FEMSA

ANNUAL REPORT 2017

Fomento Económico Mexicano, S.A.B. de C.V., or **FEMSA**, is a leading multinational company headquartered in Monterrey, Mexico, that participates in the beverage and retail industries.

We hold a controlling stake[1] in Coca-Cola FEMSA, the largest franchise bottler of Coca-Cola products in the world by sales volume with operations in ten countries. We are also the second largest shareholder of Heineken—one of the world's leading brewing companies with operations in over 70 countries—with a 14.76 percent economic interest in the Heineken Group.

FEMSA Comercio is the largest operator of small-format stores in the Americas, and is comprised of a Retail Division, operating various store chains, including OXXO, the largest proximity retail chain in Latin America; a Fuel Division, operating the OXXO GAS chain of retail service stations in Mexico; and a Health Division, which includes drugstores and related operations in Chile, Mexico and Colombia.

FEMSA Negocios Estratégicos (FEMSA Strategic Businesses) provides logistical support to Coca-Cola FEMSA, FEMSA Comercio and external clients. It is comprised of Solistica, providing an integrated logistics platform in several Latin American countries; Imbera, offering leading commercial refrigeration solutions with global reach; and PTM, manufacturing plastic transformation projects for the food and beverage, automotive and retail industries, as well as operating one of the largest plastic recycling companies in Mexico.

Contents

1 47.2% economic interest, representing 63% of shares with voting rights.




Refreshment. Convenience. Value Creation.

FEMSA is driven by a corporate philosophy characterized by identifying and satisfying consumer demands, generating income for our shareholders, expanding social development and minimizing our environmental impact.[2] Our 2017 integrated Annual Report reflects our commitment to strong corporate governance and transparency.

Our financial and sustainability results are for the twelve months ended December 31, 2017 compared to the twelve months ended December 31, 2016. This report was prepared in accordance with the Global Reporting Initiative (GRI) Standards and, as signatories to the United Nations Global Compact, represents our Communication on Progress for 2017.

2 *http://www.femsa.com/en/meet-femsa/our-beginning/who-we-are/*

FEMSA at a Glance

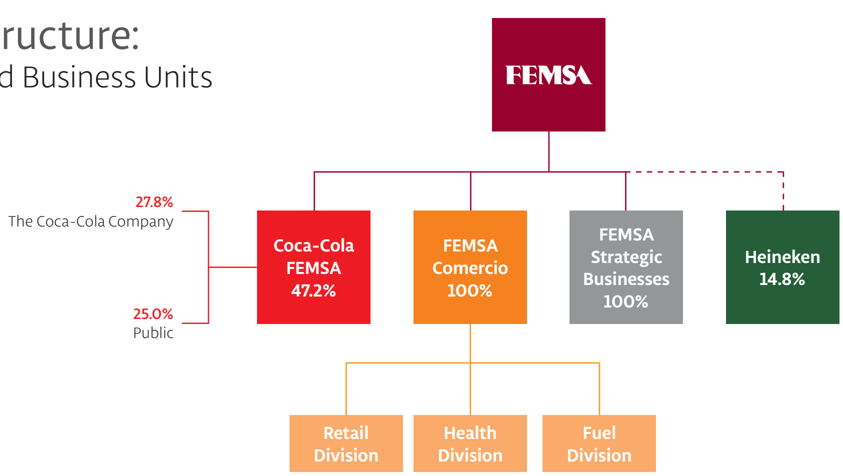
Our Presence:

Business Units

- FEMSA Comercio
- Coca-Cola FEMSA
- FEMSA Comercio and Coca-Cola FEMSA
- FEMSA Strategic Businesses

FEMSA operates in 11 countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, Nicaragua, Panama, the Philippines and Venezuela.

Corporate Structure:
Equity Stakes and Business Units



Operational Overview:

FEMSA COMERCIO
Retail Division
OXXO, the largest C-store chain in the Americas by units

Mexico and Colombia

Customers per day (millions)	Points of Sale	Distribution Facilities	Headcount
11.8	16,526	20	130,687

Mexico, Chile and Colombia

Customers per year (millions)	Points of Sale	Distribution Facilities	Headcount
173	2,225	5	21,493

FEMSA COMERCIO
Health Division
Drugstores and related operations in Mexico, Chile and Colombia

FEMSA COMERCIO
Fuel Division
OXXO GAS chain of retail service stations in Mexico

Mexico

Customers per year (millions)	Points of Sale	Headcount
153	452	5,839

Country / Region	Population Served (millions)	Points of Sale	Plants	Distribution Facilities
Mexico	72.1	853,430	17	145
Central America [1]	21.7	118,414	5	36
Colombia	49.6	372,785	7	24
Venezuela	32.1	158,563	4	24
Brazil	88.4	396,220	10	40
Argentina	12.3	48,396	2	3
Philippines	104.9	818,502	19	52
Total	**381.1**	**2,766,310**	**64**	**324**

COCA-COLA FEMSA
Largest Coca-Cola franchise bottler in the world by volume

1. Includes Costa Rica, Guatemala, Nicaragua and Panama

Value Creation Highlights

FEMSA's mission is to create economic and social value through business enterprises and institutions. This includes consistently attracting and meeting consumer demand, generating financial returns for our shareholders and promoting higher social growth.

Economic Value

Our 2017 financial results reflect the economic value we continue to create in the countries where FEMSA operates.

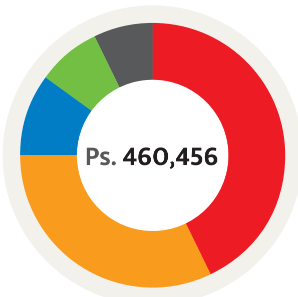
Millions of pesos	2017 (1)	2017	2016	%Change	2015	%Change
Total revenues	**23,445**	**460,456**	399,507	15.3%	311,589	28.2%
Income from operations (2)	**2,110**	**41,439**	37,427	10.7%	33,735	10.9%
Operating margin		**9.0%**	9.4%		10.8%	
Consolidated net income	**1,895**	**37,206**	27,175	36.9%	23,276	16.8%
Controlling interest net income (3)	**2,160**	**42,408**	21,140	100.6%	17,683	19.5%
Controlling interest earnings per BD unit (4)	**0.6**	**11.9**	5.9	101.7%	4.9	20.4%
Controlling interest earnings per ADS (5)	**6.0**	**118.5**	59.1	100.5%	49.4	19.6%
EBITDA	**3,127**	**61,418**	54,987	11.7%	46,626	17.9%
EBITDA margin		**13.3%**	13.8%		15.0%	
Total assets	**29,967**	**588,541**	545,623	7.9%	409,332	33.3%
Total liabilities	**12,812**	**251,629**	259,453	-3.0%	167,476	54.9%
Total equity	**17,155**	**336,912**	286,170	17.7%	241,856	18.3%
Capital expenditures	**1,282**	**25,180**	22,155	13.7%	18,885	17.3%
Total cash and cash equivalents (6)	**4,936**	**96,944**	43,637	122.2%	29,396	48.4%
Short-term debt	**692**	**13,590**	7,281	86.7%	5,895	23.5%
Long-term debt	**5,996**	**117,758**	131,967	-10.8%	85,969	53.5%
Headcount (7)		**295,027**	266,144	10.9%	246,158	8.1%

1. U.S. dollar figures are converted from Mexican pesos using the noon-buying rate published by U.S. Federal Reserve Board, which was Ps. 19.6395 per US$1.00 as of December 29, 2017.
2. Company's key performance indicator.
3. Represents the net income that is assigned to the controlling shareholders of the entity.
4. "BD" units each of which represents one series "B" share, two series "D-B" shares and two series "D-L" shares. Data based on outstanding 2,161,177,770 BD units and 1,417,048,500 B units.
5. American Depositary Shares, a U.S. dollar-denominated equity share of a foreign-based company available for purchase on the American Stock Exchange.
6. Cash consists of non-interest bearing bank deposits and cash equivalents consist principally of short-term bank deposits and fixed rate investments.
7. Includes headcount from Coca-Cola FEMSA, FEMSA Comercio and Other Businesses of FEMSA.

FEMSA consolidated

Total Revenues by Business Unit

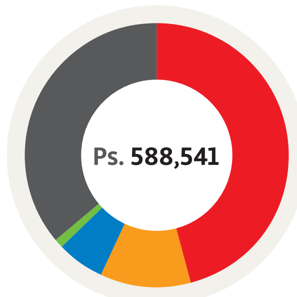
millions of Mexican pesos



Coca-Cola FEMSA	43%
FEMSA Comercio:	
Retail Division	32%
Health Division	10%
Fuel Division	8%
Others*	7%

Total Assets by Business Unit

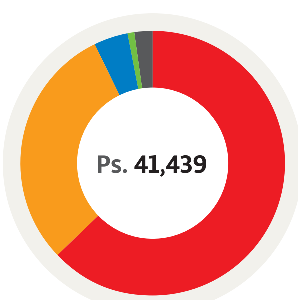
millions of Mexican pesos



Coca-Cola FEMSA	46%
FEMSA Comercio:	
Retail Division	11%
Health Division	6%
Fuel Division	1%
Others*	36%

Income from Operations by Business Unit [1]

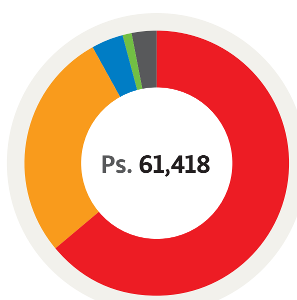
millions of Mexican pesos



Coca-Cola FEMSA	63%
FEMSA Comercio:	
Retail Division	30%
Health Division	4%
Fuel Division	1%
Others*	2%

EBITDA [2] by Business Unit

millions of Mexican pesos



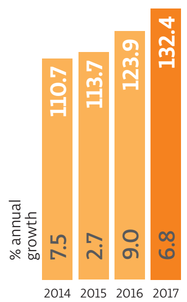
Coca-Cola FEMSA	64%
FEMSA Comercio:	
Retail Division	28%
Health Division	4%
Fuel Division	1%
Others*	3%

FEMSA is driven by a corporate philosophy characterized by identifying and satisfying consumer demands, generating income for our shareholders, expanding social development and minimizing our environmental impact. Our integrated Annual Report 2017, reflects our solid corporate governance and transparency.

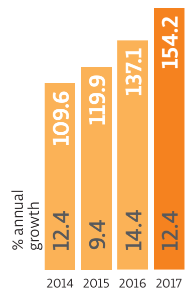
* *Includes FEMSA Strategic Businesses*
1. *Company's key performance indicator.*
2. *EBITDA equals to Income from operations plus depreciation, amortization and other non-cash items.*

Economic Value

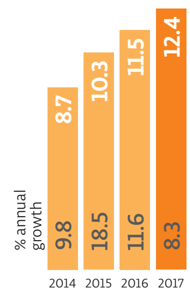
FEMSA Comercio ■ Retail Division ■ Health Division ■ Fuel Division



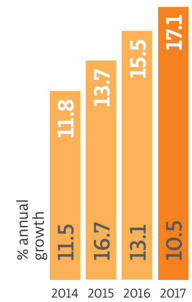
Headcount
thousands



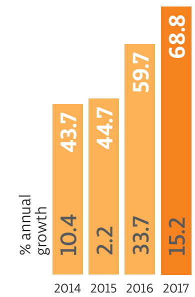
Total Revenues
billions of Mexican pesos



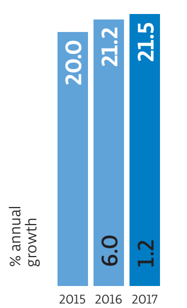
Income from Operations [1]
billions of Mexican pesos



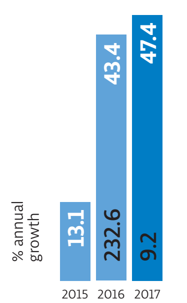
EBITDA [2]
billions of Mexican pesos



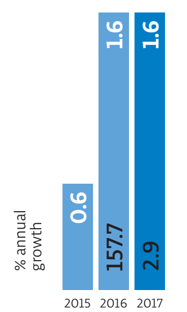
Total Assets
billions of Mexican pesos



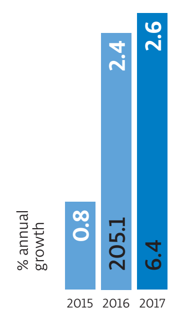
Headcount
thousands



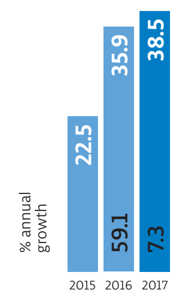
Total Revenues
billions of Mexican pesos



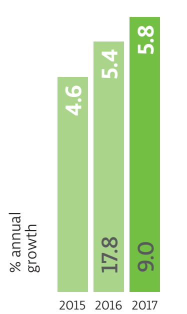
Income from Operations [1]
billions of Mexican pesos



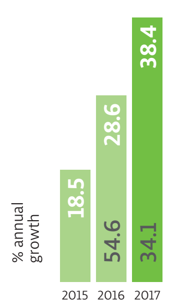
EBITDA [2]
billions of Mexican pesos



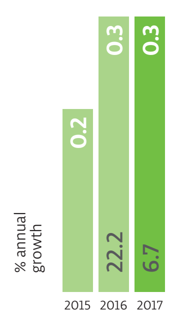
Total Assets
billions of Mexican pesos



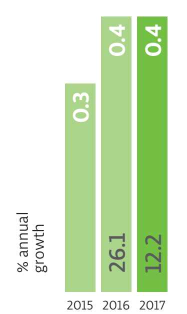
Headcount
thousands



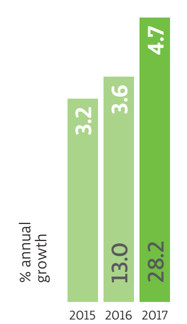
Total Revenues
billions of Mexican pesos



Income from Operations [1]
billions of Mexican pesos

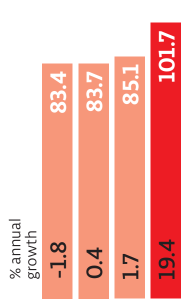


EBITDA [2]
billions of Mexican pesos

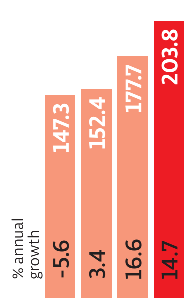


Total Assets
billions of Mexican pesos

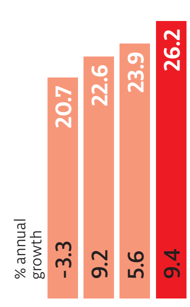
Coca-Cola FEMSA



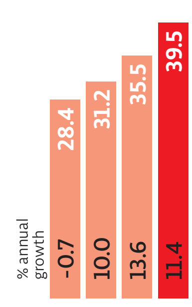
Headcount *
thousands



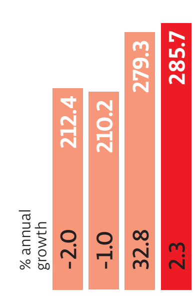
Total Revenues
billions of Mexican pesos



Income from Operations [1]
billions of Mexican pesos



EBITDA [2]
billions of Mexican pesos



Total Assets
billions of Mexican pesos

* *As of 2017, it includes Coca-Cola FEMSA Philippines.*
1. *Company's key performance indicator.*
2. *EBITDA equals to Income from operations plus depreciation, amortization and other non-cash items.*

Social Value

We create value for our stakeholders not only through successful economic performance, but also by generating the social, environmental and economic conditions necessary to operate today and to grow sustainably over time. In 2017, we continued to more fully integrate sustainability into our business strategy.

		2017	2016	2015
OUR PEOPLE	Average hours of training per employee	**33.92**	25.60	26.60
	Accident Index [1]	**2.10**	2.13	3.94
	Organizational Climate Result [2]	**80.80**	81.50	81.40
OUR PLANET	Energy Intensity (Gigajoules / Total Revenues in Ps. million)	**41.26**	40.46	53.01
	Greenhouse gas emissions intensity (Tons of equivalent CO_2 / Total Revenues in Ps. million)	**3.36**	3.59	5.33
	Water efficiency (liters of water used per liter of beverage produced)	**1.65**	1.72	1.79
OUR COMMUNITY	Economic spill to the community [3]	Ps. **253.2** billion US$ **12.8** billion	Ps. 258.2 billion US$ 12.5 billion	Ps. 184.4 billion US$ 10.7 billion
	Percentage of procurement budget on local suppliers [4]	**87%**	82%	85%
	Direct beneficiaries of FEMSA Foundation programs [5]	**1,248,123**	1,124,319	631,250

1. Number of incidents per 100 employees, based on the number of FEMSA direct employees reported to the Occupational Health and Safety Administration System. Includes information on all countries.
2. According to FEMSA's Organizational Climate Diagnostic.
3. Includes human resources remuneration, provider payments, public administration sector remuneration, external donations and donations to the community.
4. Local suppliers are defined as suppliers from the country where the purchase is made.
5. The number of direct beneficiaries is accumulated.

(from left to right)
Carlos Salazar Lomelín
Former Chief Executive Officer
José Antonio Fernández Carbajal
Executive Chairman of the Board
Eduardo Padilla Silva
Chief Executive Officer

Dear Shareholders

2017 was notable for the developments that contributed to FEMSA's growth, the challenges that we overcame and the positive impacts we were able to make. It was also a period of change, another step in our permanent quest to evolve and improve as an organization.

We ended the year by thanking Carlos Salazar Lomelín for his decades of service at FEMSA following his retirement from the position of Chief Executive Officer. Carlos has served a long and productive career at FEMSA for nearly 45 years, during which time he led many of our operations, including as Chief Executive Officer of FEMSA Cerveza from 1992 to 1999 and as Chief Executive Officer of Coca-Cola FEMSA from 2000 to 2013. He was instrumental in transforming the company into the beverage and retail leader that it is today, and he will continue to share his leadership and expertise with us as my advisor and as a member of the Board of Directors of FEMSA.

As of January 1, 2018, we also welcomed Eduardo Padilla Silva—most recently FEMSA's Chief Financial and Corporate Officer—as FEMSA's new Chief Executive Officer. Eduardo joined FEMSA in 1997 and, since then, has held several senior positions at FEMSA, including Chief Executive Officer of FEMSA Comercio for 16 years. During his tenure in that role, Eduardo oversaw significant growth, including the establishment of OXXO as the leading proximity retail format in Mexico, as well as FEMSA's expansion into the drugstore and service station formats. These developments have been integral to shaping our company into what it is today and hold great promise for our future growth. I am confident that Eduardo's talent and energy will successfully lead us as we embark on a new chapter for FEMSA, full of growth opportunities in these times of momentous change that are rapidly transforming our world.

FEMSA continued to evolve in 2017. We successfully monetized a small portion of our Heineken shares, thereby strengthening our balance sheet and efficiently improving our financial flexibility. We also unified our logistics operations under the new name of Solistica, within our FEMSA Strategic Businesses Unit. This move further consolidates our position as a leader in third-party integrated logistics services across Latin America and puts us in a stronger position to deliver expanded solutions to our clients.

This year we continued to leverage our diverse brand portfolio and operational expertise to realize strong performance on a consolidated level, despite challenging macroeconomic conditions in several key markets. Total revenues in 2017 increased 15.3 percent over the previous year to Ps. 460.5 billion (US$ 23.4 billion), mainly driven by steady operational growth. Income from operations increased 10.7 percent to Ps. 41.4 billion (US$ 2.1 billion), while net consolidated income increased 36.9 percent to Ps. 37.2 billion (US$ 1.9

billion). Net majority income per BD Unit was Ps. 11.85 in 2017 (US$ 6.03 per ADS).

These results were made possible by the strength of our business units. In FEMSA Comercio—comprised of the Retail, Health and Fuel divisions—we continued to build and strengthen our competitive position in multiple regions. In Retail, we opened 1,301 net new OXXO stores—our fastest pace to date—and further expanded the OXXO brand beyond Mexico in Colombia and Chile. In Health, our operations in Mexico and expansions in Colombia and Chile further secured our position as a leading drugstore operator in Latin America, with a total of 2,225 stores achieving a 9.2 percent increase in revenue and a 6.7 percent increase in same-store sales. In Fuel, we continued to play a key role in the rapid transformation of Mexico's energy sector with the addition of 70 net new OXXO GAS service stations in Mexico, and a 19.8 percent increase in same-station sales.

Coca-Cola FEMSA successfully navigated market pressures in 2017 and focused on strengthening its beverage portfolio and remaining nimble and responsive to evolving consumer preferences. Our Mexico and Central America divisions continued implementing our operating model transformational initiatives, including digitizing our platform, scaling supply chain solutions and innovating information technology strategies. In Brazil, we are encouraged by our results highlighted by our affordability strategy that enabled us to grow volumes, regain market share in sparkling beverages—reaching a record high by year-end—and improve our profitability.

We know our economic impacts are tied closely to our social impacts. In addition to our permanent sustainability efforts within our business units, the FEMSA Foundation, and in close collaboration with Tec de Monterrey, this year we came together to respond to several natural disasters that caused tremendous loss in Mexico, including two devastating earthquakes. FEMSA launched three separate disaster response initiatives to provide needed assistance and resources, and the FEMSA Foundation contributed critical supplies to shelters and food banks in the hardest-hit areas in the country.

Consolidated revenues totaled
Ps. 460.5 billion in 2017, up 15.3%

Leading in sustainability performance and disclosure is an important priority for FEMSA. In 2017, we took steps to further embed best practices across our operations and we invested a total amount of Ps. 2.7 billion (US$ 138.3 million). Externally, these funds are allocated to our communities through our operations and FEMSA Foundation's initiatives on water security, early childhood development, and education through our work with Tec de Monterrey. Internally, the focus is directed toward our employees and their families as well as environmental stewardship.

We have been a signatory of the United Nations Global Compact (UNGC) since 2005, and we adhere to the UNGC's ten principles to protect human rights, uphold ethical labor practices, preserve the environment and combat corruption. Our 2017 Annual Report represents our 12th UNGC Communication on Progress and it references the Global Reporting Initiative (GRI) Standards.

Throughout our company's history, FEMSA's culture has maintained a deep respect for human dignity over and above financial considerations. Our corporate philosophy is to serve our customers, generate returns for our shareholders, increase social development and minimize our environmental impact. As such, we operate under the fundamental principle of creating both, economic and social value for our stakeholders.

This year's integrated Annual Report highlights the important ways in which we advanced in these areas in 2017, as well as the goals and priorities we have identified to make even more progress in 2018 and beyond. We want to thank you once again for your continued support and trust, and look forward to embarking with you on another exciting year ahead.

José Antonio Fernández Carbajal
Executive Chairman of the Board

FEMSA
Comercio

Steady growth, sustainable performance

The past decade of strong, steady growth in our FEMSA Comercio retail operations has helped to position our company to continue delivering value to our stakeholders in the coming years. FEMSA Comercio contributed 50 percent of FEMSA's consolidated revenues in 2017 (up from 38 percent in 2007) and contributed 33 percent of EBITDA in 2017 (up from 18 percent in 2007), reflecting an increasingly balanced core portfolio over time and favorably diversifying our financial performance. Despite rising inflation in Mexico, the rapid transformation of Mexico's fuel industry, and a number of severe natural disasters in 2017, our retail operations made solid progress in a resilient consumer environment and are well positioned to continue creating value and driving long-term earnings growth.

On average, the Retail Division opens one new OXXO store every seven hours.

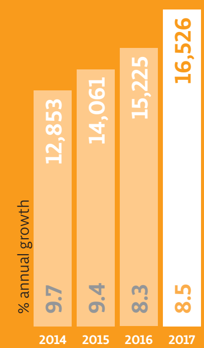
Retail Division

Every day, nearly 12 million people make a purchase at one of our more than 16,500 OXXO proximity retail stores in Mexico and Colombia. With a strong brand and best-in-class margins and returns, OXXO is the third-largest retailer in Mexico in terms of revenues and the largest store chain in the Americas by units. We saw revenue growth in the Retail Division of 12.4 percent by year-end 2017.

Trajectory for success

On average, the Retail Division opens one new OXXO store every seven hours. In 2017, we again added new stores at an accelerated pace, opening a record of 1,301 net new stores—and creating approximately 10,000 direct new jobs in the process—while maintaining above-trend growth in same-store sales for the third year in a row.

1,301
net new OXXO stores in 2017



Total OXXO Stores

+3,150
average SKUs per store

Our trajectory for continued growth remains very strong in many regions of Mexico where store penetration remains relatively low. We have developed proprietary models to assist in identifying optimal store locations, store formats, and product categories. We expect to continue to generate solid returns in new stores by strictly monitoring our cost-of-capital parameters and by consistently implementing our proven operating processes and practices.

In 2017, we also continued to prepare for long-term growth and expansion of the OXXO brand beyond Mexico. In our stores in Colombia and Chile, we are deploying our considerable expertise in the convenience-store format while optimizing our local value proposition and understanding of how best to serve our consumers across markets. Gaining this knowledge will help support the next stage of potential expansions to other regional markets in South America.

Expanding convenience

Driving the sustained growth of the OXXO brand is FEMSA's dedicated focus on creating value for stakeholders while refining our business model and offerings to meet the market's needs. Consumers who have relied on OXXO to quench their thirst, satisfy a snack craving or pick up a prepared meal now increasingly appreciate the one-stop convenience of purchasing other products or using essential services while at one of our stores. For example, providing a place to securely make deposits and withdrawals from bank accounts, receive remittances from relatives living abroad, and pay utility bills are ways our company is investing in the social and relationship capital of our customers to earn their trust.

In turn, these added service offerings are driving same-store traffic growth and expanding the gross margin. In 2017, our Correspondent Banking network included 12 partner banking institutions, and the number of issued Saldazo debit card accounts reached more than 9 million.

To ensure that we maintain a motivated workforce, we are also making investments in the human capital of our organization. We are taking steps to ensure that our OXXO employees are working in stores closer to their home, thereby saving them time and money, while potentially contributing to a reduction in traffic congestion and greenhouse gas emissions related to commuting. In 2017, we also took steps to increase compensation, training, and diversity among our OXXO employees as part of our plan for employee engagement and retention. Though these new policies and investments in human capital partially contributed to a slight contraction of OXXO's operating margin in 2017, we believe that our value-centered approach will reduce turnover and related costs of hiring and training in the longer term.

Spotlight on Sustainability: FEMSA is focused on reducing waste in our retail operations and supporting our community. Two examples of our efforts to accomplish this include:

1. Replacing or eliminating excess and unnecessary packaging as much as possible, while promoting the use of recycled and recyclable packaging materials; and
2. Donating packaged food prior to its expiration date to local food banks, in collaboration with *Bancos de Alimentos de México*.

Health Division

With acquisitions in key markets over the past several years, FEMSA continues to build a strong presence in the health and drugstore segment in Latin America. We first entered this market segment in 2013, with the acquisition of two regional drugstore chains in Mexico. In 2015, we expanded further with two additional acquisitions, including a majority stake in the Chilean pharmacy and distribution chain, Grupo Socofar, which operates an integrated platform in Chile and Colombia.

Our current growth strategy for the Health Division is to further consolidate our market presence and facilitate continued international expansion by leveraging both our effective small-box retail processes and our operational and logistics expertise. With 2,225 points of sale as of year-end 2017, we are becoming a key drugstore operator in Latin America. Revenues increased by 9.2 percent during the year, with same-store sales increasing by 6.7 percent.

Strengthening our position

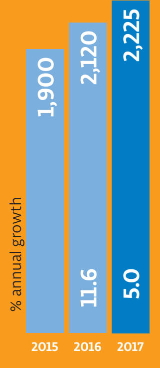
In Mexico, we currently operate more than 1,100 drugstores under different leading regional brands. In 2017, we continued to make significant preparations for future growth and consolidation by building the infrastructure that is required to integrate our legacy drugstore operations into a single platform and to standardize our business model across these different regional brands.

2,225

stores in Mexico, Chile and Colombia

105

net new stores in 2017



Total Number of Stores for Health Division

In South America, through Grupo Socofar, we operate more than 700 Cruz Verde pharmacies and 181 Maicao beauty stores in Chile, as well as more than 200 Cruz Verde drugstores in Colombia. Our Chilean operations have a solid competitive position, best-in-class operating practices and significant vertical integration. Our experience in this market has greatly expanded our knowledge base, and this represents an ideal platform from which to grow and puts us in a strong position for future regional expansion.

Fuel Division

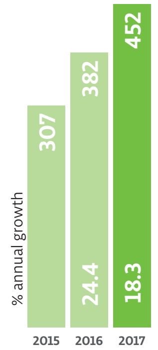
Following Mexico's historic energy reform program beginning in December 2013—which opened the oil and gas market to foreign capital for the first time in more than 75 years—FEMSA recognized the unique opportunity to participate in the transformation of the country's fuel industry through the operation of a large network of service stations. Beginning in March 2015, we started transitioning from our legacy operation of approximately 200 service stations on behalf of third parties, to growing our own base of stations mainly through long-term lease agreements. We saw clear alignment in this endeavor with our retail service expertise, as well as the opportunity to leverage OXXO's brand equity.

Expanding our service stations network

To further consolidate our presence in the market and create additional value for shareholders, in 2017 we invested in the expansion of our infrastructure and continued to roll out our OXXO GAS branding to new stations. As of the end of 2017, our Fuel Division now operates a total of 452 OXXO GAS service stations.

