U.S. holders are not expected to recognize gain or loss as a result of the Stock Split. A U.S. holder s basis in the units (or ADSs) held immediately after the Stock Split should be the same as the basis of the Series L shares (or ADSs) it held immediately prior to the Stock Split. A U.S. holder s holding period in the units (or ADSs) held immediately after the Stock Split should include its holding period for the Series L shares (or ADSs) held immediately prior to the Stock Split.

U.S. Tax Consequences for Non-U.S. Holders

Taxation of Dividends and Capital Gains. Subject to the discussion below under *United States Backup Withholding and Information Reporting*, a holder of units or ADSs that is not a U.S. holder (a non-U.S. holder) generally will not be subject to U.S. federal income or withholding tax on dividends received on the units or ADSs, on any gain realized on the sale of units or ADSs.

United States Backup Withholding and Information Reporting. While non-U.S. holders generally are exempt from information reporting and backup withholding, a non-U.S. holder may, in certain circumstances, be required to comply with certain information and identification procedures in order to prove this exemption.

DOCUMENTS ON DISPLAY

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. Filings we make electronically with the SEC are available to the public on the Internet at the SEC s website at www.sec.gov and at our website at www.coca-colafemsa.com. (This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL, is not and shall not be deemed to be incorporated into this annual report.)

Item 11. Quantitative and Qualitative Disclosures about Market Risk

As part of our risk management strategy, we use derivative financial instruments with the purpose of (1) achieving a desired liability structure with a balanced risk profile, (2) managing the exposure to production input and raw material costs and (3) hedging balance sheet and cash flow exposures to foreign currency fluctuation. We do not use derivative financial instruments for speculative or profit-generating purposes. We track the fair value (mark to market) of our derivative financial instruments and its possible changes using scenario analyses.

Interest Rate Risk

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. As of December 31, 2018, we had total indebtedness of Ps.81,805 million, of which 78.7% bore interest at fixed interest rates and 21.3% bore interest at variable interest rates. After giving effect to our swap contracts, as of December 31, 2018, 17.3% (or 6.9% calculated based on the weighted average life of our outstanding debt), was variable-rate. The interest rate on our variable rate debt denominated in U.S. dollars is generally determined by reference to the London Interbank Offer Rate (LIBOR); the interest rate on our variable rate debt denominated in Mexican pesos has historically been determined by reference to the TIIE; the interest rate on our variable rate debt denominated in Colombian pesos is generally determined by reference to the Banking Reference Index, or IBR; the interest rate on our variable rate debt denominated in Argentine pesos is generally determined by reference to the Buenos Aires Deposits of Large Amounts Rate, or BADLAR; and the interest rate on our variable rate debt denominated in Brazilian reais is generally determined by reference to the Brazilian Interbank Deposit Rate (*Cetip Depósitos Interfinanceiros*). If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our financial instruments that are sensitive to changes in interest rates, without giving effect to interest rate swaps. The table presents weighted average interest rates by expected contractual maturity dates. Weighted average variable rates are based on the reference rates on December 31, 2018, plus spreads, contracted by us. The instruments actual payments are denominated in U.S. dollars, Mexican pesos, Brazilian reais, Colombian pesos, Argentine pesos and Uruguayan pesos. All of the payments in the table are presented in Mexican pesos, our reporting currency, converted at an exchange rate of Ps.19.68 Mexican pesos per U.S. dollar reported by *Banco de México* quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2018.

The table below also includes the fair value of long-term debt based on the discounted value of contractual cash flows. The discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities. Furthermore, the fair value of long-term notes payable is based on quoted market prices on December 31, 2018. As of December 31, 2018, the fair value represents a profit amount of Ps.89 million.

Principal by Year of Maturity

	As of December 31, 2018							As of December 31, 2017
	2019	2020	2021	2022	2023 and thereafter	Total Carrying Value	Total Fair Value	Total Carrying Value
	(in millions of Mexican pesos, except percentages)							
Short and Long-Term Debt								

and Notes:								
Fixed Rate Debt and Notes								
U.S. dollars (Notes)		9,829			29,375	39,204	40,716	48,043
Interest Rate(1)		4.63%			4.43%	4.48%		4.09%
U.S. dollars (Financial Leasing)	10					10		
Interest Rate(1)	3.28%					3.28%		
Mexican pesos (*Certificados Bursátiles*)			2,498		15,983	18,481	17,218	18,479
Interest Rate(1)			8.27%		6.74%	6.95%		6.95%
Brazilian reais (Bank Loans)	186	129	78	67	62	522	508	934
Interest Rate(1)	5.95%	5.95%	5.95%	5.95%	5.95%	5.95%		5.87%
Brazilian reais (Notes Payable)(2)	4,653					4,653	4,516	6,707
Interest Rate	0.38%					0.38%		0.38%
Colombian pesos (Bank Loans)								728
Interest Rate(1)								9.63%
Uruguayan pesos (Bank Loans)	771	573				1,344	1,345	
Interest Rate(1)	9.96%	10.15%				10.04%		
Argentine pesos (Bank Loans)	157					157	141	106
Interest Rate(1)	36.75%					36.75%		22.40%
Total Fixed Rate	5,777	10,531	2,576	67	45,420	64,371	64,444	74,997

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	As of December 31, 2018							As of December 31, 2017
	2019	2020	2021	2022	2023 and thereafter	Total Carrying Value	Total Fair Value	Total Carrying Value
	(in millions of Mexican pesos, except percentages)							
Variable Rate Debt								
U.S. dollars (Bank Loans)			4,025			4,025	4,062	4,032
Interest Rate[1]			3.34%			3.34%		2.12%
Mexican pesos (*Certificados Bursátiles*)				1,497		1,497	1,276	1,496
Interest Rate[1]				8.61%		8.61%		7.70%
Mexican pesos (Bank Loans)	4,700		5,400			10,100	10,100	
Interest Rate[1]	8.48%		8.62%			8.56%		
Brazilian reais (Bank Loans)	244	198	57	6		505	527	869
Interest Rate[1]	9.53%	9.53%	9.53%	9.53%		9.53%		8.50%
Brazilian reais (Notes Payable)	5					5	5	15
Interest Rate[1]	0.40%					0.40%		0.44%
Colombian pesos (Bank Loans)	878	424				1,302	1,302	1,951
Interest Rate[1]	5.59%	5.73%				5.64%		7.28%
Total Variable Rate	5,827	622	9,482	1,503		17,434	17,272	8,363
Total Debt	11,604	11,153	12,058	1,570	45,420	81,805	81,716	83,360
Derivative Financial Instruments:								
Cross-Currency Swaps (Mexican pesos)							(681)	
Notional to pay		9,769			8,764	18,533		18,533
Notional to receive		9,842			8,661	18,503		18,552
Interest pay rate		9.12%			9.54%	9.32%		9.32%
Interest receive rate		4.63%			3.97%	4.32%		4.32%
Cross-Currency Swaps (Brazilian reais)							(1,198)	
Notional to pay	4,064	4,011	3,494		9,763	21,331		43,383
Notional to receive	4,653	4,559	4,035		9,448	22,694		39,233
Interest pay rate	4.76%	6.07%	5.48%		9.52%			6.33%
Interest receive rate	0.38%	2.90%	2.86%		3.88%			2.25%
Interest Rate Swaps (Brazilian reais)	4,013	4,559	4,035			12,607	270	11,026
Interest pay rate	6.29%	8.34%	7.94%					

Interest receive rate	4.77%	6.07%	5.48%

(1) Interest rates are weighted average contractual annual rates.

(2) Promissory note denominated and payable in Brazilian reais; however, it is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

A hypothetical, instantaneous and unfavorable change of 100 basis points in the average interest rate applicable to our variable-rate financial instruments held during 2018 would have increased our interest expense by Ps.134 million, or 1.95% over our interest expense of 2018, assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest rate swap and cross-currency swap agreements.

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Foreign Currency Exchange Rate Risk

Our principal exchange rate risk involves changes in the value of the local currencies of each country where we operate, relative to the U.S. dollar. In 2018, the percentage of our consolidated total revenues was denominated as follows:

Total Revenues by Currency in 2018

Currency	%
Mexican peso	46.2
Colombian peso	8.0
Argentine peso	5.0
Brazilian real	31.0
Central America[(1)]	8.7
Uruguayan peso	1.1

(1) Includes Guatemalan Quetzales, Nicaraguan Cordobas, Costa Rican Colones and Panamanian Balboas.

We estimate that approximately 18.4% of our consolidated costs of goods sold are denominated in U.S. dollars for Mexican subsidiaries and in the aforementioned currencies for our non-Mexican subsidiaries. Substantially all of our costs denominated in a foreign currency, other than the functional currency of each country where we operate, are denominated in U.S. dollars. During 2018, we entered into forward derivative instruments and options to hedge part of our Mexican peso, Brazilian real, Colombian peso, and Argentine peso fluctuation risk relative to our raw material costs denominated in U.S. dollars. These instruments are considered hedges for accounting purposes. As of December 31, 2018, 60.29% of our indebtedness was denominated in Mexican pesos, 27.72% in Brazilian reais, 8.51% in U.S. dollars, 1.67% in Uruguayan pesos, 1.61% in Colombian pesos and 0.19% in Argentine pesos (including the effects of our derivative contracts as of December 31, 2018, including cross currency swaps from U.S. dollars to Mexican pesos and U.S. dollars to Brazilian reais). Decreases in the value of the different currencies relative to the U.S. dollar will increase the cost of our foreign currency-denominated operating costs and expenses and of the debt service obligations with respect to our foreign currency-denominated debt. A depreciation of the Mexican peso relative to the U.S. dollar will also result in foreign exchange losses, as the Mexican peso value of our foreign currency denominated-indebtedness is increased. **See also Item 3. Key Information Risk Factors Depreciation of the local currencies of the countries where we operate relative to the U.S. dollar could adversely affect our financial condition and results.**

A hypothetical, instantaneous and unfavorable 10.0% devaluation in the value of each local currency in the countries where we operate relative to the U.S. dollar occurring on December 31, 2018, would have resulted in a foreign exchange gain of Ps.791 million, due to an increase in the cash balances held in U.S. dollars mainly generated by the proceeds received from the sale of our equity interest in KOF Philippines as of that date, net of the loss based on our U.S. dollar-denominated indebtedness as of December 31, 2018, after giving effect to all of our interest rate swap and cross-currency swap agreements.

As of April 5, 2019, the exchange rates relative to the U.S. dollar of all the countries where we operate have appreciated or depreciated compared to December 31, 2018 as follows:

	Exchange Rate As of April 5, 2019	(Depreciation) or Appreciation
Mexico	19.07	2.86%
Guatemala	7.66	1.02%
Nicaragua	32.76	(1.32)%
Costa Rica	601.99	1.60%
Panama	1.00	0.00%
Colombia	3,126.20	3.80%
Brazil	3.87	0.25%
Argentina	43.70	(15.92)%
Uruguay	33.79	(4.31)%

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A hypothetical, instantaneous and unfavorable 10.0% devaluation in the value of the currencies of each of the countries where we operate relative to the U.S. dollar as of December 31, 2018, would produce a reduction in equity of approximately the following amounts:

	Reduction in Equity (in millions of Mexican pesos)
Mexico	1,615
Colombia	686
Brazil	5,408
Argentina	291
Central America[(1)]	984
Uruguay	283

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

Equity Risk

As of December 31, 2018, we did not have any equity risk.

Commodity Price Risk

In 2018, we entered into futures contracts to hedge the cost of sugar and aluminum in Brazil and we entered into forwards contracts to hedge the cost of aluminum and PET resin in Mexico. The notional value of the sugar hedges was Ps.1,223 million as of December 31, 2018, with a negative fair value of Ps.88 million with maturities in 2019. The notional value of the aluminum hedges was Ps.265 million as of December 31, 2018, with a negative fair value of Ps.17 million with maturities in 2019, and the notional values of the PET resin hedges was Ps.1,303 million as of December 31, 2018, with a negative value of Ps.131 million with maturities in 2019. See Note 20 to our consolidated financial statements.

Item 12. Description of Securities Other than Equity Securities

Item 12.A. Debt Securities
Not applicable.

Item 12.B. Warrants and Rights
Not applicable.

Item 12.C. Other Securities
Not applicable.

Item 12.D. American Depositary Shares

The Bank of New York Mellon serves as the depositary for the ADSs. Holders of ADSs, evidenced by American Depositary Receipts, or ADRs, are required to pay various fees to the depositary, and the depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

ADS holders are required to pay the depositary amounts in respect of expenses incurred by the depositary or its agents on behalf of ADS holders, including expenses arising from compliance with applicable law, taxes or other governmental charges, cable, telex and facsimile transmission, or conversion of foreign currency into U.S. dollars. The depositary may decide in its sole discretion to seek payment by either billing holders or by deducting the fee from one or more cash dividends or other cash distributions.

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ADS holders are also required to pay additional fees for certain services provided by the depositary, as set forth in the table below.

Depositary service	Fee payable by ADS holders
Issuance and delivery of ADRs, including in connection with share distributions	Up to US$5.00 per 100 ADSs (or portion thereof)
Withdrawal of shares underlying ADSs	Up to US$5.00 per 100 ADSs (or portion thereof)
Registration for the transfer of shares	Registration or transfer fees that may from time to time be in effect

In addition, holders may be required to pay a fee for the distribution or sale of securities. Such fee (which may be deducted from such proceeds) would be for an amount equal to the lesser of (1) the fee for the issuance of ADSs that would be charged as if the securities were treated as deposited shares and (2) the amount of such proceeds.

Direct and indirect reimbursements by the depositary

The depositary may reimburse us for certain expenses we incur in connection with the ADS program, subject to a ceiling agreed between us and the depositary. These reimbursable expenses may include listing fees and fees payable to service providers for the distribution of material to ADR holders. For the year ended December 31, 2018, this amount was US$4,000.

Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Not applicable.

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2018. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a 15(f) and 15d 15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our internal control over financial reporting includes those policies and procedures that (i) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions or our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the framework in Internal Controls Integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

Our management assessment and conclusion regarding the effectiveness of internal control over financial reporting as of December 31, 2018 excludes, in accordance with applicable guidance provided by the SEC, an assessment of the internal control over financial reporting of (1) ABASA and Los Volcanes consolidated as of April 2018, and (2) Monresa consolidated as of July 2018, which collectively represented 2.2% and 1.8% of our total and net assets, respectively, as of December 31, 2018, and 2.5% and 2.8% of our revenues and net income, respectively, for the year ended December 31, 2018.

(c) Attestation Report of the Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders and the Board of Directors of

Coca-Cola FEMSA, S.A.B. de C.V.:

We have audited Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries   internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control   Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). In our opinion, Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (the   Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Management s Annual Report on Internal Control over Financial Reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of 1) Alimentos y Bebidas Atlántida S.A. (ABASA) and Comercializadora y Productora de Bebidas Los Volcanes, S.A. (Los Volcanes), consolidated since April 2018; and 2) Montevideo Refrescos S.R.L. (MONRESA), consolidated since July 2018, which collectively constituted 2.2% and 1.8% of total and net assets, respectively, as of December 31, 2018 and 2.5% and 2.8% of revenues and net income, respectively for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over these subsidiaries.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes, and our report dated April 12, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according to the   Codigo de Etica Profesional del Instituto Mexicano de Contadores Publicos   (IMCP Code), and the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standard Board. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

/s/ MANCERA, S.C.

Mexico City, Mexico

April 12, 2019

(d) Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16.A. Audit Committee Financial Expert

Our shareholders and our board of directors have designated Victor Alberto Tiburcio Celorio, an independent director as required by the Mexican Securities Market Law and applicable New York Stock Exchange listing standards, as an audit committee financial expert within the meaning of this Item 16.A. **See Item 6. Directors, Senior Management and Employees Directors.**

Item 16.B. Code of Ethics

We have adopted a code of ethics, within the meaning of this Item 16.B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our chief executive officer, chief financial officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at www.coca-colafemsa.com. If we amend the provisions of our code of ethics that apply to our chief executive officer, chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address. In accordance with our code of ethics, we have developed a whistleblower system available to our employees, suppliers and the general public, to which complaints may be reported.

Item 16.C. Principal Accountant Fees and Services

Audit and Non-Audit Fees

The following table summarizes the aggregate fees billed to us by Mancera, S.C. and other Ernst & Young practices (collectively, Ernst & Young) during the fiscal years ended December 31, 2018, December 31, 2017 and December 31, 2016:

	Year Ended December 31,		
	2018	**2017**	**2016**
	(in millions of Mexican pesos)		
Audit fees	80	77	72
Audit-related fees	11	10	15
Tax fees	16	7	8
Total fees	107	94	95

Audit Fees. Audit fees in the above table are the aggregate fees billed by Ernst & Young in connection with the audit of our annual financial statements and the review of our quarterly financial information and statutory audits.

Audit-related Fees. Audit-related fees in the above table are the aggregate fees billed by Ernst & Young for assurance and other services related to the performance of the audit, mainly in connection with bond issuances and other audit related services.

Tax Fees. Tax fees in the above table are fees billed by Ernst & Young for services based upon existing facts and prior transactions in order to assist us in documenting, computing and obtaining government approval for amounts included in tax filings such as transfer pricing documentation and requests for technical advice from taxing authorities.

All Other Fees. For the years ended December 31, 2018, 2017 and 2016, there were no other fees.

Audit Committee Pre-Approval Policies and Procedures

We have adopted pre-approval policies and procedures under which all audit and non-audit services provided by our external auditors must be pre-approved by the Audit Committee as set forth in the Audit Committee s charter. Any service proposals submitted by external auditors need to be discussed and approved by the Audit Committee during its meetings, which take place at least four times a year. Once the proposed service is approved, we or our subsidiaries formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our Audit Committee. In addition, the members of our Audit Committee are briefed on matters discussed by the different committees of our board of directors.

Item 16.D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not directly purchase any of our equity securities in 2018. The following table presents purchases of Series L shares in 2018 (pre-Stock Split) by trusts that FEMSA administers in connection with our bonus incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. **See Item 6. Directors, Senior Management and Employees Bonus Program.**

Purchases of Equity Securities

	Total Number of Series L shares Purchased by trusts that FEMSA administers in connection with our bonus incentive plans	Average Price Paid per Series L Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate U.S. Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Total	456,077	123.17		

Item 16.F. Change in Registrant s Certifying Accountant

Not applicable.

Item 16.G. Corporate Governance

Pursuant to Rule 303A.11 of the Listed Company Manual of the New York Stock Exchange (NYSE), we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Mexican corporation with shares listed on the Mexican Stock Exchange. Our corporate governance practices are governed by our bylaws, the Mexican Securities Market Law and the regulations issued by the CNBV. We also disclose the extent to which we comply with the Mexican Code of Best Corporate Practices (*Código de Mejores Prácticas Corporativas*), which was created by a group of Mexican business leaders and was endorsed by the BMV.