70

net new service stations in 2017



Total OXXO GAS Service Stations

Our OXXO GAS outlets build trust with customers through reliable, high-quality service backed by our strong brand. We also engender loyalty through special promotions available only to our customers.

Navigating market pressures

The number of vehicles on Mexico's roads has grown steadily over the last few decades and, with it, demand for gasoline. Domestic refining output has not kept pace with demand, and gasoline imports have increased as a result. That fact, combined with the currency conditions present in early 2017—namely a steep depreciation of the Mexican peso vis à vis the U.S. dollar—contributed to a sharp increase in the price of gasoline and diesel in January 2017 by an average of approximately 17 percent.

This unique set of circumstances led to a contraction in gross margin in the Fuel Division in the first two quarters of 2017, with gross profits per liter remaining relatively flat versus the previous year, in peso terms. In the second half, we saw stronger sequential improvement in profitability due to more flexible pricing structures and a stronger exchange rate. For the full year, revenues increased 34.1 percent, with same-station sales growth of 19.8 percent.

Looking ahead, as the oil and gas industry continues to transition to an open-market model, we will remain focused on improving our customer value proposition, expanding our network of service stations and enhancing underlying profitability by fine-tuning our business model and revenue management capabilities in ways that highlight our strengths and expertise in retail dynamics.

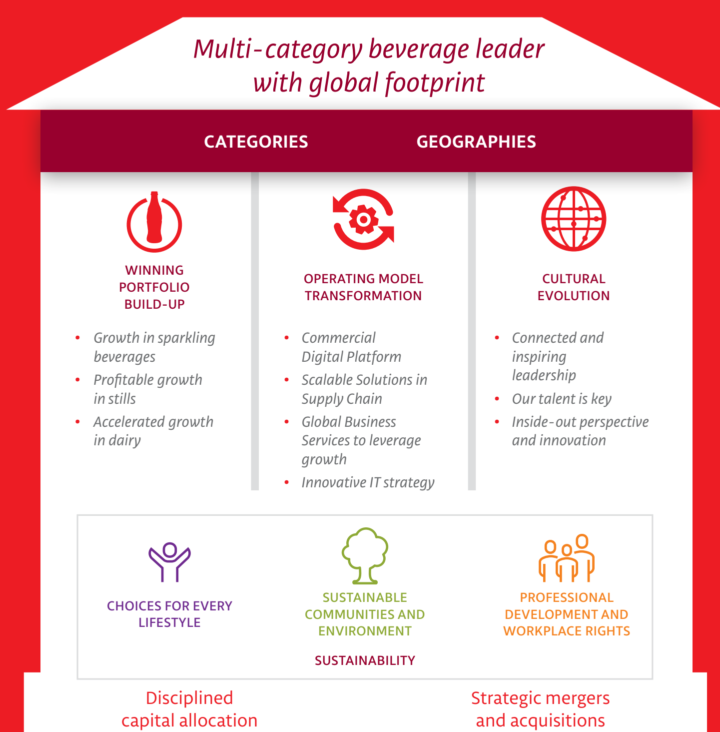
Spotlight on Sustainability: We are continually working to find efficiencies and save resources at our OXXO GAS service stations:

- Since 2011, we have installed LED lighting at OXXO GAS stations, which use less electricity, provide better lighting conditions and create safer and more comfortable spaces.
- Since 2015, we have expanded the installation of efficient toilets in service station restrooms, including dry urinals that save an average of 3.8 liters of water per flush.
- In 2017, we deployed a new waste management program to separate organic and inorganic waste.
- As of the end of 2017, we have planted more than 1,000 trees at OXXO GAS stations.

Coca-Cola
FEMSA

Guiding our business growth

As a strategic partner to The Coca-Cola Company and the largest Coca-Cola franchise bottler in the world, by sales volume, Coca-Cola FEMSA holds a leadership position within the beverage industry with a multi-category portfolio and global footprint . Our Strategic Framework steers our long-term business growth strategy by promoting company-wide collaboration and sharing best practices. As we grow, both organically and through strategic acquisitions, we aim to create value for all our stakeholders by realizing new operational efficiencies and innovations. In this way, we are focused on strengthening our multi-category portfolio, transforming our operational capabilities, and evolving toward a unified corporate culture. We are also integrating a stronger emphasis on sustainability and proactive environmental management across our business strategy.



Winning portfolio buildup

In 2017, we generated over 25 billion transactions serving sparkling beverages, juices, isotonic sports and energy drinks, teas, waters, dairy products and plant-based beverages to more than 381 million consumers. To continue to expand our level of service in diverse markets, we are focused on building a winning portfolio of beverages, as well as anticipating—and responding to—evolving consumer preferences.

We are revitalizing our sparkling beverage offerings, diversifying in still and dairy beverage options, and exploring new, innovative categories. Innovation is a cornerstone of our path toward strategic growth and development. In 2017, as part of our portfolio innovations that offer our consumers more suitable options for their lifestyles, we launched:

31%
of the brands in our portfolio have vitamins, fiber, minerals, or nutritional supplements

In 2017, approximately
1.6 million
people had been benefited by our Healthy Habits programs and initiatives

- *Coca-Cola Sin Azúcar* in Mexico, a sugar-free alternative that comes in a variety of portion sizes.
- *Fanta Guaraná* in Brazil to offer our consumers a lower sugar alternative and revitalize our flavored carbonated soft drink category.

We also continue to complement the organic growth of Coca-Cola FEMSA with value-creating acquisitions.

We know that with multi-category beverage leadership also comes great responsibility. We are taking steps to promote healthy habits in our communities and encouraging people to combine good nutrition with physical activity in their lives. Our strategy is centered on three levels of action:

- Local initiatives: In 2015, we set a goal to benefit five million people by 2020 through programs supporting healthy habits and nutrition awareness. In 2017, approximately 1.6 million people had been benefited in our programs, with an investment of US$ 6 million. To date our progress on this goal is 62%.
- Multi-sector initiatives: In 2016, we launched the Latin American Commitment for a Healthy Future, a multi-sector coalition that promotes initiatives and educational tools to empower school-aged children and their families to make good decisions about their eating habits and physical activity.
- Responsible marketing: In addition to strict nutritional labeling standards and limited advertising in media to children, we also adhere to the Responsible Marketing policies and the Global School Beverage Guidelines of The Coca-Cola Company.

Together with The Coca-Cola Company and the Coca-Cola System in Latin America, we added AdeS plant-based beverages to our expanding offerings in the region. AdeS will complement and strengthen our still beverage portfolio, providing consumers with a broader range of choices. As a nutritious, dairy-free product, AdeS is well-positioned to benefit from favorable dynamics in the broader dairy-alternative beverage segment, as well as positive consumption trends for premium, nutritious, and natural products.

Ensuring product affordability

To better serve and strengthen our connection with consumers, particularly in the challenging macroeconomic environment of 2017, we rolled out affordability initiatives across our operations through our strong platform of affordable, returnable multi-serve packaging alternatives. In Mexico, Brazil and Colombia, we reinforced the coverage of these returnable presentations, as we look to provide the right package at the right price for every consumer.

Additionally, we continue implementing our Magic Price Points strategy to intensify our connection with consumers. This approach helps ensure affordability of our single-serve portfolio at "magic price" points. As a result, we were able to improve consumer segmentation through revenue management, increase profitability and gain or maintain market share, as we did in Argentina, Brazil and Colombia.

Operating Model Transformation

As we work to create a leaner and more agile organization, we are building a sustainable competitive advantage by developing and deploying next-generation strategic capabilities through our Centers of Excellence (CoEs).

In our Commercial CoE, we continue to accelerate the transformation of our operating model, highlighted by the implementation of our upgraded KOFmmercial Digital Platform (KDP), which is based on four pillars: advanced analytics for revenue transformation; dynamic initiative management; omnichannel integration of customer connection points; and improved route-to-market to maximize customer value creation while managing costs. We rolled out the KDP platform in Mexico in early 2017 and have now expanded to Brazil, the Philippines, Colombia, Costa Rica, Nicaragua and Panama. In 2018, we will continue upgrading and rolling out KDP throughout our markets.

We delivered hard manufacturing savings of

US$ 145 million

over the past three years

Our Distribution & Logistics CoE redefined its organizational structure into KOF Logistics Services (KLS), which designs and deploys our Supply Chain Planning model to standardize processes, enhance centralized organizational capabilities and incorporate cutting-edge technological tools. We continue to invest in new technology platforms, such as the Digital Distribution System, which delivers increased resource optimization, improved employee and driver safety, and higher customer satisfaction. The CoE's safety strategy includes initiatives that support the entire company, including transforming our safety culture, managing key risks and professionalizing the safety function. These safety initiatives are adding value by reducing the amount of resources we use and improving the safety of our communities. After implementing Digital Distribution in Mexico in 2017, we have now expanded the platform to Brazil and aim to continue implementing in our remaining territories by 2019.

In our Manufacturing CoE, we continued the development and rollout of our proprietary Manufacturing Management Model to bolster efficiency and productivity, which includes our Plant Operating Model, Centralized Plant Maintenance Planning, Standardized Maintenance System and Manufacturing Execution System. We are also creating a culture of safety, and working to advance our safety programs, which has resulted in fewer accidents. These initiatives not only create a better work environment for our employees, but also drive cost savings.

41%

of the brands in our portfolio are low or no calorie beverages

Spotlight on Sustainability: To conserve the amount of resources and energy needed for our operations, our goal is to use recycled materials in 25% of our total PET presentation production by 2020. As of 2017, we are approaching the achievement of our goal, using 21% recycled materials in the production of our PET presentations.

Cultural Evolution

Through our continuous evolution, we are creating a strong, unified corporate culture, founded on the cornerstones of leadership, talent and innovation. Together, we share a passion for excellence—embracing diversity across our increasingly multicultural operations. We are focused on identifying the strengths and opportunities of our workforce and leadership team, with an aim to empower employees by giving them the tools and capabilities they need to succeed in their roles.

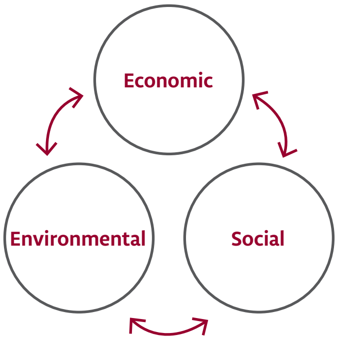
2017 Cultural Evolution Highlights	
Organizational Health Index Survey	Coca-Cola FEMSA launched its fourth annual employee engagement survey and gathered feedback from more than 21,000 participants. We registered a five-point increase in our overall organizational health from our baseline survey in 2014.
Talent Management and Development	In 2017, we invested US$ 12.7 million in employee training initiatives, accounting for 3.4 million of total training hours. Additionally through the Universidad FEMSA online platform, we offered to our people more than 5,000 different resources such as: events, courses, videos and diverse online materials aligned with the best practices of our Centers of Excellence.
Volunteering	By 2020, our goal is to achieve one million hours of volunteer work through the KOF Volunteers program. At year-end 2017, we have accumulated 681,224 volunteer hours since 2016—representing 68.2% of our goal.

Sustainability

Creating sustainable value

FEMSA defines sustainability as the ability to generate the social, environmental and economic conditions needed to operate today and grow over time in harmony with the environment and society. We base our actions on an underlying commitment to ethics and values, and we organize our sustainability approach along three pillars: Our People, Our Planet and Our Community.

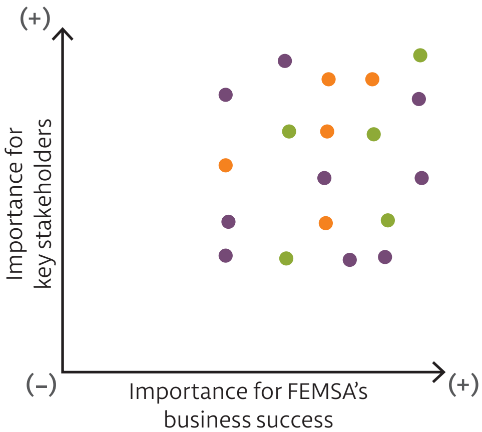
Since 2005 we have been signatories of the United Nations Global Compact, through which we pledge to follow and promote its 10 principles relating to human rights, labor practices, the environment and anti-corruption. We also support the United Nations Sustainable Development Goals (SDGs), which were launched in 2015 and represent an ambitious plan to make our world more inclusive, prosperous, sustainable, and resilient. The SDGs call for countries to



19

Focus topics

in which we generate a greater positive impact



improve the lives of people everywhere by mobilizing efforts to improve the most critical issues in the world by 2030, including poverty, inequality and climate change. The eleven countries in which FEMSA operates have accepted the SDGs and will be using them to define their 2030 agendas. But to fully make a global impact, businesses and civil society must also take action. In 2017, FEMSA began an analysis to gain a better understanding of what the SDGs mean for our core business and how we can best contribute to them. In 2018, we will also be considering how the SDGs can help guide our own corporate sustainability goals.

Our approach to materiality

FEMSA's Strategic Sustainability Framework is based on the priorities and issues that are most important to our business and the stakeholders with whom we engage. Our key stakeholder groups include employees, consumers, suppliers, shareholders, government entities, community members and NGOs. Additional stakeholder groups include industry experts, peer companies and the media.

We first conducted a company-wide materiality analysis in 2012, which included an analysis of our business strategy, emerging risks, industry trends and best practices, and direct engagement with FEMSA business-unit executives and other external stakeholder representatives. We identified 19 focus topics, which correspond to nine action areas across our three pillars. We engage our stakeholders on an ongoing basis throughout the year to confirm and update our material issues assessment. Because each of our business units is distinct, we have now begun the process of conducting materiality analyses by business unit, beginning with Coca-Cola FEMSA, OXXO, Solistica, Imbera and PTM.

PILLARS		FOCUS TOPICS
OUR PEOPLE	Culture and values	Culture and values
	Training and development	Workplace health and safety
		Compensation
		Training and development
	Comprehensive development	Comprehensive development
OUR PLANET	Water	Water management
	Energy	Energy use
		Environmental impact of transportation and logistics
	Waste and recycling	Packaging and recycling
		Waste
OUR COMMUNITY	Healthy lifestyles	Nutrition and physical activity
	Community development	Responsible marketing and communications
		Offering sustainable products/services
		Local environmental impact
		Safety in our surroundings
		Social well-being in communities
	Sustainable sourcing	Supplier development
		Environmental impact of suppliers
		Labor rights and working conditions of suppliers

Our People

178,084 recruitments, **48%** are women.

+10 million hours of ongoing training.

At FEMSA, we are committed to growing as a high-performance organization where talent, culture and leadership are the key levers for the development of our people and the fulfillment of our strategic objectives. Accordingly, we seek to promote the professional development of our employees and to provide them with the training and resources they need to do their jobs safely and successfully.

We focus on three areas of action that make up the Our People pillar: Culture and Values, Training and Development and Comprehensive Development.

> In 2017, we invested Ps. 1.6 billion (US$ 81.9 million) in our people, with 89% for culture and values training and 11% for comprehensive development.

Culture and Values

We promote a culture of leadership characterized by respect and by setting a positive example.

Our corporate culture—and our capacity to create economic and social value—is guided by our values:

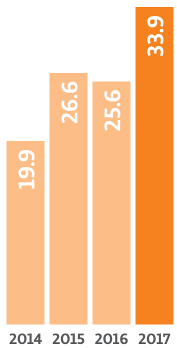
- Respect for, and comprehensive development of, our employees
- Integrity and austerity
- Passion for customer service
- Creation of social value

All employees are expected to uphold and demonstrate these values within our culture of legality and leadership. We respect and uphold the laws and societal standards of every country in which we do business, and we have zero tolerance for corruption. Our FEMSA Leadership Model—a set of nine key competencies—ensures that all employees have the necessary skills to contribute to our business strategy.

Training, Development and Safety

We are focused on developing the capabilities of our employees in a safe and fulfilling environment, so they can respond to challenges and achieve their highest potential as individuals and professionals.

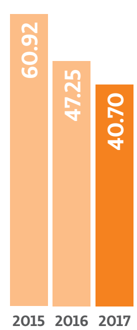
We offer online and in-person courses and other tools to develop leadership skills and technical knowledge for our employees. In 2017, we formalized our processes for competency reviews, leadership style assessments and performance measurement tools.



Average Hours of Training per Employee

The wellbeing of our employees, particularly while at work, is of utmost importance to FEMSA. We uphold strict standards related to occupational health, hygiene, and safety, and all our business units operate according to the guidelines and requirements of our internal occupational health and safety standards.

Accident Rate
(Safety)



General Diseases Rate
(Health)

Indexes are based on the number of incidents per 100 employees, calculated on the number of FEMSA direct employees reported to Occupational Health and Safety Administration System. Includes information on all countries.

Comprehensive Development

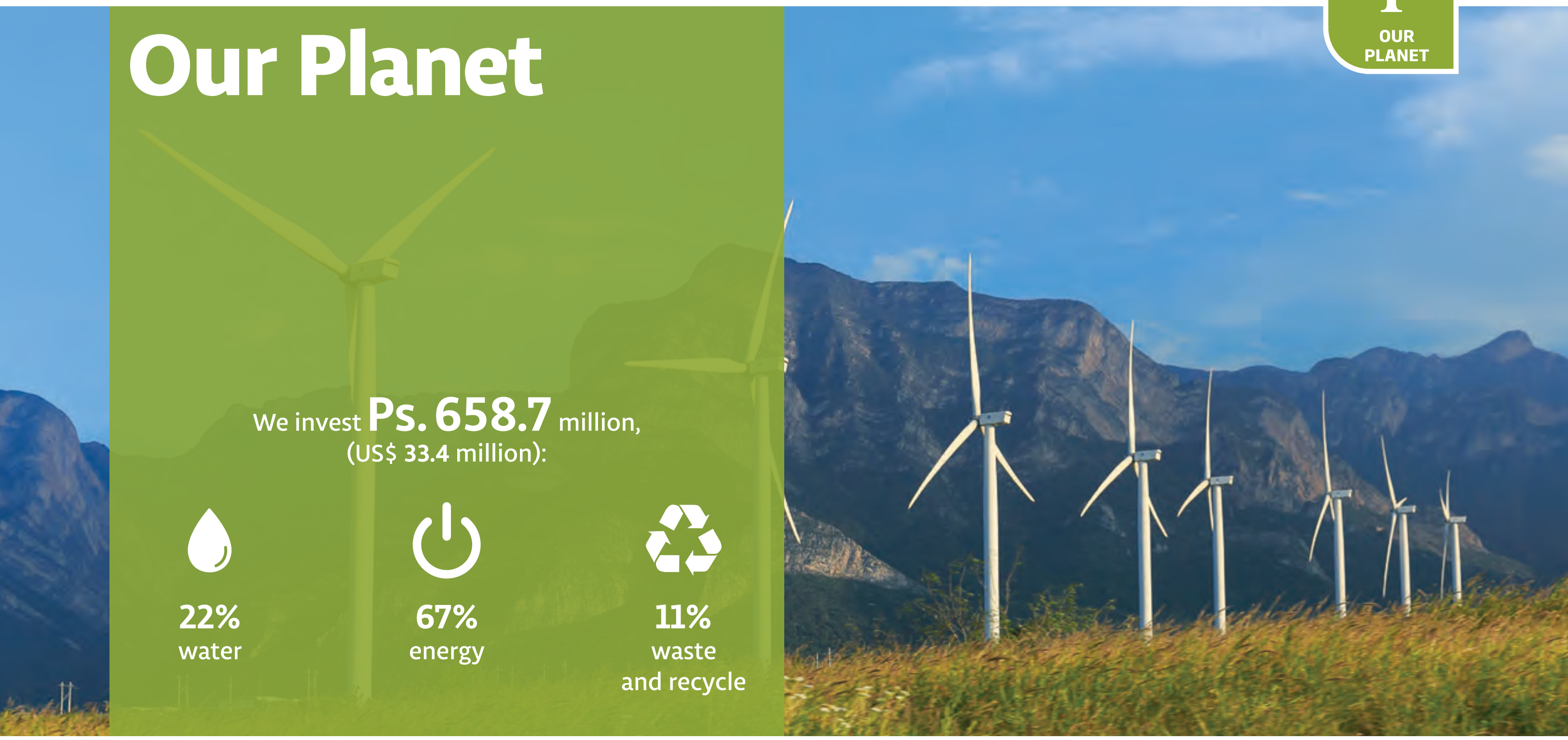
We promote wellness and a high quality of life for our employees, their families and the communities in which they live and work.

We know that the advancement of our employees takes place both within and outside the company, so we support a holistic FEMSA Social Development System, which is comprised of seven dimensions of wellness related to Family, Social, Health, Labor, Economic, Education and Values.

One of the barometers of our progress toward advancing the comprehensive development of our workforce is through our employee engagement survey. This employee engagement survey is annually open to 50 percent of our employees (covering 100 percent of our employees every two years). In 2017, 102,300 employees responded to the survey, an approximately 89.8 percent participation rate among eligible participants. We collect feedback on our organizational climate, as it relates to satisfaction levels and potential areas of concern. This information supports workplace improvements and serves as an input to our quality-of-life programs.

We believe that talent is among the most relevant competitive advantages we can secure to ensure the long-term success and sustainability of our business. We are positioning talent management as a part of our business strategy, generating the organizational capacity to fully support it and transforming it into a cultural attribute of our organization.

Our Planet



We invest **Ps. 658.7** million,
(US$ **33.4** million):

22% water

67% energy

11% waste and recycle

A key aspect of our sustainability strategy and risk management approach includes identifying the major environmental impacts of our operations across our value chain. We are taking steps to improve our processes through the more efficient use of resources. We focus our actions around three key priority areas for our company and our stakeholders, including:

- **Water:** We optimize our water consumption to reduce our water footprint.
- **Energy:** We work to reduce greenhouse (GHG) emissions from our operations.
- **Waste and recycling:** We optimize our waste management and reduce the impact of the waste created in our processes.

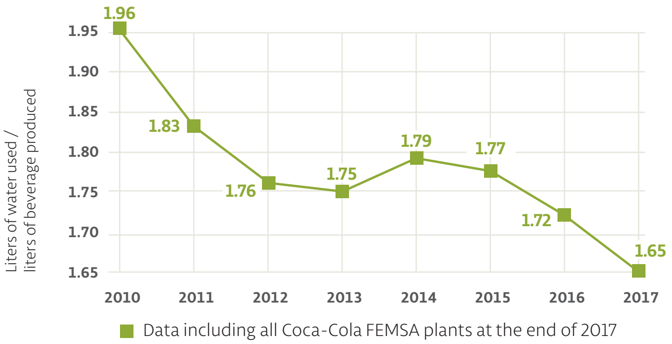
Optimizing Resources

Because water quality and availability are crucial to the beverage business, we focus on reducing consumption, improving resource management and conserving the watershed.

Since 2010, the amount of water used by Coca-Cola FEMSA to produce its beverages has steadily fallen.

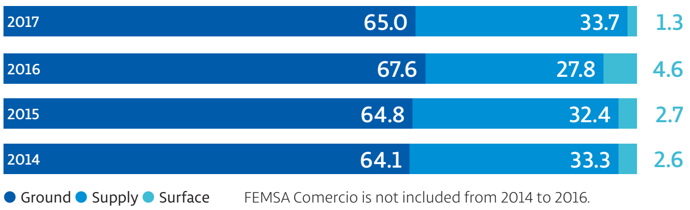
We also work to optimize the amount of fuels used in our operations. For example, we have reduced fuel consumption per kilometer traveled at our Solistica operations by implementing efficient route planning and integrating new technologies. From 2011-2016, these improvements avoided 729,370 tons of CO_2 emissions from being released into the atmosphere. In 2017 our fuel efficiency consumption in Mexico was 0.51 kilometer traveled per liter.

Liters of water consumed per liters of beverage produced by Coca-Cola FEMSA



Percentage of water consumption by source

(%)



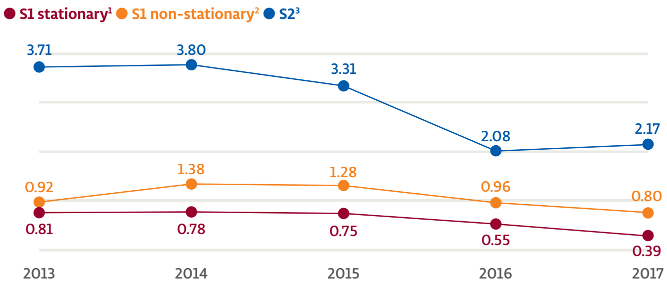
FEMSA Comercio is not included from 2014 to 2016.

Reducing Impacts

Energy is an important input to our business operations, which is why year after year, we incorporate new processes and tools to optimize its use, further diversify our energy portfolio and reduce our climate impact.

Total intensive emissions Scope 1 (stationary) + Scope 2

Tons of equivalent CO_2e / Total Revenues in Ps. million



1 Includes the stationary consumption of non-renewable sources.
2 Includes the fuel consumption of own units, Coca-Cola FEMSA consumption is estimated.
3 Includes fuel consumption of renewable and non-renewable sources.

> Our goal is to obtain 85% of our electric energy in Mexico from renewable sources by 2020. We met 26.4% of our energy needs in 2017 through renewable energy from four wind farms.

This year we also moved closer to reaching our goal, participating in the following projects:

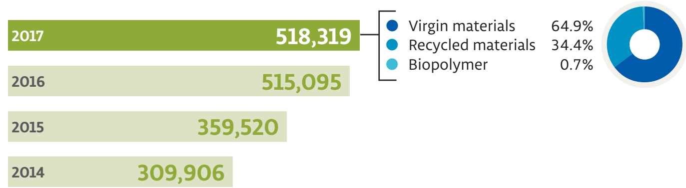
- Amistad Wind Farm in the state of Coahuila, which will have an installed capacity of 197.5 MW and generate 750,000 MWh per year of renewable energy. FEMSA has entered into a power purchase agreement (PPA) to acquire 100% of this energy to supply at least 7,600 FEMSA load points in Mexico. The wind farm is expected to be operational by the third quarter of 2018.
- Eolica del Sur Wind Farm in southern Oaxaca, which will have 396 MW of installed capacity and generate more than 1.3 million MWh per year of renewable energy where we have entered into a PPA to supply 13,800+ load points of FEMSA's and Heineken Mexico's operations in Mexico. The wind farm is expected to be completed by the fourth quarter of 2018.
- We have also entered into a PPA for the San Matias Wind Farm in the state of Baja California, which will have 31 MW of installed capacity and generate 57,000 MWh per year of renewable energy. This wind farm will supply its energy to load points of FEMSA and Heineken Mexico located in this NW region of Mexico and is expected to be operational by the end of the year.

We are taking steps to minimize the waste generated by our operations, including proper management of industrial waste. All our bottling plants operate with a waste-reduction program, and our goal is to recycle 90 percent of the waste associated with each of them by 2020.

We comply with all regulations related to maintaining the proper infrastructure to collect hazardous waste and dispose of it through authorized service providers.

Used materials

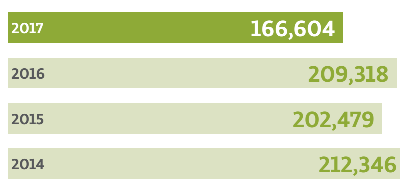
(Tons) In 2017, 34.4 percent of our total materials consumed were recycled.



This information excludes Solistica and Imbera's materials.

Waste management

(Tons)



Our Community

98%
local suppliers

Ps. 93.9
million from *Redondeo Clientes OXXO*

504
local initiatives

Due to the complexity and size of FEMSA's multinational organization, our operations reach a diverse group of people and communities. Developing and maintaining positive, mutually valuable relationships with the communities in which we operate is fundamental to our business strategy and our sustainability goals. This begins with understanding the positive and negative impacts our businesses have in our communities, and then assessing how our business strategy can address the needs of these communities to further promote their sustainability and our own.

We invested Ps. 454.8 million (US$ 23.0 million) in our community, with 73% for community development and sustainable supply and 27% for healthy lifestyles.

Community development

We contribute to the economic, social and environmental wellbeing of the communities neighboring our operations.

We encourage employees to give back to their communities, and we help organize and facilitate unique opportunities to do so. During 2017, more than 51,063 employee volunteers participated in 1,852 acts of service, totaling more than 367,796 donated hours.

The Model for Addressing Risks and Relations with the Community (MARRCO) supports company-wide efforts for more effective dialogue with, and impact on, our local communities.

We use this tool to help build trust and collaboration with our local stakeholders, identify risks and opportunities for value creation and better optimize our actions and programs. MARRCO supports the development of capabilities through multi-disciplinary teams in our plants and distribution centers.

As part of the first phase of this model's implementation in 2016, we set up teams in 23 work centers at Coca-Cola FEMSA, Solistica, Imbera, and PTM in seven countries: Argentina, Brazil, Colombia, Mexico, Nicaragua, Panama and Costa Rica. In 2017, we implemented MARRCO in 18 additional work centers and continued to integrate it into our processes, systems and work culture. This has included expanded training in the methodology and the ability for more parts of our organization to undertake their own risk assessments and define Community Engagement Plans.

Sustainable sourcing

We contribute to the improvement of the labor, social and environmental performance of our suppliers.

Our suppliers are essential to the sustainability of our business, and we are committed to helping them improve their labor, social and environmental performance by providing training and other resources to continually improve processes. In total, we have a network of more than 53,992 suppliers of goods and services for our business and operations, which channeled a total of Ps. 171.8 billion (US$ 8.7 billion) to the productive sectors of other industries.

To ensure that the companies and individuals who supply our company with products and services operate with integrity, we advise our suppliers to adhere to our Supplier Guiding Principles, which describe our expectations related to labor rights, the environment, community, ethics and values. We modeled these principles on widely accepted international standards, including the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact. In 2017, we continued to work on ensuring our suppliers are informed about and abide by these principles.

We are also committed to supporting suppliers who are local to the country in which we are making the purchase. In 2017, our percentage of spend in local suppliers was 86.8 percent.

The OXXO Customer Round-Up Program (*Redondeo Clientes OXXO)*, begun in the year 2002, serves as a link between customers and local institutions, creating a circle of mutual support between them. Currently, the program operates in every state of Mexico through OXXO and other FEMSA Retail banners. Through the participation of our employees, who invite customers to participate in donating and rounding up their total, in 2017, Ps. 93.9 million (US$ 1.8 million) were raised, benefiting 256 institutions.

FEMSA Foundation

Building partnerships to scale our impact

FEMSA Foundation's mission is to make a positive impact on the people and communities where we operate by furthering social investment projects that promote sustainability. Specifically, we focus our commitments on the principles of innovation, replicability and scalability for three strategic action areas: water security, early childhood development and cultural programs.

In 2017, our programs benefited 7,945,957 people directly and indirectly in over 600 communities.

We know that the participation and expertise of our strategic partners is crucial to the success of our projects. For every dollar that we currently invest, we are able to leverage approximately US$ 3.46 dollars through our partnerships (an increase from about US$ 1.40 dollars during 2016).

In all the Foundation's programs, we aim for maximum impact with the resources and partnerships available to us. Over the coming year, we will focus on reaching more people by scaling up our existing programs and replicating best practices in new areas.

In 2018, FEMSA Foundation will celebrate its first ten years of accomplishments through special activities and a renewed commitment towards impactful social investments that continue to support a better future for all.

For a water secure region

> One of our goals is to address water challenges in Latin America by utilizing technology-supported decision-making, increasing access to water and sanitation, and enhancing water security through watershed sustainability.

We are increasingly addressing water stewardship in the context of the inextricable linkages between water, energy and food resources. By leveraging a sophisticated modeling tool run by the Water Center for Latin America and the Caribbean, called the Strategic Decisions Hub (or NED, its acronym in Spanish), we are able to generate a 360-degree perspective on water availability and use in the region. This tool supports the decision-making process—guided by a multidisciplinary network of experts—for finding solutions to complex problems.

Our partnership with The Nature Conservancy, the Inter-American Development Bank (IDB) and the Global

Environment Fund has expanded the scope of our water initiatives beyond conservation. As a member of the Latin American Water Funds Partnership, we provide technical and financial assistance for the creation of Water Funds. These funds help communities achieve water security by investing in natural infrastructure and good governance. For example, in Monterrey in September 2017, we gathered 20 key stakeholders—from government, to private enterprise, to agricultural producers and water utility companies—to develop a common agenda on how the community can work together to manage this water resource. From our discussion, we identified 11 areas for this common agenda and we are now executing on the first four:

- Governance structure
- Source protection
- Flood prevention
- Access to water

> As of the end of 2017, the Latin American Water Funds Partnership has leveraged over Ps. 43.5 million (US$ 2.2 million) from more than 100 local partners.

In March 2017, we launched Water Links (Lazos de Agua) together with One Drop, IDB and the Coca-Cola Foundation. Through this multi-stakeholder partnership, we are improving the health and living conditions of the poorest and most vulnerable communities in Latin America. Through a focus on behavior change, we aim to develop sustainable water access and sanitation projects. By helping communities change their habits and learn the practices needed to sustain ongoing investments, we seek to empower them and give them the tools to make this initiative sustainable once the project is complete. By using this model we have assisted 7,299 persons and plan to help more in the coming year.

Promoting early childhood development

> By strengthening early childhood development, our vision is that all children reach their maximum potential and transform the communities where we operate.

All children deserve to achieve their maximum potential, but not all have the resources to do so. In partnership with IDB and Open Society Foundations, we launched the Early Childhood Development Innovation Fund. Designed to benefit children in the most vulnerable of communities, the new fund will finance initiatives to improve the cognitive, linguistic, motor and socio-emotional abilities of children in the first five years of their lives. We are excited to be a part of this collaboration because it will afford us the partnerships and resources necessary to test innovative models and develop opportunities to scale.

We also remain active in Sesame Workshop's *¡Listos a Jugar! (Ready to Play!)*, a multi-platform initiative to promote lifelong, healthy habits through educational entertainment for children from 0 to 6 years of age. We provide financial and advisory support for the many activities provided to teachers and parents, including games focused on nutrition habits, emotional intelligence, self-esteem and physical health. Through this initiative we have reached 7.8 million people in Mexico, Ecuador and Colombia, and we are planning to launch in Brazil in 2018.

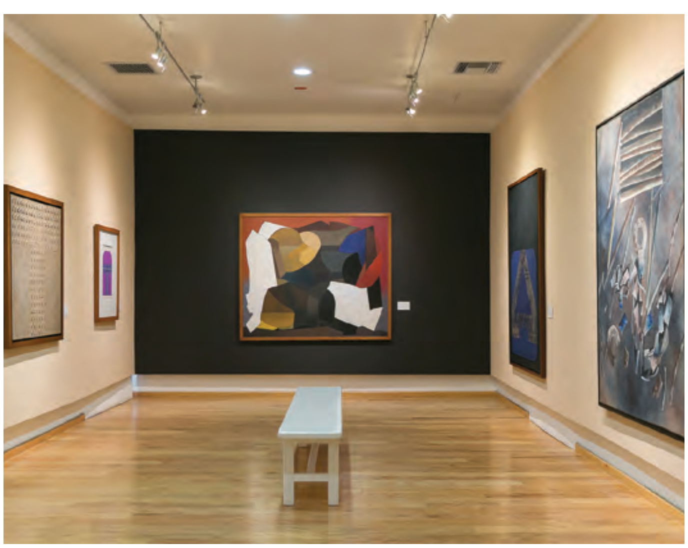
Another one of our goals is to raise awareness in the private sector community about the importance and benefits of implementing early childhood development initiatives for the families of employees. By making these investments, we believe that companies can build a team that is more successful and sustainable, as well as increase employee productivity and satisfaction. In November 2017, in collaboration with LEGO Foundation and United Way Mexico, we hosted a one-day summit and symposium to discuss these early childhood development opportunities with the CEOs and human resources executives of some of the most important companies in Mexico and Latin America. 18 speakers shared knowledge and best practices for promoting early childhood development with over 280 participants and 9,000 remote viewers from six different countries. To learn more about the symposium, please visit: http://ecdsymposium.com/.

Arts and culture advocacy

> Our goal is to preserve, promote, and share the FEMSA Collection in order to contribute to a further understanding and appreciation of modern and contemporary Latin American art.

At FEMSA, we believe in the power of art and its ability to positively transform the way people interact with their surroundings. This is why, 40 years after its institution, the FEMSA Collection continues its endeavor of sharing the legacy of its artworks with diverse audiences in different geographies through an exhibition program and various other initiatives.

The FEMSA Collection gathers more than 1,200 works of art that document the evolution, diversity, and heritage of the arts that have unfolded in Latin America since the 20th century. Throughout 2017, more than 1 million people visited exhibitions in Mexico, Costa Rica, Guatemala, and Panama made possible by our exhibition program, as well as other museums around the world, where works from the Collection were displayed as part of our loan program.



In addition to safeguarding the FEMSA Collection, the FEMSA Cultural Program manages two significant initiatives: the FEMSA Biennial and Estancia FEMSA – Casa Luis Barragán.

The FEMSA Biennial was launched in 1992 with the purpose of recognizing, strengthening, encouraging and providing a platform for artistic creation in Mexico. Since then, it has evolved into a collaborative model that seeks to generate a dialogue that connects local cultural context and the global contemporary art scene. Now in its 13th edition, the FEMSA Biennial takes place from 2017 through 2019 in the state of Zacatecas, in partnership with various local cultural institutions and museums.

Estancia FEMSA – Casa Luis Barragán is a cultural and artistic platform hosted by Casa Luis Barragán in Mexico City, the former residence of Luis Barragán, one of the most relevant architects of the 20th century. It presents a series of exhibitions, performances and editorial content to promote dialogue on the historical context offered by the house, as well as the possibilities of the modern and contemporary art disciplines.

Corporate Governance

FEMSA seeks to adhere to the highest ethical standards of governance practices. We are committed to the quality, accuracy and reliability of our practices for disclosing information, financial transparency and accountability. Our corporate practices comply with the laws of the countries where we operate. We comply with the standards set forth in the Mexican Securities Law (Ley del Mercado de Valores), and the applicable United States securities laws, including the Sarbanes-Oxley Act. Additionally we observe recommendations of the Mexican Code of Best Practices, issued by the Business Coordinating Council (Consejo Coordinador Empresarial).

Board of Directors

The Board of Directors is responsible for establishing our corporate strategy, defining and overseeing the implementation of our vision and values, and approving related-party transactions, including transactions outside the ordinary course of business and internal policies.

Series "B" Directors

José Antonio Fernández Carbajal [C]
Executive Chairman of the Board of Directors of Fomento Económico Mexicano, S.A.B. de C.V.
Elected 1984
Alternate: Federico Reyes García [C]

Javier Gerardo Astaburuaga Sanjines [C]
Vice-President of Corporate Development of Fomento Económico Mexicano, S.A.B. de C.V.
Elected 2006

Mariana Garza Lagüera Gonda
Private Investor
Elected 1998
Alternate: Paulina Garza Lagüera Gonda

Eva María Garza Lagüera Gonda
Private Investor
Elected 1999
Alternate: Othón Páez Garza

José Fernando Calderón Rojas
Chief Executive Officer and Chairman of the Board of Directors of Franca Servicios, S.A. de C.V., Servicios Administrativos de Monterrey, S.A. de C.V., Regio Franca, S.A. de C.V., and Franca Industrias, S.A. de C.V.
Elected 1984
Alternate: Francisco José Calderón Rojas

Alfonso Garza Garza
Vice President of Strategic Businesses of Fomento Económico Mexicano, S.A.B. de C.V.
Elected 2001
Alternate: Juan Carlos Garza Garza

Max Michel González
Operations Manager at Servicios Liverpool, S.A. de C.V.
Elected 1996
Alternate: Bertha Michel González

Alberto Bailleres González
Chairman of the Boards of Directors of the companies of Grupo BAL, S.A. de C.V.
Elected 1989
Alternate: Arturo Fernández Pérez

Francisco Javier Fernández Carbajal [C]
Chief Executive Officer of Servicios Administrativos Contry, S.A. de C.V.
Elected 2004
Alternate: Daniel Alberto Rodríguez Cofré

Ricardo Guajardo Touché [B, C, I]
Chairman of the Board of Directors of Solfi, S.A. de C.V.
Elected 1988

Alfonso González Migoya, [A, I]
Chairman of the Board of Directors of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (Volaris).
Elected 2006
Alternate: Sergio Deschamps Ebergenyi [I]

Carlos Salazar Lomelín
Member of the Board of Directors of Fomento Económico Mexicano, S.A.B. de C.V., Coca-Cola FEMSA, S.A.B. de C.V., Grupo Financiero BBVA Bancomer, S.A. de C.V. and Fundación FEMSA, A.C.
Elected 2014
Alternate: Eduardo Padilla Silva

Bárbara Garza Lagüera Gonda
Private Investor; President of the Acquisitions Committee of Colección FEMSA
Elected 1998
Alternate: Juan Guichard Michel

Ricardo E. Saldívar Escajadillo B, C, I
President of the Board of Directors and former Chief Executive Officer of The Home Depot Mexico
Elected 2006

Alfonso de Angoitia Noriega I
Executive Vice-Chairman and Chairman of the Finance Committee of Grupo Televisa, S.A.B.
Elected 2015

Series "D" Directors

Armando Garza Sada I
Chairman of the Board of Directors of Grupo Alfa, S.A.B. de C.V., Alpek, S.A.B. de C.V. and Nemak, S.A.B. de C.V.
Elected 2003
Alternate: Enrique F. Senior Hernández C, I

Moisés Naím B, I
Distinguished Fellow at the Carnegie Endowment for International Peace; Producer and host of Efecto Naím; author and journalist
Elected 2011
Alternate: Francisco Zambrano Rodríguez A, I

José Manuel Canal Hernando A, I
Independent Consultant
Elected 2003

Michael Larson I
Chief Investment Officer for William H. Gates III
Elected 2011

Robert E. Denham B, C, I
Partner at Munger, Tolles & Olson, LLP
Elected 2001
Alternate Director: Ernesto Cruz Velázquez de León A, I

Carlos Eduardo Aldrete Ancira
Secretary

Alejandro Gil Ortiz
Alternate Secretary

A: Audit Committee;
B: Corporate Practices Committee;
C: Strategy and Finance Committee;
I: Independent Director

Committees

Our Board of Directors is supported by committees that analyze issues and provide recommendations to the Board of Directors regarding their respective areas of focus, which include economic, social and environmental matters.

Audit Committee*	Corporate Practices Committee*	Strategy and Finance Committee
Responsible for: • reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control, and auditing requirements; • the appointment, compensation, retention, and oversight of the independent auditor, who reports directly to the Audit Committee; • identifying and following up on contingencies and legal proceedings.	Responsible for: • preventing or reducing the risk of transactions that could damage the value of the company or benefit a particular group of shareholders; • approving policies for the use of the company's assets or any related party transactions and the compensation of the Chief Executive Officer and senior executives, as well as supporting the Board of Directors in the preparation of reports on accounting practices.	Responsible for: • evaluating the investment and financing policies proposed by the Chief Executive Officer; • evaluating risk factors to which the corporation is exposed, as well as its management policies.

*Committee members are independent directors, as required by Mexican Securities Law.
The Audit Committee has 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.

Executive Management

Our management team is focused on driving business growth by creating economic, social and environmental value for all our stakeholders.

Each of our executive leaders has significant professional experience within the industries where our businesses operate.

José Antonio Fernández Carbajal
Executive Chairman of the Board
Mr. Fernández joined FEMSA in 1988. He was appointed CEO in 1995 and Chairman in 2001, serving in both positions until January 2014. He is Vice Chairman of the Heineken N.V. Supervisory Board and member of the Heineken Holding N.V. Board, and also serves as Chairman of Coca-Cola FEMSA, FEMSA Foundation, Tecnológico de Monterrey and the US-Mexico Foundation. He is a member of the Board of Industrias Peñoles and Grupo Televisa, co-chairs the Mexico Institute of the Woodrow Wilson Center and he is a member of the board of trustees of the Massachusetts Institute of Technology. His degrees in Industrial Engineering and Systems and MBA were both earned from Tecnológico de Monterrey.

Eduardo Padilla Silva
Chief Executive Officer of FEMSA
Mr. Padilla joined FEMSA in 1997 and was named to his current position in January 2018. Previously he served as Chief Financial and Corporate Officer of FEMSA, CEO of FEMSA Comercio, CEO of FEMSA Strategic Procurement and FEMSA's Director of Planning and Control. Mr. Padilla earned a Bachelor's degree in Mechanical Engineering from Tecnológico de Monterrey and an MBA from Cornell University. He also holds a Master's degree from IPADE.

Javier Gerardo Astaburuaga Sanjines
Vice President of Corporate Development of FEMSA
Mr. Astaburuaga joined FEMSA in 1982. His roles in the company have included co-CEO of FEMSA Cerveza, Director of Sales for Northern Mexico, CFO of FEMSA Cerveza and Chief Financial and Corporate Officer of FEMSA. He was appointed to his current position in April 2015. Mr. Astaburuaga earned his Bachelor's degree in Public Accounting from Tecnológico de Monterrey.

Alfonso Garza Garza
Vice President of Strategic Businesses of FEMSA
Mr. Garza joined FEMSA in 1985 and held various positions including CEO of FEMSA Empaques. In 2012 he was appointed to his current position. He served as President of the Employers Confederation of Mexico (Coparmex) for the state of Nuevo León (2011-2013), and has served as National Vice President since 2009. He is Chairman of the Talent and Culture Committee of Tecnológico de Monterrey, and member of the Board of Coca-Cola FEMSA and Tecnológico de Monterrey. Mr. Garza earned a Bachelor's degree in Industrial Engineering from Tecnológico de Monterrey and completed postgraduate coursework at IPADE.

Genaro Borrego Estrada
Vice President of Corporate Affairs of FEMSA
Mr. Borrego joined FEMSA in 2008 after serving as Governor of the Mexican State of Zacatecas (1986-1992), head of the Mexican Social Security Institute (IMSS) (1993-2000) and Senator to the Federal Congress representing the State of Zacatecas (2000-2006). He holds a degree in Industrial Relations from Universidad Iberoamericana.

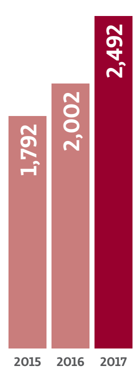
José González Ornelas
Vice President of Administration and Corporate Control of FEMSA
Mr. González joined FEMSA in 1973 and assumed his current position in 2001. His previous roles have included CFO of FEMSA Cerveza, Director of Planning and Corporate Development of FEMSA and CEO of FEMSA Logística. He serves as Secretary of the Audit Committee of both FEMSA's and Coca-Cola FEMSA's Boards of Directors, and is a member of the Board of Productora de Papel, S.A. He holds a BA in Accounting from Universidad Autónoma de Nuevo León and completed postgraduate studies in Business Administration at IPADE.

John Anthony Santa Maria Otazúa
Chief Executive Officer of Coca-Cola FEMSA
Mr. Santa Maria was appointed to his current position in 2014, having joined Coca-Cola FEMSA in 1995 and having served in several senior management positions since then, including COO of the company's Mexico Division, and Strategic Planning and Business Development Officer. Mr. Santa Maria earned a Bachelor´s degree and an MBA with a major in Finance from Southern Methodist University.

Daniel Alberto Rodríguez Cofré
Chief Executive Officer of FEMSA Comercio
Mr. Rodríguez joined FEMSA in 2015 as Chief Financial and Corporate Officer, and was named to his current position in January 2016. Prior to joining the company he was CFO and then CEO of CENCOSUD (Centros Comerciales Sudamericanos S.A.), among other senior finance and management positions in Latin America, Europe and Africa. He is a member of the Board of Coca-Cola FEMSA and an alternate member of the Board of FEMSA. Mr. Rodríguez holds a forest engineering degree from Austral University of Chile and an MBA from Adolfo Ibañez University.

Code of Ethics

Our Code of Ethics[1] defines our expectations for ethical decision-making and professional business conduct, including employment policies, health and safety, our relations with the community, use of resources, compliance with regulation, relations with third parties and responsibilities under the Code of Ethics. The Code is applicable to all our collaborators and officers—including our Chief Executive Officer—and each is required to confirm their understanding of, and adherence to, these standards.



Whistleblower System

Number of complaints received at FEMSA and its Business Units

In accordance with the provisions set forth in our Code of Ethics, we maintain a whistleblower system, through which FEMSA detects any illegal practices, inappropriate conduct or Code of Ethics violations. Managed 24 hours a day, every day, by an independent party, this system offers our stakeholders four confidential, anonymous communication channels: phone, website, e-mail or online chat.

Number of complaints received at FEMSA and its Business Units*

	2015	2016	2017
Number of complaints received	1,792	2,002	2,492
Resolved in same calendar year	65%	82%	70%
Resolved beyond same calendar year	35%	18%	30%

* Complaints include reported situations relating to workplace or sexual harassment, discrimination, human rights violations, theft, corruption, misuse of information, negative impacts on the community and the environment, among others.

1. *http://files.shareholder.com/downloads/FEMSA/5674198996x0x30974/86CD1FD-C202-405C-A003-87D9D7A40DB2/FEMSA_-_Code_of_Ethics_2017_-_eng.pdf*

Financial Summary

Amounts expressed in millions of Mexican pesos (Ps.)
as of December 31, 2017

Income Statement	2017	2016	2015	2014	2013
Net sales	Ps. 459,763	Ps. 398,622	Ps. 310,849	Ps. 262,779	Ps. 256,804
Total revenues	460,456	399,507	311,589	263,449	258,097
Cost of goods sold	290,188	251,303	188,410	153,278	148,443
Gross profit	170,268	148,204	123,179	110,171	109,654
Operating expenses	128,829	110,777	89,444	80,188	79,797
Income from operations (1)	41,439	37,427	33,735	29,983	29,857
Other non-operating expenses (income), net	(1,545)	4,208	954	(508)	326
Financing expenses, net	3,216	4,619	7,618	6,988	4,249
Income before income taxes and share of the profit of associates and joint ventures	39,768	28,600	25,163	23,503	25,282
Income taxes	10,583	7,888	7,932	6,253	7,756
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	8,021	6,463	6,045	5,380	4,629
Consolidated net income	37,206	27,175	23,276	22,630	22,155
Controlling Interest	42,408	21,140	17,683	16,701	15,922
Non-Controlling Interest	(5,202)	6,035	5,593	5,929	6,233
Ratios to total revenues (%)					
Gross margin	37.0%	37.1%	39.5%	41.8%	42.5%
Operating margin	9.0%	9.4%	10.8%	11.4%	11.6%
Consolidated net income	8.1%	6.8%	7.5%	8.6%	8.6%
Other information					
Depreciation	15,613	12,076	9,761	9,029	8,805
Amortization and other non cash charges to income from operations	4,366	5,484	3,130	1,933	1,208
Operative Cash Flow (EBITDA)	61,418	54,987	46,626	40,945	39,870
Capital expenditures (2)	25,180	22,155	18,885	18,163	17,882

Balance Sheet	2017	2016	2015	2014	2013
Assets					
Current assets	181,188	117,951	86,723	79,112	73,569
Investments in associates and joint ventures	96,097	128,601	111,731	102,159	98,330
Property, plant and equipment, net (3)	116,712	102,223	80,296	75,629	73,955
Intangible assets,net	154,093	153,268	108,341	101,527	103,293
Other assets, net	40,451	43,580	22,241	17,746	10,045
Total assets	588,541	545,623	409,332	376,173	359,192
Liabilities					
Short-term bank loans and current portion of long-term bank loans and notes payable	13,590	7,281	5,895	1,553	3,827
Other current liabilities	91,432	79,008	59,451	47,766	45,042
Long-term bank loans and notes payable	117,758	131,967	85,969	82,935	72,921
Employee benefits	5,373	4,447	4,229	4,207	4,074
Deferred tax liabilities	6,133	11,037	6,230	3,643	2,993
Other long-term liabilities	17,343	25,713	5,702	5,947	7,785
Total liabilites	251,629	259,453	167,476	146,051	136,642
Total equity	336,912	286,170	241,856	230,122	222,550
Controlling interest	250,291	211,904	181,524	170,473	159,392
Non-controlling interest	86,621	74,266	60,332	59,649	63,158
Financial ratios (%)					
Liquidity	1.725	1.367	1.327	1.604	1.505
Leverage	0.747	0.907	0.692	0.635	0.614
Capitalization	0.29	0.33	0.28	0.27	0.26
Data per share					
Controlling interest book value (4)	13.990	11.844	10.146	9.528	8.909
Net controlling interest income (5)	2.370	1.182	0.988	0.933	0.890
Dividends paid (6)					
Series B shares	0.431	0.417	0.366	0.000	0.667
Series D shares	0.538	0.521	0.458	0.000	0.833
Number of employees (7)	295,027	266,144	246,158	216,740	209,232
Number of outstanding shares (8)	17,891.13	17,891.13	17,891.13	17,891.13	17,891.13

1. *Company's key performance indicator.*
2. *Includes investments in property, plant and equipment, as well as deferred charges and intangible assets.*
3. *Includes bottles and cases.*
4. *Controlling interest divided by the total number of shares outstanding at the end of each year.*
5. *Net controlling interest income divided by the total number of shares outstanding at the end of the each year.*
6. *Expressed in nominal pesos of each year.*
7. *Includes incremental employees resulting from mergers & acquisitions made during the year.*
8. *Total number of shares outstanding at the end of each year expressed in millions.*

Management's Discussion & Analysis

Fomento Económico Mexicano, S.A.B. de C.V. and Subsidiaries, Monterrey, N.L., Mexico

Audited Financial Results for the twelve months ended December 31, 2017 Compared to the twelve months ended December 31, 2016.

Fomento Económico Mexicano, S.A.B. de C.V. ("FEMSA") is a Mexican holding company. Set forth below is certain audited financial information for FEMSA and its subsidiaries (the "Company" or "FEMSA Consolidated") (NYSE: FMX; BMV: FEMSA UBD, FEMSA BD). The principal activities of the Company are grouped mainly under the following subholding companies (the "Subholding Companies"): Coca-Cola FEMSA, S.A.B de C.V. ("Coca-Cola FEMSA" or "KOF"), (NYSE: KOF, BMV: KOFL) which engages in the production, distribution and marketing of beverages, and FEMSA Comercio, S.A. de C.V. ("FEMSA Comercio"), including its Retail Division which operates small-format chain stores, a Health Division, which includes drugstores and related operations and its Fuel Division which operates retail service stations for fuels, motor oils and others.

The consolidated financial information included in this annual report was prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The 2017 and 2016 results are stated in nominal Mexican pesos ("pesos" or "Ps."). Translations of pesos into US dollars ("US$") are included solely for the convenience of the reader and are determined using the noon buying rate for pesos as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates as of December 29, 2017, which was 19.6395 pesos per US dollar.

This report may contain certain forward-looking statements concerning Company's future performance that should be considered good faith estimates made by the Company. These forward-looking statements reflect management expectations and are based upon currently available data. Actual results are subject to future events and uncertainties, which could materially impact the Company's actual performance.

FEMSA Consolidated

2017 amounts in millions of Mexican pesos

	Total Revenues	% Growth vs'16	Gross Profit	% Growth vs'16
FEMSA Consolidated	460,456	15.3%	170,268	14.9%
Coca-Cola FEMSA	203,780	14.7%	91,686	15.1%
FEMSA Comercio – Retail Division	154,204	12.4%	58,245	14.2%
FEMSA Comercio – Health Division	47,421	9.2%	14,213	11.6%
FEMSA Comercio – Fuel Division	38,388	34.1%	2,767	23.1%

FEMSA's consolidated total revenues increased 15.3% to Ps. 460,456 million in 2017 compared to Ps. 399,507 million in 2016. Coca-Cola FEMSA's total revenues increased 14.7% to Ps. 203,780 million, including the results of the Vonpar acquisition in Brazil and the consolidation of its operations in the Philippines beginning in February, supported by price increases aligned or above inflation in key territories and by the positive translation effect resulting from the appreciation of the Brazilian Real and the Colombian peso despite the depreciation of the Argentine Peso, the Philippine Peso and the Venezuelan Bolivar, all as compared to the Mexican Peso. FEMSA Comercio – Retail Division's revenues increased 12.4% to Ps. 154,204 million, driven by the opening of 1,301 net new OXXO stores combined with an average increase of 6.4% in same-store sales. FEMSA Comercio – Health Division's revenues increased 9.2% to PS. 47,421 million, driven by the opening of 105 net new stores combined with an average increase of 6.7% in same-store sales. FEMSA Comercio – Fuel Division revenues increased 34.1% to Ps. 38,388 million in 2017, driven by the addition of 70 total net new stations in the last twelve months, and a 19.8% increase in same-station sales.

Consolidated gross profit increased 14.9% to Ps. 170,268 million in 2017 compared to Ps. 148,204 million in 2016. Gross margin decreased 10 basis points to 37.0% of total revenues compared to 2016, reflecting the growth of lower margin businesses in FEMSA Comercio.

Consolidated operating expenses increased 16.3% to Ps. 128,829 million in 2017 compared to Ps. 110,777 million in 2016. As a percentage of total revenues, consolidated operating expenses increased from 27.7% in 2016 to 28.0% in 2017.

Consolidated administrative expenses increased 12.1% to Ps. 16,512 million in 2017 compared to Ps. 14,730 million in 2016. As a percentage of total revenues, consolidated administrative expenses decreased 10 basis points, from 3.7% in 2016, compared to 3.6% in 2017.

Consolidated selling expenses increased 16.7% to Ps. 111,456 million in 2017 as compared to Ps. 95,547 million in 2016. As a percentage of total revenues, selling expenses increased 30 basis points, from 23.9% in 2016 to 24.2% in 2017.

Consolidated income from operations increased 10.7% to Ps. 41,439 million in 2017 as compared to Ps. 37,427 million in 2016. As a percentage of total revenues, operating margin decreased 40 basis points, from 9.4% in 2016 to 9.0% in 2017 reflecting: i) the incorporation of structurally lower-margin results from Coca-Cola FEMSA Philippines; ii) an operating margin contraction across businesses; and iii) the integration and faster growth of FEMSA Comercio's three divisions, whose lower margins tend to compress FEMSA's consolidated margins over time.