The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

NYSE Standards	Our Corporate Governance Practices
Directors Independence: A majority of the board of directors must be independent. There is an exemption for controlled companies (companies in which more than 50.0% of the voting power is held by an individual, group or another company rather than the public), which would include our company if we were a U.S. issuer.	**Directors Independence:** Pursuant to the Mexican Securities Market Law, we are required to have a board of directors with a maximum of 21 members, 25.0% of whom must be independent.
	The Mexican Securities Market Law sets forth, in Article 26, the definition of independence, which differs from the one set forth in Section 303A.02 of the Listed Company Manual of the NYSE. Generally, under the Mexican Securities Market Law, a director is not independent if such director: (i) is an employee or a relevant officer of the company or its subsidiaries; (ii) is an individual with significant influence over the company or its subsidiaries; (iii) is a shareholder or participant of the controlling group of the company; (iv) is a client, supplier, debtor, creditor, partner or employee of an important client, supplier, debtor or creditor of the company; or (v) is a family member of any of the aforementioned persons.
	In accordance with the Mexican Securities Market Law, our shareholders are required to make a determination as to the independence of our directors at an ordinary meeting of our shareholders, though the CNBV may challenge that determination. Our board of directors is not required to make a determination as to the independence of our directors.
Executive sessions: Non-management directors must meet at regularly scheduled executive sessions without management.	**Executive sessions:** Under our bylaws and applicable Mexican law, our non-management and independent directors are not required to meet in executive sessions.
	Our bylaws state that the board of directors will meet at least four times a year, following the end of each quarter, to discuss our operating results and progress in achieving strategic objectives. Our board of directors

	can also hold extraordinary meetings.
Nominating/Corporate Governance Committee: A nominating/corporate governance committee composed entirely of independent directors is required. As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.	**Nominating/Corporate Governance Committee:** We are not required to have a nominating committee, and the Mexican Code of Best Corporate Practices does not provide for a nominating committee.
	However, Mexican law requires us to have a Corporate Practices Committee with at least 3 members. Our Corporate Practices Committee is comprised of four members, and as required by the Mexican Securities Market Law and our bylaws, the four members are independent and the chairman of this committee is elected by our shareholders meeting.
Compensation committee: A compensation committee composed entirely of independent directors is required. As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.	**Compensation committee:** We do not have a committee that exclusively oversees compensation issues. Our Corporate Practices Committee, composed entirely of independent directors, reviews and recommends management compensation programs in order to ensure that they are aligned with shareholders interests and corporate performance.
Audit committee: Listed companies must have an audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the NYSE independence standards.	**Audit committee:** Mexican law requires us to have an Audit Committee with at least three members. We have an Audit Committee of four members. As required by the Mexican Securities Market Law, each member of the Audit Committee is an independent director, and its chairman is elected by our shareholders meeting.

Equity compensation plan: Equity compensation plans require shareholder approval, subject to limited exemptions.	**Equity compensation plan:** Shareholder approval is not required under Mexican law or our bylaws for the adoption and amendment of an equity compensation plan. Such plans should provide for general application to all executives.
Code of business conduct and ethics: Corporate governance guidelines and a code of conduct and ethics are required, with disclosure of any waiver for directors or executive officers.	**Code of business conduct and ethics:** We have adopted a code of ethics, within the meaning of Item 16.B of SEC Form 20-F. Our code of ethics applies to our chief executive officer, chief financial officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at www.coca-colafemsa.com. If we amend the provisions of our code of ethics that apply to our chief executive officer, chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

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Item 16.H. Mine Safety Disclosure

Not applicable.

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits

(a) List of Financial Statements

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Report of Mancera S.C., a Member Practice of Ernst & Young Global	F-1
Consolidated Statements of Financial Position as of December 31, 2018 and 2017	F-2
Consolidated Income Statements for the Years Ended December 31, 2018, 2017 and 2016	F-3
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017 and 2016	F-4
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2018, 2017 and 2016	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016	F-6
Notes to the Audited Consolidated Financial Statements*	F-7

* All supplementary schedules relating to the registrant are omitted because they are not required or because the required information, where material, is contained in the Financial Statements or Notes thereto.

(b) List of Exhibits

Exhibit No.	Description
Exhibit 1.1	Amended and restated bylaws (*Estatutos Sociales*) of Coca-Cola FEMSA, S.A.B. de C.V., approved March 8, 2019 (English translation) (incorporated by reference to Exhibit 1.1 to the Registration Statement on Form 8-A/A filed on April 10, 2019 (File No. 1-12260)).
Exhibit 2.1	Amended and Restated Deposit Agreement, dated as of April 11, 2019, by and among Coca-Cola FEMSA, S.A.B. de C.V., The Bank of New York Mellon, as ADS depositary, and owners and

	beneficial owners of American Depositary Receipts (incorporated by reference to Exhibit 1 to the Registration Statement on Form F-6 filed on April 1, 2019 (File No. 333-230650)).
Exhibit 2.2	Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon (incorporated by reference to Exhibit 2.2 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
Exhibit 2.3	First Supplemental Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A. (incorporated by reference to Exhibit 2.3 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
Exhibit 2.4	Second Supplemental Indenture dated as of April 1, 2011 among Coca-Cola FEMSA, S.A.B. de C.V., Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V., as Guarantor, and The Bank of New York Mellon (incorporated by reference to Exhibit 2.4 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 17, 2011 (File No. 1-12260)).
Exhibit 2.5	Third Supplemental Indenture dated as of September 6, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), as existing guarantor, Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S. de R.L. de C.V., as additional guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA s Registration Statement on Form F-3 filed on November 8, 2013 (File No. 333-187275)).

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Exhibit No.	Description
Exhibit 2.6	Fourth Supplemental Indenture dated as of October 18, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S. de R.L. de C.V., as existing guarantors, Controladora Interamericana de Bebidas, S. de R.L. de C.V., as additional guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA s Registration Statement on Form F-3 filed on November 8, 2013 (File No.333-187275)).
Exhibit 2.7	Fifth Supplemental Indenture dated as of November 26, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish paying agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA s Form 6-K filed on December 5, 2013 (File No.1-12260)).
Exhibit 2.8	Sixth Supplemental Indenture dated as of January 21, 2014 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish paying agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA s Form 6-K filed on January 27, 2014 (File No.1-12260)).
Exhibit 2.9	Seventh Supplemental Indenture dated as of November 23, 2015 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V., as successor guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 2.9 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 15, 2016 (File No. 1-12260).
Exhibit 4.1	Amended and Restated Shareholders Agreement dated as of July 6, 2002, by and among Compañia Internacional de Bebidas, S.A. de C.V., Grupo Industrial Emprex, S.A. de C.V., The Coca-Cola Company and The Inmex Corporation, (incorporated by reference to Exhibit 4.13 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).
Exhibit 4.2	First Amendment, dated May 6, 2003, to the Amended and Restated Shareholders Agreement, dated as of July 6, 2002, among Compañia Internacional de Bebidas, S.A. de C.V., Grupo Industrial Emprex, S.A. de C.V., The Coca-Cola Company, The Inmex Corporation, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. (incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).
Exhibit 4.3	Second Amendment, dated as of February 1, 2010, to the to the Amended and Restated Shareholders Agreement, dated as of July 6, 2002, by and among Compañia Internacional de Bebidas, S.A. de

	C.V., Grupo Industrial Emprex, S.A. de C.V., The Coca-Cola Company, The Inmex Corporation and Dulux CBAI 2003 B.V. (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
Exhibit 4.4	Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the valley of Mexico (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
Exhibit 4.5	Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the valley of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA s Registration Statement on Form F-1 filed on August 13, 1993 (File No. 33-67380)).
Exhibit 4.6	Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Exhibit 4.5 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).

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Exhibit No.	Description
Exhibit 4.7	Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA s Registration Statement on Form F-1 filed on August 13, 1993 (File No. 33-67380)).
Exhibit 4.8	Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico (English translation) (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
Exhibit 4.9	Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Bajio, S.A. de C.V., and The Coca-Cola Company with respect to operations in Bajio, Mexico (English translation) (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
Exhibit 4.10	Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
Exhibit 4.11	Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
Exhibit 4.12	Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
Exhibit 4.13	Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
Exhibit 4.14	Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
Exhibit 4.15	Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
Exhibit 4.16	Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
Exhibit 4.17	

	Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.40 to FEMSA s Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
Exhibit 4.18	Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administración de Marcas S.A. de C.V., as proprietor, and The Coca-Cola Export Corporation Mexico branch, as licensee (incorporated by reference to Exhibit 10.3 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
Exhibit 4.19	Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Exhibit 10.6 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
Exhibit 4.20	Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajio S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Exhibit 10.7 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
Exhibit 4.22	Supply Agreement dated April 3, 1998, between Alpla Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).*
Exhibit 4.23	Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA, S.A.B. de C.V. and FEMSA Logística (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).

Exhibit No.	Description
Exhibit 4.24	Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajio S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 10.8 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
Exhibit 4.25	Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 10.9 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
Exhibit 4.26	Memorandum of Understanding, dated as of March 11, 2003, by and among Panamerican Beverages, S.A. de C.V., as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Exhibit 10.14 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
Exhibit 7.1	The Coca-Cola Company memorandum, to Steve Heyer from José Antonio Fernández, dated December 22, 2002 (incorporated by reference to Exhibit 10.1 to FEMSA s Registration Statement on Amendment No. 1 to the Form F-3 filed on September 20, 2004 (File No. 333-117795)).
Exhibit 8.1	Significant Subsidiaries.
Exhibit 12.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 12, 2019.
Exhibit 12.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 12, 2019.
Exhibit 13.1	Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 12, 2019.

* Portions of Exhibit 4.22 were omitted pursuant to a request for confidential treatment. Such omitted portions were filed separately with the Securities and Exchange Commission.
This was a paper filing, and is not available on the SEC website.

Omitted from the exhibits filed with this annual report are certain instruments and agreements with respect to long-term debt of Coca-Cola FEMSA, none of which authorizes securities in a total amount that exceeds 10.0% of the total assets of Coca-Cola FEMSA. We hereby agree to furnish to the SEC copies of any such omitted instruments or agreements upon request by the SEC.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Coca-Cola FEMSA, S.A.B. de C.V.

By: /s/ Constantino Spas Montesinos
Constantino Spas Montesinos
Chief Financial Officer

Date: April 12, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of

Coca-Cola FEMSA, S.A.B. de C.V.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated April 12, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the Company s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according to the Codigo de Etica Profesional del Instituto Mexicano de Contadores Publicos (IMCP Code), and the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

/s/ MANCERA, S.C.

We have served as the Company s auditor since 2008

Mexico City, Mexico

April 12, 2019

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

Consolidated Statements of Financial Position

At December 31, 2018 and 2017

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

	Note	December 2018 (*)	December 2018	December 2017
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	6	**$ 1,208**	Ps. **23,727**	Ps. 18,767
Trade receivables, net	7	**756**	**14,847**	17,576
Inventories	8	**512**	**10,051**	11,364
Recoverable taxes	24	**308**	**6,038**	5,172
Other current financial assets	9	**41**	**805**	737
Other current assets	9	**103**	**2,022**	2,041
Total current assets		**2,928**	**57,490**	55,657
Non-current assets:				
Investments in other entities	10	**536**	**10,518**	12,540
Property, plant and equipment, net	11	**3,155**	**61,942**	75,827
Intangible assets, net	12	**5,949**	**116,804**	124,243
Deferred tax assets	24	**430**	**8,438**	8,012
Other non-current financial assets	13	**108**	**2, 123**	1,277
Other non-current assets	13	**330**	**6,472**	8,121
Total non-current assets		**10,508**	**206,297**	230,020
TOTAL ASSETS		**$ 13,436**	Ps. **263,787**	Ps. 285,677
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Bank loans and notes payable	18	**$ 70**	**Ps. 1,382**	Ps. 2,057
Current portion of non-current debt	18	**521**	**10,222**	10,114
Interest payable		**25**	**497**	487
Suppliers		**1,007**	**19,746**	19,956
Accounts payables		**302**	**5,904**	11,397
Taxes payable		**367**	**7,207**	7,074
Other current financial liabilities	25	**29**	**566**	4,509
Total current liabilities		**2,321**	**45,524**	55,594
NON CURRENT LIABILITIES:				

Bank loans and notes payable	18	**3,575**	**70,201**	71,189
Post-employment and other non-current employee benefits	16	**135**	**2,652**	3,029
Deferred tax liabilities	24	**145**	**2,856**	1,714
Other non-current financial liabilities	25	**70**	**1,376**	1,169
Provisions and other non-current liabilities	25	**480**	**9,428**	12,272
Total non-current liabilities		**4,405**	**86,513**	89,373
TOTAL LIABILITIES		**6,726**	**132,037**	144,967
EQUITY:				
Common stock	22	**105**	**2,060**	2,060
Additional paid-in capital		**2,320**	**45,560**	45,560
Retained earnings		**3,630**	**71,270**	61,786
Other equity instruments		**(78)**	**(1,524)**	(485)
Accumulated other comprehensive income		**386**	**7,578**	13,648
Equity attributable to equity holders of the parent		**6,363**	**124,944**	122,569
Non-controlling interest in consolidated subsidiaries	21	**347**	**6,806**	18,141
TOTAL EQUITY		**6,710**	**131,750**	140,710
TOTAL LIABILITIES AND EQUITY		**$ 13,436**	Ps. **263,787**	Ps. 285,677

(*) 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, 2018, 2017 and 2016

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

	Note	**2018 (*)**	**2018**	2017 (**)	2016
CONTINUING OPERATIONS					
Net sales		**$ 9,260**	**Ps. 181,823**	Ps. 182,850	Ps. 177,082
Other operating revenues		**26**	**519**	406	636
Total revenues		**9,286**	**182,342**	183,256	177,718
Cost of goods sold		**5,012**	**98,404**	99,748	98,056
Gross profit		**4,274**	**83,938**	83,508	79,662
Administrative expenses		**407**	**7,999**	7,693	7,423
Selling expenses		**2,543**	**49,925**	50,351	48,039
Other income	19	**29**	**569**	1,542	1,281
Other expenses	19	**125**	**2,450**	32,899	5,093
Interest expense	18	**385**	**7,568**	8,777	7,471
Interest income		**51**	**1,004**	791	715
Foreign exchange (loss) income, net		**(14)**	**(277)**	788	(1,792)
Gain on monetary position for subsidiaries in hyperinflationary economies		**11**	**212**	1,590	2,417
Market value (loss) income on financial instruments	20	**(16)**	**(314)**	246	51
Income (loss) before income taxes and share of the profit of associates and joint ventures accounted for using the equity method		**875**	**17,190**	(11,255)	14,308
Income taxes	24	**268**	**5,260**	4,184	3,928
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	10	**(12)**	**(226)**	60	147
Net income (loss) from continuing operations		**596**	**11,704**	(15,379)	10,527
Net income (loss) after tax from discontinued operations	5	**172**	**3,366**	3,725	
CONSOLIDATED NET INCOME (LOSS)		**$ 768**	**Ps. 15,070**	Ps. (11,654)	Ps. 10,527
Attributable to:					
		$ 557	**Ps. 10,936**	Ps. (16,058)	Ps. 10,070

Equity holders of the parent- continuing operations									
Equity holders of the parent- discontinued operations			**152**		**2,975**		3,256		
Non-controlling interest- continuing operations			**39**		**768**		679		457
Non-controlling interest- discontinued operations		**$**	**20**	Ps.	**391**	Ps.	469	Ps.	
Net income (loss)		**$**	**768**	Ps.	**15,070**	Ps.	(11,654)	Ps.	10,527
Earnings per share- Equity holders of the parent (U.S. dollars and Mexican pesos):									
Basic controlling interest net income (loss) from continuing operations	23	**$**	**0.03**	Ps.	**0.65**	Ps.	(0.96)	Ps.	0.61
Basic controlling interest net income from discontinued operations	23		**0.01**		**0.18**		0.19		
Diluted controlling interest net income (loss) from continuing operations	23		**0.03**		**0.65**		(0.96)		0.61
Diluted controlling interest net income from discontinued operations	23		**0.01**		**0.18**		0.19		

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

(**) Results for 2017 have been restated for the discontinued Philippines operations. See Note 5.

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

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Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018, 2017 and 2016

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

	Note	2018 (*)	2018	2017 (**)	2016
CONSOLIDATED NET INCOME (LOSS)		**768**	**Ps. 15,070**	Ps. (11,654)	Ps. 10,527
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	20	**(20)**	**(437)**	(266)	715
Exchange differences on the translation of foreign operations and associates		**(371)**	**(7,234)**	15,207	16,052
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods		**(391)**	**(7,671)**	14,941	16,767
Items that will not be reclassified to profit or loss in subsequent periods:					
Loss from equity financial asset classified at FVOCI		**(53)**	**(1,039)**		
Re-measurements of the net defined benefit liability, net of taxes	16	**13**	**259**	28	(123)
Other comprehensive income (loss) not being reclassified to profit or loss in subsequent periods		**(40)**	**(780)**	28	(123)
Total other comprehensive (loss) income, net of tax		**(430)**	**(8,451)**	14,969	16,644
Consolidated comprehensive income for the year, net of tax		**337**	**Ps. 6,619**	Ps. 3,315	Ps. 27,171
Attributable to:					
Equity holders of the parent from continuing operations		**203**	**Ps. 3,984**	Ps. 841	Ps. 24,818
Equity holders of the parent from discontinued operations		**143**	**2,817**	2,500	
Non-controlling interest from continuing operations		**(21)**	**(421)**	146	2,353
Non-controlling interest from discontinued operations		**12**	**239**	(172)	

Consolidated comprehensive income for the year, net of tax	**337**	**Ps.**	**6,619**	Ps.	3,315	Ps.	27,171

(*) Convenience translation to U.S. dollars ($) See Note 2.2.3
(**) Results for 2017 have been restated for the discontinued Philippines operations. See Note 5.
The accompanying notes are an integral part of these consolidated statements of comprehensive income.

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Consolidated Statements of Changes in Equity

For the years ended December 31, 2018, 2017 and 2016

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

butable	Common Stock	Additional paid-in capital	Retained earnings	Other Equity Instruments	Valuation of the effective portion of derivative financial instruments	Exchange differences on translation of foreign operations and Associates	Remeasurements of the net defined benefit liability	Equity Attributable To Equity Holders of the Parent	Non-Controlling Interest	Tota equi
ces as of y 1, 2016	2,048	41,490	78,454		(225)	(16,584)	(434)	104,749	3,986	108
lidated come			10,070					10,070	457	10
ehensive e, net of					664	14,207	(123)	14,748	1,896	16
ehensive e			10,070		664	14,207	(123)	24,818	2,353	27
ends ed			(6,945)					(6,945)	(69)	(7
se in ontrolling t									826	
sition of r (Note 4)				(485)				(485)		
ces as of nber 31,	2,048	41,490	81,579	(485)	439	(2,377)	(557)	122,137	7,096	129
lidated come			(12,802)					(12,802)	1,148	(11
					(192)	(9,778)	(10)	(9,980)	(1,174)	(11

ehensive et of tax										
ehensive e										
solidation nezuela 3.3)						26,123		26,123		26
ehensive e			(12,802)		(192)	16,345	(10)	3,341	(26)	3
sition of r (Note 4)	12	4,070						4,082		4
ends ed			(6,991)					(6,991)	(1)	(6
lidation of pines									11,072	11
ces as of nber 31,	Ps. 2,060	Ps. 45,560	Ps. 61,786	Ps. (485)	Ps. 247	Ps. 13,968	Ps. (567)	Ps. 122,569	Ps. 18,141	Ps. 140
nting ard ion s (see 2.4)			**(75)**					**(75)**	**(12)**	
tion of 9 for tina			**2,686**					**2,686**		**2**
ces as of ry 1,	**Ps. 2,060**	**Ps. 45,560**	**Ps. 64,397**	**Ps. (485)**	**Ps. 247**	**Ps. 13,968**	**Ps. (567)**	**Ps. 125,180**	**Ps. 18,129**	**Ps. 143**
lidated come			**13,911**					**13,911**	**1,159**	**15**
rehensive et of tax				**(1,039)**	**(396)**	**(5,897)**	**223**	**(7,109)**	**(1,342)**	**(8**
rehensive e			**13,911**	**(1,039)**	**(396)**	**(5,897)**	**223**	**6,802**	**(183)**	**6**
ends red			**(7,038)**					**(7,038)**		**(7**
f pines tions									**(11,140)**	**(11**
	Ps. 2,060	**Ps. 45,560**	**Ps. 71,270**	**Ps. (1,524)**	**Ps. (149)**	**Ps. 8,071**	**Ps. (344)**	**Ps. 124,944**	**Ps. 6,806**	**Ps. 131**

ces as of
nber 31,

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

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Consolidated Statements of Cash Flows

For the years ended December 31, 2018, 2017 and 2016

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

	2018 (*)	**2018**	2017 (**)	2016
OPERATING ACTIVITIES:				
Income (loss) before income taxes from continuing operations	**$ 864**	**Ps. 16,964**	Ps. (11,195)	Ps. 14,455
Adjustments for:				
Non-cash operating expenses	**66**	**1,296**	4,663	2,329
Depreciation	**428**	**8,404**	8,402	7,579
Amortization	**83**	**1,624**	1,230	1,087
(Loss) on disposal of long-lived assets	**(9)**	**(178)**	(129)	(22)
Write-off of long-lived assets	**5**	**103**	174	40
Share of the (profit) loss of associates and joint ventures accounted for using the equity method, net of taxes	**12**	**226**	(60)	(147)
Interest income	**(51)**	**(1,004)**	(791)	(715)
Interest expense	**265**	**5,198**	4,617	4,388
Foreign exchange loss (income), net	**14**	**277**	(788)	1,792
Non-cash movements in post-employment and other non-current employee benefits obligations	**11**	**219**	396	580
Impairment	**22**	**432**	1,843	
Deconsolidation of Venezuela			26,333	
Consolidation of Philippines			(2,996)	
Monetary position gain, net	**(11)**	**(212)**	(1,591)	(2,417)
Market value loss on financial instruments	**121**	**2,370**	4,073	2,817
(Increase) decrease:				
Accounts receivable and other current assets	**(107)**	**(2,097)**	(3,363)	(2,727)
Other current financial assets	**(20)**	**(396)**	(2,435)	(3,552)
Inventories	**(71)**	**(1,386)**	(688)	(2,142)
Suppliers and other accounts payable	**85**	**1,666**	3,668	11,199
Other liabilities	**19**	**381**	735	931
Employee benefits paid	**(6)**	**(124)**	(310)	(258)
Income taxes paid	**(315)**	**(6,182)**	(5,252)	(2,771)
Net cash flows generated from operating activities from continuing operations	**1,405**	**27,581**	26,536	32,446
Income before income taxes for discontinued operations	**67**	**1,308**	1,265	
	33	**654**	5,435	

Net cash flows generated from operation activities for discontinued operations				
INVESTING ACTIVITIES:				
Acquisition and mergers, net of cash acquired (see Note 4)	**(290)**	**(5,692)**	26	(13,198)
Deconsolidation of Venezuela (see Note 3.3)			(170)	
Proceed from sale of subsidiary, net of cash disposed	**390**	**7,649**		
Interest received	**51**	**1,004**	791	715
Acquisitions of long-lived assets	**(505)**	**(9,917)**	(9,715)	(10,308)
Proceeds from the sale of long-lived assets	**20**	**399**	323	324
Acquisition of intangible assets	**(70)**	**(1,373)**	(3,410)	(2,385)
Other non-current assets	**1**	**18**	(145)	
Dividends received from investments in associates and joint ventures (Note 10)		**8**	33	5
Investment in shares	**(20)**	**(387)**	(1,443)	(2,068)
Investing activities for discontinued operations				
Net cash flows (used in) investing activities from continuing operations	**$ (423)**	**Ps. (8,291)**	Ps. (13,710)	Ps. (26,915)
Net cash flows (used in) investing activities from discontinued operations	**(49)**	**Ps. (962)**	Ps. 2,820	Ps.
FINANCING ACTIVITIES:				
Proceeds from borrowings	**786**	**15,426**	12,488	8,040
Repayment of borrowings	**(813)**	**(15,957)**	(13,109)	(4,948)
Interest paid	**(254)**	**(4,984)**	(4,558)	(4,122)
Dividends paid	**(358)**	**(7,038)**	(6,992)	(7,013)
Other financing activities	**(86)**	**(1,682)**	(2,201)	(2,517)
Proceeds from issuing shares (see Note 4)			4,082	
Increase in non-controlling interest				826
Net cash flows (used in) financing activities for continuing operations	**(725)**	**(14,235)**	(10,290)	(9,734)
Net cash flows (used in) financing activities for discontinued operations	**(2)**	**(37)**	(485)	
Net increase (decrease) in cash and cash equivalents from continuing operations	**257**	**5,055**	2,536	(4,203)
Net increase (decrease) in cash and cash equivalents from discontinued operations	**49**	**963**	9,035	
Cash and cash equivalents at the beginning of the period	**956**	**18,767**	10,476	15,989
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies	**(54)**	**(1,058)**	(3,280)	(1,310)
Cash and cash equivalents at the end of the period	**$ 1,208**	**Ps. 23,727**	Ps. 18,767	Ps. 10,476

(*) Convenience translation to U.S. dollars ($) See Note 2.2.3
(**) Results for 2017 have been revised for the discontinued Philippines operations. See Note 5.
The accompanying notes are an integral part of these consolidated statements of cash flow.

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Notes to the Consolidated Statements

For the years ended December 31, 2018, 2017 and 2016

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

Note 1. Activities of the Company

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

Coca-Cola FEMSA is indirectly owned by Fomento Economico Mexicano, S.A.B. de C.V. (FEMSA), which holds 47.2% of its capital stock and 63% of its voting shares and The Coca-Cola Company (TCCC), which indirectly owns 27.8% of its capital stock and 37% of its voting shares. The remaining 25% of Coca-Cola FEMSA s shares trade on the Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV: KOF) as series L shares and its American Depositary Shares (ADS) (equivalent to ten series L shares) trade on the New York Stock Exchange, Inc. The address of its registered office and principal place of business is Mario Pani No. 100 Col. Santa Fe Cuajimalpa, Delegacion Cuajimalpa de Morelos, Mexico City, 05348, Mexico.

Coca-Cola FEMSA and its subsidiaries (the Company), as an economic unit, are engaged in the production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela, Brazil, Uruguay, Argentina and until November 2018 the Philippines. (see note 5)

As of December 31, 2018 and 2017 the most significant subsidiaries which the Company controls are:

Company	**Activity**	**Country**	**Ownership percentage 2018**	Ownership percentage 2017
Propimex, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	**100.00%**	100.00%
Controladora Interamericana de Bebidas, S. de R.L. de C.V.	Holding	Mexico	**100.00%**	100.00%
Spal Industria Brasileira de Bebidas, S.A.	Manufacturing and distribution	Brazil	**96.06%**	96.06%
Distribuidora y Manufacturera del Valle de México, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	**100.00%**	100.00%
Servicios Refresqueros del Golfo, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	**100.00%**	100.00%

Note 2. Basis of Preparation

2.1 Statement of compliance

The consolidated financial statements of Coca-Cola FEMSA S.A.B. de C.V. and its subsidiaries as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Company s consolidated financial statements and notes were authorized for issuance by the Company s Chief Executive Officer John Santa Maria Otazua and Chief Financial and Administrative Officer Constantino Spas Montesinos on February 25, 2019. These consolidated financial statements and notes were approved at the Company s Board of Directors meeting on February 25, 2019. Subsequent events have been considered through that date (see Note 29**).** These consolidated financial statements and their accompanying notes will be presented to the Shareholders meeting on March 14, 2019. The Company´s Board of Directors and Shareholders have the authority to approve or modify the Company´s consolidated financial statements.

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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´s consolidated statement of cash flows is presented using the indirect method.

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

The consolidated financial statements are stated in millions of Mexican pesos (Ps.) and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position as of December 31, 2018 and the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2018 were converted into U.S. dollars at the exchange rate of Ps **19.6350** per U.S. dollar as published by the Federal Reserve Bank of New York on December **31,** 2018, the last date in 2018 for which information is available. This arithmetic conversion should not be construed as representations that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate. As of **March 6**, 2019 (the issuance date of these financial statements) such exchange rate was Ps. **19.3065** per U.S. dollar, an appreciation of **1.6**% since December 31, 2018.

2.3 Critical accounting judgments and estimates

In the application of the Company s accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Judgements

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

2.3.1 Key sources of estimation uncertainty

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

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

Intangible assets with indefinite lives 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 whether there is an indication that a long-lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset s recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount, 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 the asset or CGU re discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples or other available fair value indicators. The key assumptions used to determine the recoverable amount for the Company s CGUs, including a sensitivity analysis, are further explained in Notes 3.17 and 12.

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 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, 11 and 12.

2.3.1.3 Post-employment and other non-current employee benefits

The Company regularly evaluates the reasonableness of the assumptions used in its post-employment and other non-current employee benefit computations. Information about such assumptions is described in Note 16.

2.3.1.4 Income taxes

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Company recognizes deferred tax assets for unused tax losses and other credits and regularly reviews them for recoverability, based on its judgment regarding the probability of the expected timing and level of future taxable income, the expected timing of the reversals of existing taxable temporary differences and future tax planning strategies see Note 24.

2.3.1.5 Tax, labor and legal contingencies and provisions

The Company is subject to various claims and contingencies related to tax, labor and legal proceedings as described in Note 25. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a provision and/ or discloses the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a provision for the estimated loss. Management s judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

2.3.1.6 Valuation of financial instruments

The Company is required to measure all derivative financial instruments at fair value.

The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models

supported by sufficient, reliable and verifiable data, recognized in the financial sector. The Company bases its forward price curves upon market price quotations. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 20.

2.3.1.7 Business combinations

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 acquired, the amount of any non-controlling interest in the acquired and the equity interests issued by the Company in exchange for control of the acquired.

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquired or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquired are measured in accordance with IFRS 2, Share- based Payment at the acquisition date, see Note 3.25;

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

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

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

2.3.1.8 Investments in associates

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

- representation on the board of directors or equivalent governing body of the investee;

- participation in policy-making processes, including participation in decisions about dividends or other distributions;

- material transactions between the Company and the investee;

- interchange of managerial personnel; or
- provision 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 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 significant investee committees, such as the executive committee or the finance committee.

2.3.1.9 Joint Arrangements

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

a) If all the parties, or a group of the parties, control the arrangement, considering definition of joint control, as described in Note 3.1; and

b) If decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties

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As mentioned in Note **4**, until January 2017, Coca-Cola FEMSA accounted for its 51% investment in Coca-Cola FEMSA Philippines, Inc. (CCFPI) as a joint venture, this was based on the facts that Coca-Cola FEMSA and TCCC: (i) make all operating decisions jointly during the initial four-year period and (ii) potential voting rights to acquire the remaining 49% of CCFPI were not probable to be exercised in the foreseeable future and the fact that the call option remains out of the money as of December 31, 2016. In January 2017, the arrangement between Coca-Cola FEMSA and TCCC for joint control of CCFPI expired; therefore, Coca-Cola FEMSA started to consolidate the operations of CCFPI effective February 2017. On August 16, 2018, Coca-Cola FEMSA announced the exercise of the put option to sell its 51% stock in CCFPI to TCCC and the transaction closed on December 13, 2018. Therefore, the consolidated income and cash flows statements presented in the consolidated financial statements are represented as if the CCFPI had been discontinued from February 2017, date of the consolidation of the operations.

2.3.1.10 Venezuela Exchange Rates and Consolidation

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

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

2.4 Changes in accounting policies

The Company has applied the following amendments to the standards, which are effective for annual periods beginning on or after January 2018, their application has no significant effects:

2.4.1 IFRS 9 Financial Instruments

I. Classification and measurement of financial assets and liabilities and hedge accounting

The Company adopted IFRS 9, Financial Instruments issued in July 2014 at the date of initial application on January 1, 2018. The requirements under IFRS 9 represent a significant change from IAS 39 Financial Instruments: Classification and Measurement. The nature and key effects of the changes within the accounting policies of the Company as a result of the adoption of IFRS 9 are summarized below.

The classification of financial assets under IFRS 9 is based on the business model over which the financial asset is managed and the characteristic of the contractual cash flows of the financial assets. IFRS 9 contains three classification categories for financial assets: measured at amortized cost, fair value with changes in other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). IFRS 9 also allows equity instruments in non-listed companies to be designated as FVOCI, if they are intended to be held for the foreseeable future. The standard eliminates the categories of IAS 39: investments held to maturity, loans and accounts receivable and available for sale. According to IFRS 9, the derivatives implicit in contracts where the host contract is a financial asset under the scope of the standard will never be separated. In contrast, the hybrid financial instrument is evaluated as a whole for the evaluation of its classification. The adoption of IFRS 9 has not had a significant effect on the accounting policies of the Company in terms of classification and measurement of financial assets and related profit or loss

accounts.

The Company chose to adopt the new hedge accounting model under IFRS 9. This implies that the Company confirms that hedge accounting relationships are aligned with its risk management, objectives and strategy and to apply a more qualitative and prospective approach to evaluate the effectiveness of hedges.

For an explanation of how the Company applies hedge accounting under IFRS 9 see Note 7.

Activities carried out in the adoption

The Company conducted a qualitative and quantitative evaluation for the adoption of IFRS 9. The activities carried out are the following:

- The determination of the business model within which the financial assets are held.

- Review and documentation of the business models for managing financial assets, accounting policies, processes and internal controls related to financial instruments.

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Update of documentation of the hedging relationships, as well as the policies for hedge accounting, and internal controls.

All hedge relationships designated in accordance with the criteria of IAS 39 as of December 31, 2017 fulfilled the criteria and requirements to be designated as accounting hedges in accordance with IFRS 9 as of January 1, 2018 and, therefore, it was considered that they continue to be hedging relationships.

For classification, measurement and accounting of hedges, no significant changes were determined, except those related to the documentation of the adoption of the standard, which include the tests of holding for Only Payments of Principal and Interest (SPPI), and the update of the hedge files. Therefore, no significant adjustments from the adoption of IFRS 9 were recognized in the consolidated financial statements of the entity in relation to the classification, measurement and accounting of hedges.

II. Impairment of financial assets

IFRS 9 replaces the loss incurred model in IAS 39 with a forward-looking expected loss model. The new impairment model is applicable to financial assets (debt instruments) measured at amortized cost and investments measured at FVOCI and other contractual asset. Under IFRS 9, the provision for impairment loss is recognized earlier than under IAS 39.

An analysis was carried out to determine the impact of the new expected loss model of financial assets to calculate the provisions that should be registered. As of January 1, 2018, the effect of adopting the standard within the retained earnings was Ps. 87, equivalent to 1% of the total portfolio maintained at the date of adoption. The impact for the provisions of the financial assets under the new standard is not significant because the accounts receivable are characterized by recovering in the short term, which results in estimates of expected loss that approximates the previous provision for doubtful accounts under IAS 39.

2.4.2 IFRS 15, Revenue from contracts with customers

The Company adopted IFRS 15 *Revenue from contracts with customers* on its consolidated financial statements as of the effective date January 1st, 2018. IFRS 15 establishes a 5-step model approach to which the entity recognizes revenue to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. According to the standard, a performance obligation may be satisfied over time (which better reflects the pattern of which the Company fulfills its performance obligations for the exchange of those good and services) or at a point in time that the control of good and services are totally transferred to the customers.

For the transition, the Company applied the modified retrospective method by determining the cumulative effect as of the date of the standard adoption on the consolidated financial information for the years ended December 31, 2017 and prior. The prior period financial statements were not restated and the impact of adoption is immaterial to the consolidated financial statements.

In contrast to the previous issued standard, the IFRS 15 preescribes the accounting treatment for the variable considerations that may result from incentives given to customers (rebates and promotional allowances), which are included (estimated) in the transaction price to the extent that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

a) Sale of goods

It includes the sales of goods by all the subsidiaries of the Company, mainly the sale of beverages of the leading brand of Coca-Cola in which the revenue is recognized in the point of time those products were sold to the customers. Applying IFRS 15 did not result in a change in the revenues recognition pattern for the sale of goods because the performance obligations of the all the activities of the Company were satisfied at the moment that the product is sold and the Company becomes entitled to the consideration in exchange for the arrangement; that is, the control of the products are transfers in a point of time.

b) Rendering of services

It includes the revenues of distribution services that the Company recognizes as revenues when performance obligation is satisfied, which generally occurs over time since the related benefits are consumed by the customers as control is transferred and the arrangements cover a short period of time (generally, three months or less). There are no variable considerations created from rendered services.

The adoption of IFRS 15 does not have any impact on the Company; however it modifies its accounting policies with the purpose to align those to the new 5-step model established by IFRS 15. Those changes did not result in additional impacts for the revenues recognition in contrast to the previous standard IAS 18.

2.4.3 Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Coca-Cola FEMSA s accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, Coca-Cola FEMSA has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on Coca-Cola FEMSA s consolidated financial statements.

2.4.4 Other adjustments

In addition to the adjustments described above, upon adoption of IFRS 9, other items of the primary financial statements such as deferred taxes, investment in an associate and a joint venture (arising from the financial instruments held by these entities), income tax expense, non-controlling interests and retained earnings were adjusted as necessary.

IFRIC Interpretation 22- Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on Coca-Cola FEMSA s consolidated financial statements.

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 at December 31, 2018. 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, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements of income and comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

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

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

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

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

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

Sometimes obtaining control of an acquired 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 acquired 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 acquired recognized in other comprehensive income shall be recognized on the same basis as required if the Company had disposed directly of the previously held equity interest (see Note 3.11.2).