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

Net financing expenses decreased to Ps. 3,216 million from Ps. 4,619 million in 2016, mostly driven by a positive result caused by a foreign exchange gain related to the effect of FEMSA's US Dollar-denominated cash position, as impacted by the depreciation of the Mexican Peso during the period. This cash position increased during 2017, mainly as a result from the sale of 5.24% of the combined interest in the Heineken Group; this movement was enough to offset an interest expense increase of 15.3% to Ps. 11,124 million in 2017, compared to Ps. 9,646 million in 2016 resulting from new debt acquisition at Coca-Cola FEMSA in connection to the Vonpar acquisition.

Income before income taxes and share of the profit in Heineken results increased 39.0% to Ps. 39,768 million in 2017 compared with Ps. 28,600 million in 2016, mainly as a result of growth in FEMSA's income from operations, higher non-operating income resulting from the sale of 5.24% of the combined interest in the Heineken Group completed on September 18, 2017, and higher foreign exchange gain related to a higher U.S. dollar-denominated cash position at FEMSA, coming from the aforementioned sale of Heineken shares.

These impacts more than offset higher financing expenses as well as the change in the accounting method for Coca-Cola FEMSA's Venezuelan operation booked in the fourth quarter, which resulted in the reclassification of a recorded foreign currency translation charge in equity. This was a non-cash, one-time impact to the other non-operating expenses line of the income statement, in accordance with IFRS standards.

Our accounting provision for income taxes in 2017 was Ps. 10,583 million, as compared to Ps. 7,888 million in 2016, resulting in an effective tax rate of 26.5% in 2017, as compared to 27.6% in 2016, slightly under our expected medium-term range of 30%. The lower effective tax rate registered during 2017 is mainly related to certain tax efficiencies related with the one-time non-operating income recorded by the partial sale of Heineken Group's shares and the consolidation of Coca-Cola FEMSA Philippines, Inc. both during 2017.

Consolidated net income was Ps. 37,206 million in 2017 compared to Ps. 27,175 million in 2016, resulting from growth in FEMSA's income from operations, higher non-operating income resulting from the sale of 5.24% of the combined interest in the Heineken Group completed on September 18, 2017, and a higher foreign exchange gain related to a higher U.S. dollar-denominated cash position at FEMSA, coming from the aforementioned sale of Heineken shares. Controlling interest amounted to Ps. 42,408 million in 2017 compared to Ps. 21,140 million in 2016. Controlling interest in 2017 per FEMSA Unit[1] was Ps. 11.85 (US$ 6.03 per ADS).

Coca-Cola FEMSA

Coca-Cola FEMSA total revenues increased 14.7% to Ps. 203,780 million in 2017, compared to Ps. 177,718 million in 2016, including the results of the Vonpar acquisition in Brazil and the consolidation of its operations in the Philippines beginning in February. Total revenues were also driven by price increases 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, the Philippine Peso, and the Venezuelan Bolivar; all as compared to the Mexican Peso. On a currency-neutral basis and excluding Venezuela, total revenues grew 3.6%, driven by average price per unit case growth across most of our operations, volume growth in the Philippines, and flat volume performance in Mexico and Central America, which was partially offset by volume declines in South America.

Coca-Cola FEMSA gross profit increased 15.1% to Ps. 91,686 million in 2017, compared to Ps. 79,662 million in 2016, with a gross margin expansion of 20 basis points. In local currency, pricing initiatives, coupled with currency and raw material hedging strategies, offset higher sweetener and concentrate prices in Mexico and the depreciation in the average exchange rate of the Mexican Peso, the Argentine Peso, and the Philippine Peso as applied to U.S dollar-denominated raw material costs. Gross margin reached 45.0% in 2017.

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 employment 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 the local currency, net of applicable taxes. Packaging materials, mainly PET and aluminum, and HFCS, used as a sweetener in some countries, are denominated in U.S. dollars.

Operating expenses increased 17.5% to Ps. 65,511 million in 2017, compared to Ps. 55,742 million in 2016.

Administrative expenses increased 21.0% to Ps. 8,983 million in 2017, compared to Ps. 7,423 million in 2016. Selling expenses increased 16.4% to Ps. 55,927 million in 2017 compared with Ps. 48,039 million in 2016.

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1 FEMSA Units consist of FEMSA BD Units and FEMSA B Units. Each FEMSA BD Unit is comprised of one Series B Share, two Series D-B Shares and two Series D-L Shares. Each FEMSA B Unit is comprised of five Series B Shares. The number of FEMSA Units outstanding as of December 31, 2017 was 3,578,226,270, equivalent to the total number of FEMSA Shares outstanding as of the same date, divided by 5.

Income from operations increased 9.4% to Ps. 26,175 million in 2017 compared to Ps. 23,920 million in 2016.

FEMSA Comercio – Retail Division

FEMSA Comercio – Retail Division total revenues increased 12.4% to Ps. 154,204 million in 2017 compared to Ps. 137,139 million in 2016, primarily as a result of the opening of 1,301 net new OXXO stores during 2017, together with an average increase in same-store sales of 6.4%. As of December 31, 2017, there were a total of 16,526 OXXO stores. As referenced above, OXXO same-store sales increased an average of 6.4% compared to 2016, driven by a 3.8% increase in average customer ticket while store traffic increased 2.5%.

Cost of goods sold increased 11.4% to Ps. 95,959 million in 2017, compared to Ps. 86,149 million in 2016. Gross margin increased 60 basis points to reach 37.8% of total revenues. This increase reflects healthy trends in our commercial income activity and the sustained growth of the services category, including income from financial services. As a result, gross profit increased 14.2% to Ps. 58,245 million in 2017 compared with Ps. 50,990 in 2016.

Operating expenses increased 15.9% to Ps. 45,802 million in 2017 compared to Ps. 39,505 million in 2016. The increase in operating expenses was driven by i) our continuing initiatives to improve compensation and reduce turnover of key in-store personnel ii) a sustained increase in electricity tariffs, and iii) higher secure cash transportation costs driven by increased volume and higher fuel prices.

Administrative expenses increased 8.4% to Ps. 3,170 million in 2017, compared to Ps. 2,924 million in 2016; as a percentage of sales, they remained flat at 2.1% in 2017. Selling expenses increased 16.7% to Ps. 42,406 million in 2017 compared with Ps. 36,341 million in 2016; as a percentage of sales they reached 27.5% in 2017.

Income from operations increased 8.3% to Ps. 12,443 million in 2017 compared to Ps. 11,485 million in 2016, resulting in an operating margin contraction of 30 basis points to 8.1% as a percentage of total revenues for the year, compared with 8.4% in 2016.

FEMSA Comercio – Health Division

FEMSA Comercio – Health Division total revenues increased 9.2% to Ps. 47,421 million compared to Ps. 43,411 million in 2016, primarily as a result of the opening of 105 net new stores during 2017, together with an average increase in same-store sales of 6.7%, which was mostly driven by strong performance and positive foreign translation effects from our South American operations. As of December 31, 2017, there were a total of 2,225 drugstores in Mexico, Chile and Colombia.

Cost of goods sold increased 8.3% to Ps. 33,208 million in 2017, compared with Ps. 30,673 million in 2016. Gross margin increased 70 basis points to reach 30.0% of total revenues compared with 29.3% in 2016. As a result, gross profit increased 11.6% to Ps. 14,213 million in 2017 compared with Ps. 12,738 in 2016.

Operating expenses increased 12.8% to Ps. 12,595 million in 2017 compared with Ps. 11,166 million in 2016. The increase in operating expenses was driven by the integration of a single operating platform in Mexico, building our distribution capabilities and increased services at our drugstores such as on-site doctors and home delivery in the key Mexican market.

Administrative expenses decreased 7.1% to Ps. 1,643 million in 2017, compared with Ps. 1,769 million in 2016; as a percentage of sales, they reached 3.5% in 2017. Selling expenses increased 15.9% to Ps. 10,850 million in 2017 compared with Ps. 9,365 million in 2016; as a percentage of sales, they reached 22.9% in 2017.

Income from operations increased 2.9% to Ps. 1,618 million in 2017 compared with Ps. 1,572 million in 2016, resulting in an operating margin contraction of 20 basis points to 3.4% as a percentage of total revenues for the year, compared with 3.6% in 2016.

FEMSA Comercio – Fuel Division

FEMSA Comercio – Fuel Division total revenues increased 34.1% to Ps. 38,388 million in 2017 compared to Ps. 28,616 in 2016, primarily reflecting a national price increase established at the beginning of the year, as well as the opening of 70 net new OXXO GAS service stations during 2017. As of December

31, 2017, there were a total of 452 OXXO GAS service stations. Same-station sales increased an average of 19.8% compared to 2016, as the average price per liter increased by 21.1% reflecting the national price increase mentioned above, while the average volume decreased by 1.1% mainly from consumer reaction to the higher prices.

Cost of goods sold increased 35.1% to Ps. 35,621 million in 2017, compared with Ps. 26,368 million in 2016. Gross margin decreased 70 basis points to reach 7.2% of total revenues. This decrease reflects the effect of gross profit per liter remaining flat in peso terms for the first half of the year, while the consumer price per liter increased significantly, as described in the preceding paragraph. As a result, gross profit increased 23.1% to Ps. 2,767 million in 2017 compared with 2016.

Operating expenses increased 25.2% to Ps. 2,497 million in 2017 compared with Ps. 1,995 in 2016.

Administrative expenses increased 21.3% to Ps. 154 million in 2017, compared with Ps. 127 million in 2016; as a percentage of sales, they remained flat at 0.4% in 2017. Selling expenses increased 24.9% to Ps. 2,330 million in 2017 compared with Ps. 1,865 million in 2016; as a percentage of sales, they reached 6.1% in 2017.

Income from operations increased 6.7% to Ps. 270 million in 2017 compared with Ps. 253 million in 2016, resulting in an operating margin contraction of 20 basis points to 0.7% as a percentage of total revenues for the year, compared with 0.9% in 2016, as expense containment and operational efficiencies only partially offset the contraction in gross margin described above.

Key Events during 2017

The following text reproduces our press releases exactly as originally published.

The Coca-Cola System welcomes AdeS® as the newest member of its expanding ready-to-drink beverage portfolio

On March 28, 2017 The Coca-Cola Company, together with its bottlers in Latin America, announced the closing of the acquisition of Unilever's AdeS® plant-based beverage business. The Coca-Cola Company became the sole owner of the AdeS® brand.

On June 1st, 2016, The Coca-Cola Company and Coca-Cola FEMSA, S.A.B. de C.V. (BMV: KOFL; NYSE: KOF) entered into an agreement with Unilever to acquire the AdeS® business. Other Coca-Cola bottlers joined to participate in the investment prior the closing of the transaction. Founded in 1988 in Argentina, AdeS® is the leading soy-based beverage brand in Latin America. As the first major brand launched in the category, AdeS® pioneered the development of the second largest global market for soy-based beverages. The AdeS® brand currently has a presence in Brazil, Mexico, Argentina, Uruguay, Paraguay, Bolivia, Chile, and Colombia. AdeS® will become part of the expanding beverage platforms of the Coca-Cola System in Latin America.

Coca-Cola FEMSA announces successful merger with Mexican company owned by the sellers of Vonpar

On May 4, 2017 Coca-Cola FEMSA announced that it had successfully merged 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 will receive approximately 27.9 million newly issued KOF series L shares. POA Eagle, S.A. de C.V. merged with net assets for an amount of $4,082 million Mexican Pesos. Coca-Cola FEMSA, through its Brazilian subsidiary, Spal Indústria Brasileira de Bebidas, S.A., started consolidating the results of Vonpar in its financial statements as of December 2016.

Senior Leadership Succession Plan

Eduardo Padilla to Succeed Carlos Salazar as Chief Executive Officer in January 2018

On August 29, 2017, FEMSA announced that Carlos Salazar Lomelín, FEMSA's Chief Executive Officer at the time of the announcement, would retire from his position on January 1, 2018, after a long and productive career at the Company spanning almost 45 years.

During his career at FEMSA, Carlos had the opportunity to lead many of the Company's operations including FEMSA Cerveza and Coca-Cola FEMSA. Carlos has been instrumental in transforming FEMSA into a beverage and retail powerhouse with operations across Latin America and a growing presence in Southeast Asia. The Company also announced that Carlos would remain on the Board of Directors of FEMSA and as Advisor to the Chairman of the Board and that Eduardo Padilla Silva, FEMSA's Chief Financial and Corporate Officer at the time of the announcement, would become Chief Executive Officer on January 1, 2018. These appointments represent one more step in FEMSA's long-term talent and succession planning process.

Coca-Cola FEMSA Selected as Part of the Dow Jones Sustainability Emerging Markets Index for the Fifth Consecutive Year

On September 14, Coca-Cola FEMSA announced that it was chosen as a member of the Dow Jones Sustainability Emerging Markets Index for the fifth consecutive year.

Among its relevant sustainability results, the Company has benefited 1.5 million people through its healthy lifestyles programs since 2015; fulfilled the goal of returning 100% of the water used to produce its beverages back to the environment in its Mexico, Brazil, Central America, and Colombia operations; incorporated 20% of recycled resins in its PET packages across its operations; and used clean sources of energy across 29% of its manufacturing operations. In addition, Coca-Cola FEMSA has earned several awards and recognitions for its sustainability performance throughout 2017, including its selection for the FTSE4Good Emerging Market Index of the London Stock Exchange and the Sustainability and Social Responsibility Index of the Mexican Stock Exchange.

Offering of shares in Heineken N.V. and Heineken Holding N.V.

On September 18, 2017 FEMSA announced the completion of the sale of 5.24% of the combined interest in the Heineken Group, comprising a combination of existing issued ordinary shares of both Heineken N.V. and Heineken Holding N.V. The Equity Offering consisted of 22,485,000 Shares in Heineken N.V. representing 3.90% of the issued share capital at a price of €84.50 per share, raising gross proceeds of approximately 1.9 billion Euros and 7,700,000 Shares in Heineken Holding N.V. representing 2.67% of the issued share capital at a price of €78.00 per share, raising gross proceeds of approximately 600 million Euros.

Following the completion of the Equity Offering, FEMSA's shareholding in Heineken N.V. decreased from 12.53% to 8.63% and in Heineken Holding N.V. from 14.94% to 12.26%, for an overall decrease of FEMSA's economic interest in the Heineken Group from 20.00% to 14.76%. Following this offering, FEMSA, under the terms of the Corporate Governance Agreement dated April 30, 2010, retained its existing governance rights, including one seat on the Board of Directors of Heineken Holding N.V. and two seats on the Supervisory Board of Heineken N.V. FEMSA continues to be a significant shareholder in the Heineken Group and a long-term supporter of the group's strategy.

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For more information

We provide additional information and extensive reporting online, including the Audited Financial Statements.
We encourage you to review the following site to learn more about FEMSA: **www.annualreport.femsa.com**

The FEMSA 2017 Annual Report may contain certain forward-looking statements concerning FEMSA and its subsidiaries' future performance and should be considered as good faith estimates of FEMSA and its subsidiaries. These forward-looking statements reflect management's expectations and are based upon currently available data. Actual results are subject to further events and uncertainties which could materially impact the Company's subsidiaries' actual performance.

2017

Consolidated Financial Statements

CONTENTS

Annual Report of the Audit Committee

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. Y SUBSIDIARIAS
MONTERREY, N.L., MÉXICO

To the Board of Directors
Fomento Económico Mexicano, S.A.B. de C.V. (the "Company"):

Pursuant to Articles 42 and 43 of the Mexican Securities Law (Ley del Mercado de Valores) and the Charter of the Audit Committee, we submit to the Board of Directors our report on the activities performed during, 2017. We considered the recommendations established in the Code of Corporate Best Practices and, since the Company is a publicly-listed company in the New York Stock Exchange (¨NYSE¨), we also complied with the applicable provisions set forth in Sarbanes-Oxley Act. We met at least on a quarterly basis and, based on a work program, we carried out the activities described below:

Risk Assessment

We periodically evaluated the effectiveness of the Enterprise Risk Management Process, which is established to identify, measure, record, assess, and manage the Company´s risks, as well as for the implementation of follow-up measures to ensure its effective operation.

We reviewed with Management and both External and Internal Auditors of the Company, the key risk factors that could adversely affect the Company´s operations and assets, and we determined that they have been appropriately identified, managed, and considered in both audit programs.

Considering that in 2017, the risks of cybersecurity in the information technology processing areas, increased substantially, in the course of our meetings, the Committee dedicated special attention to this risk. We requested outside help, to have additional assurance, that appropriate controls are in place to assure the confidentiality of information as well as the continuity of operations in information technology.

Internal Control

We verified the compliance by Management of its responsibilities regarding internal control, and the establishment of general guidelines and the procedures necessary for their application and compliance. This process included presentations to the Audit Committee by the area responsible of the most important subsidiaries. Additionally, we followed the comments and remarks made in this regard by External Auditors as a result of their findings.

We verified the actions taken by the Company in order to comply with section 404 of Sarbanes-Oxley Act regarding the self-assessment of internal controls. During this process, we made sure that a follow up on main preventive and corrective actions implemented concerning internal control issues that required improvement, were taken, and the submission to the authorities of requested information.

External Audit

We recommended to the Board of Directors the appointment of the external auditors (who have been the same for the past ten years) for the Company and its subsidiaries for fiscal year 2017. For this purpose, we verified their independence and their compliance with the requirements established by applicable laws and regulations. We analyzed their approach, work program as well as their coordination with Internal Audit.

We were in permanent and direct communication with them to be timely informed of their progress and their observations, and also to consider any comments that resulted from their review of the quarterly financial statements. We were timely informed of their conclusions and reports, regarding the annual financial statements and followed up on the actions implemented resulting from the findings and recommendations provided during the year.

We authorized the fees of the external auditors for their annual audit and other permitted services, and verified that such services would not compromise their Independence.

With the appropriate input from Management, we carried out an evaluation of their services for the previous year and initiated the evaluation process for fiscal year 2017.

Internal Auditing

In order to maintain its independence and objectivity, the Internal Audit area reports to the Audit Committee therefore:

We reviewed and approved the annual work program and budget, in order to comply with the requirements of Sarbanes-Oxley Act. For its preparation, the Internal Audit area participated in the risk assessment process and the validation of the internal control system.

We received periodic reports regarding the progress of the approved work program, any deviations and the causes thereof.

We followed up the implementation of the observations developed by Internal Audit.

We confirmed the existence and validated the implementation of an Annual Training program.

We reviewed and discuss with the responsible of the IA function the evaluations of the Internal Audit service performed by the responsible of each business unit and the Audit Committee.

Financial Information, Accounting Policies and Reports to the Third Parties

We reviewed the quarterly and annual financial statements of the Company with the individuals responsible for its preparation and recommended to the Board of Directors, its approval and authorize its publication. As part of this process, we analyzed the comments of the external auditors and confirm that the criteria, accounting policies and information used by Management to prepare financial information were adequate, sufficient, and consistently applied with the prior year. As a consequence, the information submitted by Management reasonably reflects the financial position of the Company, its operating results and cash flows for the fiscal year ending on December 31, 2017.

We also reviewed the quarterly reports prepared by Management and submitted to shareholders and the financial community, verifying that such information was prepared under International Financial Reporting Standards (IFRS) and the same accounting criteria for preparing the annual information. We also reviewed the existence of an integral process that provides a reasonable assurance of fairness in the information content. To conclude, we recommended to the Board of Directors to authorize the release of such information.

Our reviews also included reports and any other financial information required by Mexican and United States regulatory authorities.

We reviewed and approved the changes to the accounting standards used by the Company that became effective in 2017, recommending their approval to the Board of Directors.

Compliance with Applicable Laws and Regulations, Legal Issues and Contingencies

We verified the existence and reliability of the Company-established controls to ensure compliance with the various legal provisions applicable to the Company. When required, we verified its appropriate disclosure in the financial reports.

We made periodic reviews of the various tax, legal and labor contingencies of the Company. We supervised the efficiency of the procedures established for their identification and follow-up, as well as their adequate disclosure and recording.

Code of Conduct

We reviewed the new version of the Business Code of Ethics of the Company which incorporates among other changes an update of its values, validating that it includes a compliance provision with the Anti-Money Laundering laws in the countries where we operate, as well as compliance with anti-corruption laws (FCPA), and recommended its approval to the Board of Directors.

With the support of Internal Audit, we verified the compliance of the Business Code of Ethics, the existence of adequate processes to update it and its communication to employees, as well as the application of sanctions in those cases where violations were detected.

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

Training

To comply with the training requirements of our charter, during the year, The Audit Committee members attended specific courses on topics as internal controls, risk management and auditing.

Administrative Activities

We held regular meetings with Management to be informed of any relevant or unusual activities and events. We also met individually with external and internal auditors to review their work, and observations.

In those cases where we deemed advisable, we requested the support and opinion from independent experts. We are not aware of any significant non-compliance with the operating policies, the internal control system or the accounting records of the Company.

We held executive meetings and when applicable reviewed with Management our resolutions.

We submitted quarterly reports to the Board of Directors, on the activities performed by the Committee.

We reviewed the Audit Committee Charter and made the amendments that we deemed appropriate, submitting such changes for its approval by the Board of Directors.

We verified that the financial expert of the Committee meets the technical background and experience requirements to be considered as such, and that each Committee Member meets the independence requirements set forth in by the applicable laws and regulations.

Our activities were duly documented in the minutes prepared for each meeting. Such minutes were properly reviewed and approved by Committee members.

We made our annual performance self-assessment, and submitted the results to the Chairman of the Board of Directors.

Sincerely

March 7, 2018

José Manuel Canal Hernando

Independent Auditor's Report

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V.

Opinion

We have audited the accompanying consolidated financial statements of Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries (collectively the "Group"), which comprised the consolidated statements of financial position as at December 31, 2017, and 2016, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended as of December 31, 2017, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and their financial performance and cash flows for each of the three years in the period ended as of December 31, 2017, in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

Key Audit Matters for the year ended December 31, 2017

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Coca-Cola FEMSA Philippines consolidation

Description of the key audit matter

As disclosed in Notes 4.1.1 to the consolidated financial statements, on January 25, 2017, the Company took control over Coca-Cola FEMSA Philippines (CCFPI) as the veto rights held by The Coca-Cola Company "TCCC" over certain operating decisions expired. Consequently, all decisions relating to the day-to-day operation and management of CCFPI's business; including its annual operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by TCCC. Commencing on February 1, 2017, the Company started consolidating CCFPI's financial results in its financial statements.

Due to the complexity of the analysis regarding obtaining control without transfer of consideration involved in CCFPI, the determination of the fair value of the business based on a Level 3 valuation technique and the valuation of the net assets acquired as per IFRS 3 at the acquisition date that involves significant degree of estimates required by management, we have determined this to be a key audit matter.

How our audit addressed the matter

We evaluated management´s assessment regarding control over the relevant activities attributable to the consolidation of CCFPI under IFRS 3 including consideration of managements of obtaining control without transfer of additional consideration.

We evaluated management assumptions related to compound annual growth rates, projected cost and expense savings among others key assumptions used in IFRS 13 Level 3 fair value at the acquisition date by 1) assessing the historical accuracy of the Group's budgetary estimates, 2) obtaining and analyzing the Group's business strategies supporting the future cash flow estimates, 3) evaluating the macroeconomic environment including comparisons to the performance of comparable companies for which publicly data is available. We involved our internal specialists when performing these procedures. Finally, we evaluated the related disclosures made in the consolidated financial statements.

Impairment of distribution rights, trade marks rights and goodwill

Description of the key audit matter

As disclosed in Note 12 to the consolidated financial statements, Distribution Rights, Trademarks Rights and Goodwill were Ps. 143,281 million as of December 31, 2017. Given the materiality of distribution rights, trademarks rights and goodwill in relation to the consolidated financial statements and the significant judgment and estimation required by management when evaluating these accounts for impairment, we have determined this area to be a key audit matter, in particular for territories in Brazil, due to recent acquisitions that resulted in significant additions to these accounts and in Venezuela given the general deterioration of the country's macroeconomic environment.

How our audit addressed the matter

We evaluated management assumptions related to compound annual growth rates, projected cost and expense among others key assumptions used in the impairment testing by 1) assessing the historical accuracy of the Management's budgetary estimates, 2) obtaining and analyzing Management's business strategies supporting the future cash flow estimates, 3) evaluating the macroeconomic environment including comparisons to the performance of comparable companies for which publicly available data is available.

We also assessed management's sensitivity analyses focusing on the projected compound annual growth rates and projected cost and expenses, mainly. We involved our internal specialists when performing these procedures. In addition, we tested the Group's procedures around the preparation of the budget, upon which the value-in-use model is based.

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

Venezuela operations

Description of the key audit matter

Venezuela is a challenging economic and political environment. Challenges of operating in Venezuela include, but are not limited to, high level of inflations, lack of exchangeability across all exchange mechanisms, limited access to certain key raw materials and import restrictions, and periodic government intervention into operations including continually changing laws and regulations.

We focused on this area because of the involvement of key judgments and sources of estimation uncertainty including:

1) Whether the Group continues to have control over relevant activities of its Venezuela operations under IFRS 10 given the foreign currency restrictions, as well as other operating challenges established by the economic and political environment in Venezuela.
2) The appropriate exchange rate used to translate the results of the subsidiary in Venezuela for consolidation purposes.
3) The recoverability of long-lived assets related to the Group's Venezuela operations as described in the key audit matter "Impairment of distribution rights, trademark rights and goodwill," section above.

As disclosed in Note 3.3 at December 31, 2017, the Company deconsolidated its Venezuelan operations, which resulted in an extraordinary charge to the income statement mainly attributable to the recycling of all the amount of currency translation differences in accumulated other comprehensive recognized through December 31, 2017, that amounted to Ps. 26,123 million and impairment charges of Ps. 2,053.

How our audit addressed the matter

We evaluated management's assessment about the loss of control of the relevant activities attributable to the Venezuelan operations under IFRS 10. This included consideration of management's ability to control relevant activities such as managing its capital structure, establishing sales strategies, some pricing, financial decisions, cost infrastructure, among other matters and the analysis of the Group exposure to variable returns in their investment in Venezuela due to the difficult economic environment. We also evaluated the adequacy of the entries posted by the Company in regard to the deconsolidation of Venezuela.

With regards to translation of the financial figures in Venezuela for consolidation purposes, we focused our audit efforts on assessing management's judgment applied in the determination of the exchange rate applied that fairly present and provide more useful and relevant information regarding their results in Venezuela before deconsolidation. As disclosed in Note 3.3 such exchange rate was based on certain assumptions such as inflation adjustments that in management's view were not reflected in the official exchange rates published in Venezuela.

We also assessed the adequacy of the related disclosures made in the consolidated financial statements, related to each of those items mentioned above.

Recoverability of deferred tax assets

Description of the key audit matter

As disclosed on Note 24 to the consolidated financial statements, the Group had Ps. 29,487 million of net operating loss carry- forwards as of December 31, 2017; such amount relates to the Brazilian and Mexican operations. Brazilian amounts are mainly attributable to tax deductions of goodwill amortization generated on recent business acquisitions while the amounts generated in Mexico related to operating tax losses generated in recent years.

Additionally, as disclosed on Note 24, the Company recognized deferred tax assets arising from tax credits for an amount of Ps. 1,723 million, mostly generated in Mexico in 2016 as a result of dividends received from subsidiaries outside Mexico.

We focus on this area because the recognition of deferred tax assets relies on the application of significant judgement by management in respect of assessing the probability and sufficiency of future taxable profits and ongoing tax planning strategies; therefore, due to the size of the Group's deferred tax assets in Brazil and Mexico and the associated uncertainty surrounding recoverability, this is considered a key audit matter.

How our audit addressed the matter

Our audit procedures, among others, included the assessment of controls over the recognition and measurement of deferred tax assets and the evaluation of assumptions used in projecting the Group's future taxable profits in Mexico and Brazil. With the assistance of our internal tax specialists, we assessed the feasibility of the Group's future tax planning strategies that may enable realizability of the deferred tax asset in Mexico.

When applicable, our audit procedures also focused on the review of management's projections of future cash flows in relation to the likelihood of generating sufficient taxable profits based on forecasts of anticipated future cost savings, growth rates, discount rates, and other key assumptions. We involved our internal specialists when performing these procedures.

We also evaluated the related disclosures made in the Consolidated Financial Statements.

Vonpar acquisition

Description of the key audit matter

On December 6, 2017, the Company finalized the final purchase price allocation, derived from Vonpar's acquisition dated on December 6, 2016 for a total consideration transfer of Ps. 20,992 million. This is outlined in Note 4 of the consolidated financial statements. The final purchase price allocation and the analysis of the accounting, and valuation of the consideration transferred as it involved embedded derivatives, are key audit matters.

How our audit addressed the matter

We audited in conjunction with our specialists, the corresponding final allocation of Vonpar acquisition and analyzed the propriety of the accounting of the consideration transferred including the identification of the embedded derivatives. We also tested with the assistance of our risk specialists the measurement of the consequent fair values of the various embedded derivatives including the option to convert the promissory note into equity instruments of the Coca Cola FEMSA as part of the consideration transferred. We further assessed the adequacy of the company's disclosures of this business combination and final allocation, in the Consolidated Financial Statements.