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

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

ii. Minority veto rights lapse that previously kept the Company from controlling an acquired in which it held the majority voting rights.

iii. The Company and the acquired agree to combine their businesses by contract alone in which it transfers no consideration in exchange for control and no equity interest is held in the acquired, 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 rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-measured.

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

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

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

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Foreign exchange differences on monetary items are recognized in profit or loss. Their classification in the income statement depends on their nature. Differences arising from fluctuations related to operating activities are presented in the other expenses line (see Note 19) while fluctuations related to non-operating activities such as financing activities are presented as part of foreign exchange gain (loss) line in the income statement.

For incorporation into the Company s consolidated financial statements, each foreign subsidiary, 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 IAS 29 Financial Reporting in Hyperinflationary Economies, and subsequently translated into Mexican pesos using the year-end exchange rate for the consolidated statements of financial position and consolidated income statement and comprehensive income; and

- For non-inflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month only if the exchange rate does not fluctuate significantly.

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

control), the proportionate share of the exchange differences on translation of foreign subsidiaries and associates is reclassified to profit or loss.

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

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

		Exchange Rates of Local Currencies Translated to Mexican Pesos[1]				
		Average Exchange Rate for			Exchange Rate as of December 31,	
Country or Zone	Functional coin	2018	2017	2016	2018	2017
Mexico	Mexican peso	**1.00**	Ps. 1.00	Ps. 1.00	**1.00**	Ps. 1.00
Guatemala	Quetzal	**2.56**	2.57	2.46	**2.54**	2.69
Costa Rica	Colon	**0.03**	0.03	0.03	**0.03**	0.03
Panamá	U.S Dollar	**19.24**	18.93	18.66	**19.68**	19.74
Colombia	Colombian peso	**0.01**	0.01	0.01	**0.01**	0.01
Nicaragua	Cordoba	**0.62**	0.63	0.65	**0.61**	0.64
Argentina	Argentine peso	**0.73**	1.15	1.26	**0.52**	1.06
Brazil	Reais	**5.29**	5.94	5.39	**5.08**	5.97
Philippines	Philippines peso	**0.37**	0.38	0.39	**0.37**	0.40
Uruguay	Uruguayan peso	**0.63**	0.66	0.71	**0.61**	0.69

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

Venezuela

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

As a result of the deconsolidation, the Company recorded an extraordinary loss in other expenses line of Ps. 28,176 for the year ended in December 31, 2017. Such charge includes the reclassification of Ps. 26,123 (see Note 21) previously recorded in exchange differences on translation of foreign subsidiaries and associates in equity, to the income statement and impairment charges as follows, Ps. 745 of distribution rights, Ps. 1,098 of property plant and equipment and Ps 210 of re-measurement at fair-value of the Venezuelan s investment.

Prior to deconsolidation, during 2017, the Company s Venezuela operations contributed Ps. 4,005 to net sales and losses of Ps. (2,223) to net income. See also Note 26 for additional information about the Venezuelan operations.

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

Exchange rate

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

Step-one: Transactions were first recorded in the stand-alone accounts of the Venezuelan subsidiary in its functional currency, which are bolivars. Any non-bolivar denominated monetary assets or liabilities were translated into bolivars at each balance sheet date using the exchange rate at which the Company expects them to be settled, with the corresponding effect of such translation being recorded in the income statement.

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

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

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

As of December 2017 and 2016 there were multiple inflation indices (including combination of indices in the case of CPI or certain months without official available information in the case of National Wholesale Price Index (WPI)) which provide different inflation indexes for Argentina, therefore, there was different judgments about the criteria in the application of hyperinflation for this country.

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

Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, net, intangible assets, net, including related costs and expenses when such assets are consumed or depreciated.

Recognize the monetary position gain or loss in consolidated net income.

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

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

As showed in the note 3.3 as of December 31, 2017, the Company deconsolidated the Venezuela operation and in consequence the Company will no longer include the result for the Venezuela operation in the consolidated financial statements, even though the Venezuela entity will continue its normal operation. As of December 31, 2018, 2017, and 2016, the operations of the Company are classified as follows:

Country	**Cumulative Inflation 2016- 2018**	**Type of Economy**	Cumulative Inflation 2015- 2017	Type of Economy	Cumulative Inflation 2014- 2016	Type of Economy
Mexico	**15.7%**	**Non-hyperinflationary**	12.7%	Non-hyperinflationary	9.9%	Non-hyperinflationary
Guatemala	**12.2%**	**Non-hyperinflationary**	13.5%	Non-hyperinflationary	10.6%	Non-hyperinflationary
Costa Rica	**5.7%**	**Non-hyperinflationary**	2.5%	Non-hyperinflationary	5.1%	Non-hyperinflationary

Panama	**2.1%**	**Non-hyperinflationary**	2.3%	Non-hyperinflationary	2.8%	Non-hyperinflationary
Colombia	**13.4%**	**Non-hyperinflationary**	17.5%	Non-hyperinflationary	17.0%	Non-hyperinflationary
Nicaragua	**13.1%**	**Non-hyperinflationary**	12.3%	Non-hyperinflationary	13.1%	Non-hyperinflationary
Argentina	**158.4%**	**Hyperinflationary**	101.5%	Non-hyperinflationary	99.7%	Non-hyperinflationary
Venezuela	**NA**	**NA**	30,690%	Hyperinflationary	2,263.0%	Hyperinflationary
Brazil	**13.1%**	**Non-hyperinflationary**	21.1%	Non-hyperinflationary	25.2%	Non-hyperinflationary
Uruguay	**25.3%**	**Non-hyperinflationary**	NA	Non-hyperinflationary	NA	Non-hyperinflationary
Philippines	**11.9%**	**Non-hyperinflationary**	7.5%	Non-hyperinflationary	5.7%	Non-hyperinflationary

3.5 Cash and cash equivalents

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

The Company also maintains restricted cash held as collateral to meet certain contractual obligations (see Note 9). Restricted cash is presented within other current financial assets given that the restrictions are short-term in nature.

3.6 Financial assets

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

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

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

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

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

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

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

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

3.6.1 Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets the following two conditions and isn t designated as 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 (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, for financial assets, adjusted for loss of impairment. The financial product, exchange fluctuation and impairment are recognized in results. Any profit or loss is also recognized in the same way in results.

3.6.1.1 Effective interest rate method (ERR)

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

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

A financial asset is measured as FVOCI if it meets the following two conditions and isn t designated as FVTPL:

Its administered within a business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets; and

The contractual terms are only payments at specified dates of the principal and interest on the amount of the outstanding principal.

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

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

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

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

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

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

Contingent events that would change the cash flows amount or timing;

Terms that can adjust the contractual coupon rate, including variable interest rate characteristics;

Payment and extension features; and

Characteristics that limit the Company s right to obtain cash flows from certain assets.

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

3.6.5 Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that ae not quoted in an active market. Loans and receivable with a stated term (including trade and other receivable) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivable when the recognition of interest would be immaterial. For the years ended December 31, 2018, 2017 and 2016 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 5,Ps. 4 and Ps. 3, respectively.

3.6.6 Other financial asset

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

3.6.7 Financial assets impairment

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

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

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

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

- Debt instruments determined to be of low credit risk; and
- Other debt instruments and bank balances for which the credit risk (risk of non- recoverability over the expected life of the financial instrument) hasn t increased significantly since the initial recognition.

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

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

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

- Non-payment or delinquency of a debtor;

- Restructuring of an amount corresponding to the Company under terms that the Company would not otherwise consider;

- Indicators that a debtor or client will incur into bankruptcy;

- Adverse changes in the status of debtor or client payments;

- The disappearance of an active market for an instrument due to financial difficulties; or

- Evident information indicating that there was a measurable decrease in the expected cash flows of a group of financial assets.

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

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

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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 Mexican peso and other currencies, and interest rate fluctuations associated with its borrowings denominated in foreign currencies and the exposure to the risk of fluctuation in the costs of certain raw materials.

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

3.7.1 Hedge accounting

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

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

3.7.2 Cash flow hedges

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

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

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

3.7.3 Fair value hedges

For hedge items carried at fair value the change in the fair value of a hedging derivative is recognized in the statement of profit or 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 method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

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

3.7.4 Hedge of net investment in a foreign business

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

3.8 Fair value measurement

The Company measures financial instruments, such as, derivatives, and certain non-financial assets such as trusts assets of labor obligations at fair value at each balance sheet date. Also, fair values of bank loans and notes payable carried at amortized cost are disclosed in Note 18.

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

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

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

The Company determines the policies and procedures for both recurring fair value measurement, such as those described in Note 20 and unquoted liabilities such as debt described in Note 18.

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

3.9 Inventories and cost of goods sold

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

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

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

3.10 Held for sale long lived assets and discontinued operations

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

a) It is expected to be recovered principally through the sale, instead of being recovered through its operational continuous use.

b) The assets are maintained as held for its immediately sale and;

c) The assets sale is considered as highly possible in its actual condition.

For considering a sale as highly possible:

Management should be engaged with a sales plan.

It must be started an active plan to locate a buyer and complete this plan.

The asset must be actively valued to its sale in a reasonable price related to its fair value.

The sale is expected to be completed in less than one year term beginning on the date classification.

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

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

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

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

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

3.11 Other current assets

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

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

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

The Company has agreements with customers for the right to sell and promote the Company s products over a certain period. The majority of these agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract. During the years ended December 31, 2018, 2017 and 2016, such amortization aggregated to Ps. 277, Ps. 759 and Ps. 582, respectively.

3.12 Investments in other entities

3.12.1 Investments in associates

Associates are those entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value.

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

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

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

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

3.12.2 Joint arrangements

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

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

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. As of December 31, 2018 and 2017 the Company does not have an interest in joint operations.

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

3.12.3 Investment in Venezuela

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

3.13 Property, plant and equipment

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

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

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

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Depreciation is computed using the straight-line method over acquisition cost. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted and depreciated for as separate items (major components) of property, plant and equipment. The Company estimates depreciation rates, considering the estimated useful lives of the assets.

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

	Years
Buildings	40 50
Machinery and equipment	10 20
Distribution equipment	7 15
Refrigeration equipment	5 7
Returnable bottles	1.5 4
Other equipment	3 10

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

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

Returnable and non-returnable bottles:

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

Non-returnable: Are recorded in consolidated income statement at the time of the sale of the product.

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

There are two types of returnable bottles:

Those that are in the Company s control within its facilities, plants and distribution centers; and

Those that have been placed in the hands of customers and still belong to the Company.

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

such agreements are expensed when placed in the hands of retailers.

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

3.14 Borrowing costs

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

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

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

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

3.15 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance and represent payments whose benefits will be received in future years. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition (see Note 3.2). Following initial recognition,

intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite, in accordance with the period over which the Company expects to receive the benefits.

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

Amortized intangible assets, such as finite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable through its expected future cash flows.

Intangible assets with an indefinite life are not amortized and are subject to impairment tests on an annual basis as well as whenever certain circumstances indicate that the carrying amount of those intangible assets exceeds their recoverable value.

The Company s intangible assets with an indefinite life mainly consist of rights to produce and distribute Coca-Cola trademark products in the Company s territories. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers.

As of December 31, 2018, and regarding to a joint restructure with The Coca-Cola Company for the Mexico s bottling contracts, the Company had four bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) one agreement for the Bajio territory, which are 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, 2018, and regarding to a joint restructure with The Coca-Cola Company for the bottling contracts, the Company had two bottler agreements in Brazil which are up for renewal in October 2027; As of December 31, 2018, the Company had three bottler contracts in Guatemala, which are up for renewal in March 2025 and April 2028 (two contracts).

In addition The Company had one bottler agreement in each country which are up for renewal as follows; Argentina, which is up for renewal in September 2024; Colombia, which is up for renewal in June 2024; Panama, which is up for renewal in November 2024; Venezuela, which is up for renewal in August 2026; 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.

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

3.16 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a

completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

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

3.17 Impairment of long-lived assets

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

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

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

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

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

As of December, 31 2017 the Company recognized an impairment loss in long-lived assets used in the operation in Venezuela relating to property, plant and equipment for Ps.1,098 and distribution rights for Ps.745. See Note 11 and 12, respectively.

3.18 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Leasehold improvements, on operating leases are amortized using the straight-line method over the shorter of either the useful life of the assets or the related lease term.

3.19 Financial liabilities and equity instruments

3.19.1 Classification as debt or equity

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

instrument.

3.19.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

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

3.19.3 Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

3.19.4 Loans and borrowings

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

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

De-recognition

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

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

3.20 Provisions

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

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

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

The Company recognizes a provision for a loss contingency when it is probable (i.e. the probability that the event will occur is greater than the probability that it will not) that certain effects related to past events, would materialize and can be reasonably quantified. These events and their financial impact are also disclosed as loss contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized, see Note 25.

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

3.21 Post-employment and other non-current employee benefits

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

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

For defined benefit retirement plans and other non-current employee benefits, such as the Company s sponsored pension and retirement plans and seniority premiums, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. All re-measurements effects of the Company s defined benefit obligation such as actuarial gains and losses and return on plan assets minus the discount rate are recognized directly in other

comprehensive income (OCI). The Company presents service costs within cost of goods sold, administrative and selling expenses in the consolidated statements of income. The Company presents net interest cost within interest expense in the consolidated statements of income. The projected benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as of the end of each reporting period. Certain subsidiaries of the Company have established plan assets for the payment of pension benefits and seniority premiums through irrevocable trusts of which the employees are named as beneficiaries, which serve to decrease the funded status of such plans related obligations.

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

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

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

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

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

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

3.22 Revenue recognition

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

Identify the contract (written, spoken or according to the conventional business practices)

Evaluate the goods and services engaged in the client s contract and identify the related performance obligations.

Consider the contract terms and the commonly accepted practices in the business to determine the transaction price. The transaction price is the consideration that the Company expects to be entitled for transferring the goods and services engaged with the client, excluding the collected amount for third parties, such as taxes directly related to the sales. The consideration engaged in a customer s contract may include

fixed amount, variable amounts or both of them.

Allocate the transaction price to each performance obligation (to each good or services different) for an amount that represents the part of the benefit that the Company expects to receive in exchange for the right of transferring the goods or services engaged with the client.

Recognize revenue when (or while) it satisfied the performance obligation through the transfer of the goods or services engaged.

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

The Company generates revenues for the following principal activities:

Sale of goods.

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

Rendering of services.

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

The customer receives and consume simultaneously the benefits, as the Company satisfies the performance obligation;

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The customer controls related assets, even if the Company improve them;

The revenues can be measured reliably; and

The Company has the right to payment for the performance completed to date.

Sources of Revenue	For the year ended December 31, 2018		For the year ended December 31, 2017		For the year ended December 31, 2016	
Revenues sale of products	**Ps.**	**181,823**	Ps.	182,850	Ps.	177,082
Services rendered		**330**		262		189
Other operating revenues		**189**		144		447
Revenue from contracts with customers	**Ps.**	**182,342**	Ps.	183,256	Ps.	177,718

Variable allowances granted to customers

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

Contracts costs.

The incremental costs for obtaining a customer contracts are recognized as an asset if the Company expects to recover the costs associated to them. The incremental costs are those in which you incur to obtain a contract and that wouldn t be generated if the contract hadn t been obtained. The Company recognizes these costs as an expense in the profit and loss statement when the associated income is realized in a period equal or less than one year. For any other cost related with the customer contract fulfillment, but not part of the own income recognition, is considered as an assets including all the incurred costs only if those costs are directly related with a contract or with an expected contract that the Company can specifically identify, and also that these costs generate or improve the resources that the Company will use to satisfy or continuing satisfying ; the future performance obligations and if it is expected to recover these associated costs. The recognized assets, as previously indicated, is amortized in a systematic way as goods and services are transferred to the client in such way that the asset will be recognized in the profit and loss statement through its amortization in the same period that revenue is accountably recognized.

3.23 Administrative and selling expenses

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

Selling expenses include:

Distribution: labor costs (salaries and other related benefits), outbound freight costs, warehousing costs of finished products, depreciation of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2018, 2017 and 2016, these distribution costs amounted to Ps. 23,421, Ps. 25,041 and Ps. 20,250, respectively;

Sales: labor costs (salaries and other benefits including PTU) and sales commissions paid to sales personnel;

Marketing: promotional expenses and advertising costs.

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

3.24 Income taxes

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

3.24.1 Current income taxes

Income taxes are recorded in the results of the year they are incurred.

3.24.2 Deferred income taxes

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

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

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

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

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

In Mexico, the income tax rate is 30% for 2018, 2017 and 2016. As a result of the Mexican Tax Reform mentioned below, for the year 2019 the country will continue with a tax rate of 30%.

3.25 Share-based payments transactions

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

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

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3.26 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its shares. As described in Note 23, the Company has potentially dilutive shares and therefore presents its basic and diluted earnings per share. Basic EPS is calculated by dividing the net income attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Earnings per shares for all periods are adjusted to give effect to capitalizations, bonus issues, share splits or reverse share splits that occur during any of periods presented and subsequent to the latest balance sheet date until the issuance date of the financial statements.

3.27 Issuance of common shares

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

Note 4. Mergers and Acquisitions

4.1 Mergers and Acquisitions

The Company has consummated certain business mergers and acquisitions during 2018, 2017 and 2016 that were recorded using the acquisition method of accounting. The results of the acquired operations have been included in the consolidated financial statements since the date on which the Company obtained control of the respective business, as disclosed below. Therefore, the consolidated statements of income and the consolidated statements of financial position in the year of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2018, 2017 and 2016 show the merged and acquired operations net of the cash acquired in those mergers and acquisitions.

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

4.1.1 Other acquisitions

During 2018 the Company had some acquisitions that together amounted to Ps. 5,692. These acquisitions were principally: (1) Acquisition of 100% of the Guatemalan Company Alimentos y Bebidas del Atlántico, S.A. (ABASA) that was a bottler of Cola Cola Company products which operated in the north and orient zone of Guatemala, which is included in the Company results since May, 2018; (2) Acquisition of 100% of Comercializadora y Distribuidora Los Volcanes S.A (Los Volcanes) which was a bottler of Cola- Cola Company products which operated in the south and occident zone of Guatemala and which is included in the Company s consolidated results beginning in May, 2018; and (3) Acquisition of 100% of Montevideo Refrescos S.R.L. (MONRESA) founded in 1943 and is responsible for the production and distribution for the Coca Cola Company brands portafolio in Uruguay, reaching a market of 3.4 millions of consumers through 26 thousand points of sale, which isincluded in the consolidated financial results beginning on July 2018.

The Company is in the process of finalizing the allocation of the purchase price to the fair values of the identifiable assets acquired and liabilities assumed. This process is expected to be completed for each acquisition within12 months of the acquisition date.

The preliminary allocation of the purchase prices to the fair value of the net assets acquired is as follows.

Total acurrent assets, including cash aquired de Ps. 860	**Ps. 1,846**
Total non current assets	**3,795**
Distribution rights	**4,602**
Total assets	**10,243**
Total liabilities	**(3,691)**
Net assets aquired	**6,552**
Total consideration transferred	**6,552**
Cash aquired	**(860)**
Net cash paid	**Ps. 5,692**

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

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

Profit and loss statements	2018
Total revenue	Ps. 4,628
Income before taxes	496
Net income	413

Unaudited Pro Forma Financial Data.

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

	Unaudited Pro Forma Financial Information for the year ended December 31, 2018
Total revenues	Ps. 185,737
Income before taxes	17,763
Net income	15,500

4.1.2 Acquisition of Vonpar

On December 6, 2016, the Company through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Vonpar S.A. (herein Vonpar) for a consideration transferred of Ps. 20,992. Vonpar was a bottler of Coca-Cola trademark products which operated mainly in Rio Grande do Sul and Santa Catarina, Brazil. This acquisition was made to reinforce the Company s leadership position in Brazil.

Of the purchase price of approximately Ps. 20,992 (R$3,508); Spal paid an amount of approximately Ps. 10,370 (R$1,730) in cash on December 6, 2016.

On the same date Spal additionally paid Ps. 4,124 (R$688) in cash, of which in a subsequent and separate transaction the sellers committed to capitalize for an amount of Ps. 4,082 into Coca-Cola FEMSA in exchange for approximately 27.9 million KOF series L shares at an implicit value of Ps. 146.27. In May 4, 2017, the Company merger with POA Eagle, S.A. de C.V., a Mexican company 100% owned by the sellers of Vonpar in Brazil, as per the announcement made on September 23, 2016. As a result of this merger, POA Eagle, S.A. de C.V. shareholders received 27.9 million newly issued KOF series L shares in exchange for cash accounts of POA Eagle,S.A. de C.V. for an amount of $4,082 million Mexican pesos.

At Closing, Spal issued and delivered a three-year promissory note to the sellers, for the remaining balance of 1,090 million Brazilian reais (approximately Ps.6,534 million as of December 6, 2016). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into the Company in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to the Company having a sufficient number of Series L shares available for issuance.

As of December 6, 2016, the fair value of KOF series L (KL) shares was Ps. 128.88 per share, in addition the KL shares have not been issued, and consequently as a result of this subsequent transaction an embedded financial instrument was originated and recorded into equity for an amount of Ps. 485. In accordance with IAS 32, in the consolidated financial statements the purchase price was also adjusted to recognize the fair value of the embedded derivative arising from the difference between the implicit value of KL shares and the fair value at acquisition date.

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Transaction related costs of Ps. 35 were expensed by Spal as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Results of operation of Vonpar have been included in the Company s consolidated operating results from the acquisition date.

The fair value of Vonpar s net assets acquired is as follows:

	Final
Total current assets, including cash acquired of Ps. 1,287	Ps. 4,390
Total non-current assets	11,344
Distribution rights	14,793
Total assets	30,527
Total liabilities	11,708
Net assets acquired	18,819
Goodwill	2,173
Total consideration transferred	Ps. 20,992
Amount to be paid through Promissory Notes	(6,992)
Cash acquired of Vonpar	(1,287)
Amount recognized as embedded financial instrument	485
Net cash paid	13,198

(1) As a result of the purchase price allocation which was finalized in 2017, additional fair value adjustments from those recognized in 2016 have been recognized as follow: Total non-current assets amounted of Ps. 490, distribution rights of Ps. 5,192 and goodwill of Ps. (5,681).

The Company expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to the Company´s cash generating unit in Brazil. The goodwill recognized and expected to be deductible for income tax purposes according to Brazil tax law, is Ps. 1,667.

Selected income statement information of Vonpar for the period from the acquisition date through to December 31, 2016 is as follows:

Income statement	2016
Total revenues	Ps. 1,628
Income before taxes	380
Net income	252

Unaudited Pro Forma Financial Data.

The following unaudited 2016 consolidated pro forma financial data represent the Company s historical financial statements, adjusted to give effect to (i) the acquisition of Vonpar, as if the acquisition had occurred on January 1, 2016; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired group of companies.

	Unaudited Pro Forma Financial Information for the year ended December 31, 2016
Total revenues	Ps. 187,139
Income before taxes	15,819
Net income	11,539
Earnings per share	0.61

4.1.3 Acquisition of Philippines

In January 2013, the Company acquired a 51.0% non-controlling majority stake in CCFPI from The Coca-Cola Company. As mentioned in Note 19.6, the Company has a Call Option to acquire the remaining 49.0% stake in CCFPI at any time during the seven years following the closing date. The Company also has a Put Option to sell its ownership in CCFPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Pursuant to the Company s shareholders agreement with The Coca-Cola Company, during a four-year period that ended on January 25, 2017, all decisions relating to CCFPI were approved jointly with The Coca-Cola Company. Since January 25, 2017, the Company controls CCFPI s as all decisions relating to the day-to-day operation and management of CCFPI s business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) CCFPI s chief financial officer. The Company has the right to appoint (and may remove) the chief executive officer and all other officers of CCFPI. Commencing on February 1, 2017, the Company started consolidating CCFPI s financial results in its financial statements.

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The Company fair value of CCFPI net assets acquired to the date of acquisition (February 2017) is as follows:

Total current assets, including cash acquired of Ps. 4,038	Ps. 9,645
Total non-current assets	18,909
Distribution rights	4,144
Total assets	32,698
Total liabilities	(10,101)
Net assets acquired	22,597
Net assets acquired attributable to the parent company (51%)	11,524
Non-controlling interest (49%)	(11,073)
Fair value of the equity of CCFPI at the acquisition date	22,110
Carrying value derecognized of CCFPI investment	11,690
Loss as a result of premeasuring to fair value the equity interest	(166)
Gain on recycling of other comprehensive income translation effects	2,996
Total net effect in P&L	Ps. 2,830

As a result of taking control over CCFPI, during 2017, the accumulated effect corresponding to translation adjustments recorded in the other comprehensive income for an amount of Ps. 2,996 were recognized in the income statement.

Unaudited Pro Forma Financial Data.

The following unaudited 2017 consolidated pro forma financial data represent the Company s historical financial statements, adjusted to give effect to (i) the consolidation of Philippines, as if the consolidation had occurred on January 1, 2017; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired group of companies.

	Unaudited Pro Forma Financial Information for the year ended December 31, 2017
Total revenues	Ps. 205,436
Loss before taxes	(7,109)
Net loss	(11,559)

Selected income statement information of Philippines for the period from the acquisition date through to December 31, 2017 is as follows:

Income statement	2017
Total revenues	Ps. 20,524
Income before taxes	1,265
Net income	896

Note 5. Discontinued operations

On August 16, 2018, Coca- Cola FEMSA announced its decision to exercise the Put Option to sell its 51% of the Coca- Cola FEMSA Philippines, Inc. (CCFPI) to The Coca- Cola Company. Such decision was approved by the Company s board on August 6, 2018. Consequently, beginning August 31, 2018, CCFPI had been classified as an asset held for sale and its operations as a discontinued operation in the financial statements for December 31, 2017 and 2018. Previously CCFPI represented the Asia division and was considered an independent segment until December 31, 2017. Since its designation as discontinued operation, the Asia segment is no longer a separate segment in Note 26. The sale was completed on December 13, 2018, with the following results.

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a) **Discontinued operations results.**

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

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

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

Note 6. Cash and Cash Equivalents

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

	2018	2017
Cash and bank balances	Ps. 7,778	Ps. 9,497
Cash equivalents (see Note 3.5)	**15,949**	9,270
	Ps. **23,727**	Ps. **18,767**

As explained in Note 3.3, as of December 31, 2017. Venezuela s operation was deconsolidated. . Cash and cash equivalent balances of the Venezuela s operations were Ps.170.

Note 7. Trade Receivable, Net

	2018	2017
Trade receivables	Ps. **11,726**	Ps. 13,131
The Coca-Cola Company (related party) (Note 14)	**1,173**	2,054
Loans to employees	**77**	96
FEMSA and subsidiaries (related parties) (Note 14)	**783**	402
Other related parties (Note 14)	**575**	317
Shareholders Vonpar (Note 14)(1)		1,219
Other	**1,108**	825
Allowance for expected credit losses	**(595)**	(468)
	Ps. **14,847**	Ps. 17,576

(1) Balance compensated vs promissory note according to Share Purchase Agreement.

7.1 Trade receivables

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

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

During 2017, the Company took advantage of a Brazilian tax amnesty program. The settlement of certain outstanding matters under that amnesty program generated a benefit of Ps. 1,874 such benefit has been offset against the corresponding indemnifiable assets.

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, 2018, the Company does not have a representative group of customers directly related to the expected loss.

The allowance for credit losses is calculated with an expected losses model that recognizes the impairment losses through all the contract life. For this particular event, because generally are short-term accounts receivable, the company defined a model with a simplified expected loses focus thorough 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, 2018 and 2017.

Aging for trade receivables past due but not impaired	2018	2017
0 days	**Ps. 12,578**	Ps. 15,314
1-30 days	**1,045**	1,550
31-60 days	**193**	129
61-90 days	**310**	45
91-120 days	**17**	23
121 + days	**704**	515

Total	**Ps. 14,847**	Ps. 17,576

7.2 Changes in the allowance for expected credit losses

	2018	2017	2016
Balance at the beginning of the year	Ps. **468**	Ps. 451	Ps. 283
Effect of adoption of IFRS 9	**87**		
Allowance for the year	**153**	40	6
Charges and write-offs of uncollectible accounts	**23**	(62)	(3)
Added in business combinations	**1**	86	94
Effects of changes in foreign exchange rates	**(55)**	(45)	71
Effect of Venezuela (See Note 3.3)		(2)	
Effect of Philippines (Note 5)	**(82)**		
Balance at the end of the year	Ps. **595**	Ps. 468	Ps. 451

In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

7.3 Payments from The Coca-Cola Company:

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Company s refrigeration equipment and returnable bottles investment program. Contributions received by the Company for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the carrying amount of refrigeration equipment and returnable bottles items. For the years ended December 31, 2018, 2017 and 2016 contributions due were Ps. **3,542**, Ps. 4,023 and Ps. 4,518, respectively.

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Note 8. Inventories

	2018	2017
Finished products	Ps. 3,956	Ps. 3,691
Raw materials	3,074	4,092
Non-strategic spare parts	1,155	1,838
Inventories in transit	1,311	1,208
Packing materials	239	490
Other	316	45
	Ps. 10,051	Ps. 11,364

For the years ended as of December 31, 2018, 2017 and 2016, the Company recognized write-downs of its inventories for Ps. **122**, Ps. 185 and Ps. 301, respectively to net realizable value.

For the years ended as of December 31, 2018, 2017 and 2016, changes in inventories are comprised as follows and included in the consolidated income statement under the cost of goods sold caption:

	2018	2017	2016
Changes in inventories of finished goods and work in progress	Ps. 21,457	Ps. 21,412	Ps. 18,154
Raw materials and consumables used	75,078	80,318	62,534
Total	Ps. 96,535	Ps. 101,730	Ps. 80,688

Note 9. Other Current Assets and Other Current Financial Assets

9.1 Other Current Assets:

	2018	2017
Prepaid expenses	Ps. 1,876	Ps. 1,849
Agreements with customers	146	192
	Ps. 2,022	Ps. 2,041

Prepaid expenses as of December 31, 2018 and 2017 are as follows:

	2018	2017
Advances for inventories	Ps. 1,311	Ps. 1,243
Advertising and promotional expenses paid in advance	509	367

Advances to service suppliers	**1**	142
Prepaid insurance	**24**	39
Others	**31**	58
	Ps. **1,876**	Ps. 1,849

Advertising and promotional expenses was recorded in the consolidated income statements for the years ended December 31, 2018, 2017 and 2016 amounted to Ps. **5,813**, Ps. 4,504 and Ps. 5,030 respectively.

9.2 Other Current Financial Assets:

	2018	2017
Restricted cash	Ps. **98**	Ps. 504
Derivative financial instruments (See Note 20	**707**	233
	Ps. **805**	Ps. 737

As of December 31, 2018 and 2017, restricted cash were in the following currencies:

	2018	2017
Brazilian reais	Ps. **98**	Ps. 65
Colombian pesos		439
Total restricted cash	Ps. **98**	Ps. 504

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

As of December 21, 2017 due to a jurisdictional order with the municipal sewage system services, the Colombian authorities withheld all the cash that Company has in some specific bank account, such amount was reclassified as restricted cash according with Company s accounting policy pending resolution of the order. As of December 31, 2018 this restricted cash has been completely released.

Note 10. Investments in Other Entities

As of December 31, 2018 and 2017 the investment in other entities is integrated as follows:

	2018	2017
Investment in Associates and Joint Ventures	Ps. **10,518**	Ps. 11,501
Investment in Venezuelan operations		1,039
Total	Ps. **10,518**	Ps. 12,540

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

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

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

			Ownership Percentage		**Carrying Amount**	
Investee	**Principal Activity**	**Place of Incorporation**	**2018**	2017	**2018**	2017
Joint ventures:						
Compañía Panameña de Bebidas, S.A.P.I. de C.V.	Beverages	Mexico	**50.0%**	50.0%	Ps. **1,550**	Ps. 2,036
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	**50.0%**	50.0%	**162**	153
Fountain Agua Mineral, LTDA	Beverages	Brazil	**50.0%**	50.0%	**826**	784
Associates:						
Promotora Industrial Azucarera, S.A. de C.V. (PIASA[(1)])	Sugar production	Mexico	**36.4%**	36.4%	**3,120**	2,933
	Beverages	Mexico	**26.3%**	26.3%	**1,571**	1,560

Jugos del Valle, S.A.P.I. de C.V. [1]						
Leao Alimentos e Bebidas, LTDA [1]	Beverages	Brazil	**24.7%**	24.4%	**2,084**	3,001
UBI 3 Participacoes, LTDA[1]	Beverages	Brazil	**26.0%**	26.0%	**7**	391
Industria Envasadora de Querétaro, S.A. de C.V. (IEQSA[1])	Caned bottling	Mexico	**26.5%**	26.5%	**179**	177
Industria Mexicana de Reciclaje, S.A. de C.V. (IMER[1])	Recycling	Mexico	**35.0%**	35.0%	**129**	121
KSP Participacoes, LTDA [1]	Beverages	Brazil	**31.4%**	38.7%	**104**	117
Other	Various	Various	**Various**	Various	**786**	228
					Ps. **10,518**	Ps. 11,501

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 2018 the Company received dividends from Industria envasadora de Queretaro, S.A. de C.V. for the amount of **Ps. 8**. During 2017 the Company received dividends from Industria Envasadora de Querétaro, S.A. de C.V. (IEQSA) and Promotora Mexicana de Embotelladores, S.A. de C.V. in the amount of **Ps. 16** and Ps. 17.

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

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

During 2017 the Company made capital contributions to Compañía Panameña de Bebidas, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 349 and Ps. 182, respectively, there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders. On June 25, 2017, the Company through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. sold 3.05% of their participation in Leao Alimentos e Bebidas, LTDA for an amount of Ps. 198.

On March 28, 2017 as part of AdeS acquisition the Company acquired an indirect participation in equity method investees in Brazil and Argentina for an aggregate amount of Ps.587. During 2017, Itabirito merged with Spal this transaction did not generate any cash flow.

For the years ended December 31, 2018, 2017 and 2016 the equity earnings recognized for associates was Ps. 44, Ps. 235 and Ps. 31, respectively.

For the years ended December 31, 2018, 2017 and 2016 the equity (loss) earnings recognized for joint ventures was Ps.(270), Ps. (175) and Ps. 116, respectively.

Note 11. 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, 2016	Ps. 4,707	Ps. 14,145	Ps. 30,688	Ps. 14,576	Ps. 11,651	Ps. 3,812	Ps. 596	Ps. 915	Ps. 81,090
Additions	7	204	1,415	337	2,236	5,737	4	367	10,307
Additions from business combinations		517	864	105	23		4		1,513
Transfer of completed projects in progress	46	1,031	2,403	1,978	779	(6,265)	28		
Disposals	(43)	(17)	(1,647)	(574)	(139)		(43)	(18)	(2,481)
Effects of changes in foreign exchange rates	252	2,575	4,719	1,953	1,271	546	56	(132)	11,240
Changes in value on the recognition of	853	1,470	2,710	851	122	415		942	7,363

inflation effects									
Capitalization of borrowing costs			61			(37)			24
Cost as of December 31, 2016	Ps. 5,822	Ps. 19,925	Ps. 41,213	Ps. 19,226	Ps. 15,943	Ps. 4,208	Ps. 645	Ps. 2,074	Ps. 109,056

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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, 2017	Ps. 5,822	Ps. 19,925	Ps. 41,213	Ps. 19,226	Ps. 15,943	Ps. 4,208	Ps. 645	Ps. 2,074	Ps. 109,056
Additions	110	775	275	758	3,202	5,762	11	176	11,069
Additions from business combinations	5,115	1,691	5,905	482	3,323	820	146		17,482
Transfer of completed projects in progress	5	653	2,964	1,968	558	(6,174)	28	(2)	
Disposals	(115)	(527)	(1,227)	(800)	(193)		(3)	(11)	(2,876)
Effects of changes in foreign exchange rates	(1,046)	(1,993)	(2,740)	(1,523)	(1,216)	(747)	(52)	(1,233)	(10,550)
Changes in value on the recognition of inflation effects	518	1,022	2,043	689	(2)	226		638	5,134
Capitalization of borrowing costs			13						13
Effects Venezuela (Note 3.3)	(544)	(817)	(1,300)	(717)	(83)	(221)		(646)	(4,328)
Cost as of December 31, 2017	Ps. 9,865	Ps. 20,729	Ps. 47,146	Ps. 20,083	Ps. 21,532	Ps. 3,874	Ps. 775	Ps. 996	Ps. 125,000

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Cost as of January 1, 2018	**Ps. 9,865**	**Ps. 20,729**	**Ps. 47,146**	**Ps. 20,083**	**Ps. 21,532**	**Ps. 3,874**	**Ps. 775**	**Ps. 996**	**Ps. 125,000**
Additions	**31**	**8**	**1,356**	**961**	**2,888**	**4,578**		**95**	**9,917**
	25	**451**	**1,500**	**537**	**393**	**145**	**2**	**41**	**3,094**

Additions from business combinations									
Transfer of completed projects in progress	**504**	**304**	**1,160**	**1,711**	**3**	**(3,722)**	**20**	**20**	
Disposals	**(50)**	**(71)**	**(555)**	**(615)**	**(312)**		**(1)**	**(8)**	**(1,612)**
Disposal of Philippines	**(4,654)**	**(2,371)**	**(11,621)**	**(2,415)**	**(10,116)**	**(489)**	**(236)**		**(31,902)**
Effects of changes in foreign exchange rates	**(388)**	**(1,089)**	**(3,072)**	**(765)**	**(251)**	**(321)**	**(81)**	**(292)**	**(6,259)**
Changes in value on the recognition of inflation effects	**242**	**814**	**2,551**	**466**	**612**	**66**		**9**	**4,760**
Cost as of December 31, 2018	**5,575**	**18,775**	**38,465**	**19,963**	**14,749**	**4,131**	**479**	**861**	**102,998**