Partial disposal of Heineken Shares

Description of the key audit matter

As disclosed on Note 4.2, during 2017, the Company sold a portion of its holdings representing 5.24% of the outstanding shares of the Heineken Group for Ps. 53,051 million in an all cash transaction. With this transaction the Company took advantage of a Repatriation of Capital Decree issued by the Mexican government, which sustains a benefit to residents in Mexico by applying to income and investments returned to the country an income tax of 8% (instead of the statutory rate of 30%). The Company recognized a gain of Ps. 29,989, as a result of the sales of shares within other income, which is the difference between the fair value of the consideration received and the book value of the net assets disposed. The gain is net of transaction related costs of Ps. 160 and includes reclassification from other comprehensive income mainly corresponding to exchange differences on translation of the portion sold which amounts net to Ps. 6,632. Because of the significant amounts involved in the transactions, the related accounting and tax consequences, we considered it a key audit matter.

How our audit addressed the matter

Our audit procedures, among others, included the 1) Analysis of whether the Company continues to exercise significant influence on the Heineken Group, 2) the evaluation of the propriety of the recognition of the gain of the sales of shares, 3) the appropriate date when the company suspended the accounting of equity method for the portion of shares sold and 4) in connection with our specialist the analysis of tax effects of repatriation of capital decree. We also evaluated the related disclosures made in the Consolidated Financial Statements.

Other information included in the Group's 2017 Annual Report

The other information comprises the information included in the Group's 2017 Annual Report presented to the Comision Nacional Bancaria y de Valores ("CNBV") and the annual report presented to shareholders, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated, as issuing the declaratory on annual report requested by CNBV. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

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

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

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

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

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

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

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

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

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

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

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

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

Mancera, S.C.
A member practice of

Ernst & Young Global Limited

Americo de la Paz de la Garza

March 8, 2018
Monterrey, N.L. Mexico

Consolidated Statements of Financial Position

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

As of December 31, 2017 and 2016. Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)	Note	December 2017 (*)	December 2017	December 2016
ASSETS				
Current Assets:				
Cash and cash equivalents	5	$ 4,936	Ps. 96,944	Ps. 43,637
Short-term investments	6	110	2,160	120
Accounts receivable, net	7	1,646	32,316	26,222
Inventories	8	1,774	34,840	31,932
Recoverable taxes	24	575	11,284	9,226
Other current financial assets	9	38	756	2,705
Other current assets	9	147	2,888	4,109
Total current assets		9,226	181,188	117,951
Investments in associates and joint ventures	10	4,893	96,097	128,601
Property, plant and equipment, net	11	5,943	116,712	102,223
Intangible assets, net	12	7,846	154,093	153,268
Deferred tax assets	24	807	15,853	12,053
Other financial assets	13	615	12,073	15,345
Other assets	13	637	12,525	16,182
TOTAL ASSETS		$ 29,967	Ps. 588,541	Ps. 545,623
LIABILITIES AND EQUITY				
Current Liabilities:				
Bank loans and notes payable	18	$ 144	Ps. 2,830	Ps. 1,912
Current portion of long-term debt	18	548	10,760	5,369
Interest payable		50	976	976
Suppliers		2,476	48,625	47,465
Accounts payable		893	17,538	11,624
Taxes payable		571	11,214	11,360
Other current financial liabilities	25	666	13,079	7,583
Total current liabilities		5,348	105,022	86,289
Long-Term Liabilities:				
Bank loans and notes payable	18	5,996	117,758	131,967
Employee benefits	16	274	5,373	4,447
Deferred tax liabilities	24	312	6,133	11,037
Other financial liabilities	25	142	2,797	7,320
Provisions and other long-term liabilities	25	740	14,546	18,393
Total long-term liabilities		7,464	146,607	173,164
Total liabilities		12,812	251,629	259,453
Equity:				
Controlling interest:				
Capital stock		170	3,348	3,348
Additional paid-in capital		1,365	26,808	25,733
Retained earnings		10,279	201,868	168,796
Accumulated other comprehensive income (loss)		930	18,267	14,027
Total controlling interest		12,744	250,291	211,904
Non-controlling interest in consolidated subsidiaries	21	4,411	86,621	74,266
Total equity		17,155	336,912	286,170
TOTAL LIABILITIES AND EQUITY		$ 29,967	Ps. 588,541	Ps. 545,623

(*) 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

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2017, 2016 and 2015. Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.), except per share amounts.	Note	2017 (*)	2017	2016	2015
Net sales		$ 23,410	Ps. 459,763	Ps. 398,622	Ps. 310,849
Other operating revenues		35	693	885	740
Total revenues		23,445	460,456	399,507	311,589
Cost of goods sold		14,776	290,188	251,303	188,410
Gross profit		8,669	170,268	148,204	123,179
Administrative expenses		841	16,512	14,730	11,705
Selling expenses		5,674	111,456	95,547	76,375
Other income	19	1,769	34,741	1,157	423
Other expenses	19	1,729	33,959	5,909	2,741
Interest expense	18	566	11,124	9,646	7,777
Interest income		80	1,566	1,299	1,024
Foreign exchange gain (loss), net		252	4,956	1,131	(1,193)
Monetary position gain (loss), net		81	1,590	2,411	(36)
Market value (loss) gain on financial instruments		(10)	(204)	186	364
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method		2,031	39,866	28,556	25,163
Income taxes	24	539	10,583	7,888	7,932
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	10	403	7,923	6,507	6,045
Consolidated net income		$ 1,895	Ps. 37,206	Ps. 27,175	Ps. 23,276
Attributable to:					
Controlling interest		2,160	42,408	21,140	17,683
Non-controlling interest	21	(265)	(5,202)	6,035	5,593
Consolidated net income		$ 1,895	Ps. 37,206	Ps. 27,175	Ps. 23,276
Basic controlling interest net income:					
Per series “B” share	23	$ 0.11	Ps. 2.12	Ps. 1.05	Ps. 0.88
Per series “D” share	23	0.13	2.65	1.32	1.10
Diluted controlling interest net income:					
Per series “B” share	23	0.11	2.11	1.05	0.88
Per series “D” share	23	0.13	2.64	1.32	1.10

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

Consolidated Statements of Comprehensive Income

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2017, 2016 and 2015.
Amounts expressed in millions of U.S. dollars ($)
and in millions of Mexican pesos (Ps.)

	Note	2017 (*)	2017	2016	2015
Consolidated net income		$ 1,895	Ps. 37,206	Ps. 27,175	Ps. 23,276
Other comprehensive income:					
Items that will be reclassified to consolidated net income, net of tax:					
Valuation of the effective portion of derivative financial instruments	20	(22)	(439)	1,732	122
Loss on hedge of a net investment in a foreign operations	18	(64)	(1,259)	(1,443)	-
Exchange differences on the translation of foreign operations and associates		737	14,482	30,763	(2,234)
Share of other comprehensive (loss) income of associates and joint ventures	10	(102)	(2,013)	(2,228)	282
Total items that will be reclassified		549	10,771	28,824	(1,830)
Items that will not to be reclassified to consolidated net income in subsequent periods, net of tax:					
Share of other comprehensive income (loss) of associates and joint ventures		4	69	(1,004)	169
Remeasurements of the net defined benefit liability		-	(7)	(167)	144
Total items that will not be reclassified		4	62	(1,171)	313
Total other comprehensive income (loss), net of tax		553	10,833	27,653	(1,517)
Consolidated comprehensive income, net of tax		$ 2,448	Ps. 48,039	Ps. 54,828	Ps. 21,759
Controlling interest comprehensive income		2,348	46,052	39,330	19,165
Reattribution to non-controlling interest of other comprehensive income by acquisition of Vonpar		(3)	(51)	-	-
Controlling interest comprehensive income		2,345	46,001	39,330	19,165
Non-controlling interest comprehensive income		100	1,987	15,498	2,594
Reattribution from controlling interest of other comprehensive income by acquisition of Vonpar		3	51	-	-
Non-controlling interest comprehensive income		103	2,038	15,498	2,594
Consolidated comprehensive income, net of tax		$ 2,448	Ps. 48,039	Ps. 54,828	Ps. 21,759

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

Consolidated Statements of Changes in Equity

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2017, 2016 and 2015.
Amounts expressed in millions of Mexican pesos (Ps.)

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Valuation of the Effective Portion of Derivative Financial Instrument
Balances at January 1, 2015	Ps. 3,347	Ps. 25,649	Ps. 147,122	Ps. 307
Net income	-	-	17,683	-
Other comprehensive income (loss), net of tax	-	-	-	299
Comprehensive income	-	-	17,683	299
Dividends declared and paid	-	-	(7,350)	-
Issuance of shares associated with share-based payment plans	1	158	-	-
Acquisition of Grupo Socofar (see Note 4)	-	-	-	-
Contributions from non-controlling interest	-	-	-	-
Other movements of equity method of associates, net of taxes	-	-	(923)	-
Balances at December 31, 2015	3,348	25,807	156,532	606
Net income	-	-	21,140	-
Other comprehensive income (loss), net of tax	-	-	-	2,057
Comprehensive income	-	-	21,140	2,057
Dividends declared and paid	-	-	(8,355)	-
Issuance (purchase) of shares associated with share-based payment plans	-	(74)	-	-
Other equity instruments from acquisition of Vonpar (see Note 4)	-	-	-	-
Other acquisitions and remeasurements (see Note 4)	-	-	-	-
Contributions from non-controlling interest	-	-	-	-
Other movements of equity method of associates, net of taxes	-	-	(521)	-
Balances at December 31, 2016	Ps. 3,348	Ps. 25,733	Ps. 168,796	Ps. 2,663
Net income	-	-	42,408	-
Other comprehensive income (loss), net of taxes	-	-	-	(47)
Comprehensive income	-	-	42,408	(47)
Dividends declared and paid	-	-	(8,636)	-
Issuance of shares associated with share-based payment plans	-	(89)	-	-
Capitalization of issued shares to former owners of Vonpar in Coca-Cola FEMSA (see Note 4)	-	1,164	-	2
Acquisitions of non-controlling interest (see Note 4)	-	-	-	-
Contribution from non-controlling interest	-	-	-	-
Recognition of non-controlling interest upon consolidation of CCFPI (see Note 4)	-	-	-	-
Recycling from net defined benefit liability on partial disposal of associates and joint ventures	-	-	(596)	-
Other movements of equity method of associates, net of taxes	-	-	(104)	-
Balances at December 31, 2017	Ps. 3,348	Ps. 26,808	Ps. 201,868	Ps. 2,618

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

	Exchange Differences on the Translation of Foreign Operations and Associates	Remeasurements of the Net Defined Benefit Liability	Total Controlling Interest	Non-Controlling Interest	Total Equity
	Ps. (3,633)	Ps. (2,319)	Ps. 170,473	Ps. 59,649	Ps.230,122
	-	-	17,683	5,593	23,276
	945	238	1,482	(2,999)	(1,517)
	945	238	19,165	2,594	21,759
	-	-	(7,350)	(3,351)	(10,701)
	-	-	159	57	216
	-	-	-	1,133	1,133
	-	-	-	250	250
	-	-	(923)	-	(923)
	(2,688)	(2,081)	181,524	60,332	241,856
	-	-	21,140	6,035	27,175
	17,241	(1,108)	18,190	9,463	27,653
	17,241	(1,108)	39,330	15,498	54,828
	-	-	(8,355)	(3,690)	(12,045)
	-	-	(74)	9	(65)
	-	-	-	(485)	(485)
	-	-	-	1,710	1,710
	-	-	-	892	892
	-	-	(521)	-	(521)
	Ps. 14,553	Ps. (3,189)	Ps. 211,904	Ps. 74,266	Ps.286,170
	-	-	42,408	(5,202)	37,206
	3,607	33	3,593	7,240	10,833
	3,607	33	46,001	2,038	48,039
	-	-	(8,636)	(3,622)	(12,258)
	-	-	(89)	50	(39)
	47	2	1,215	2,867	4,082
	-	-	-	(322)	(322)
	-	-	-	272	272
	-	-	-	11,072	11,072
	-	596	-	-	-
	-	-	(104)	-	(104)
	Ps. 18,207	Ps. (2,558)	Ps. 250,291	Ps. 86,621	Ps. 336,912

Consolidated Statements of Cash Flows

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2017, 2016 and 2015. Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)	2017 (*)	2017	2016	2015
Cash flows from operating activities:				
Income before income taxes	$ 2,434	Ps. 47,789	Ps. 35,063	Ps. 31,208
Adjustments for:				
Non-cash operating expenses	159	3,114	4,111	2,873
Non-cash non operating (income) expenses	1,315	25,817	-	-
Depreciation	795	15,613	12,076	9,761
Amortization	104	2,052	1,633	1,064
Gain on sale of long-lived assets	(11)	(209)	(170)	(249)
(Gain) loss on sale of shares (see Note 19)	(1,533)	(30,112)	8	(14)
Disposal of long-lived assets	23	451	238	416
Impairment of long-lived assets	105	2,063	-	134
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	(403)	(7,923)	(6,507)	(6,045)
Interest income	(80)	(1,566)	(1,299)	(1,024)
Interest expense	566	11,124	9,646	7,777
Foreign exchange (gain) loss, net	(252)	(4,956)	(1,131)	1,193
Monetary position (gain) loss, net	(81)	(1,590)	(2,411)	36
Market value loss (gain) on financial instruments	10	204	(186)	(364)
Cash flow from operating activities before changes in operating accounts	3,151	61,871	51,071	46,766
Accounts receivable and other current assets	(578)	(11,349)	(1,889)	(4,379)
Other current financial assets	99	1,949	(1,395)	318
Inventories	(133)	(2,602)	(4,936)	(4,330)
Derivative financial instruments	1	18	130	441
Suppliers and other accounts payable	376	7,394	15,337	6,799
Other long-term liabilities	16	309	968	822
Other current financial liabilities	100	1,968	2,642	(570)
Employee benefits paid	(32)	(631)	(476)	(382)
Cash generated from operations	3,000	58,927	61,452	45,485
Income taxes paid	(957)	(18,792)	(11,321)	(8,743)
Net cash generated by operating activities	2,043	40,135	50,131	36,742

(*) Convenience translation to U.S. dollars ($) – see Note 2.2.3

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

Consolidated Statements of Cash Flows

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2017, 2016 and 2015. Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)	2017 (*)	2017	2016	2015
Cash flows from investing activities:				
Increase in cash by acquisition of Coca-Cola FEMSA Philippines, Inc. (see Note 4)	204	4,013	-	-
Deconsolidation in Coca-Cola FEMSA Venezuela	(9)	(170)	-	-
Acquisition of Grupo Socofar, net of cash acquired (see Note 4)	-	-	-	(6,890)
Partial payment of Vonpar, net of cash acquired (see Note 4)	-	-	(13,198)	-
Other acquisitions, net of cash acquired (see Note 4)	-	-	(5,032)	(5,821)
Other investments in associates and joint ventures	(45)	(889)	(2,189)	(291)
Partial disposal of investment in Heineken	2,586	50,790	-	-
Purchase of investments	(103)	(2,016)	(118)	-
Proceeds from investments	-	-	20	126
Interest received	80	1,566	1,299	1,024
Derivative financial instruments	(2)	(35)	(220)	232
Dividends received from associates and joint ventures	167	3,277	3,276	2,394
Property, plant and equipment acquisitions	(1,061)	(20,838)	(19,083)	(17,485)
Proceeds from the sale of property, plant and equipment	25	490	574	630
Acquisition of intangible assets	(170)	(3,346)	(2,309)	(971)
Investment in other assets	(62)	(1,222)	(1,709)	(1,502)
Collections of other assets	(1)	(19)	2	223
Investment in other financial assets	(9)	(184)	(23)	(28)
Collection in other financial assets	-	-	65	-
Net cash generated by (used in) investing activities	1,600	31,417	(38,645)	(28,359)
Cash flows from financing activities:				
Proceeds from borrowings	692	13,599	26,629	8,422
Payments of bank loans	(923)	(18,130)	(5,458)	(15,520)
Interest paid	(335)	(6,578)	(5,470)	(4,563)
Derivative financial instruments	(80)	(1,579)	(3,471)	8,345
Dividends paid	(634)	(12,450)	(12,045)	(10,701)
Contributions from non-controlling interest	-	-	892	250
Acquisition of non-controlling interest	(16)	(315)	-	-
Other financing activities	(9)	(168)	220	26
Financing from Vonpar's acquisition	208	4,082	-	-
Net cash (used in) generated by financing activities	(1,097)	(21,539)	1,297	(13,741)
Increase (decrease) in cash and cash equivalents	2,546	50,013	12,783	(5,358)
Initial balance of cash and cash equivalents	2,222	43,637	29,396	35,497
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies	168	3,294	1,458	(743)
Ending balance of cash and cash equivalents	$ 4,936	Ps. 96,944	Ps. 43,637	Ps. 29,396

(*) Convenience translation to U.S. dollars ($) – see Note 2.2.3
The accompanying notes are an integral part of these consolidated statements of cash flow.

For the years ended December 31, 2017, 2016 and 2015.
Amounts expressed in millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.)

Note 1. Activities of the Company

Fomento Económico Mexicano, S.A.B. de C.V. ("FEMSA") is a Mexican holding company. The principal activities of FEMSA and its subsidiaries (the "Company") are carried out by operating subsidiaries and companies that are direct and indirect holding company subsidiaries of FEMSA.

The following is a description of the Company´s activities as of the date of the issuance of these consolidated financial statements, together with the ownership interest in each subholding company or business unit:

Subholding Company		% Ownership December 31, 2017	% Ownership December 31, 2016	Activities
Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries ("Coca-Cola FEMSA")		47.2%[1] [2] (63.0% of the voting shares)	47.9%[1] (63.0% of the voting shares)	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil, Argentina and Philippines (see Note 4). At December 31, 2017, The Coca-Cola Company (TCCC) indirectly owns 27.8% of Coca-Cola FEMSA's capital stock. In addition, shares representing 25% of Coca-Cola FEMSA's capital stock are traded on the Bolsa Mexicana de Valores (Mexican Stock Exchange "BMV") and on the New York Stock Exchange, Inc (NYSE) in the form of American Depositary Shares ("ADS").
FEMSA Comercio, S.A. de C.V. and subsidiaries ("FEMSA Comercio")	Retail Division	100%	100%	Small-box retail chain format operations in Mexico, Colombia and the United States, mainly under the trade name "OXXO" and "Big John" in Chile.
	Fuel Division	100%	100%	Retail service stations for fuels, motor oils, lubricants and car care products under the trade name "OXXO GAS" with operations in Mexico.
	Health Division [4]	Various [3]	Various [3]	Drugstores operations in Chile and Colombia, mainly under the trademark "Cruz Verde" and Mexico under various brands such as YZA, La Moderna and Farmacon.
CB Equity, LLP ("CB Equity")		100%	100%	This Company holds Heineken N.V. and Heineken Holding N.V. shares, which represents the aggregate of 14.8%[5] economic interest in both entities ("Heineken").
Other companies		100%	100%	Companies engaged in the production and distribution of coolers, commercial refrigeration equipment, plastic cases, food processing, preservation and weighing equipment; as well as logistic transportation and maintenance services to FEMSA's subsidiaries and to third parties.

[1] The Company controls Coca-Cola FEMSA's relevant activities.

[2] The ownership decreased from 47.9% as of December 31, 2016 to 47.2% as of December 31, 2017 as a result of the issuance to former owners of Vonpar of shares in Coca-Cola FEMSA (see Note 4).

[3] The former shareholders of Farmacias YZA hold a 23% stake in Cadena Comercial de Farmacias, S.A.P.I. de C.V., a subsidiary of FEMSA Comercio that holds all pharmacy business in Mexico (which we refer to as CCF). In addition, FEMSA Comercio through one of its subsidiaries, Cadena Comercial de Farmacias Sudamerica, S.P.A., holds a 60% stake in Grupo Socofar, see Note 4.1.2.

[4] From 2016, FEMSA Comercio – Health Division has been considered as a separate reportable segment, see Note 26.

[5] The economic interest decreased from 20.0% as of December 31, 2016 to 14.8% as of December 31, 2017 as a result of partial disposal transaction (see Note 4.2).

Note 2. Basis of Preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer Eduardo Padilla Silva and Chief Corporate Financial Officer Gerardo Estrada Attolini on February 21, 2018. These consolidated financial statements and notes were then approved by the Company's Board of Directors on February 27, 2018 and subsequent events have been considered through that date (see Note 28). These consolidated financial statements and their accompanying notes will be presented at the Company's shareholders meeting in March 16, 2018. The Company's shareholders have the power to approve or modify the Company's consolidated financial statements.

2.2 Basis of measurement and presentation

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

- Available-for-sale investments.
- Derivative financial instruments.
- Long-term notes payable on which fair value hedge accounting is applied.
- Trust assets of post-employment and other long-term employee benefit plans.

The 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 the industry practices where the Company operates.

2.2.2 Presentation of consolidated statements of cash flows

The Company's consolidated statement of cash flows is presented using the indirect method.

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

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position as of December 31, 2017, the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2017 were converted into U.S. dollars at the exchange rate of 19.6395 Mexican pesos per U.S. dollar as published by the Federal Reserve Bank of New York as of December 29, 2017 the last date in 2017 for available information. This arithmetic conversion should not be construed as representation that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate. As explained in Note 2.1 above, as of February 27, 2018 (the issuance date of these financial statements) such exchange rate was Ps. 18.5659 per U.S. dollar, a revaluation of 6% since December 31, 2017.

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. Real results may differ from these estimates.

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

2.3.1 Key sources of estimation uncertainty

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

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

Intangible assets with indefinite lives including goodwill are subject to impairment tests annually or whenever indicators of impairment are present. An impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. In order to determine whether such assets are impaired, the Company initially calculates an estimation of the value in use of the cash-generating units to which such assets have been allocated. Impairment losses are recognized in current earnings 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 is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The key assumptions used to determine the recoverable amount for the Company's CGUs, including a sensitivity analysis, are further explained in Notes 3.16 and 12.

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

Property, plant and equipment, including returnable bottles which are expected to provide benefits over a period of more than one year, as well as intangible assets with definite useful lives are depreciated/amortized over their estimated useful lives. The Company bases its estimates on the experience of its technical personnel as well as its experience in the industry for similar assets, see Notes 3.12, 3.14, 11 and 12.

2.3.1.3 Employee benefits

The Company regularly evaluates the reasonableness of the assumptions used in its post-employment and other long-term employee benefit computations. Information about such assumptions is described in Note 16.

2.3.1.4 Income taxes

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

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

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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes* and IAS 19, *Employee Benefits*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, *Share-based Payment* at the acquisition date, see Note 3.24; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.
- Indemnifiable assets are recognized at the acquisition date on the same basis as the indemnifiable liability subject to any contractual limitations.

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

2.3.2 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.

2.3.2.1 Investments in associates

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

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

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

In addition, the Company evaluates certain indicators that provide evidence of significant influence, such as:

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

2.3.2.2 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 such as:

a) Whether all the parties or a group of the parties, control the arrangement, considering definition of joint control, as described in Note 3.11.2; and

b) Whether decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties.

As mentioned in Note 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, 2017.

2.3.2.3 Venezuela exchange rates and deconsolidation

As is 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 subsidiary for reporting purposes into the consolidated financial statements was 22,793 bolivars per U.S. dollar.

As is also explained in Note 3.3 below, effective December 31, 2017 the Company deconsolidated its Coca-Cola FEMSA subsidiary's operations in Venezuela due to the challenging economic environment in that country and began accounting for the operations under the fair value method.

2.4 Application of recently issued accounting standards

The Company has applied the following amendments to IFRS during 2017:

Amendments to IAS 7, *Disclosure Initiative*

The amendments to IAS 7, *Statement of Cash Flows*, require that the following changes in liabilities arising from financing activities be disclosed separately from changes in other assets and liabilities: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. (see Note 18.1).

Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that the Company needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Company did not have any impact in the adoption of these amendments.

Note 3. Significant Accounting Policies

3.1 Basis of consolidation

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

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

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

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

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

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

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

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

3.1.1 Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are measured at carrying amount and reflected in shareholders' equity as part of additional paid-in capital.

3.2 Business combinations

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

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

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

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

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

Sometimes obtaining control of an acquiree in which equity interest is held immediately before the acquisition date is considered as a business combination achieved in stages also referred to as a step acquisition. The Company remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in profit or loss. Also, the changes in the value of equity interest in the acquiree recognized in other comprehensive income shall be recognized on the same basis as required if the Company had disposed directly of the previously held equity interest, see Note 3.11.2.

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

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

b) Minority veto rights lapse that previously kept the Company from controlling an acquiree in which it held the majority voting rights.

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

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

In preparing the financial statements of each individual subsidiary and accounting for investments in associates and joint ventures, transactions in currencies other than the individual entity's functional currency (foreign currencies) are 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 retranslated.

Exchange differences on monetary items are recognized in consolidated net income in the period in which they arise except for:

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

Foreign exchange differences on monetary items are recognized in profit or loss. Their classification in the income statement depends on their nature. Differences arising from fluctuations related to operating activities are presented in the "other expenses" line (see Note 19) while fluctuations related to non-operating activities such as financing activities are presented as part of "foreign exchange gain (loss)" line in the income statement.

For incorporation into the Company's consolidated financial statements, each foreign subsidiary, associates or joint venture's individual financial statements are translated into Mexican pesos, as 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-hyperinflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month if the exchange rate does not fluctuate significantly.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint ventures that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss. In September 2017, the Company sold shares equal to 5.2% of economic interest in Heineken, consequently it reclassified the proportionate share of the accumulated exchange differences, recognized previously in other comprehensive income, for a total profit of Ps. 6,632 to the consolidated statement of income.

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

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

Country or Zone	Functional / Recording Currency	Exchange Rates of Local Currencies Translated to Mexican Pesos (1) Average Exchange Rate for 2017	2016	2015	Exchange Rate as of December 31, 2017	December 31, 2016
Guatemala	Quetzal	2.57	2.46	2.07	2.69	2.75
Costa Rica	Colon	0.03	0.03	0.03	0.03	0.04
Panama	U.S. dollar	18.93	18.66	15.85	19.74	20.66
Colombia	Colombian peso	0.01	0.01	0.01	0.01	0.01
Nicaragua	Cordoba	0.63	0.65	0.58	0.64	0.70
Argentina	Argentine peso	1.15	1.26	1.71	1.06	1.30
Venezuela a)	Bolivar	a)	a)	a)	a)	a)
Brazil	Reais	5.94	5.39	4.81	5.97	6.34
Chile	Chilean peso	0.03	0.03	0.02	0.03	0.03
Euro Zone	Euro (€)	21.32	20.66	17.60	23.57	21.77
Peru	Nuevo Sol	5.78	5.53	4.99	6.08	6.15
Ecuador	Peso	18.93	18.66	15.85	19.74	20.66
Philippines	Philippine peso	0.38	0.39	0.35	0.40	0.41

(1) Exchange rates published by the Central Bank of each country where the Company operates.

a) Venezuela

Effective December 31, 2017, the Company determined that the deteriorating conditions in Venezuela had led Coca-Cola FEMSA to no longer meet the accounting criteria to consolidate its Venezuelan subsidiary. Such deteriorating conditions had significantly impacted Coca-Cola FEMSA's ability to manage its capital structure, its capacity to purchase raw materials and limitations of portfolio dynamics. In addition, certain government controls over pricing, restriction over labor practices, acquisition of U.S. dollars and imports, has affected the normal course of business. Therefore, and due to the fact that its Venezuelan subsidiary will continue doing operations in Venezuela, as of December 31, 2017, Coca-Cola FEMSA changed the method of accounting for its investment in Venezuela from consolidation to fair value measured using a Level 3 concept.

As a result of the deconsolidation, Coca-Cola FEMSA also recorded an extraordinary loss within other expenses for an amount of Ps. 28,177 on December 31, 2017. Such effect includes the reclassification of Ps. 26,123 to the income statement previously recorded within accumulated foreign currency translation losses in equity, impairment equal to Ps. 745 and Ps. 1,098 mainly from distribution rights and property, plant and equipment, respectively, and Ps. 210 for the remeasurement at fair-value of Venezuelan investment.

Prior to deconsolidation, during 2017, Coca-Cola FEMSA's Venezuelan operations contributed Ps. 4,005 to net sales, and losses of Ps. 2,223 to net income. It's total assets were Ps. 4,138 and the total liabilities were Ps. 2,889.

Beginning January 1, 2018, Coca-Cola FEMSA will recognize its investment in Venezuela under the fair value method following the new IFRS 9 Financial Instruments standard. .

Until December 31, 2017, Coca-Cola FEMSA'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 are first recorded in the stand-alone accounts of the Venezuelan subsidiary in its functional currency, which is bolivar. Any non-bolivar denominated monetary assets or liabilities are translated into bolivars at each balance sheet date using the exchange rate at which Coca-Cola FEMSA expects them to be settled, with the corresponding effect of such translation being recorded in the income statement. See 3.4 below.

As of December 31, 2016 Coca-Cola FEMSA had U.S. $629 million in monetary liabilities recorded using DIPRO (Divisa Protegida) exchange rate at 10 bolivars per U.S. dollar, mainly because as of that date Coca-Cola FEMSA belived it continued to qualify for that rate to pay for the import of various products into Venezuela, and its ability to renegotiate with their main suppliers, if necessary, the settlement of such liabilities in bolivars. In addition, Coca-Cola FEMSA has U.S. $104 million recorded at DICOM (Divisas Complementarias) exchange rate at 673.76 bolivars per U.S. dollar.