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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, 2016	Ps.	Ps. (2,704)	Ps. (12,788)	Ps. (7,152)	Ps. (7,378)	Ps.	Ps. (135)	Ps. (401)	Ps. (30,558)
Depreciation for the year		(455)	(2,638)	(2,008)	(2,235)		(43)	(200)	(7,579)
Disposals		11	1,210	672	227		8	9	2,137
Effects of changes in foreign exchange rates		(595)	(2,615)	(1,148)	(845)		(65)	39	(5,229)
Changes in value on the recognition of inflation effects		(592)	(1,087)	(521)	(33)			(306)	(2,539)
Accumulated depreciation as of December 31, 2016	Ps.	Ps. (4,335)	Ps. (17,918)	Ps. (10,157)	Ps. (10,264)	Ps.	Ps. (235)	Ps. (859)	Ps. (43,768)

Accumulated Depreciation	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Accumulated depreciation as of January 1, 2017	Ps.	Ps. (4,335)	Ps. (17,918)	Ps. (10,157)	Ps. (10,264)	Ps.	Ps. (235)	Ps. (859)	Ps. (43,768)
Depreciation for the year		(626)	(3,007)	(2,490)	(3,365)		(43)	(685)	(10,216)
Disposals		12	1,555	729	103		2	5	2,406
Effects of changes in foreign exchange rates		548	447	1,157	94		(54)	940	3,132
		(439)	(1,042)	(553)	(46)			(233)	(2,313)

Changes in value on the recognition of inflation effects									
Effect Venezuela		481	1,186	626	56			335	2,684
Impairment Venezuela (Note 3.3)		(257)	(841)						(1,098)
Accumulated depreciation as of December 31, 2017	Ps.	Ps. (4,616)	Ps. (19,620)	Ps. (10,688)	Ps. (13,422)	Ps.	Ps. (330)	Ps. (497)	Ps. (49,173)

Accumulated Depreciation	**Land**	**Buildings**	**Machinery and Equipment**	**Refrigeration Equipment**	**Returnable Bottles**	**Investments in Fixed Assets in Progress**	**Leasehold Improvements**	**Other**	**Total**
Accumulated depreciation as of January 1, 2018		**Ps. (4,616)**	**Ps. (19,620)**	**Ps. (10,688)**	**Ps. (13,422)**	**Ps.**	**Ps. (330)**	**Ps. (497)**	**Ps. (49,173)**
Depreciation for the year		**(445)**	**(2,880)**	**(2,086)**	**(2,827)**		**(35)**	**(131)**	**(8,404)**
Disposals		**15**	**497**	**579**	**204**		**1**		**1,296**
Philippines disposal		**700**	**6,125**	**2,083**	**7,225**		**77**		**16,210**
Effects of changes in foreign exchange rates		**154**	**312**	**244**	**631**		**11**	**143**	**1,495**
Changes in value on the recognition of inflation effects		**(222)**	**(1,403)**	**(338)**	**(517)**				**(2,480)**
Accumulated depreciation as of December 31, 2018	**Ps.**	**Ps. (4,414)**	**Ps. (16,969)**	**Ps. (10,206)**	**Ps. (8,706)**	**Ps.**	**Ps. (276)**	**Ps. (485)**	**Ps. (41,056)**

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Carrying Amount	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
As of December 31, 2016	Ps. 5,822	Ps. 15,590	Ps. 23,295	Ps. 9,069	Ps. 5,679	Ps. 4,208	Ps. 410	Ps. 1,215	Ps. 65,288
As of December 31, 2017	Ps. 9,865	Ps. 16,113	Ps. 27,526	Ps. 9,395	Ps. 8,110	Ps. 3,874	Ps. 445	Ps. 499	Ps. 75,827
As of December 31, 2018	**Ps. 5,575**	**Ps. 14,361**	**Ps. 21,496**	**Ps. 9,757**	**Ps. 6,043**	**Ps. 4,131**	**Ps. 203**	**Ps. 376**	**Ps. 61,942**

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

Note 12. Intangible Assets

	Rights to Produce and Distribute Coca-Cola trademark Products	Goodwill	Other indefinite lived intangible assets	Technology Costs and management systems	Development systems	Other amortizable	Total
Balance as of January 1, 2016	Ps. 66,392	Ps. 21,037	Ps. 120	Ps. 3,850	Ps. 683	Ps. 330	Ps. 92,412
Purchases				127	609	2	738
Acquisition from business combinations	9,602	7,856	1,067	247	3	109	18,884
Transfer of completed development systems				304	(304)		
Disposals				(323)		(2)	(325)
Effect of movements in exchange rates	8,124	4,689	61	363	(193)	36	13,080
Changes in value on the recognition of inflation effects	1,220						1,220
				11			11

Capitalization of borrowing cost							
Cost as of December 31, 2016	Ps. 85,338	Ps. 33,582	Ps. 1,248	Ps. 4,579	Ps. 798	Ps. 475	Ps. 126,020
Balance as of January 1, 2017	Ps. 85,338	Ps. 33,582	Ps. 1,248	Ps. 4,579	Ps. 798	Ps. 475	Ps. 126,020
Purchases	1,288		7	179	920	446	2,840
Acquisition from business combinations	9,066	(6,168)		6		64	2,968
Transfer of completed development systems				412	(412)		
Disposals							
Effect of movements in exchange rates	(2,318)	(1,186)	101	(86)	(15)	(52)	(3,556)
Changes in value on the recognition of inflation effects	(727)					175	(552)
Effect Venezuela (Note 3.3)						(139)	(139)
Capitalization of borrowing cost							
Cost as of December 31, 2017	Ps. 92,647	Ps. 26,228	Ps. 1,356	Ps. 5,090	Ps. 1,291	Ps. 969	Ps. 127,581
Balance as of January 1, 2018	**Ps. 92,647**	**Ps. 26,228**	**Ps. 1,356**	**Ps. 5,090**	**Ps. 1,291**	**Ps. 969**	**Ps. 127,581**
Purchases			**50**	**226**	**371**	**28**	**675**
Acquisition from business combinations	**4,602**			**26**	**57**	**291**	**4,976**
Systems Development						**41**	**41**
Transfer of completed development systems				**904**	**(904)**		
Disposals				**(5)**		**(93)**	**(98)**
Philippines disposal (Note 5)	**(3,882)**					**(596)**	**(4,478)**
Effect of movements in exchange rates	**(5, 005)**	**(2,499)**	**(352)**	**(218)**	**(38)**	**(31)**	**(8,143)**
Changes in value on the recognition of						**57**	**57**

inflation effects														
Capitalization of borrowing cost														
Cost as of December 31, 2018	Ps.	**88,362**	Ps.	**23,729**	Ps.	**1,054**	Ps.	**6,023**	Ps.	**777**	Ps.	**666**	Ps.	**120,611**

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Accumulated amortization							
Balances as of January 1, 2016				(1,438)		(220)	(1,658)
Amortization expense				(427)		(35)	(462)
Disposals				249			249
Effect of movements in exchange rate				(148)		(37)	(185)
Balances as of December 31, 2016				(1,764)		(292)	(2,056)
Amortization expense				(605)		(42)	(647)
Effect of movements in exchange rate				46		184	230
Effect Venezuela (Note 3.3)						(120)	(120)
Impairment Venezuela	(745)						(745)
Balances as of December 31, 2017	Ps. (745)	Ps.	Ps.	Ps. (2,323)	Ps.	Ps. (270)	Ps. (3,338)
Amortization expense				(797)		(201)	(998)
Disposals				5		93	98
Philippines disposal (Note 5)						375	375
Effect of movements in exchange rate				141		(33)	108
Changes in value on the recognition of inflation effects				(51)		(1)	(52)
Cost as of December 31, 2018	Ps. (745)	Ps.	Ps.	Ps. (3,025)	Ps.	Ps. (37)	Ps. (3,807)
Balance as of December 31, 2016	Ps. 85,338	Ps. 33,582	Ps. 1,248	Ps. 2,815	Ps. 798	Ps. 183	Ps. 123,964
Balance as of December 31, 2017	Ps. 91,902	Ps. 26,228	Ps. 1,356	Ps. 2,767	Ps. 1,291	Ps. 699	Ps. 124,243
Balance as of December 31, 2018	**Ps. 87,617**	**Ps. 23,729**	**Ps. 1,054**	**Ps. 2,998**	**Ps. 777**	**Ps. 629**	**Ps. 116,804**

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

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

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

For the year ended December 31, 2016, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 8, Ps. 106 and Ps. 358, respectively.

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.

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.	2018	2017
Mexico	**Ps. 56,352**	Ps. 56,352
Guatemala	**1,853**	488
Nicaragua	**460**	484
Costa Rica	**1,417**	1,520
Panamá	**1,182**	1,185
Colombia	**4,600**	5,824
Uruguay	**3,003**	
Brazil	**42,153**	48,345
Argentina	**327**	50
Philippines		3,882
Total	**Ps. 111,347**	Ps. 118,130

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

The foregoing forecasts could differ from the results obtained over time; however, the Company prepares its estimates based on the current situation of each of the CGUs.

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

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

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

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

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

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

Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. The Company believes that this forecasted period is justified due to the non-current nature of the business and past experiences.

Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.

A per CGU-specific Weighted Average Cost of Capital (WACC) was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjustment.

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

CGU	**Pre-tax WACC**	**Post tax WACC**	**Expected Annual Long-Term Inflation 2019-2028**	**Expected Volume Growth Rates 2019-2028**
Mexico	**7.4%**	**5.3%**	**4.0%**	**1.4%**
Guatemala	**9.4%**	**7.5%**	**3.2%**	**7.3%**
Nicaragua	**21.2%**	**11.0%**	**6.2%**	**3.8%**
Costa Rica	**13.9%**	**9.2%**	**4.0%**	**1.6%**

CGU	Pre-tax WACC	Post tax WACC	Expected Annual Long-Term Inflation 2019-2028	Expected Volume Growth Rates 2019-2028
Panamá	**9.2%**	**7.0%**	**2.4%**	**3.0%**
Colombia	**7.8%**	**5.2%**	**3.1%**	**4.0%**
Brazil	**10.7%**	**6.6%**	**3.8%**	**1.7%**
Argentina	**19.6%**	**11.3%**	**21.9%**	**2.7%**

The key assumptions by CGU for impairment test as of December 31, 2017 were as follows:

CGU	Pre-tax WACC	Post tax WACC	Expected Annual Long-Term Inflation 2018-2027	Expected Volume Growth Rates 2018-2027
Mexico	7.3%	5.3%	3.7%	2.2%
Guatemala	13.9%	10.7%	4.7%	7.1%
Nicaragua	16.6%	10.6%	5.0%	4.9%
Costa Rica	11.5%	7.8%	3.3%	2.7%
Panama	8.3%	6.5%	2.3%	3.4%
Colombia	9.1%	6.6%	3.1%	3.2%
Brazil	9.7%	6.2%	4.1%	1.3%
Argentina	11.0%	7.3%	10.7%	3.1%
Philippines	9.7%	5.9%	3.6%	3.4%

Sensitivity to Changes in Assumptions

As of December 31, 2018, the Company performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and an additional sensitivity to the volume of a 100 basis points and concluded that no impairment would be recorded except for Nicaragua. However, upon further review, the Company also concluded that no impairment would be recorded for Nicaragua.

CGU	Change in WACC	Change in Volume Growth CAGR[(1)]	Effect on Valuation
Mexico	**+0.3%**	**-1.0%**	Passes by **5.0**x
Guatemala	**+0.7%**	**-1.0%**	Passes by **18.4**x
Nicaragua	**+0.3%**	**-0.3%**	Passes by **1.0**x
Costa Rica	**+1.7%**	**-1.0%**	Passes by **1.9**x
Panama	**+0.3%**	**-1.0%**	Passes by **6.9**x
Colombia	**+0.6%**	**-1.0%**	Passes by **3.9**x
Brazil	**+1.1%**	**-1.0%**	Passes by **1.3**x
Argentina	**+6.1%**	**-1.0%**	Passes by **8.9**x

(1) Compound Annual Growth Rate (CAGR)

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

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

Note 13. Other non-current assets and other non-current financial assets

13.1 Other Non-Current Assets:

	2018	2017
Non-current prepaid advertising expenses	Ps. 388	Ps. 376
Guarantee deposits (1)	1,647	1,835
Prepaid bonuses	247	195
Advances to acquire property, plant and equipment	233	266
Shared based payment	160	151
Indemnifiable contingencies from business combinations (2)	3,336	4,510
Recoverable tax added in business combinations	395	459
Other	66	329
	Ps. 6,472	Ps. 8,121

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

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

13.2 Other Non-Current Financial Assets:

	2018	2017
Other non-current financial assets	Ps. 226	Ps. 322
Derivative financial instruments (See Note 20)	1,897	955
	Ps. 2,123	Ps. 1,277

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 14. Balances and Transactions with Related Parties and Affiliated Companies

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note.

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

	2018	2017
Balances:		
Assets (current included in accounts receivable)		
Due from FEMSA and Subsidiaries (see Note 7) [(1)] [(3)]	**Ps. 783**	Ps. 402
Due from The Coca-Cola Company (see Note 7) [(1)] [(3)]	**1,173**	2,054
Due from Heineken Group [(1)]	**243**	290
Other receivables [(1)]	**332**	27
Shareholders Vonpar (see Note 7)		1,219
	Ps. 2,531	Ps. 3,992

	2018	2017
Liabilities (current included in suppliers and other liabilities and loans)		
Due to FEMSA and Subsidiaries [(2)] [(3)]	**Ps. 1,371**	Ps. 1,038
Due to The Coca-Cola Company [(2)] [(3)]	**3,893**	3,731
Due to Heineken Group[(2)]	**1,446**	1,348
Other payables [(2)]	**820**	330
	Ps. 7,530	Ps. 6,447

(1) Presented within accounts receivable.
(2) Recorded within accounts payable and suppliers
(3) Parent

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

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

Transactions	2018	2017	2016
Income:			
Sales to affiliated parties	**Ps. 5,200**	Ps. 4,761	Ps. 4,274
Ades	**592**		
Heineken	**4**		
Interest income received from Compañía Panameña de Bebidas, S.A.P.I. de C.V.			1
Interest income received from BBVA Bancomer, S.A. de C.V.	**180**	138	17
Expenses:			
Purchases and other expenses of FEMSA	**8,878**	7,773	8,328
Purchases of concentrate from The Coca-Cola Company	**32,379**	30,758	38,146
Purchases of raw material, beer and operating expenses from Heineken	**14,959**	13,608	8,823
Advertisement expense paid to The Coca-Cola Company	**2,193**	1,392	2,354
Purchases from Jugos del Valle	**2,872**	2,604	2,428
Purchase of sugar to Promotora Industrial Azucarera, S.A. de C.V.	**2,604**	1,885	1,765
Purchase of sugar from Beta San Miguel	**651**	1,827	1,349
Purchase of sugar, cans and aluminum lids to Promotora Mexicana de Embotelladores, S.A. de C.V.		839	759
Purchase of canned products to Industria Envasadora de Queretaro, S.A. de C.V.	**596**	804	798
Purchase of inventories to Leao Alimentos e Bebidas, LTDA	**2,654**	4,010	3,448
Purchase of resin from Industria Mexicana de Reciclaje, S.A. de C.V.	**298**	267	265
Donations to Instituto Tecnologico y de Estudios Superiores de Monterrey, A.C. (1) (2)	**127**	47	1
Donations to Fundación Femsa, A.C.	**179**	2	92
Interest expense paid to The Coca-Cola Company		11	
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. (1)			1
Interest and fees paid to Bancomer	**168**		
Other expenses with related parties	**79**	202	185

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

(2) In 2018 and 2017, there were donations to ITESM made through Fundacion FEMSA as intermediary for Ps. 127 and Ps. 47 respectively

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

	2018	2017	2016
Current employee benefits	**Ps. 705**	Ps. 621	Ps. 652
Termination benefits	**57**	27	154
Shared based payments	**157**	316	258

Note 15. 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, 2018 and 2017, 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, 2018				
U.S. dollars	**14,572**		**2,985**	**43,411**
Euros			**93**	
As of December 31, 2017				
U.S. dollars	5,852		2,783	53,093
Euros			1,547	

As of year ended December 31, 2018, 2017 and 2016 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, 2018 U.S. dollars	**1,481**	**18,129**	**2,223**	**2,161**
Year ended December 31, 2018 Euros				
Year ended December 31, 2017 U.S. dollars	653	13,381	2,454	1,544
Year ended December 31, 2017 Euros		18		
Year ended December 31, 2016 U.S. dollars	736	13,242	2,235	1,796

Note 16. 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 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.

16.1 Assumptions

The Company annually evaluates the reasonableness of the assumptions used in its labor liability for post-employment and other non-current employee benefits computations. 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	**2018**	2017	2016
Financial:			
Discount rate used to calculate the defined benefit obligation	**9.4%**	7.60%	7.00%
Salary increase	**4.6%**	4.60%	4.50%
Future pension increases	**3.6%**	3.50%	3.50%
Biometric:			
Mortality	**EMSSA 2009 [(1)]**	EMSSA 2009 [(1)]	EMSSA 2009[(1)]
Disability	**IMSS-97[(2)]**	IMSS-97[(2)]	IMSS-97[(2)]
Normal retirement age	**60 years**	60 years	60 years
Rest of employee turnover	**BMAR2007 [(3)]**	BMAR2007 [(3)]	BMAR2007[(3)]

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

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

(3) BMAR. Actuary experience

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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
2019	**314**	**39**
2020	**230**	**30**
2021	**203**	**28**
2022	**182**	**27**
2023	**260**	**26**
2024 to 2028	**1,562**	**139**

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

	2018	2017
Pension and Retirement Plans:		
Vested benefit obligation	**Ps. 480**	Ps. 389
Non-vested benefit obligation	**1,210**	1,398
Accumulated benefit obligation	**1,690**	1,787
Excess of projected defined benefit obligation over accumulated benefit obligation	**1,695**	2,582
Defined benefit obligation	**3,385**	4,369
Pension plan funds at fair value	**(1,031)**	(1,692)
Net defined benefit liability	**Ps. 2,354**	Ps. 2,677
Seniority Premiums:		
Vested benefit obligation	**Ps. 40**	Ps. 36
Non-vested benefit obligation	**204**	267
Accumulated benefit obligation	**244**	303
Excess of projected defined benefit obligation over accumulated benefit obligation	**165**	158
Defined benefit obligation	**409**	461

	2018	2017
Seniority premium plan funds at fair value	**(111)**	(109)
Net defined benefit liability	**Ps. 298**	Ps. 352
Total post-employment and other non-current employee benefits	**Ps. 2,652**	Ps. 3,029

16.3 Trust assets

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

Type of instrument	**2018**	2017
Fixed return:		
Traded securities	**25%**	14%
Life annuities	**20%**	12%
Bank instruments	**4%**	6%
Federal government instruments	**32%**	50%
Variable return:		
Publicly traded shares	**19%**	18%
	100%	100%

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

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

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

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

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

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

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

	2018	2017
Mexico		
Portfolio:		
Debt:		
Grupo Televisa, S.A.B. de C.V.	**Ps. 17**	Ps. 17
Grupo Industrial Bimbo, S.A.B. de C. V.	**23**	24
Grupo Financiero Banorte, S.A.B. de C.V.	8	7
Banco Compartamos Banco.	**4**	
Gentera, S.A.B. de C.V.		8
Capital:		
Walmart de Mexico S.A de C.V.	6	
Fomento Económico Mexicano, S.A.B de C.V.	**5**	8
El Puerto de Liverpool, S.A.B. de C.V.	**3**	5
Grupo aeropuerto del sureste	2	
Grupo Televisa, S.A.B. de C.V.	**1**	
Gruma, S.A.B. de C.V.		3
Gentera, S.A.B. de C.V.		4

During the years ended December 31, 2018, 2017 and 2016, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during the following fiscal year.

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

	Income statement				Accumulated OCI
2018	**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. **195**	Ps.	Ps. **(5)**	Ps. **265**	Ps. 370
Seniority premiums	**42**			**34**	**(26)**
Total	Ps. **237**	Ps.	Ps. **(5)**	Ps. **299**	Ps. **344**

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2017	Income statement Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	Accumulated OCI Remeasurements of the Net Defined Benefit Liability net of taxes
Pension and retirement plans	Ps. 145	Ps. 10	Ps.	Ps. 140	Ps. 539
Seniority premiums	44			23	28
Total	Ps. 189	Ps. 10	Ps.	Ps. 163	Ps. 567

2016	Income statement Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	Accumulated OCI Remeasurements of the Net Defined Benefit Liability net of taxes
Pension and retirement plans	Ps. 145	Ps. 43	Ps. (61)	Ps. 134	Ps. 558
Seniority premiums	45			20	27
Total	Ps. 190	Ps. 43	Ps. (61)	Ps. 154	Ps. 585

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

	2018	2017	2016
Amount accumulated in other comprehensive income as of the beginning of the periods	**Ps. 567**	Ps. 585	Ps. 462
Recognized during the year (obligation liability and plan assets)	**100**	(169)	75
Actuarial gains and losses arising from changes in financial assumptions	**(357)**	165	(29)
Acquisitions	**(83)**		
Foreign exchange rate valuation (gain)	**(66)**	(14)	77
Philippines disposal	**183**		
Amount accumulated in other comprehensive income as of the end of the period, net of tax	**Ps. 344**	Ps. 567	Ps. 585

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.

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

	2018	2017	2016
Pension and Retirement Plans:			
Initial balance	**Ps. 4,369**	Ps. 2,915	Ps. 2,687
Current service cost	**195**	241	145
Effect on curtailment	**(5)**		(61)
Interest expense	**265**	258	194
Actuarial gains or losses	**(391)**	190	(7)
Foreign exchange loss	**(86)**	(69)	141
Benefits paid	**(265)**	(385)	(192)
Acquisitions	**417**	1,209	
Philippines disposal	**(1,111)**		
Past service cost		10	8
	Ps. 3,388	Ps. 4,369	Ps. 2,915
Seniority Premiums:			
Initial balance	**Ps. 461**	Ps. 416	Ps. 404
Current service cost	**42**	44	45
Effect on curtailment			
Interest expense	**34**	29	27
Actuarial gains or losses	**(84)**	12	(22)
Benefits paid	**(42)**	(40)	(38)
	Ps. 411	Ps. 461	Ps. 416
Post-employment:			
Initial balance	Ps.	Ps.	Ps. 135
Current service cost			
Certain liability cost			
Interest expense			
Reclassification to certain liability cost			(135)
Actuarial gains or losses			
Foreign exchange gain			
Benefits paid			
Liabilities directly associated with assets held for sale			
	Ps.	Ps.	Ps.

16.6 Changes in the balance of trust assets

	2018	2017	2016
Pension and retirement plans:			
Balance at beginning of year	**Ps. 1,692**	Ps. 910	Ps. 864
Actual return on trust assets	**30**	113	15
Foreign exchange gain	**(2)**	86	4
Life annuities	**16**	21	28
Benefits paid	**(1)**	(136)	(1)
Acquisitions		698	
Philippines diposal	**(704)**		
Balance at end of year	**Ps. 1,031**	Ps. 1,692	Ps. 910
Seniority premiums			
Balance at beginning of year	**Ps. 109**	Ps. 102	Ps. 101
Actual return on trust assets	**2**	7	1
Balance at end of year	**Ps. 111**	Ps. 109	Ps. 102

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

16.7 Variation in assumptions

The Company decided that the relevant actuarial assumptions that are subject to sensitivity and valuated through the projected unit credit method, are the discount rate and the salary increase rate. The reasons for choosing these assumptions are as follows:

Discount rate: The rate that determines the value of the obligations over time.

Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable.

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The following table presents the impact in absolute terms of a variation of 0.5% in the assumptions on the net defined benefit liability associated with the Company s defined benefit plans. The sensibility of this 0.5% on the significant actuarial assumptions is based on projected long-term discount rates to Mexico and a yield curve projections of long-term sovereign bonds:

+0.5%:			**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 or curtailment**	**Net Interest on the Net Defined Benefit Liability**	**Remeasurements of the Net Defined Benefit Liability**
Pension and retirement plans	Ps. 167	Ps.	Ps. (5)	Ps. 181	Ps. 130
Seniority premiums	41			28	(39)
Total	Ps. 208	Ps.	Ps. (5)	Ps. 209	Ps. 91

Expected salary increase	**Current Service Cost**	**Past Service Cost**	**Gain or Loss on Settlement or curtailment**	**Net Interest on the Net Defined Benefit Liability**	**Remeasurements of the Net Defined Benefit Liability**
Pension and retirement plans	Ps. 183	Ps.	Ps. (5)	Ps. 186	Ps. 266
Seniority premiums	44			28	(37)
Total	Ps. 227	Ps.	Ps. (5)	Ps. 214	Ps. 229

16.8 Employee benefits expense

For the years ended December 31, 2018, 2017 and 2016, employee benefits expenses recognized in the consolidated income statements are as follows:

	2018	2017	2016
Included in cost of goods sold:			
Wages and salaries	**Ps. 4,295**	Ps. 4,323	Ps. 4,827
Social security costs	**1,320**	1,449	1,234
Employee profit sharing	**74**	75	142
Pension and seniority premium costs (Note 16.4)	**26**	22	57
Share-based payment expense (Note 17.2)	**3**	6	11
Included in selling and distribution expenses:			
Wages and salaries	**16,590**	12,001	13,526
Social security costs	**4,651**	4,417	4,571
Employee profit sharing	**496**	484	485
Pension and seniority premium costs (Note 16.4)	**158**	125	65

Share-based payment expense (Note 17.2)	**11**	7	18
Included in administrative expenses:			
Wages and salaries	**2,771**	2,453	2,839
Social security costs	**557**	585	472
Employee profit sharing	**31**	31	56
Pension and seniority premium costs (Note 16.4)	**46**	42	66
Post-employment benefits other (Note 16.4)	**2**	10	5
Share-based payment expense (Note 17.2)	**143**	161	177
Total employee benefits expense	**Ps. 31,174**	Ps. 26,193	Ps. 28,551

Note 17. Bonus Programs

17.1 Quantitative and qualitative objectives

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

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

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

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of achievement of the goals established every year. The bonuses are recorded as a part of the income statement and are paid in cash the following year. During the years ended December 31, 2018, 2017 and 2016 the bonus expense recorded amounted to Ps. 659, Ps. 701 and Ps. 706, respectively.

17.2 Share-based payment bonus plan

The Company has a stock incentive plan for the benefit of its senior executives. This plan uses as its main evaluation metric the EVA. Under the EVA stock incentive plan, eligible employees are entitled to receive a special annual bonus (fixed amount), to purchase FEMSA and Coca-Cola FEMSA shares or options, based on the executive s responsibility in the organization, their business EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 33% per year. The 50% of Coca-Cola FEMSA s annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options. For the years ended December 31, 2018, 2017 and 2016, no stock options have been granted to employees. Until 2015 the shares were vested ratably over a five year period. Beginning with January 1, 2016 onwards they will ratably vest over a three year period.

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

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

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

	Number of shares		
Incentive Plan	**FEMSA**	**KOF**	**Vesting period**
2014	489,345	331,165	2015-2017
2015	457,925	415,375	2016-2018
2016	567,671	719,132	2017-2019
2017	326,561	369,791	2018-2020
2018	211,290	256,281	2019-2021
Total	2,052,792	2,091,744	

For the years ended December 31, 2018, 2017 and 2016, the total expense recognized for the period arising from share-based payment transactions, using the grant date model, was of Ps. 157, Ps. 174 and Ps. 206, respectively.

As of December 31, 2018 and 2017, the asset recorded by Coca-Cola FEMSA in its consolidated statements of financial position amounted to Ps. 160 and Ps. 151, respectively, see Note 13.

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Note 18. Bank Loans and Notes Payables

Expressed in millions of mexican pesos.	2019	2020	2021	2022	2023	2024 and following years	Carrying value as of December 31, 2018	Fair value as of December 31, 2018	Carrying value as of December 31, 2017
Short- term debt:									
Fixed rate debt:									
Argentine pesos									
Bank loans	157						157	141	106
Interest rate	36.75						36.75%		22.40%
Uruguayan pesos									
Bank loans	771						771	772	
Interest rate	9.96%						9.96%		
Subtotal	928						928	913	106
Variable rate debt:									
Colombian pesos									
Bank loans	454						454	454	1,951
Interest rate	5.58%						5.58%		7.28%
Subtotal	454						454	454	1,951
Short- term debt	**1,382**						**1,382**	**1,367**	**2,057**
Long term debt:									
Fixed rate debt:									
U.S. Dollar									
Yankee bond		9,829			17,557	11,818	39,204	40,716	48,043
Interest rate		4.63%			3.88%	5.25%	4.48%		4.09%
Colombian pesos									
Bank loans									728
Interest rate									9.63%
Brazilian reais									
	4,653						4,653	4,516	6,707

Notes payable (2)									
Interest rate	0.38%						0.38%		0.38%
Bank loans	186	129	78	67	38	24	522	508	934
Interest rate	5.95%	5.95%	5.95%	5.95%	5.95%	5.95%	5.95%		5.78%
Mexican pesos									
Senior notes			2,498		7,495	8,488	18,481	17,218	18,479
Interest rate			8.27%		5.46%	7.87%	6.95%		6.95%
Uruguayan pesos									
Bank loans		573					573	573	
Interest rate		10.15%					10.15%		

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Expressed in millions of mexican pesos.	2019	2020	2021	2022	2023	2024 and following years	Carrying value as of December 31, 2018	Fair value as of December 31, 2018	Carrying value as of December 31, 2017
U.S. Dollar									
Financial leasings.	10						10		
Interest rate	3.28%						3.28%		
Subtotal	**4,849**	**10,531**	**2,576**	**67**	**25,090**	**20,330**	**63,443**	**63,531**	**74,981**
Variable rate debt:									
Mexican pesos									
Senior notes				1,497			1,497	1,276	1,496
Interest rate				8.61%			8.61%		7.70%
Bank loans	4,700		5,400				10,100	10,100	
Interest rate	8.48%		8.62%				8.56%		
U. S. Dollar									
Bank loans			4,025				4,025	4,062	4,032
Interest rate			3.34%				3.34%		2.12%
Colombian pesos									
Bank loans	424	424					848	848	
Interest rate	5.61%	5.73%					5.67%		
Brazilian reais									
Bank loans	244	198	57	6			505	527	869
Interest rate	9.53%	9.53%	9.53%	9.53%			9.53%		8.50%
Notes payable	5						5	5	15
Interest rate	0.40%						0.40%		0.44%
Subtotal	5,373	622	9,482	1,503			16,980	16,818	6,412
Long term debt	10,222	**11,153**	**12,058**	**1,570**	**25,090**	**20,330**	**80,423**	**80,349**	**81,303**
Current portion of long term debt	10,222						10,222		10,114
Long- term debt		**11,153**	**12,058**	**1,570**	**25,090**	**20,330**	**70,201**	**80,349**	**71,189**

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

(2) Promissory note denominated and payable in Brazilian reais; however, it is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

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For the years ended December 31, 2018, 2017 and 2016, 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:

	2018	2017	2016
Interest on debts and borrowings	**Ps. 4,786**	Ps. 4,337	Ps. 4,099
Capitalized interest			(32)
Finance charges for employee benefits	**202**	182	154
Derivative instruments	**2,370**	4,161	3,082
Finance operating charges	**210**	97	168
	Ps. 7,568	Ps. 8,777	Ps. 7,471

Coca-Cola FEMSA has the following debt bonds: a) registered with the Mexican stock exchange: i) Ps. 2,500 (nominal amount) with a maturity date in 2021 and fixed interest rate of 8.27% and ii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46% iii) Ps. 1,500 (nominal amount) with a maturity date in 2022 and floating interest rate of TIIE + 0.25% iv) Ps. 8,500 (nominal amount) with a maturity date in 2027 and fixed interest rate of 7.87% and b) registered with the SEC : i) Senior notes of US. $ 500 with interest at a fixed rate of 4.63% and maturity date on February 15, 2020, ii) Senior notes of US. $900 with interest at a fixed rate of 3.88% and maturity date on November 26, 2023 and iii) Senior notes of US. $ 600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043 all of which are guaranteed by our subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R.L. de C.V. (Guarantors). In Note 27 we present supplemental guarantors consolidating financial information.

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

The Company has financing from different financial institutions under agreements that stipulate different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

18.1 Reconciliation of liabilities arising from financing activities.

		Cash flows		**Non-cash flows**			
	Carrying Value at December 31, 2017	**Repayments**	**Proceeds**	**Liability offset**	**Foreign Exchange movement**	**Translation Effect**	**Carrying Value at December 31, 2018**
Short-term bank loans	**Ps. 2,057**	**Ps. (5,188)**	**Ps. 4,138**	**Ps.**	**Ps.**	**Ps. 375**	**Ps. 1,382**

Short-term notes payable							
Total short-term from financing activities	**Ps. 2,057**	**Ps. (5,188)**	**Ps. 4,138**	**Ps.**	**Ps.**	**Ps. 375**	**Ps. 1,382**
Long-term bank loans	**6,563**	**(1,702)**	**11,278**			**433**	**16,572**
Long-term notes payable	**74,740**	**(9,067)**		**(2,036)**	**1,157**	**(953)**	**63,841**
Long-term lease liabilities			**10**				**10**
Total long-term from financing activities	**Ps. 81,303**	**Ps. (10,769)**	**Ps. 11,288**	**Ps. (2,036)**	**Ps. 1,157**	**Ps. (520)**	**Ps. 80,423**
Current portion of long-term debt [(1)]	**Ps. 10,114**					**Ps. 108**	**Ps. 10,222**
Total from financing activities	**Ps. 83,360**	**Ps. (15,957)**	**Ps. 15,426**	**Ps. (2,036)**	**Ps. 1,157**	**Ps. (145)**	**Ps. 81,805**

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	Carrying Value at December 31, 2016	Cash flows		Non-cash flows		Carrying Value at December 31, 2017
		Repayments	Proceeds	Foreign Exchange movement	Translation Effect	
Short-term bank loans	Ps. 1,573	Ps. (1,013)	Ps. 489	Ps.	Ps. 1,008	Ps. 2,057
Short-term notes payable						
Total short-term from financing activities	Ps. 1,573	Ps. (1,013)	Ps. 489	Ps.	Ps. 1,008	Ps. 2,057
Long-term bank loans	8,594	(2,264)	1,999	190	(1,956)	6,563
Long-term notes payable	78,742	(9,832)	10,000	4,015	(8,185)	74,740
Total long-term from financing activities	Ps. 87,336	Ps. (12,096)	Ps. 11,999	Ps. 4,205	Ps. (10,141)	Ps. 81,303
Current portion of long-term debt (2)	Ps. 1,479					Ps. 10,114
Total from financing activities	Ps. 88,909	Ps. (13,109)	Ps. 12,488	Ps. 4,205	Ps. (9,133)	Ps. 83,360

(1) The current portion for the long term debt as of December 31, 2018 is composed by notes payable in Brazilian reais for Ps. 4,653, bank loans in Brazil for Ps. 430 and a note payable for Ps. 5 in Brazilian reais, a financial leasing in Uruguay for Ps. 10, bank loans for Ps. 424 in Colombia and a bank loan in México for and amount of Ps. 4,700.

(2) Current portion of long term debt at December 31, 2017 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 602, b) senior notes denominated in US dollars for an equivalent amount in Ps. 8,774, c) notes payable denominated in Brazilian reais for an equivalent amount in Ps. 10 and d) bank loans denominated in Colombian pesos for an equivalent amount in Ps. 728.

Note 19. Other Income and Expenses

	2018	2017	2016
Other income:			
Gain on sale of long-lived assets	**Ps. 399**	Ps. 323	Ps. 324
Cancellation of contingencies	**162**	268	329
Tax Recovery from previous year		597	603
Other	**8**	354	25
	Ps. 569	Ps. 1,542	Ps. 1,281

Other expenses:			
Provisions for contingencies	**Ps. 818**	Ps. 943	Ps. 819
Loss on the retirement of long-lived assets	**103**	174	321
Loss on sale of long-lived assets	**221**	368	358
Impairment	**432**		
Non-income taxes from Colombia			48
Severance payments	**224**	180	13
Donations	**332**	83	54
Foreign exchange losses related to operating activities	**(25)**	2,646	2,799
Venezuela impact (Note 3.3)		28,176	
Other	**345**	329	681
	Ps. 2,450	Ps. 32,899	Ps. 5,093

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Note 20. 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, 2018 and 2017:

	2018		2017	
	Level 1	**Level 2**	Level 1	Level 2
Derivative financial instruments asset	**Ps.**	**Ps. 2,605**	Ps. 22	Ps. 1,183
Derivative financial instruments liability	**236**	**881**	26	4,468
Trust assets of labor obligations	**1,142**		1,801	

20.1 Total debt

The fair value of bank loans is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for debt of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy. The fair value of the Company s publicly traded debt is based on quoted market prices as of December 31, 2018 and 2017, which is considered to be level 1 in the fair value hierarchy (See Note 18).