Step-two.- In order to integrate the results of the Venezuelan operations into the consolidated figures of Coca-Cola FEMSA, such Venezuelan results are translated from Venezuelan bolivars into Mexican pesos.

In December 2017, Coca-Cola FEMSA translated the Venezuela entity figures at an exchange rate of 22,793 bolivars per U.S. dollar, as such exchange rate better represents the economic conditions in Venezuela. Coca-Cola FEMSA considers that this exchange rate provides more useful and relevant information with respect to Venezuela's financial position, financial performance and cash flows. On January 30, 2018, a new auction of the DICOM celebrated by Venezuela's government resulted on an estimated exchange rate of 25,000 bolivar per U.S. dollar.

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

The Company recognizes the effects of inflation on the financial information of its Venezuelan subsidiary that operates in hyperinflationary economic environments (when cumulative inflation of the three preceding years is approaching, or exceeds, 100% or more in addition to other qualitative factors), which consists of:

- Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, intangible assets, including related costs and expenses when such assets are consumed or depreciated;
- Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, net income, retained earnings and items of other comprehensive income by the necessary amount to maintain the purchasing power equivalent in the currency of Venezuela on the dates such capital was contributed or income was generated up to the date those consolidated financial statements are presented; and
- Including the monetary position gain or loss in consolidated net income.

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

As disclosed in Note 3.3, Coca-Cola FEMSA deconsolidated its operations in Venezuela. Consequently, there will not be financial impacts associated to inflation adjustments in future financial statements, however, Coca-Cola FEMSA's Venezuelan subsidiary will continue operating.

As of December 31, 2017, 2016, and 2015, the operations of the Company are classified as follows:

Country	Cumulative Inflation 2015- 2017	Type of Economy	Cumulative Inflation 2014- 2016	Type of Economy	Cumulative Inflation 2013- 2015	Type of Economy
Mexico	12.7%	Non-hyperinflationary	9.9%	Non-hyperinflationary	10.5%	Non-hyperinflationary
Guatemala	13.5%	Non-hyperinflationary	10.6%	Non-hyperinflationary	10.8%	Non-hyperinflationary
Costa Rica	2.5%	Non-hyperinflationary	5.1%	Non-hyperinflationary	8.1%	Non-hyperinflationary
Panama	2.3%	Non-hyperinflationary	2.8%	Non-hyperinflationary	5.1%	Non-hyperinflationary
Colombia	17.5%	Non-hyperinflationary	17.0%	Non-hyperinflationary	12.8%	Non-hyperinflationary
Nicaragua	12.3%	Non-hyperinflationary	13.1%	Non-hyperinflationary	15.8%	Non-hyperinflationary
Argentina (a)	101.5%	Non-hyperinflationary	99.7%	Non-hyperinflationary	59.2%	Non-hyperinflationary
Venezuela	30,690.0%	Hyperinflationary	2,263.0%	Hyperinflationary	562.9%	Hyperinflationary
Brazil	21.1%	Non-hyperinflationary	25.2%	Non-hyperinflationary	24.7%	Non-hyperinflationary
Philippines	7.5%	Non-hyperinflationary	5.7%	Non-hyperinflationary	8.3%	Non-hyperinflationary
Euro Zone	2.72%	Non-hyperinflationary	1.2%	Non-hyperinflationary	0.9%	Non-hyperinflationary
Chile	9.67%	Non-hyperinflationary	12.2%	Non-hyperinflationary	12.5%	Non-hyperinflationary
Peru	9.28%	Non-hyperinflationary	11.2%	Non-hyperinflationary	10.8%	Non-hyperinflationary
Ecuador	30.34%	Non-hyperinflationary	8.4%	Non-hyperinflationary	10.0%	Non-hyperinflationary

a) Argentina

As of December 2017 and 2016 there are 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), as follows:

i) CPI for the City and Greater Buenos Aires Area (New CPI-CGBA), for which the IMF noted improvements in quality, this new consumer price index will only be provided for periods after April 2016 and does not provide national coverage.

ii) "Coeficiente de Estabilización de Referencia" (CER or Reference Stabilization Ratio) to calculate the three-year cumulative inflation rate in Argentina, the CER is used by the government of Argentina to adjust the rate they pay on certain adjustable rate bonds they issue. At April 30, 2017, the three-year cumulative inflation rate based on CER data is estimated to be approximately 95.5%.

iii) WPI with a cumulative inflation for three years of 92.2% at November 2016 but not including information for November and December 2015 since it was not published by the National Bureau of Statistics of Argentina (INDEC). The WPI has historically been viewed as the most relevant inflation measure for companies by practitioners in Argentina.

As a result of the existence of multiple inflation indices, the Company believes it necessitates an increased level of judgment in determining whether the economy of Argentina should be considered highly inflationary.

The Company believes that general market sentiment is that on the basis of the quantitative and qualitative indicators in IAS 29, the economy of Argentina should not be considered as hyperinflationary as of December 31, 2017. However, it is possible that certain market participants and regulators could have varying views on this topic both during 2017 and as Argentina's economy continues to evolve in 2018. The Company will continue to carefully monitor the situation and make appropriate changes if and when necessary.

3.5 Cash and cash equivalents and restricted cash

Cash is measured at nominal value and consists of non-interest bearing bank deposits. Cash equivalents consist principally of short-term bank deposits and fixed rate investments, both with maturities of three months or less at the acquisition date and are recorded at acquisition cost plus interest income not yet received, which is similar to market prices.

The Company also maintains restricted cash held as collateral to meet certain contractual obligations (see Note 9.2). Restricted cash is presented within other current financial assets given that the restrictions are short-term in nature.

3.6 Financial assets

Financial assets are classified into the following specified categories: "fair value through profit or loss (FVTPL)," "held-to-maturity investments," "available-for-sale" and "loans and receivables" or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the nature and purpose of holding the financial assets and is determined at the time of initial recognition.

When a financial asset is recognized initially, the Company measures it at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

3.6.1 Effective interest rate method (EIR)

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

3.6.2 Investments

Investments consist of debt securities and bank deposits with maturities of more than three months at the acquisition date. Management determines the appropriate classification of investments at the time of purchase and assesses such designation as of each reporting date (see Note 6).

3.6.2.1 Held-to maturity investments are those that the Company has the positive intent and ability to hold to maturity, and after initial measurement, such financial assets are subsequently measured at amortized cost, which includes any cost of purchase and premium or discount related to the investment. Subsequently, the premium/discount is amortized over the life of the investment based on its outstanding balance utilizing the effective interest method less any impairment. Interest and dividends on investments classified as held-to maturity are included in interest income.

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

Financial assets at fair value through profit or loss (FVTPL) include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39 Financial Instruments: Recogntion and Measurement. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

3.6.4 Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Loans and receivables with a stated term (including trade and other receivables) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. For the years ended December 31, 2016 and 2015 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 41 and Ps. 53, respectively.

3.6.5 Other financial assets

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

3.6.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial assets that can be reliably estimated.

Evidence of impairment may include indicators as follows:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquent in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for doubtful accounts. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in consolidated net income.

3.6.7 Derecognition

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

- The rights to receive cash flows from the financial asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3.6.8 Offsetting of financial instruments

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

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

3.7 Derivative financial instruments

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

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

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

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

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

3.7.1.2 Fair value hedges
For hedged ítems carried at fair value, the change in the fair value of a hedging derivative is recognized in the consolidated income statement as foreign exchange gain or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated income statement as foreign exchange gain or loss.

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

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

3.7.2 Hedge of net investment in a foreign business
The Company applies hedge accounting to foreign currency differences arising between the functional currency of its investments abroad and the functional currency of the holding (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, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Notes 13 and 18.

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

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

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

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

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

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

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

The Company determines the policies and procedures for both recurring fair value measurements, such as those described in Note 20 and unquoted liabilities such as debt described in Note 18.

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. The operating segments of the Company use inventory costing methodologies to value their inventories, such as the weighted average cost method in Coca-Cola FEMSA, retail method (a method to estimate the average cost) in FEMSA Comercio – Retail Division and FEMSA Comercio – Health Division; and acquisition method in FEMSA Comercio – Fuel Division, except for the distribution centers which are valued with average cost method.

Cost of goods sold includes expenses related to the purchase of raw materials used in the production process, as well as labor costs (wages and other benefits), depreciation of production facilities, equipment and other costs, including fuel, electricity, equipment maintenance and inspection; expenses related to the purchase of goods and services used in the sale process of the Company´s products and expenses related to the purchase of gasoline, diesel and all engine lubricants used in the sale process of the Company.

3.10 Other current assets

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

Prepaid assets principally consist of advances to suppliers of raw materials, advertising, promotional, leasing and insurance costs, and are recognized as other current assets at the time of the cash disbursement. Prepaid assets are carried to the appropriate caption in the income statement when inherent benefits and risks have already been transferred to the Company or services have been received, respectively.

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

Coca-Cola FEMSA has agreements with customers for the right to sell and promote Coca-Cola FEMSA's products over a certain period. The majority of these agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract, with amortization presented as a reduction of net sales. During the years ended December 31, 2017, 2016 and 2015, such amortization aggregated to Ps. 759, Ps. 582 and Ps. 317, respectively.

3.11 Investments in associates and joint arrangements

3.11.1 Investments in associates

Associates are those entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Investments in associates are accounted for using the equity method and 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 shareholding of the associate since the acquisition date. The financial statements of the associates are prepared for the same reporting period as the Company.

The consolidated financial statements include the Company's share of the consolidated net income and other comprehensive income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

Profits and losses resulting from 'upstream' and 'downstream' transactions between the Company (including its consolidated subsidiaries) and an associate are recognized in the consolidated financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the Company. 'Downstream' transactions are, for example, sales of assets from the Company to an associate. The Company's share in the associate's profits and losses resulting from these transactions is eliminated.

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

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

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

If an investment interest is reduced, but continues to be classified as an associate, the Company reclassifies to profits or losses the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to the reduction in ownership interest if the gain or loss would be required to be reclassified to consolidated net income on the disposal of the related investment.

The Company reclassifies in each case proportionate to the interest disposed of recognized in other comprehensive income: i) foreign exchange differences, ii) accumulated hedging gains and losses, iii) any other amount previously recognized that would had been recognized in net income if the associate had directly disposed of the asset to which it relates.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value.

3.11.2 Joint arrangements

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

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method, as described in Note 3.11.1. As of December 31, 2017 and 2016 the Company does not have an interest in joint operations.

If an investment interest is reduced, but continues to be classified as joint arrangement, the Company reclassifies to profits or losses the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to the reduction in ownership interest if the gain or loss would be required to be reclassified to consolidated net income on the partial disposal of the related investment.

The Company reclassifies the proportion to the interest disposed of in joint ventures investment interest reduction as described in Note 3.11.1. During the years ended December 31, 2017 and 2016 the Company does not have a significat disposal or partial disposal in joint arrangements.

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

3.12 Property, plant and equipment

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

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

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

Depreciation is computed using the straight-line method over the asset's estimated useful life. Where an item of property, plant and equipment comprises major components having different useful lives, 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	25-50
Machinery and equipment	10-20
Distribution equipment	7-15
Refrigeration equipment	5-7
Returnable bottles	1.5-4
Leasehold improvements	The shorter of lease term or 15 years
Information technology equipment	3-5
Other equipment	3-10

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

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:

Coca-Cola FEMSA 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 Coca-Cola FEMSA's control within its facilities, plants and distribution centers; and
- Those that have been placed in the hands of customers, and still belong to Coca-Cola FEMSA.

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

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

3.13 Borrowing costs

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

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

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

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

3.14 Intangible assets

Intangible assets are identifiable non monetary assets without physical substance and represent payments whose benefits will be received in future years. Intangible assets acquired separately are measured 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, with a range in useful lives from 3 to 10 years. Expenditures that do not fulfill the requirements for capitalization are expensed as incurred.
- Long-term alcohol licenses are amortized using the straight-line method over their estimated useful lives, which range between 12 and 15 years, and are presented as part of intangible assets with finite useful lives.

Amortized intangible assets, such as finite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable through its expected future cash flows.

Intangible assets with an indefinite life are not amortized and are subject to impairment tests on an annual basis as well as whenever certain circumstances indicate that the carrying amount of those intangible assets may exceed their recoverable value.

The Company's intangible assets with an indefinite life mainly consist of rights to produce and distribute Coca-Cola trademark products in the Company's territories. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers. Additionally, the Company´s intangible assets with an indefinite life also consist of FEMSA Comercio – Health Division´s trademark rights which consist of standalone beauty store retail banners, pharmaceutical distribution to third-party clients and the production of generic and bioequivalent pharmaceuticals.

As of December 31, 2017, Coca-Cola FEMSA had ten bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in May 2018 and June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) three agreements for the Central territory, which are up for renewal in May 2018 (two agreements), and May 2025, (iv) the agreement for the Northeast territory, which is up for renewal in May 2018, and (v) two agreements for the Bajio territory, which are up for renewal in May 2018 and May 2025.

As of December 31, 2017, Coca-Cola FEMSA had nine bottler agreements in Brazil, which are up for renewal in May 2018 (seven agreements) and April 2024 (two agreements); and one bottler agreement in each of Argentina which is up for renewal in September 2024; Colombia which is up for renewal in June 2024; Venezuela which is up for renewal in August 2026; Guatemala which is up for renewal in March 2025; Costa Rica which is up for renewal in September 2027; Nicaragua which is up for renewal in May 2026; Panama which is up for renewal in November 2024; and Philippines which is up for renewal in December 2022.

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

3.15 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

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

3.16 Impairment of 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 the purpose of impairment testing goodwill acquired in a business combination, from the acquisition date, is allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

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

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

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

For the year ended December 31, 2017 and December 31, 2015, the Company recognized impairment loss of Ps. 2,063 and Ps. 134, respectively (see Note 19).

3.17 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are recognized immediately in consolidated net income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Leasehold improvements on operating leases are amortized using the straight-line method over the shorter of either the useful life of the assets or the related lease term.

3.18 Financial liabilities and equity instruments

3.18.1 Classification as debt or equity

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

3.18.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

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

3.18.3 Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

The Company´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.

3.18.4 Loans and borrowings

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. The effective interest method amortization is included in interest expense in the consolidated income statements, see Note 18.

3.18.5 Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated income statements.

3.19 Provisions

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

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

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

The Company recognizes a provision for a loss contingency when it is probable (i.e., the probability that the event will occur is greater than the probability that it will not) that certain effects related to past events, would materialize and can be reasonably quantified. These events and their financial impact are also disclosed as loss contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized, see Note 25.

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

3.20 Post-employment and other long-term employee benefits

Post-employment and other long-term employee benefits, which are considered to be monetary items, include obligations for pension and retirement plans, seniority premiums and postretirement medical services, are all based on actuarial calculations, using the projected unit credit method.

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

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

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

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

a) When it can no longer withdraw the offer of those benefits; or

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

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

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

3.21 Revenue recognition

Sales of all of the Company products (including retail consumer goods, fuel and others) are recognized as revenue upon delivery to the customer, and once all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

All of the above conditions are typically met at the point in time that goods are delivered to the customer at the customers' facilities. Net sales reflect units delivered at list prices reduced by promotional allowances, discounts and the amortization of the agreements with customers to obtain the rights to sell and promote the Company's products.

Rendering of services and other

Revenue arising from logistic transportation, maintenance services and packing of raw materials are recognized in the revenues caption in the consolidated income statement.

The Company recognized these transactions as revenues based upon the stage of completion of the transaction at the end of the reporting period in accordance with the requirements established in the IAS 18 "Revenue" for delivery of goods and rendering of services, which are:

a) The amount of revenue can be measured reliably;

b) It is probable that the economic benefits associated with the transaction will flow to the entity;

c) The stage of completion of the transaction at the end of the period can be measured reliably; and

d) The cost incurred for the transaction and the costs to complete the transaction can be measured realiably.

Interest income

Revenue arising from the use by others of entity assets yielding interest is recognized once all the following conditions are satisfied:

- The amount of the revenue can be measured reliably; and
- It is probable that the economic benefits associated with the transaction will flow to the entity.

For all financial instruments measured at amortized cost and interest bearing financial assets classified as held to maturity, interest income is recorded using the effective interest rate ("EIR"), which is the rate that exactly discounts the estimated future cash or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The related interest income is included in the consolidated income statements.

3.22 Administrative and selling expenses

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

Selling expenses include:

- Distribution: labor costs (salaries and other related benefits), outbound freight costs, warehousing costs of finished products, write off of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2017, 2016 and 2015, these distribution costs amounted to Ps. 25,041, Ps. 20,250 and Ps. 20,205, respectively;
- Sales: labor costs (salaries and other benefits, including PTU) and sales commissions paid to sales personnel; and
- Marketing: promotional expenses and advertising costs.

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

3.23 Income taxes

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

3.23.1 Current income taxes

Income taxes are recorded in the results of the year they are incurred.

3.23.2 Deferred income taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, 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 initial recognition of goodwill (no recognition of deferred tax liabilities) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes, the Company recognizes in connection with the acquisition accounting a deferred tax asset for the tax effect of the excess of the tax basis over the related carrying value.

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

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

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

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

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

In Mexico, the income tax rate is 30% for 2017, 2016 and 2015, and it will remain at 30% for the following years.

3.24 Share-based payments arrangements

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

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed and recognized based on the graded vesting method over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in consolidated income statements such that the cumulative expense reflects the revised estimate.

3.25 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its shares. Basic EPS is calculated by dividing the net income attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the year. Diluted EPS is determined by adjusting the weighted average number of shares outstanding including the weighted average of own shares purchased in the year for the effects of all potentially dilutive securities, which comprise share rights granted to employees described above.

3.26 Issuance of subsidiary stock

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

Note 4. Mergers, Acquisitions and Disposals

4.1 Mergers and acquisitions

The Company has consummated certain mergers and acquisitions during 2017 and 2016; which were recorded using the acquisition method of accounting. The results of the acquired operations have been included in the consolidated financial statements since the date on which the Company obtained control of the business, as disclosed below. Therefore, the consolidated income statements and the consolidated statements of financial position in the years of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015 show the cash outflow and inflow for the merged and acquired operations net of the cash acquired related to those mergers and acquisitions.

4.1.1 Acquisition of Philippines

In January 25, 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in CCFPI from The Coca-Cola Company. As mentioned in Note 20.7, Coca-Cola FEMSA has a call option to acquire the remaining 49.0% stake in CCFPI at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in CCFPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. 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, Coca-Cola FEMSA 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. Coca-Cola FEMSA has the right to appoint (and may remove) the Chief Executive Officer and all other officers of CCFPI. Commencing on February 1, 2017, Coca-Cola FEMSA started consolidating CCFPI's financial results.

Coca-Cola FEMSA's fair value of CCFPI net assets acquired to the date of acquisition (February 2017) is as follows:

		2017 Final Purchase Price Allocation
Total current assets	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		(11,072)
Fair value of the equity interest at the acquisition date		22,109
Carrying value of CCFPI investment derecognized		11,690
Loss as a result of remeasuring to fair value the equity interest		166
Gain on derecognition of other comprehensive income		2,996
Total profit from remeasurement of previously equity interest	Ps.	2,830

During 2017, the accumulated effect corresponding to translation adjustments recorded in the other comprehensive income for an amount of Ps. 2,996 was recognized in the income statement as a result of taking control over CCFPI. Coca-Cola FEMSA's selected income statement information of Philippines for the period from the acquisition date through December 31, 2017 is as follows:

Income Statement		2017
Total revenues	Ps.	20,524
Income before income taxes		1,265
Net income	Ps.	896

4.1.2 Acquisition of Vonpar

On December 6, 2016, Coca-Cola FEMSA 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 Coca-Cola FEMSA merged 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 approximately 27.9 million newly issued KOF series L shares. POA Eagle, S.A. de C.V. merged its net assets, principally cash for an amount of $4,082 million Mexican Pesos with Coca-Cola FEMSA.

At closing, Spal issued and delivered a three-year promissory note to the sellers, for the remaining balance of R$ 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 Coca-Cola FEMSA 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 Coca-Cola FEMSA 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, 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.

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 income statements from the acquisition date.

Coca-Cola FEMSA's allocation of the purchase price to fair values of Vonpar's net assets acquired and the reconciliation of cash flows is as follows:

		2017 Final Purchase Price Allocation
Total current assets (including cash acquired of Ps. 1,287)	Ps.	2,492
Total non-current assets		1,910
Distribution rights		14,793
Net assets acquired		19,325
Goodwill		2,152 (1)
Total consideration transferred		21,478
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	Ps.	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 follows: total current assets amounted to Ps. (1,898), total non-current assets amounted to Ps. (8,945), distribution rights of Ps. 5,191 and goodwill of Ps. (5,559).

Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been preliminary allocated to Coca-Cola FEMSA´s cash generating unit in Brazil. The goodwill recognized and expected to be deductible for income tax purposes according to Brazil tax law, is Ps. 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 income taxes		380
Net income	Ps.	252

4.1.3 Acquisition of Grupo Socofar

On September 30, 2015, FEMSA Comercio – Health Division completed the acquisition of 60% of Grupo Socofar. Grupo Socofar is an operator of pharmacies in South America which operated, directly and through franchises, 643 pharmacies and 154 beauty supply stores in Chile, and over 150 pharmacies in Colombia. Grupo Socofar was acquired for Ps. 7,685 in an all cash transaction. Transaction related costs of Ps. 116 were expensed by FEMSA Comercio – Health Division as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Socofar was included in operating results from the closing in September 2015.

The fair value of Grupo Socofar's net assets acquired is as follows:

		2016 Final Purchase Price Allocation
Total current assets (including cash acquired of Ps. 795)	Ps.	10,499
Total non-current assets		4,240
Trademark rights		3,033
Total assets		17,772
Total liabilities		(12,564)
Net assets acquired		5,208
Goodwill		4,559 (1)
Non-controlling interest (2)		(2,082)
Total consideration transferred	Ps.	7,685

(1) As a result of the purchase price allocation which was finalized in 2016, additional fair value adjustments from those recognized in 2015 have been recognized as follow: property, plant and equipment amounted of Ps. 197, trademark rights amounted of Ps. 3,033, other intangible assets with finite live amounted of Ps. 163 and deferred tax liabilities amounted of Ps. 1,009.

(2) Measured at the proportionate share of the acquiree's identifiable net assets.

FEMSA Comercio – Health Division expects to recover the amount recorded as goodwill through synergies related to the implementation of successful practices from its existing Mexican operations such as speed and quality in execution of the customer's value proposition and growth. Goodwill has been allocated to FEMSA Comercio Health Division cash generating units in South America (see Note 12).

Selected income statement information of Socofar for the period from the acquisition date through December 31, 2015 is as follows:

Income Statement		2015
Total revenues	Ps.	7,583
Income before income taxes		394
Net income	Ps.	354

FEMSA Comercio – Health Division entered into option transactions regarding the remaining 40% non-controlling interest not held by FEMSA Comercio – Health Division. The former controlling shareholders of Socofar may be able to put some or all of that interest to FEMSA Comercio – Health Division beginning (i) 42-months after the initial acquisition, upon the occurrence of certain events and (ii) 60 months after the initial acquisition, in any event, FEMSA Comercio – Health Division can call the remaining 40% non-controlling interest beginning on the seventh anniversary of the initial acquisition date. Both of these options would be exercisable at the then fair value of the interest and shall remain indefinitely.

4.1.4 Other acquisitions

During 2016, the Company completed a number of smaller acquisitions which in the aggregate amounted to Ps. 5,612. These acquisitions were primarily related to the following: (1) acquisition of 100% of Farmacias Acuña, a drugstore operator in Bogota, Colombia; at the acquisition date, Farmacias Acuña operated 51 drugstores.; (2) acquisition of an additional 50% of Specialty's Café and Bakery Inc. shares, a small coffee and bakery restaurant ("Specialty's"), reaching an 80% of ownership, with 56 stores in California, Washington and Illinois in the United States; (3) acquisition of 100% of Comercial Big John Limitada "Big John", an operator of small-box retail format stores located in Santiago, Chile; at the acquisition date, Big John operated 49 stores; (4) acquisition of 100% of Operadora de Farmacias Generix, S.A.P.I. de C.V., a regional drugstore operator in Guadalajara, Guanajuato, Mexico City and Queretaro in Mexico; at the acquisition date, Farmacias Generix operated 70 drugstores and one distribution center; (5) acquisition of 100% of Grupo Torrey (which consist in many companies constituted as S.A. de C.V.), a Mexican company with 47 years of know-how in operation in the manufacture of equipment for the processing, conservation and weighing of foods, with corporate offices in Monterrey, Mexico and (6) acquisition of 80% of Open Market, a specialized company in providing end-to-end integral logistics solutions to the local and international companies which operate in Colombia. Transactions related costs in the aggregate amounted of Ps. 46 were expensed as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements.

The fair value of other acquisitions' net assets acquired in the aggregate is as follows:

		Final Purchase Price Allocation
Total current assets (including cash acquired of Ps. 211)	Ps.	1,125
Total non-current assets		3,316
Total assets		4,441
Total liabilities		(2,062)
Net assets acquired		2,379
Goodwill		3,204 (2)
Non-controling interest (1)		35
Equity interest held previously		369
Total consideration transferred	Ps.	5,618

(1) In the case of the acquisition of Specialty's the non-controlling interest was measured at fair value at the acquisition date, and for Open Market the non-controlling interest was recognized at the proportionate share of the net assets acquired.

(2) 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: property, plant and equipment of Ps. 32, trademark rights of Ps. 836, other intangible assets of Ps. 983, and other liabilitesof Ps. 593.

During 2016, FEMSA Comercio has been allocated goodwill in the acquisitions in FEMSA Comercio – Retail Division in Chile and FEMSA Comercio – Health Division in Mexico and Colombia, to each one respectively. FEMSA Comercio expects to recover the amount recorded through synergies related to the adoption of the Company's economic current value proposition, the ability to apply the successful operational processes and expansion planning designed for each unit.

Other companies dedicated to the production, distribution of coolers and logistic transportation services have been allocated goodwill of Grupo Torrey and Open Market, respectively in Mexico and Colombia. The companies dedicated to the production and distribution expect to recover the goodwill through synergies related to operative improvements; in the case of logistic transportation services, through the know how of specialized skills to attend pharmaceutical market and increasing new customers in the countries where the company operates.

Selected income statement information of other acquisitions in the aggregate amount for the period from the acquisition date through December 31, 2016 is as follows:

Income Statement		2016
Total revenues	Ps.	2,400
Income before income taxes		(66)
Net income	Ps.	(80)

The former controlling shareholders of Open Market retain a put for their remaining 20% non-controlling interest that can be exercised (i) at any time after the acquisition date upon the occurrence of certain events and (ii) annually from January through April, after the third anniversary of the acquisition date. In any event, the Company through one of its subsidiaries can call the remaining 20% non-controlling interest annually from January through April, after the fifth anniversary of the acquisition date. Both options would be exercisable at the then fair value of the interest and shall remain indefinitely. Given that these options are exercisable at the then fair value on exercise date, their value is not significant at the acquisition date and at December 31, 2017.

During 2015, the Company completed smaller acquisitions and mergers which in the aggregate amounted to Ps. 5,892. These acquisitions and mergers were primarily related to the following: acquisition of 100% Farmacias Farmacon, a regional drugstore operator in the western Mexican states of Sinaloa, Sonora, Baja California and Baja California Sur with headquarters in the city of Culiacan, Sinaloa, at the acquisition date Farmacias Farmacon operated 215 stores; merger of 100% of PEMEX franchises in which FEMSA Comercio – Fuel Division has been providing operational and administrative services for gasoline service stations through agreements with third parties, using the commercial brand name "OXXO GAS", at the acquisition date there were 227 OXXO GAS stations; acquisition of 100% of "Zimag", supplier of logistics services in Mexico, with experience in warehousing, distribution and value added services over twelve cities in Mexico mainly in Mexico City, Monterrey, Guanajuato, Chihuahua, Merida and Tijuana; acquisition of 100% of Atlas Transportes e Logistica, supplier of logistics services in Brazil, with experience in the service industry breakbulk logistics with a network of 49 operative centers and over 1,200 freight units through all regions in Brazil. Transactions related costs in the aggregate amounted of Ps. 39 were expensed as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements.

The fair value of other acquisitions' net assets acquired in the aggregate is as follows:

		Final Purchase Price Allocation
Total current assets (including cash acquired of Ps. 71)	Ps.	1,683
Total non-current assets		2,319
Total assets		4,002
Total liabilities		(2,955)
Net assets acquired		1,047
Goodwill		5,027[1]
Total consideration transferred	Ps.	6,074

[1] As a result of the purchase price allocation which was finalized in 2016, additional fair value adjustments from those recognized in 2015 have been recognized as follow: property, plant and equipment amounted of Ps. 130, trademark rights amounted of Ps. 453 and other liabilities amounted of Ps. 1,202.

FEMSA Comercio – Health Division and the logistic services business expect to recover the amount recorded as goodwill through synergies related to the ability to apply the operational processes of these business units. Farmacias Farmacon goodwill have been allocated to FEMSA Comercio – Health Division cash generating unit in Mexico and merger of PEMEX franchises goodwill have been allocated to FEMSA Comercio – Fuel Division cash generating unit in Mexico. Zimag and Atlas Transportes e Logistica goodwill have been allocated into logistic services business's cash generating unit in Mexico and Brazil, respectively.