20.2 Forward agreements to purchase foreign currency

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

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

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

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

Maturity Date	Notional Amount	Fair Value (Liability) Dec. 31, 2018	Fair Value Asset Dec. 31, 2018
2019	Ps. 4,768	Ps. (66)	Ps. 109

At December 31, 2017, the Company had the following outstanding forward agreements to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value (Liability) Dec. 31, 2017	Fair Value Asset Dec. 31, 2017
2018	Ps. 6,882	Ps. (22)	Ps. 190

20.3 Options to purchase foreign currency

The Company has executed call option and collar strategies to reduce its exposure to the risk of exchange rate fluctuations. A call option is an instrument that limits the loss in case of foreign currency depreciation. A collar is a strategy that combines call and put options, limiting the exposure to the risk of exchange rate fluctuations in a similar way as a forward agreement.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these options, corresponding to the intrinsic value, are initially recorded as part of cumulative other comprehensive income . Changes in the fair value, corresponding to the extrinsic value, are recorded in the consolidated income statements under the caption market value gain on financial instruments, as part of the consolidated net income. Net gain/(loss) on expired contracts including the net premium paid, is recognized as part of cost of goods sold when the hedged item is recorded in the consolidated income statements.

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

	Notional	Fair Value (Liability)	Fair Value Asset

Maturity Date	Amount	Dec. 31, 2018	
2019	Ps. 1,734	Ps. (33)	Ps. 57

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As of December 31, 2017, the Company paid a net premium of Ps. 7 million for the following outstanding collar options to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value (Liability)	Asset
		Dec. 31, 2017	
2018	Ps. 266	Ps. (5)	Ps. 17

20.4 Cross-currency swaps

The Company has contracts denominated as interest and cross-currency swaps in order to reduce the risk emanated from interest rate and exchange rate fluctuation in the contracted credits denominated in USD, hedging the total contracted loans as of December 2018. Exchange rate swaps are designated as hedge instruments where the Company changes de debt profile to the functional currency to reduce the exchange rate fluctuation risk.

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

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

Maturity date	**Notional ammount**	**Fair value (Liability)**	**Asset**
		As of December 31, 2018	
2019	**Ps. 4,652**	**Ps.**	**Ps. 498**
2020	**14,400**	**(79)**	**969**
2021	**4,035**		**586**
2023	**11,219**	**(390)**	**135**
2027	**6,889**	**(42)**	**202**

At December 31, 2017, the Company had the following outstanding cross currency swap agreements:

Maturity Date	Notional Amount	Fair Value (Liability)	**Asset**
		Dec. 31, 2017	
2018	Ps. 24,354	Ps. (3,863)	Ps.
2019	6,263	(205)	
2020	14,439	(163)	605
2021	4,046		24

2023	1,776		139
2027	6,907	(129)	179

20.5 Interest Rate swaps

The Company has contracted a number of interest rate swaps to reduce its exposure to interest rate fluctuations associated with its debt denominated in BRL. These interest rate swaps, for accounting purposes are recorded as Fair Value Hedges and the interest rate variation is recorded in the consolidated income statement as market value (gain) loss on financial instruments.

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

Maturity date	Notional ammount	Fair value (Liability)	Asset
		As of December 31, 2018	
2019	**Ps. 4,013**	**Ps. (49)**	
2020	**4,559**	**(112)**	
2021	**4,035**	**(110)**	

At December 31, 2017, the Company had the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value (Liability)	Asset
		Dec. 31, 2017	
2019	Ps. 4,024	Ps. (32)	
2020	3,669	(16)	
2021	3,059	(33)	

20.6 Commodity price contracts

The Company has entered into various commodity price contracts to reduce its exposure to the risk of fluctuation in the costs of certain raw material. The fair value is estimated based on the market valuations to terminate the contracts at the end of the period. These instruments are designated as Cash Flow Hedges and the changes in their fair value are recorded as part of cumulative other comprehensive income .

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

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

Maturity date	Notional ammount	Fair value (Liability)	Asset
		As of December 31, 2018	
2019	Ps. 1,223	Ps. (88)	Ps.

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

Maturity date	Notional ammount	Fair value (Liability)	Asset
		As of December 31, 2018	
2019	Ps. 265	Ps. (17)	Ps.

As of December 31, 2018, the Company has the following PX + MEG price contracts

Maturity date	Notional ammount	Fair value (Liability)	Asset
		As of December 31, 2018	
2019	Ps.1,303	Ps. (131)	Ps.

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As of December 31, 2017, the Company had the following sugar price contracts:

Maturity Date	Notional Amount	Fair Value (Liability) Dec 31, 2017	Fair Value Asset Dec 31, 2017
2018	Ps. 986	Ps. (26)	Ps. 19
2019	150		3

20.7 Option embedded in the Promissory Note to fund the Vonpar s acquisition

As disclosed in Note 4.1.2, on December 6, 2016, as part of the purchase price paid for the Company s acquisition of Vonpar, Spal issued and delivered a three-year promissory note to the sellers, for a total amount of 1,166 million Brazilian reais. On November 14, 2018 Spal prepaid an amount for 103 million of USD (393 million of Brazilian real) (and the amount left as of December 31, 2018 is 916 million of Brazilian real (approximately Ps. 4,652) The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into the Company in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to the Company having a sufficient number of Series L shares available for issuance.

The Company uses Black & Scholes valuation technique to measure call the option at fair value. The Black & Scholes valuation method was chosen because it is a method commonly used to value this type of financial instruments. The call option had an estimated fair value of Ps. 343 million at inception of the option and Ps. 14 and Ps. 242 million as of December 31, 2018 and 2017, respectively. The option is as part of the Promissory Note disclosed in Note 18.

The Company estimates that the call option is out of the money as of December 31, 2018 and 2017 by approximately 49.8% and 30.4% or US$ 111 million and US$ 82 million, respectively, relative to the strike price.

20.8 Net effects of expired contracts that met hedging criteria

Derivative	**Impact in consolidated income statement**	**2018**	2017	2016
Cross currency swaps [1]	Interest expense	**Ps. 157**	Ps. 2,102	Ps.
Cross currency swaps [1]	Foreign exchange	**642**		
Interest rate swaps	Interest expense			
Option to purchase foreign currency	Cost of good sold	**(8)**		
Forward agreements to purchase foreign currency	Cost of good sold	**240**	89	(45)
Commodity Price contracts	Cost of good sold	**(258)**	(6)	(241)

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

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

Derivative	Impact in profit and loss	2018	2017	2016
Forward agreements to purchase foreign currency	Market value gain (loss) on financial statements	Ps. (12)	Ps. 12	Ps. (56)
Cross currency swaps	Market value (loss) gain on financial statements	(116)	337	236

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

Type of Derivatives	Impact in Consolidated Income Statement	2018	2017	2016
Cross-currency swaps	Market value (loss) gain on financial instruments	**Ps.** (186)	Ps. (104)	Ps. (129)
Embedded derivatives	Market value gain on financial instruments		1	

20.11 Risk management

The Company has exposure to the following financial risks:

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

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

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

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

to change in the types of change; and

Changes in the periodicity of covered.

20.11.1 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.

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Options to purchase foreign currency in order to reduce its exposure to the risk of exchange rate fluctuations.

Cross-Currency Swaps in order to reduce its exposure to the risk of exchange rate fluctuations and interest rate changes.

Commodity price contracts in order to reduce its exposure to the risk of fluctuation in the costs of certain raw materials.

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

Forward agreement to purchase U.S. Dollar (MXN/USD)	**Change in USD rate**	**Effect on equity**	**Profit and loss effect**
2018	**(13%)**	**Ps. (365)**	**Ps.**
2017	(12%)	(602)	
2016	(17%)	(916)	

Forward agreement to purchase U.S. Dollar (BRL/USD)	**Change in USD rate**	**Effect on equity**	**Profit and loss effect**
2018	**(16%)**	**Ps. (413)**	**Ps.**
2017	(14%)	(234)	
2016	(18%)	(203)	

Forward agreement to purchase U.S. Dollar (COP/USD)	**Change in USD rate**	**Effect on equity**	**Profit and loss effect**
2018	**(12%)**	**Ps. (2)**	**Ps.**
2017	(9%)	(73)	
2016	(18%)	(255)	

Forward agreement to purchase U.S. Dollar (ARS/USD)	**Change in USD rate**	**Effect on equity**	**Profit and loss effect**
2018	**(27%)**	**Ps. (522)**	**Ps.**
2017	(10%)	(29)	

Forward agreement to purchase U.S. Dollar (UYU/USD)	**Change in USD rate**	**Effect on equity**	**Profit and loss effect**
2018	**(8%)**	**Ps. (46)**	**Ps.**

Cross currency swaps (USD to MXN)

	Change in USD rate	Effect on equity	Profit and loss effect
2018	**(13%)**	**Ps. (3,130)**	**Ps.**
2017	(12%)	(3,540)	
2016	(17%)	(3,687)	(1,790)

Cross currency swaps (USD en BRL)	Change in USD rate	Effect on equity	Profit and loss effect
2018	**(16%)**	**Ps. (9,068)**	**Ps.**
2017	(14%)	(7,483)	
2016	(18%)	(9,559)	

Interest rate swaps (floating to fixed rates)	Change in BRL rate	Effect on equity	Profit and loss effect
2018	**(100 bps)**	**Ps. (1,976)**	**Ps.**
2017	(100 bps)	Ps. (234)	Ps.

Sugar price contracts	Change on sugar Price	Effect on equity	Profit and loss effect
2018	**(30%)**	**Ps. (341)**	**Ps.**
2017	(30%)	(32)	
2016	(33%)	(310)	

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Alluminum price contracts	Change on Alluminum price	Effect on equity	Profit and loss effect
2018	**(22%)**	**Ps.(55)**	**Ps.**
2016	(16%)	(13)	

Options to purchase foreign currency (MXN en USD)	Change on USD rate	Effect on equity	Profit and loss effect
2018	**(13%)**	**Ps.(303)**	**Ps.**
2017	(12%)	Ps.(24)	Ps.

20.11.2 Interest rate risk

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

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

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

Interest Rate Risk	Change in U.S.$ Rate	Effect on (Profit) or Loss
2018	**+100 bps**	**Ps.(134)**
2017	+100 bps	(251)
2016	+100 bps	(211)

20.11.3 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 s generally pays its suppliers on credit. In recent periods, the Company has mainly used cash generated from operations to fund acquisitions. The Company has also used a combination of borrowings from Mexican and international banks and issuances in the Mexican and international capital markets to fund acquisitions.

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

maturity profile.

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

As part of the Company s financing policy, management expects to continue financing its liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which the Company operates, it may not be beneficial or, practicable to remit cash generated in local operations to fund cash requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, management may decide, or be required,

to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In the future management may finance our working capital and capital expenditure needs with short-term or other borrowings.

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

See Note 18 for a disclosure of the Company s maturity dates associated with its non-current financial liabilities as of December 31, 2018.

The following table reflects all contractually fixed and variable pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected gross cash outflows from derivative financial liabilities that are in place as of December 31, 2018.

Such expected net cash outflows are determined based on each particular settlement date of an instrument. The amounts disclosed are undiscounted net cash outflows for the respective upcoming fiscal years, based on the earliest date on which the Company could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on economic conditions (like interest rates and foreign exchange rates) existing at December 31, 2018.

(In millions of Ps)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 and thereafter**
Non-derivative financial liabilities:						
Notes and bonds	**Ps. 4,657**	**Ps. 9,829**	**Ps. 2,498**	**Ps. 1,497**	**Ps. 25,052**	**Ps. 20,306**
Loans from banks	**6,936**	**1,324**	**9,560**	**73**	**38**	**24**
Derivatives financial liabilities (assets)	**450**	**777**	**477**		**(255)**	**160**
Financial leasing	**10**					

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

20.11.4 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, 2018 and 2017 is the carrying amounts (see Note 7).

The credit risk for liquid funds and derivative financial instruments is limited because the parts are credit high-graded banks 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, 2018 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.

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20.12 Cash Flow hedges

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

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

As of December 31, 2017, the Company s financial instruments used to hedge its exposure to foreign exchange rates, interest rates and commodity risks were as follows:

	Maturity		
	1-6 months	6-12 months	More than 12
Foreign exchange currency risk			
Foreign exchange currency forward contracts			
Net exposure (in millions of pesos)	**3,391**	**978**	
Average exchange rate MXN/USD	**19.62**	**19.42**	
Net exposure (in millions of pesos)	**1,332**	**136**	

Average exchange rate BRL/USD	**3.22**	**3.25**	
Net exposure (in millions of pesos)	**647**	**116**	
Average exchange rate COP/USD	**3,017**	**3,014**	
Net exposure (in millions of pesos)	**280**		
Average exchange rate ARS/USD	**18.56**		
Foreign exchange currency swap contracts			
Net exposure (in millions of pesos)			**18,552**
Average exchange rate MXN/USD			**19.72**
Net exposure (in millions of pesos)	**6,414**	**17,939**	**14,880**
Average exchange rate BRL/USD	**3.82**	**3.83**	**3.37**
Interest rate risk			
Interest rate swaps			
Net exposure (in millions of pesos)			**10,752**
Average interest rate			**7.58%**
Commodities risk			
Sugar	**710**	**428**	
Average price (USD cent/Lb)	**14.79**	**15.23**	

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

In millions of pesos	**Cash flow hedge reserve**	**Cash flow hedge costs**	**Remained balances of cash flow hedge reserve from which hedge accounting is not applied**
Foreign exchange currency risk			
Net sales, trade account receivables and borrowings			
Purchase of stock	**1**	**22**	
Interest rate risk			
Interest rate instruments			

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

In millions of pesos	**Cash flow hedge reserve**	**Cash flow hedge costs**	**Remained balances of cash flow hedge reserve from which**

		hedge accounting is not applied
Foreign exchange currency risk		
Net sales, trade account receivables and borrowings		
Purchase of stock	**11**	
Interest rate risk		
Interest rate instruments		

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

In millions of pesos	**Notional**	**Assets**	**Liabilities**	**Financial position category in which the cash flow hedge is included**
Foreign exchange currency risk				
Forward contracts: Net sales, trade accounts receivables and borrowings				Other investments including financial derivatives (assets), trade accounts payable (liabilities)
Purcahse of stock	**4,768**	**109**	**(66)**	
Exchange rate swaps	**41,195**	**2,390**	**(511)**	
Interest rate risk				
Swap interest rate	**12,607**		**(271)**	Other investments including financial derivatives (assets), trade accounts payable (liabilities)
Commodities risk				
Aluminum	**265**		**(17)**	
Suggar	**1,223**		**(88)**	
PX+MEG	**1,303**		**(131)**	

Note 21. Non-Controlling Interest in Consolidated Subsidiaries

An analysis of Coca-Cola FEMSA s non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2018, 2017 and 2016 is as follows:

	2018	2017	2016
Mexico	**Ps. 5,700**	Ps. 5,994	Ps. 5,879
Colombia	**21**	23	22
Brazil	**1,085**	1,224	1,195
Philippines		10,900	
	Ps. 6,806	Ps. 18,141	Ps. 7,096

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

As disclosed in Note 4.1.3, commencing on February 1, 2017, the Company started consolidating CCFPI s financial results in its financial statements.

As disclosed in Note 5, since its designation as discontinued operation, the Asia segment is no longer reported as a separate segment in Note 26. The sale was completed on December 13, 2018 and the related non- controlling interest was eliminated.

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

	2018	2017	2016
Balance at beginning of the period	**Ps. 18,141**	Ps. 7,096	Ps. 3,986
Effects of business combination		11,072	
Net income of non-controlling interest	**1,159**	1,148	457
Exchange differences on translation of foreign operations	**(1,338)**	(1,138)	1,845
Re-measurements of the net defined employee benefit liability	**37**	38	
Valuation of the effective portion of derivative financial instruments, net of taxes	**(41)**	(74)	51
Increase in shares of non-controlling interest			826
Dividends paid		(1)	(69)
Accounting standard adoption effects (see Note 2.4)	**(12)**		
Philippines deconsolidation	**(11,140)**		
Balance at end of the period	**Ps. 6,806**	Ps. 18,141	Ps. 7,096

Note 22. Equity

22.1 Equity accounts

As of December 31, 2018, the common stock of Coca-Cola FEMSA is represented by 2,100,832,262 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 51% of the ordinary shares.

Series D shares have no foreign ownership restrictions and may not represent more than 49% of the ordinary shares.

Series L shares have no foreign ownership restrictions and have limited voting rights.

As of December 31, 2018, 2017 and 2016, the number of each share series representing Coca-Cola FEMSA s common stock is comprised as follows:

	Thousands of Shares		
Series of shares	**2018**	2017	2016
A	**992,078**	992,078	992,078
D	**583,546**	583,546	583,546
L	**525,208**	525,208	497,298
	2,100,832	2,100,832	2,072,922

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The changes in the share are as follows:

Series of shares [2]	Thousands of Shares **2018**	2017	2016
Initial shares	**2,100,832**	2,072,922	2,072,922
Shares issuance (Note 4.1.1)		27,910	
Final shares	**2,100,832**	2,100,832	2,072,922

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, 2018, 2017 and 2016, this reserve was Ps. 164 included in retain earnings .

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect at the date of distribution, except for restated shareholder contributions and distributions made from net consolidated taxable income, denominated Cuenta de Utilidad Fiscal Neta (CUFIN).

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. The Company s balances of CUFIN amounted to Ps. 8,918 not subject to withholding tax.

For the years ended December 31, 2018, 2017 and 2016 the dividends declared and paid per share by the Company are as follows:

Series of shares [2]	**2018** [1]	2017	2016
A	**Ps. 3,323**	Ps. 3,323	Ps. 3,323
D	**1,955**	1,955	1,955
L	**1,760**	1,713	1,667
	Ps. 7,038	Ps. 6,991	Ps. 6,945

(1) At an ordinary shareholders meeting of Coca-Cola FEMSA held on March 09, 2018, the shareholders declared a dividend of Ps. 7,038 that was paid in May 3, 2018 and November 1, 2018. Represents a dividend of Ps. 3.35 per each ordinary share.
(2) Information in this note has not been adjusted for the stock split occurred in March 2019.

22.2 Capital management

The Company manages its capital to ensure that its subsidiaries will be able to continue as going concerns while maximizing the return to shareholders through the optimization of its debt and equity balance in order to obtain the lowest cost of capital available. The Company manages its capital structure and makes adjustments to it in light of

changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2018 and 2017.

The Company is not subject to any externally imposed capital requirements, other than the legal reserve and debt covenants (see Note 18 and Note 22.1).

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

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Note 23. Earnings per Share

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

Diluted earnings per share amounts are calculated by dividing consolidated net income for the year attributable to 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 described in Note 4.1.2).

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	992,078,519	47.223%	62.964%

	Mexicano, S.A.B. de C.V.			
D	Wholly-owned subsidiaries of The Coca-Cola Company	583,545,678	27.777%	37.036%
L	Public float	525,208,065	25.0%	0%
Total		2,100,832,262	100%	100%

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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	47.223%	55.968%
D	Wholly-owned subsidiaries of The Coca-Cola Company	4,668,365,424	27.777%	32.921%&