Selected income statement information of these acquisitions for the period from the acquisition date through December 31, 2015 is as follows:

Income Statement		2015
Total revenues	Ps.	20,262
Income before income taxes		176
Net income	Ps.	120

Unaudited Pro Forma Financial Data

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Coca-Cola FEMSA Philippines as if this acquisition has occurred on January 1, 2017; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired company. Unaudited pro forma financial data for the acquisition included, is as follow.

		Unaudited pro forma financial information for the –year ended December 31, 2017
Total revenues	Ps.	462,112
Income before income taxes and share of the profit of associates and joint ventures accounting for using the equity method		39,917
Net income		37,311
Basic net controlling interest income per share Series "B"	Ps.	2.12
Basic net controlling interest income per share Series "D"		2.65

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Vonpar, Farmacias Acuña, Specialty´s, Big John, Farmacias Generix, Grupo Torrey and Open Market as if these acquisitions have occurred on January 1, 2016; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired companies. Unaudited pro forma financial data for all acquisitions and merger included, are as follow.

		Unaudited pro forma financial information for the –year ended December 31, 2016
Total revenues	Ps.	410,831
Income before income taxes and share of the profit of associates and joint ventures accounting for using the equity method		29,950
Net income		28,110
Basic net controlling interest income per share Series "B"	Ps.	1.08
Basic net controlling interest income per share Series "D"		1.35

Below are unaudited consolidated pro forma data of the acquisitions made on 2015 as if Grupo Socofar, Farmacias Farmacon, Zimag, Atlas Transportes e Logística and merger of PEMEX franchises were acquired on January 1, 2015:

		Unaudited pro forma financial information for the –year ended December 31, 2015
Total revenues	Ps.	340,600
Income before income taxes and share of the profit of associates and joint ventures accounting for using the equity method		27,485
Net income		25,004
Basic net controlling interest income per share Series "B"	Ps.	0.97
Basic net controlling interest income per share Series "D"		1.21

4.2. Disposal

During 2017, the Company sold a portion of its investment in Heineken, representing 5.2% of economic interest for Ps. 53,051 in an all cash transaction. With this transaction the Company took advantage of a Repatriation of Capital Decree issued by the Mexican government which was valid from January 19 until October 19, 2017; through this decree, a fiscal benefit was attributed to the Company due to repatriated resources obtained from the sale of shares. The Company recognized a gain of Ps. 29,989, as a result of the sales of shares within other income, which is the difference between the fair value of the consideration received and the book value of the net assets disposed. The gain is net of transaction related costs of Ps. 160 and includes reclassification from other comprehensive income of exchange differences on translation which amount to Ps. 6,632. Also, the Company reclassified from other comprehensive income to consolidated net income a total loss of Ps. 2,431, relating to the Company's share of hedging reserve and translation reserve of Heineken atrributable to the portion of shares sold. None of the Company's other disposals was individually significant (see Note 19).

Note 5. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the cash ítem includes cash on hand and in bank deposits and cash equivalents, which are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, with a maturity date of three months or less at their acquisition date. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statements of financial position and cash flows is comprised of the following:

	December 31, 2017	December 31, 2016
Cash and bank balances	Ps. 73,774	Ps. 18,140
Cash equivalents (see Note 3.5)	23,170	25,497
	Ps. 96,944	Ps. 43,637

As explained in Note 3.3, Venezuela subsidiary was deconsolidated. At December 31, 2017, cash and cash equivalent balances of the Company's Venezuela subsidiary were Ps.170.

Note 6. Investments

As of December 31, 2017 and 2016 investments are classified as held-to maturity, the carrying value of the investments is similar to their fair value. The following is a detail of held-to maturity investments:

Held-to Maturity [1] **Government debt securities**	2017	2016
Acquisition cost	Ps. 1,934	Ps. -
Accrued interest	-	-
Amortized cost	1,934	-
Corporate debt securities		
Acquisition cost	222	118
Accrued interest	4	2
Amortized cost	226	120
Total investments	Ps. 2,160	Ps. 120

[1] Denominated in dollars at a fixed interest rate.

Note 7. Accounts Receivable, Net

	December 31, 2017	December 31, 2016
Trade receivables	Ps. 26,856	Ps. 22,177
Allowance for doubtful accounts	(1,375)	(1,193)
The Coca-Cola Company (see Note 14)	2,054	1,857
Loans to employees	128	229
Other related parties	-	254
Heineken (see Note 14)	999	1,041
Former shareholders of Vonpar (see Note 14)	1,219	-
Others	2,435	1,857
	Ps. 32,316	Ps. 26,222

7.1 Trade receivables

Trade receivables representing rights arising from sales and loans to employees or any other similar concept, are presented net of discounts and the allowance for doubtful accounts.

Coca-Cola FEMSA has accounts receivable from The Coca-Cola Company arising from the latter's participation in advertising and promotional programs and investment in refrigeration equipment and returnable bottles made by Coca-Cola FEMSA.

The carrying value of accounts receivable approximates its fair value as of December 31, 2017 and 2016.

Aging of past due but not impaired (days outstanding)

	December 31, 2017	December 31, 2016
60-90 days	Ps. 599	Ps. 610
90-120 days	269	216
120+ days	1,206	1,539
Total	Ps. 2,074	Ps. 2,365

7.2 Changes in the allowance for doubtful accounts

	2017	2016	2015
Opening balance	Ps. 1,193	Ps. 849	Ps. 456
Allowance for the year	530	467	167
Charges and write-offs of uncollectible accounts	(400)	(418)	(99)
Addition from business combinations	86	94	401
Effects of changes in foreign exchange rates	(32)	201	(76)
Venezuela deconsolidation effect	(2)	-	-
Ending balance	Ps. 1,375	Ps. 1,193	Ps. 849

In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and disperse.

7.3 Receivable from The Coca-Cola Company

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Coca-Cola FEMSA's refrigeration equipment and returnable bottles investment program. Contributions received by Coca-Cola FEMSA for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the carrying amount of refrigeration equipment and returnable bottles items. For the years ended December 31, 2017, 2016 and 2015 contributions due were Ps. 4,023, Ps. 4,518 and Ps. 3,749, respectively.

Note 8. Inventories

	December 31, 2017	December 31, 2016
Finished products	Ps. 25,374	Ps. 22,709
Raw materials	5,194	5,156
Spare parts	2,102	2,401
Work in process	198	144
Inventories in transit	1,437	1,188
Other	535	334
	Ps. 34,840	Ps. 31,932

For the years ended at 2017, 2016 and 2015, the Company recognized write-downs of its inventories for Ps. 308, Ps. 1,832 and Ps. 1,290 to net realizable value, respectively.

For the years ended at 2017, 2016 and 2015, changes in inventories are comprised as follows and included in the consolidated income statement under the cost of goods sold caption:

	2017	2016	2015
Changes in inventories of finished goods and work in progress	Ps. 196,547	Ps. 172,554	Ps. 132,835
Raw materials and consumables used	85,568	63,285	53,514
Total	Ps. 282,115	Ps. 235,839	Ps. 186,349

Note 9. Other Current Assets and Other Current Financial Assets

9.1 Other current assets

		December 31, 2017		December 31, 2016
Prepaid expenses	Ps.	2,425	Ps.	3,784
Agreements with customers		192		179
Short-term licenses		224		112
Other		47		34
	Ps.	2,888	Ps.	4,109

Prepaid expenses as of December 31, 2017 and 2016 are as follows:

		December 31, 2017		December 31, 2016
Advances for inventories	Ps.	1,260	Ps.	2,734
Advertising and promotional expenses paid in advance		370		171
Advances to service suppliers		268		466
Prepaid leases		218		164
Prepaid insurance		103		104
Others		206		145
	Ps.	2,425	Ps.	3,784

Advertising and promotional expenses recorded in the consolidated income statement for the years ended December 31, 2017, 2016 and 2015 amounted to Ps. 6,236, Ps. 6,578 and Ps. 4,613, respectively.

9.2 Other current financial assets

		December 31, 2017		December 31, 2016
Restricted cash	Ps.	504	Ps.	774
Derivative financial instruments (see Note 20)		233		1,917
Short term note receivable [1]		19		14
	Ps.	756	Ps.	2,705

[1] The carrying value approximates its fair value as of December 31, 2017 and 2016.

The Company has pledged part of its cash in order to fulfill the collateral requirements for the accounts payable in different currencies. As of December 31, 2017 and 2016, the carrying of restricted cashpledged were:

		December 31, 2017		December 31, 2016
Venezuelan bolivars	Ps.	-	Ps.	183
Brazilian reais		65		73
Colombian pesos		439		518
	Ps.	504	Ps.	774

During 2016 due to a jurisdictional order with the municipal sewage system services, the Colombian authorities withheld all the cash that Coca-Cola FEMSA has in the bank account, the total amount of which was reclassified as a restricted cash according with the Company's accounting policy.

Note 10. Investments in Associates and Joint Ventures

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

Investee	Principal Activity	Place of Incorporation	Ownership Percentage December 31, 2017	Ownership Percentage December 31, 2016	Carrying Amount December 31, 2017	Carrying Amount December 31, 2016
Heineken (1) (2)	Beverages	The Netherlands	14.8%	20.0%	Ps. 83,720	Ps. 105,268
Coca-Cola FEMSA:						
Joint ventures:						
Compañía Panameña de Bebidas, S.A.P.I. de C.V.	Beverages	Panama	50.0%	50.0%	2,036	1,911
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	50.0%	50.0%	153	145
Estancia Hidromineral Itabirito, L.T.D.A	Bottling and distribution	Brazil	-	50.0%	-	96
Coca-Cola FEMSA Philippines, Inc. ("CCFPI") (4)	Bottling	Philippines	-	51.0%	-	11,460
Fountain Agua Mineral, L.T.D.A	Beverages	Brazil	50.0%	50.0%	784	765
Associates:						
Promotora Industrial Azucarera, S.A. de C.V. ("PIASA")	Sugar production	Mexico	36.4%	36.4%	2,933	2,657
Industria Envasadora de Queretaro, S.A. de C.V. ("IEQSA")	Canned bottling	Mexico	26.5%	26.5%	177	177
Industria Mexicana de Reciclaje, S.A. de C.V. ("IMER")	Recycling	Mexico	35.0%	35.0%	121	100
Jugos del Valle, S.A.P.I. de C.V.	Beverages	Mexico	26.3%	26.3%	1,560	1,574
KSP Participações, L.T.D.A.	Beverages	Brazil	38.7%	38.7%	117	126
Leao Alimentos e Bebidas, L.T.D.A.	Beverages	Brazil	24.7%	27.7%	3,001	3,282
UBI 3 Participações Ltda (Ades)	Beverages	Brazil	26.0%	-	391	-
Other investments in Coca-Cola FEMSA's companies	Various	Various	Various	Various	228	64
FEMSA Comercio:						
Café del Pacifico, S.A.P.I. de C.V. (Caffenio) (1)	Coffee	Mexico	40.0%	40.0%	539	493
Other investments (1) (3)	Various	Various	Various	Various	338	482
					Ps. 96,098	Ps. 128,601

(1) Associate.

(2) As of December 31, 2017 comprised of 8.63% of Heineken, N.V. and 12.26% of Heineken Holding, N.V., which represents an economic interest of 14.76% in Heineken Group and as of December 31, 2016, comprised of 12.53% of Heineken, N.V. and 14.94% of Heineken Holding, N.V., which represented an economic interest of 20% in Heineken. The Company has significant influence, mainly, due to the fact that it participates in the Board of Directors of Heineken Holding, N.V. and the Supervisory Board of Heineken N.V.; and for the material transactions between the Company and Heineken.

(3) Joint ventures.

(4) See Note 4.1.2

As mentioned in Note 4, in December 2016, Coca-Cola FEMSA through its subsidiary Spal, completed the acquisition of 100% of Vonpar. As part of this acquisition Spal increased its equity interest by 3.36% in Leao Alimentos e Bebidas, LTDA.

During 2017 the Coca-Cola FEMSA received dividends from Industria Envasadora de Queretaro, S.A. de C.V., and Promotora Mexicana de Embotelladores, S.A. de C.V. in the amount of Ps. 16 and Ps. 17, respectively.

During 2017 Coca-Cola FEMSA 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, and there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders. On June 25, 2017, the Coca-Cola FEMSA through its Brazilian subsidiary Spal Industria Brasileria 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 Coca-Cola FEMSA acquired indirect participations in equity method investees in Brazil and Argentina for an aggregate amount of Ps. 587. During 2017, Itabirito marged with Spal this transaction did not generated any cash flow.

As mentioned in Note 4, on December 6, 2016 the Coca-Cola FEMSA through its subsidiary Spal completed the acquisition of 100% of Vonpar. As part of acquisition Spal increase its equity interest by 3.36% in Leao Alimentos e Bebidas, LTDA.

During 2016 Coca-Cola FEMSA made capital contributions to Leao Alimentos e Bebidas, LTDA, 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. 1,273, Ps. 419 and Ps. 376, respectively, there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders.

During 2016 Coca-Cola FEMSA received dividends from Industria Envasadora de Queretaro, S.A. de C.V., and Estancia Hidromineral Itabirito, LTDA in the amount of Ps. 5 and Ps. 190, respectively.

As disclosed in Note 4.1.1, commencing on February 1, 2017, the Coca-Cola FEMSA started consolidating CCFPI's financial results in its financial statements.

On April 30, 2010, the Company acquired an economic interest of 20% of Heineken Group. Heineken's main activities are the production, distribution and marketing of beer worldwide. On September 18, 2017 the Company concluded the sale of a portion of its investment, representing 5.2% combined economic interest, consisting of 22,485,000 Heineken N.V. shares and 7,700,000 Heineken Holding N.V. shares at the price of €. 84.50 and €. 78.00 per share, respectively, (see Note 4.2). The Company recognized an equity income of Ps. 7,847, Ps. 6,342, and Ps. 5,879 net of taxes based on its economic interest in Heineken for the years ended December 31, 2017, 2016 and 2015, respectively. The economic interest for the year 2017 was 20% for the first eight months and 14.8% for the last four months and 20% for the years 2016 and 2015. The Company's share of the net income attributable to equity holders of Heineken exclusive of amortization of adjustments amounted to Ps. 7,656 (€. 357 million), Ps. 6,430 (€. 308 million) and Ps. 6,567 (€. 378 million), for the years ended December 31, 2017, 2016 and 2015, respectively. Summarized financial information in respect of the associate Heineken accounted for under the equity method is set out below.

	December 31, 2017		December 31, 2016	
	Million of Peso	Million of Euro	Million of Peso	Million of Euro
Total current assets	Ps. 194,429	€. 8,248	Ps. 177,176	€. 8,137
Total non-current assets	772,861	32,786	679,004	31,184
Total current liabilities	246,525	10,458	226,385	10,397
Total non-current liabilities	378,463	16,055	312,480	14,351
Total equity	342,302	14,521	317,315	14,573
Net income attributable to equity holders of Heineken	314,015	13,321	288,246	13,238
Total revenue and other income	Ps. 499,818	€. 22,029	Ps. 427,019	€. 20,838
Total cost and expenses	423,764	18,677	370,563	18,083
Net income	Ps. 48,850	€. 2,153	Ps. 35,636	€. 1,739
Net income attributable to equity holders of Heineken	43,903	1,935	31,558	1,540
Other comprehensive income	(26,524)	(1,169)	(19,037)	(929)
Total comprehensive income	Ps. 22,326	€. 984	Ps. 16,599	€. 810
Total comprehensive income attributable to equity holders of Heineken	19,989	881	13,525	660

Reconciliation from the equity of the associate Heineken to the investment of the Company.

	December 31, 2017		December 31, 2016	
	Million of Peso	Million of Euro	Million of Peso	Million of Euro
Equity attributable to equity holders of Heineken	Ps. 314,018	€. 13,321	Ps. 288,090	€. 13,238
Economic ownership percentage	14.76%	14.76%	20%	20%
Investment in Heineken exclusive of goodwill and others adjustments	Ps. 46,349	€. 1,966	Ps. 57,618	€. 2,648
Effects of fair value determined by Purchase Price Allocation	16,610	705	21,495	988
Goodwill	20,761	881	26,116	1,200
Investment in Heineken	Ps. 83,720	€. 3,552	Ps. 105,229	€. 4,836

As of December 31, 2017 and 2016, the fair value of Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 14.8% and 20% of its outstanding shares amounted to Ps. 141,693 (€. 6,011 million) and Ps. 173,857 (€. 7,989 million) based on quoted market prices of those dates. As of February 27, 2017, issuance date of these consolidated financial statements, fair value amounted to €. 5,938 million.

During the years ended December 31, 2017, 2016 and 2015, the Company received dividends distributions from Heineken, amounting to Ps. 3,250, Ps. 3,263 and Ps. 2,343, respectively.

For the years ended December 31, 2017, 2016 and 2015 the total net income corresponding to the immaterial associates of Coca-Cola FEMSA was Ps. 235, Ps. 31 and Ps. 185, respectively.

For the years ended December 31, 2017, 2016 and 2015 the total net income (loss) corresponding to the immaterial joint ventures of Coca-Cola FEMSA was Ps. (175), Ps. 116 and Ps. (30), respectively.

The Company's share of other comprehensive income from equity investees, net of taxes for the year ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Items that may be reclassified to consolidated net income:			
Valuation of the effective portion of derivative financial instruments	Ps. 252	Ps. 614	Ps. 213
Exchange differences on translating foreign operations	(2,265)	(2,842)	69
Total	Ps. (2,013)	Ps. (2,228)	Ps. 282
Items that may not be reclassified to consolidated net income in subsequent periods:			
Remeasurements of the net defined benefit liability	Ps. 69	Ps. (1,004)	Ps. 169

Note 11. Property, Plant and Equipment, Net

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Cost as of January 1, 2015	Ps. 7,211	Ps. 15,791	Ps. 50,519	Ps. 12,466	Ps. 9,402	Ps. 7,872	Ps. 12,250	Ps. 1,075	Ps. 116,586
Additions	675	1,688	5,122	851	1,655	6,942	41	511	17,485
Additions from business acquisitions	30	251	870	-	-	-	862	-	2,013
Transfer of completed projects in progress	59	1,289	3,251	1,168	662	(8,143)	1,714	-	-
Transfer (to)/from assets classified as held for sale	-	-	(10)	-	-	-	-	-	(10)
Disposals	(56)	(219)	(2,694)	(972)	(103)	-	(356)	(40)	(4,440)
Effects of changes in foreign exchange rates	(595)	(1,352)	(4,330)	(1,216)	(266)	(1,004)	(23)	(848)	(9,634)
Changes in value on the recognition of inflation effects	245	503	957	295	301	91	-	229	2,621
Capitalization of borrowing costs	-	-	-	-	-	57	-	-	57
Cost as of December 31, 2015	Ps. 7,569	Ps. 17,951	Ps. 53,685	Ps. 12,592	Ps. 11,651	Ps. 5,815	Ps. 14,488	Ps. 927	Ps. 124,678
Cost as of January 1, 2016	Ps. 7,569	Ps. 17,951	Ps. 53,685	Ps. 12,592	Ps. 11,651	Ps. 5,815	Ps. 14,488	Ps. 927	Ps. 124,678
Additions	328	877	6,499	73	2,236	8,667	36	367	19,083
Additions from business acquisitions	163	763	1,521	105	23	45	668	-	3,288
Changes in fair value of past acquisitions	50	-	85	-	-	-	115	-	250
Transfer of completed projects in progress	46	1,039	2,445	1,978	779	(8,493)	2,206	-	-
Transfer (to)/from assets classified as held for sale	-	-	(36)	-	-	-	-	-	(36)
Disposals	(88)	(202)	(2,461)	(574)	(139)	(2)	(474)	(19)	(3,959)
Effects of changes in foreign exchange rates	260	2,643	5,858	1,953	1,271	569	329	(132)	12,751
Changes in value on the recognition of inflation effects	854	1,470	2,710	851	122	415	-	942	7,364
Capitalization of borrowing costs	-	-	61	-	-	(38)	-	1	24
Cost as of December 31, 2016	Ps. 9,182	Ps. 24,541	Ps. 70,367	Ps. 16,978	Ps. 15,943	Ps. 6,978	Ps. 17,368	Ps. 2,086	Ps. 163,443
Cost as of January 1, **2017**	Ps. 9,182	Ps. 24,541	Ps. 70,367	Ps. 16,978	Ps. 15,943	Ps. 6,978	Ps. 17,368	Ps. 2,086	Ps. 163,443
Additions	465	1,474	6,150	389	3,201	8,878	57	224	20,838
Additions from business acquisitions	5,115	1,634	5,988	482	3,324	821	145	-	17,509
Changes in fair value of past acquisitions	-	-	-	-	-	-	-	-	-
Transfer of completed projects in progress	6	676	3,073	1,967	558	(8,572)	2,295	(3)	-
Transfer (to)/from assets classified as held for sale	-	-	(42)	-	-	-	-	(58)	(100)
Disposals	(144)	(588)	(3,147)	(800)	(193)	-	(352)	(12)	(5,236)
Effects of changes in foreign exchange rates	(1,018)	(1,964)	(2,817)	(1,523)	(1,216)	(720)	153	(1,201)	(10,306)
Changes in value on the recognition of inflation effects	527	1,016	2,030	689	(2)	226	-	638	5,124
Venezuela deconsolidation effect (see Note 3.3)	(544)	(817)	(1,300)	(717)	(83)	(221)	-	(646)	(4,328)
Cost as of December 31, **2017**	Ps. 13,589	Ps. 25,972	Ps. 80,302	Ps. 17,465	Ps. 21,532	Ps. 7,390	Ps. 19,666	Ps. 1,028	Ps. 186,944

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, 2015	Ps. -	Ps. (3,726)	Ps. (21,382)	Ps. (6,644)	Ps. (5,205)	Ps. -	Ps. (3,614)	Ps. (386)	Ps. (40,957)
Depreciation for the year	-	(515)	(4,864)	(1,184)	(1,984)	-	(1,071)	(143)	(9,761)
Disposals	-	172	2,001	946	80	-	270	2	3,471
Effects of changes in foreign exchange rates	-	498	2,222	1,044	167	-	22	212	4,165
Changes in value on the recognition of inflation effects	-	(187)	(426)	(166)	(436)	-	1	(86)	(1,300)
Accumulated Depreciation as of December 31, 2015	Ps. -	Ps. (3,758)	Ps. (22,449)	Ps. (6,004)	Ps. (7,378)	Ps. -	Ps. (4,392)	Ps. (401)	Ps. (44,382)
Accumulated Depreciation as of January 1, 2016	Ps. -	Ps. (3,758)	Ps. (22,449)	Ps. (6,004)	Ps. (7,378)	Ps. -	Ps. (4,392)	Ps. (401)	Ps. (44,382)
Depreciation for the year	-	(734)	(5,737)	(1,723)	(2,235)	-	(1,447)	(200)	(12,076)
Transfer to/(from) assets classified as held for sale	-	-	16	-	-	-	-	-	16
Disposals	-	132	2,101	672	227	-	364	9	3,505
Effects of changes in foreign exchange rates	-	(600)	(3,093)	(1,147)	(847)	-	(81)	39	(5,729)
Changes in value on the recognition of inflation effects	-	(593)	(1,101)	(521)	(33)	-	-	(306)	(2,554)
Accumulated Depreciation as of December 31, 2016	Ps. -	Ps. (5,553)	Ps. (30,263)	Ps. (8,723)	Ps. (10,266)	Ps. -	Ps. (5,556)	Ps. (859)	Ps. (61,220)
Accumulated Depreciation as of January 1, **2017**	Ps. -	Ps. (5,553)	Ps. (30,263)	Ps. (8,723)	Ps. (10,266)	Ps. -	Ps. (5,556)	Ps. (859)	Ps. (61,220)
Depreciation for the year	-	(887)	(6,928)	(2,186)	(3,365)	-	(1,562)	(685)	(15,613)
Transfer to/(from) assets classified as held for sale	-	44	7	-	-	-	-		51
Disposals	-	40	3,125	683	103	-	300	5	4,256
Effects of changes in foreign exchange rates	-	518	437	1,157	93	-	(138)	940	3,007
Venezuela deconsoldiation effect	-	481	1,186	626	56	-	-	335	2,684
Venezuela impairment	-	(257)	(841)	-	-	-	-	-	(1,098)
Changes in value on the recognition of inflation effects	-	(437)	(1,031)	(553)	(44)	-	-	(234)	(2,299)
Accumulated Depreciation as of December 31, **2017**	Ps. -	Ps. (6,051)	Ps. (34,308)	Ps. (8,996)	Ps. (13,423)	Ps. -	Ps. (6,956)	Ps. (498)	Ps. (70,232)

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, 2015	Ps. 7,569	Ps. 14,193	Ps. 31,236	Ps. 6,588	Ps. 4,273	Ps. 5,815	Ps. 10,096	Ps. 526	Ps. 80,296
As of December 31, 2016	Ps. 9,182	Ps. 18,988	Ps. 40,104	Ps. 8,255	Ps. 5,677	Ps. 6,978	Ps. 11,812	Ps. 1,227	Ps. 102,223
As of December 31, **2017**	Ps. 13,589	Ps. 19,921	Ps. 45,994	Ps. 8,469	Ps. 8,109	Ps. 7,390	Ps. 12,710	Ps. 530	Ps. 116,712

During the years ended December 31, 2016 and 2015 the Company capitalized Ps. 61 and Ps. 57, respectively of borrowing costs in relation to Ps. 99 and Ps. 993 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were 4.5% and 4.1%, respectively. For the year ended December 31, 2017, the Company did not recognize any capitalization of borrowing costs.

For the years ended December 31, 2017, 2016 and 2015 interest expense, interest income and net foreign exchange losses and gains are analyzed as follows:

	2017	2016	2015
Interest expense, interest income and net foreign exchange	Ps. 4,602	Ps. 7,285	Ps. 8,031
Amount capitalized[1]	-	69	85
Net amount in consolidated income statements	Ps. 4,602	Ps. 7,216	Ps. 7,946

[1] Amount of interest capitalized in property, plant and equipment and intangible assets.

Commitments related to acquisitions of property, plant and equipment are disclosed in Note 25.8

Note 12. Intangible Assets

Cost	Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Assets
Cost as of January 1, 2015	Ps. 70,263	Ps. 25,174	Ps. 1,514	Ps. 63	Ps. 97,014	Ps. 3,225	Ps. 1,554	Ps. 1,027	Ps. 671	Ps. 6,477	Ps. 103,491
Purchases	-	-	-	-	-	480	458	198	83	1,219	1,219
Acquisitions from business combinations	-	11,369	-	1,238	12,607	328	-	-	199	527	13,134
Transfer of completed development systems	-	-	-	-	-	1,085	(1,085)	-	-	-	-
Disposals	-	-	-	-	-	(150)	(242)	-	(77)	(469)	(469)
Effect of movements in exchange rates	(4,992)	(2,693)	(33)	(19)	(7,737)	(94)	(2)	-	(16)	(112)	(7,849)
Changes in value on the recognition of inflation effects	1,121	-	-	-	1,121	(12)	-	-	-	(12)	1,109
Capitalization of borrowing costs	-	-	-	-	-	28	-	-	-	28	28
Cost as of December 31, 2015	Ps. 66,392	Ps. 33,850	Ps. 1,481	Ps. 1,282	Ps. 103,005	Ps. 4,890	Ps. 683	Ps. 1,225	Ps. 860	Ps. 7,658	Ps. 110,663
Cost as of January 1, 2016	Ps. 66,392	Ps. 33,850	Ps. 1,481	Ps. 1,282	Ps. 103,005	Ps. 4,890	Ps. 683	Ps. 1,225	Ps. 860	Ps. 7,658	Ps. 110,663
Purchases	-	-	3	-	3	345	609	191	146	1,291	1,296
Acquisitions from business combinations (see Note 4)	9,602	12,276	239	1,067	23,184	318	3	-	174	495	23,679
Changes in fair value of past acquisitions	-	(2,385)	4,315	(554)	1,376	-	-	-	1,078	1,078	2,372
Transfer of completed development systems	-	-	-	-	-	304	(304)	-	-	-	-
Disposals	-	-	-	-	-	(336)	-	-	(24)	(360)	(360)
Effect of movements in exchange rates	8,124	8,116	187	392	16,819	451	(193)	-	104	362	17,181
Changes in value on the recognition of inflation effects	1,220	-	-	-	1,220	141	-	-	-	141	1,361
Capitalization of borrowing costs	-	-	-	-	-	11	-	-	-	11	11
Cost as of December 31, 2016	Ps. 85,338	Ps. 51,857	Ps. 6,225	Ps. 2,187	Ps. 145,607	Ps. 6,124	Ps. 798	Ps. 1,416	Ps. 2,338	Ps. 10,676	Ps. 156,283
Cost as of January 1, **2017**	Ps. 85,338	Ps. 51,857	Ps. 6,225	Ps. 2,187	Ps. 145,607	Ps. 6,124	Ps. 798	Ps. 1,416	Ps. 2,338	Ps.10,676	Ps. 156,283
Purchases	1,288	-	-	6	1,294	464	920	221	445	2,050	3,344
Acquisitions from business combinations (see Note 4)	4,144	140	5	-	4,289	6	-	-	80	86	4,375
Changes in fair value of past acquisitions	5,167	(7,022)	836	9	(1,010)	(188)	-	-	892	704	(306)
Transfer of completed development systems	-	-	-	-	-	412	(412)	-	-	-	-
Disposals	-	-	-	-	-	110	-	-	-	110	110
Effect of movements in exchange rates	(2,563)	(1,526)	119	91	(3,879)	175	(15)	-	52	212	(3,667)
Changes in value on the recognition of inflation effects	(727)	-	-	-	(727)	-	-	-	175	175	(552)
Venezuela deconsolidation effect	-	-	-	-	-	-	-	-	(139)	(139)	(139)
Cost as of December 31, **2017**	Ps. 92,647	Ps. 43,449	Ps. 7,185	Ps. 2,293	Ps. 145,574	Ps. 7,103	Ps. 1,291	Ps. 1,637	Ps. 3,843	Ps. 13,874	Ps. 159,448

Amortization and Impairment Losses	Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Assets
Amortization as of January 1, 2015	Ps. -	Ps. -	Ps. -	Ps. (36)	Ps. (36)	Ps. (1,343)	Ps. -	Ps. (235)	Ps. (350)	Ps. (1,928)	Ps. (1,964)
Amortization expense	-	-	-	-	-	(461)	-	(67)	(76)	(604)	(604)
Disposals	-	-	-	-	-	126	-	-	42	168	168
Effect of movements in exchange rates	-	-	-	-	-	59	-	-	19	78	78
Amortization as of December 31, 2015	Ps. -	Ps. -	Ps. -	Ps. (36)	Ps. (36)	Ps. (1,619)	Ps. -	Ps. (302)	Ps. (365)	Ps. (2,286)	Ps. (2,322)
Amortization as of January 1, 2016	Ps. -	Ps. -	Ps. -	Ps. (36)	Ps. (36)	Ps. (1,619)	Ps. -	Ps. (302)	Ps. (365)	Ps. (2,286)	Ps. (2,322)
Amortization expense	-	-	-	-	-	(630)	-	(74)	(302)	(1,006)	(1,006)
Impairment losses	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	313	-	-	36	349	349
Effect of movements in exchange rates	-	-	-	-	-	(1)	-	-	(35)	(36)	(36)
Amortization as of December 31, 2016	Ps. -	Ps. -	Ps. -	Ps. (36)	Ps. (36)	Ps. (1,937)	Ps. -	Ps. (376)	Ps. (666)	Ps. (2,979)	Ps. (3,015)
Amortization as of January 1, **2017**	Ps. -	Ps. -	Ps. -	Ps. (36)	Ps. (36)	Ps. (1,937)	Ps.- -	Ps. (376)	Ps. (666)	Ps. (2,979)	Ps. (3,015)
Amortization expense	-	-	-	-	-	(961)		(81)	(217)	(1,259)	(1,259)
Impairment losses	-	-	-	-	-	(110)	-	-	-	(110)	(110)
Disposals	-	-	-	-	-	-	-	-	-	-	-
Venezuela deconsolidation effect	-	-	-	-	-	-	-	-	(120)	(120)	(120)
Venezuela impairment	(745)	-	-	-	(745)	-	-	-	-	-	(745)
Effect of movements in exchange rates	-	-	-	-	-	(254)	-	-	148	(106)	(106)
Amortization as of December 31, **2017**	Ps. (745)	Ps. -	Ps. -	Ps. (36)	Ps. (781)	Ps. (3,262)	Ps. -	Ps. (457)	Ps. (855)	Ps. (4,574)	Ps. (5,354)
Carrying Amount											
As of December 31, 2015	Ps. 66,392	Ps. 33,850	Ps. 1,481	Ps. 1,246	Ps. 102,969	Ps. 3,271	Ps. 683	Ps. 923	Ps. 495	Ps. 5,372	Ps. 108,341
As of December 31, 2016	Ps. 85,338	Ps. 51,857	Ps. 6,225	Ps. 2,151	Ps. 145,571	Ps. 4,187	Ps. 798	Ps. 1,040	Ps. 1,672	Ps. 7,697	Ps. 153,268
As of December 31, **2017**	Ps. 91,901	Ps. 43,449	Ps. 7,185	Ps. 2,257	Ps. 144,793	Ps. 3,841	Ps. 1,291	Ps. 1,180	Ps. 2,988	Ps. 9,300	Ps. 154,093

During the years ended December 31, 2016 and 2015 the Company capitalized Ps. 8 and Ps. 28, respectively of borrowing costs in relation to Ps. 28 and Ps. 410 in qualifying assets, respectively. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were 4.1% and 4.1%, respectively. For the year ended December 31, 2017, the Company did not recognize any capitalization of borrowing costs.

On March 28, 2017 Coca-Cola FEMSA acquired distribution rights and other intangibles of AdeS soy-based beverages in it's territories in Mexico and Colombia for an aggregate amount of Ps. 1,287. This acquisition was made to reinforce Coca-Cola FEMSA leadership position.

For the years ended 2017, 2016 and 2015, allocation for amortization expense is as follows:

	2017	2016	2015
Cost of goods sold	Ps. 132	Ps. 82	Ps. 61
Administrative expenses	627	727	407
Selling expenses	500	207	136
	Ps. 1,259	Ps. 1,016	Ps. 604

The average remaining period for the Company's intangible assets that are subject to amortization is as follows:

	Years
Technology Costs and Management Systems	3-10
Alcohol Licenses	12 - 15

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

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

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

	December 31, 2017	December 31, 2016
Mexico	Ps. 56,352	Ps. 55,137
Guatemala	488	499
Nicaragua	484	532
Costa Rica	1,520	1,622
Panama	1,185	1,241
Colombia	5,824	5,988
Venezuela	-	1,225
Brazil	48,345	52,609
Argentina	50	67
Philippines	3,882	-
Total	Ps. 118,130	Ps. 118,920

Goodwill and distribution rights are tested for impairments annually.

The recoverable amounts are based on value in use. The value in use of CGUs is determined based on the method of discounted cash flows. The key assumptions used in projecting cash flows are: volume, expected annual long-term inflation, and the weighted average cost of capital ("WACC") used to discount the projected cash flows. The cash flow forecasts could differ from the results obtained over time; however, Coca-Cola FEMSA prepares its estimates based on the current situation of each of the CGUs.

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

The estimated discount rates to perform impairment test for each CGU consider market participants' assumptions. Market participants were selected taking into consideration the size, operations and characteristics of the businesses that are similar to those of Coca-Cola FEMSA.

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

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

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

- Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. Coca-Cola FEMSA believes that this forecasted period is justified due to the non-current nature of the business and past experiences.
- Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.
- A 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 adjustments.

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%
Colombia	9.1%	6.6%	3.1%	3.2%
Costa Rica	11.5%	7.8%	3.3%	2.7%
Guatemala	13.9%	10.7%	4.7%	7.1%
Nicaragua	16.6%	10.6%	5.0%	4.9%
Panama	8.3%	6.5%	2.3%	3.4%
Argentina	11.0%	7.3%	10.7%	3.1%
Brazil	9.7%	6.2%	4.1%	1.3%
Philippines	9.7%	5.9%	3.6%	3.4%

The key assumptions by CGU for impairment test as of December 31, 2016 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2017-2026	Expected Volume Growth Rates 2017-2026
Mexico	6.8%	6.3%	3.7%	1.2%
Colombia	7.9%	7.5%	3.2%	4.0%
Venezuela	17.5%	17.0%	117.3%	1.0%
Costa Rica	8.4%	8.3%	4.4%	4.7%
Guatemala	9.9%	9.5%	5.0%	13.2%
Nicaragua	10.6%	10.1%	4.2%	5.7%
Panama	7.8%	7.4%	3.0%	4.9%
Argentina	9.1%	8.5%	12.2%	4.1%
Brazil	8.7%	8.1%	4.4%	2.9%

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

During the year ended December 31, 2017 and due to the worsened economic and operational conditions in Venezuela, Coca-Cola FEMSA has recognized an impairment for distribution rights in such country for an amount of Ps. 745, such effect has been recorded in other expenses in the consolidated financial statements.

Sensitivity to Changes in Assumptions

At December 31, 2017, Coca-Cola FEMSA performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and an additional sensitivity to the volume of 100 basis points and concluded that no impairment would be recorded.

CGU	Change in WACC	Change in Volume Growth CAGR [1]	Effect on Valuation
Mexico	+0.16%	-1.0%	Passes by 5.2x
Colombia	+0.19%	-1.0%	Passes by 2.5x
Costa Rica	+0.64%	-1.0%	Passes by 2.3x
Guatemala	+1.52%	-1.0%	Paases by 7.4x
Nicaragua	+4.27%	-1.0%	Passes by 3.1x
Panama	+0.12%	-1.0%	Passes by 12.1x
Argentina	+4.39%	-1.0%	Passes by 299x
Brazil	+0.26%	-1.0%	Passes by 3.6x
Philippines	+0.46%	-1.0%	Passes by 2.1x

[1] Compound Annual Growth Rate (CAGR).

FEMSA Comercio Impairment Test for Cash-Generating Units Containing Goodwill

For the purpose of impairment testing, goodwill is allocated and monitored on an individual country basis by operating segment. FEMSA Comercio has integrated its cash generating units as follow: Retail Division and Health Division are integrated as Mexico, for each of them and Fuel Division includes only Mexico.

As of December 31, 2017 in Health Division there is a significant carrying amount of goodwill allocated in Chile and Colombia as a group of cash generating (South America) with a total carrying amount of Ps. 6,048.

Goodwill is tested for impairments annually.

The recoverable amounts are based on value in use. The value in use of CGUs is determined based on the method of discounted cash flows. The key assumptions used in projecting cash flows are: sales, expected annual long-term inflation, and the weighted average cost of capital ("WACC") used to discount the projected cash flows. The cash flow forecasts could differ from the results obtained over time; however, FEMSA Comercio prepares its estimates based on the current situation of each of the CGUs or group of CGUs.

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

The estimated discount rates to perform the IAS 36 "Impairment of assets", impairment test for each CGU or group of CGUs consider market participants' assumptions. Market participants were selected taking into consideration the size, operations and characteristics of the businesses that are similar to those of FEMSA Comercio.

The discount rates represent the current market assessment of the risks specific to each CGU or group of CGUs, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the opportunity cost to a market participant, considering the specific circumstances of FEMSA Comercio and its operating segments and is derived from its WACC. The WACC takes into account both debt and cost of equity. The cost of equity is derived from the expected return on investment by Company's investors. The cost of debt is base don the interest bearing borrowings the Coca-Cola FEMSA is obliged to service, wich is equivalent to the cost of debt based on the conditions that a creditor would asses 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. FEMSA Comercio believes that this forecasted period is justified due to the non-current nature of the business and past experiences.
- Cash flows projected based on actual operating results and five-year business plan were calculated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.
- A per CGU-specific 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 adjustments.

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
South America (Health Division)	6.9%	6.2%	3%	2%

The key assumptions by CGU for impairment test as of December 31, 2016 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2017-2026	Expected Volume Growth Rates 2017-2026
South America (Health Division)	7.5%	7.3%	3%	13%

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). FEMSA Comercio consistently applied its methodology to determine CGU specific WACC's to perform its annual impairment testing.

Sensitivity to Changes in Assumptions

At December 31, 2017, FEMSA Comercio performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and a sensitivity analysis of sales that would be affected considering a contraction in economic conditions as a result of lower purchasing power of customers, which based on management estimation considered to be reasonably possible an effect of 100 basis points in the sale's compound annual growth rate (CAGR), concluding that no impairment would be recognized.

CGU Group	Change in WACC	Change in Sales Growth CAGR [1]	Effect on Valuation
Health Division (South America)	+0.3%	-1.0%	Passes by 7.03x

[1] Compound Annual Growth Rate.

Note 13. Other Assets and Other Financial Assets

13.1 Other assets

		December 31, 2017		December 31, 2016
Agreement with customers	Ps.	849	Ps.	793
Long term prepaid advertising expenses		298		392
Guarantee deposits [1]		3,491		3,757
Prepaid bonuses		151		103
Advances to acquire property, plant and equipment		266		173
Recoverable taxes		1,674		1,653
Indemnifiable assets from business combinations [2]		4,510		8,081
Recoverable taxes from business combinations		458		-
Others		828		1,230
	Ps.	12,525	Ps.	16,182

[1] As it is customary in Brazil, the Company is required to collaterize tax, legal and labor contingencies by guarantee deposits including those related to business acquisitions (see Note 25.7).

[2] Corresponds to indemnifiable assets that are warranteed by former Vonpar owners as per the share purchase agreement.

13.2 Other financial assets

		December 31, 2017		December 31, 2016
Non-current accounts receivable	Ps.	733	Ps.	511
Derivative financial instruments (see Note 20)		10,137		14,729
Investments in other entities [1]		1,039		-
Others		164		105
	Ps.	12,073	Ps.	15,345

[1] Investment in Venezuela subsidiary, Coca-Cola FEMSA determined that the deteriorating conditions in Venezuela had led the Company to no longer meet the accounting citeria to consolidate its Venezuelan subsidiary, the impacts of such deconsolidation are discussed in Note 3.3 above.

As of December 31, 2017 and 2016, the fair value of long term accounts receivable amounted to Ps. 707 and Ps. 541, respectively. The fair value is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for receivable of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy.

Note 14. Balances and transactions with related parties and affiliated companies

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

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

		December 31, 2017		December 31, 2016
Balances				
Due from The Coca-Cola Company (see Note 7) [(1)(8)]	Ps.	2,054	Ps.	1,857
Balance with BBVA Bancomer, S.A. de C.V. [(2)]		1,496		2,535
Balance with JP Morgan Chase & Co. [(2)]		6,907		-
Balance with Banco Mercantil del Norte S.A.		806		-
Grupo Industrial Saltillo S.A.B. de C.V. [(3)]		141		128
Due from Heineken [(1)(3)(7)]		2,673		2,622
Former shareholders of Vonpar		1,219		-
Other receivables [(1)(4)]		209		237
Due to The Coca-Cola Company [(5)(6)(8)]	Ps.	3,731	Ps.	4,454
Due to BBVA Bancomer, S.A. de C.V. [(5)]		352		395
Due to Caffenio [(6)(7)]		293		76
Due to Heineken [(6)(7)]		4,403		4,458
Other payables [(6)]		1,508		1,047

(1) Presented within accounts receivable.
(2) Presented within cash and cash equivalents.
(3) Presented within other financial assets.
(4) Presented within other current financial assets.
(5) Recorded within bank loans and notes payable.
(6) Recorded within accounts payable.
(7) Associates.
(8) Non controlling interest.

Balances due from related parties are considered to be recoverable. Accordingly, for the years ended December 31, 2017 and 2016, there was no expense resulting from the uncollectibility of balances due from related parties.

Transactions		2017		2016		2015
Income:						
Services to Heineken [(1)]	Ps.	3,570	Ps.	3,153	Ps.	3,396
Logistic services to Grupo Industrial Saltillo, S.A. de C.V. [(3)]		457		427		407
Logistic services to Jugos del Valle [(1)]		587		555		564
Other revenues from related parties		620		857		644
Expenses:						
Purchase of concentrate from The Coca-Cola Company [(2)]	Ps.	33,898	Ps.	38,146	Ps.	27,330
Purchases of raw material and beer from Heineken [(1)]		24,942		16,436		14,467
Purchase of coffee from Caffenio [(1)]		2,397		2,064		1,774
Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. [(3)]		4,802		4,184		3,740
Advertisement expense paid to The Coca-Cola Company [(2)(4)]		1,392		2,354		1,316
Purchase of juices from Jugos del Valle, S.A.P.I. de C.V. [(1)]		3,905		3,310		3,082
Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V. [(1)]		1,885		1,765		1,236
Interest expense and fees paid to BBVA Bancomer, S.A. de C.V. [(3)]		40		26		68
Purchase of sugar from Beta San Miguel [(3)]		1,827		1,349		1,264
Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V. [(3)]		839		759		587
Purchase of canned products from IEQSA [(1)]		804		798		731
Purchase of inventories to Leao Alimentos e Bebidas, L.T.D.A. [(1)]		4,010		3,448		3,359
Advertising paid to Grupo Televisa, S.A.B. [(3)]		107		193		175
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. [(3)]		32		63		58
Donations to Fundación FEMSA, A.C. [(3)]		23		62		30
Donations to Difusión y Fomento Cultural, A.C. [(3)]		44		49		59
Interest expense paid to The Coca-Cola Company [(2)]		-		-		1
Other expenses with related parties		751		618		470

(1) Associates.
(2) Non controlling interest.
(3) Members of the board of directors in FEMSA participate in board of directors of this entity.
(4) Net of the contributions from The Coca-Cola Company of Ps. 4,023, Ps. 4,518 and Ps. 3,749, for the years ended in 2017, 2016 and 2015, respectively.

Commitments with related parties

Related Party	Commitment	Conditions
Heineken	Supply	Supply of all beer products in Mexico's OXXO stores. The contract may be renewed for five years or additional periods. At the end of the contract OXXO will not hold exclusive contract with another supplier of beer for the next 3 years. Commitment term, Jan 1st, 2010 to Jun 30, 2020.

The benefits and aggregate compensation paid to executive officers and senior management of the Company were as follows:

	2017	2016	2015
Short-term employee benefits paid	Ps. 1,699	Ps. 1,510	Ps. 1,162
Postemployment benefits	48	39	42
Termination benefits	74	192	63
Share based payments	351	468	463

Note 15. Balances and Transactions in Foreign Currencies

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different than the functional currency of the Company. As of December 31, 2017 and for each of the three years ended on December 31, 2017, assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

	Assets		Liabilities	
Balances	Short-Term	Long-Term	Short-Term	Long- Term
As of December 31, 2017				
U.S. dollars	Ps. 69,772	Ps. 148	Ps. 4,241	Ps. 73,115
Euros	25	-	1,881	23,573
Other currencies	46	1,674	340	1
Total	Ps. 69,843	Ps. 1,822	Ps. 6,462	Ps. 96,689
As of December 31, 2016				
U.S. dollars	Ps. 17,796	Ps. 696	Ps. 4,540	Ps. 88,611
Euros	246	-	345	21,774
Other currencies	5	1,581	246	1,190
Total	Ps. 18,047	Ps. 2,277	Ps. 5,131	Ps.111,575

Transactions	Revenues	Other Operating Revenues	Purchases of Raw Materials	Interest Expense	Consulting Fees	Asset Acquisitions	Other
For the year ended December 31, 2017							
U.S. dollars	Ps. 1,909	Ps. 1,677	Ps. 16,320	Ps. 2,534	Ps. 267	Ps. 272	Ps. 4,052
Euros	-	2	87	452	23	4	20
Other currencies	-	-	-	-	12	-	-
Total	Ps. 1,909	Ps. 1,679	Ps. 16,407	Ps. 2,986	Ps. 302	Ps. 276	Ps. 4,072
For the year ended December 31, 2016							
U.S. dollars	Ps. 4,068	Ps. 1,281	Ps. 14,961	Ps. 3,173	Ps. 182	Ps. 407	Ps. 3,339
Euros	6	-	104	355	43	-	5
Other currencies	29	150	-	150	185	-	4
Total	Ps. 4,103	Ps. 1,431	Ps. 15,065	Ps. 3,678	Ps. 410	Ps. 407	Ps. 3,348
For the year ended December 31, 2015							
U.S. dollars	Ps. 1,891	Ps. 472	Ps. 11,710	Ps. 1,973	Ps. 34	Ps. 75	Ps. 2,035
Euros	-	1	2	-	2	-	37
Other currencies	20	-	-	-	-	-	204
Total	Ps. 1,911	Ps. 473	Ps. 11,712	Ps. 1,973	Ps. 36	Ps. 75	Ps. 2,276

Mexican peso exchange rates effective at the dates of the consolidated statements of financial position and at the issuance date of the Company's consolidated financial statements were as follows:

	December 31, 2017	December 31, 2016	February 27, 2018
U.S. dollar	19.7354	20.6640	18.5659
Euro	23.5729	21.7741	21.1430

Note 16. Employee Benefits

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

During 2016, Coca-Cola FEMSA settled its pension plan in Colombia and consequently Coca-Cola FEMSA recognized the corresponding effects of the settlement as disclosed below. The settlement of the complementary pension plan was only for certain executive employees.

16.1 Assumptions

The Company annually evaluates the reasonableness of the assumptions used in its labor liability for post-employment and other non-current employee benefits computations.

Actuarial calculations for pension and retirement plans, seniority premiums and post-retirement medical benefits, as well as the associated cost for the period, were determined using the following long-term assumptions for Mexico:

Mexico	December 31, 2017	December 31, 2016	December 31, 2015
Financial:			
Discount rate used to calculate the defined benefit obligation	7.60%	7.60%	7.00%
Salary increase	4.50%	4.50%	4.50%
Future pension increases	3.50%	3.50%	3.50%
Healthcare cost increase rate	5.10%	5.10%	5.10%
Biometric:			
Mortality (1)	EMSSA 2009	EMSSA 2009	EMSSA 2009
Disability (2)	IMSS-97	IMSS-97	IMSS-97
Normal retirement age	60 years	60 years	60 years
Employee turnover table (3)	BMAR 2007	BMAR 2007	BMAR 2007

Measurement date December:

(1) EMSSA. Mexican Experience of social security.

(2) IMSS. Mexican Experience of Instituto Mexicano del Seguro Social.

(3) BMAR. Actuary experience.

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

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

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

	Pension and Retirement Plans	Seniority Premiums	Post Retirement Medical Services	Total
2018	Ps. 611	Ps. 53	Ps. 19	Ps. 683
2019	233	52	20	305
2020	351	50	22	423
2021	263	48	24	335
2022	270	47	25	342
2023 to 2027	2,115	254	158	2,527

16.2 Balances of the liabilities for employee benefits

		December 31, 2017		December 31, 2016
Pension and Retirement Plans:				
Defined benefit obligation	Ps.	7,370	Ps.	5,702
Pension plan funds at fair value		(3,131)		(2,216)
Net defined benefit liability	Ps.	4,239	Ps.	3,486
Seniority Premiums:				
Defined benefit obligation	Ps.	783	Ps.	663
Seniority premium plan funds at fair value		(109)		(102)
Net defined benefit liability	Ps.	674	Ps.	561
Postretirement Medical Services:				
Defined benefit obligation	Ps.	524	Ps.	460
Medical services funds at fair value		(64)		(60)
Net defined benefit liability	Ps.	460	Ps.	400
Total employee benefits	Ps.	5,373	Ps.	4,447

16.3 Trust assets

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

Type of Instrument	December 31, 2017	December 31, 2016
Fixed return:		
Traded securities	18%	15%
Bank instruments	5%	4%
Federal government instruments of the respective countries	62%	63%
Variable return:		
Publicly traded shares	15%	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 Federal Government securities among others.

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

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

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

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

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

	December 31, 2017	December 31, 2016
Debt:		
Cementos Mexicanos. S.A.B. de C.V.	Ps. -	Ps. 7
Grupo Televisa, S.A.B. de C.V.	28	45
Grupo Financiero Banorte, S.A.B. de C.V.	-	7
BBVA Bancomer S.A. de C.V.	10	-
El Puerto de Liverpool, S.A.B. de C.V.	30	5
Grupo Industrial Bimbo, S.A.B. de C. V.	5	19
Gentera, S.A.B. de C.V.	-	8
Capital:		
Grupo Industrial Bimbo, S.A.B. de C.V.	-	6

During the years ended December 31, 2017, 2016 and 2015, 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. The plan assets include securities of the Company in portfolio fund in amount of Ps. 114, as of December 31, 2016. There are no restrictions placed on the trustee's ability to sell those securities. As of December 31, 2017, the plan assets did not include securities of the Company in portfolio funds.

16.4 Amounts recognized in the consolidated income statements and the consolidated statement of comprehensive income

	Income Statement				AOCI [1]
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or Curtailment	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability
December 31, **2017**					
Pension and retirement plans	Ps. 341	Ps. 10	Ps. (2)	Ps. 267	Ps. 1,060
Seniority premiums	106	-	(1)	41	46
Postretirement medical services	24	-	-	30	184
Total	Ps. 471	Ps. 10	Ps. (3)	Ps. 338	Ps. 1,290
December 31, 2016					
Pension and retirement plans	Ps. 245	Ps. 45	Ps. (61)	Ps. 224	Ps. 1,102
Seniority premiums	93	-	-	34	18
Postretirement medical services	21	-	-	24	151
Total	Ps. 359	Ps. 45	Ps. (61)	Ps. 282	Ps. 1,270
December 31, 2015					
Pension and retirement plans	Ps. 233	Ps. 3	Ps. (120)	Ps. 212	Ps. 913
Seniority premiums	88	-	(9)	32	39
Postretirement medical services	16	-	-	23	119
Post-employment Venezuela	6	-	-	9	-
Total	Ps. 343	Ps. 3	Ps. (129)	Ps. 276	Ps. 1,071

[1] Amounts accumulated in other comprehensive income as of the end of the period.

For the years ended December 31, 2017, 2016 and 2015, current service cost of Ps. 408, Ps. 359 and Ps. 343 has been included in the consolidated income statement as cost of goods sold, administrative and selling expenses.

Remeasurements of the net defined benefit liability recognized in accumulated other comprehensive income are as follows:

	December 31, 2017	December 31, 2016	December 31, 2015
Amount accumulated in other comprehensive income as of the beginning of the period, net of tax	Ps. 966	Ps. 810	Ps. 942
Actuarial losses arising from exchange rates	(2)	123	(12)
Remeasurements during the year, net of tax	295	288	(46)
Actuarial gains and (losses) arising from changes in financial assumptions	(367)	(255)	(74)
Amount accumulated in other comprehensive income as of the end of the period, net of tax	Ps. 892	Ps. 966	Ps. 810

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.

16.5 Changes in the balance of the defined benefit obligation for post-employment

		December 31, 2017		December 31, 2016		December 31, 2015
Pension and Retirement Plans:						
Initial balance	Ps.	5,702	Ps.	5,308	Ps.	5,270
Current service cost		341		245		233
Past service cost		10		45		3
Interest expense		491		369		353
Effect on curtailment		(2)		(61)		(120)
Remeasurements of the net defined benefit obligation		263		(67)		(154)
Foreign exchange loss (gain)		(79)		150		39
Benefits paid		(550)		(287)		(316)
Acquisitions		1,194		-		-
Ending balance	Ps.	7,370	Ps.	5,702	Ps.	5,308
Seniority Premiums:						
Initial balance	Ps.	663	Ps.	610	Ps.	563
Current service cost		106		93		88
Interest expense		49		41		38
Settlement		(1)		-		-
Effect on curtailment		-		-		(9)
Remeasurements of the net defined benefit obligation		28		(43)		(34)
Benefits paid		(68)		(55)		(45)
Acquisitions		6		17		9
Ending balance	Ps.	783	Ps.	663	Ps.	610
Postretirement Medical Services:						
Initial balance	Ps.	460	Ps.	404	Ps.	338
Current service cost		24		22		16
Interest expense		34		27		26
Remeasurements of the net defined benefit obligation		32		30		44
Benefits paid		(26)		(23)		(20)
Ending balance	Ps.	524	Ps.	460	Ps.	404
Post-employment:						
Initial balance			Ps.	135	Ps.	194
Current service cost				-		5
Certain liability cost				-		73
Reclasification to certain liability cost				(135)		-
Foreign exchange (gain)				-		(137)
Ending balance			Ps.	-	Ps.	135

16.6 Changes in the balance of plan assets

		December 31, 2017		December 31, 2016		December 31, 2015
Total Plan Assets:						
Initial balance	Ps.	2,378	Ps.	2,228	Ps.	2,158
Actual return on trust assets		213		40		65
Foreign exchange loss (gain)		86		4		7
Life annuities		65		107		61
Benefits paid		(136)		(1)		(63)
Acquisitions		698		-		-
Ending balance	Ps.	3,304	Ps.	2,378	Ps.	2,228

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

16.7 Variation in assumptions

The Company decided that the relevant actuarial assumptions that are subject to sensitivity and valuated through the projected unit credit method, are the discount rate, the salary increase rate and healthcare cost increase rate. The reasons for choosing these assumptions are as follows:

- Discount rate: The rate that determines the value of the obligations over time.
- Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable.
- Healthcare cost increase rate: The rate that considers the trends of health care costs which implies an impact on the postretirement medical service obligations and the cost for the year.

The following table presents the amount of defined benefit plan expense and OCI impact in absolute terms of a variation of 0.5% in the assumptions on the net defined benefit liability associated with the Company's defined benefit plans. The sensitivity of this 0.5% on the significant actuarial assumptions is based on a projected long-term discount rates for Mexico and a yield curve projections of long-term sovereign bonds:

+0.5%:	Income Statement								OCI [1]	
Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability		Current Service Cost		Past Service Cost		Gain or Loss on Settlement or Curtailment		Effect of Net Interest on the Net Defined Benefit Liability (Asset)		Remeasurements of the Net Defined Benefit Liability (Asset)
Pension and retirement plans	Ps.	322	Ps.	9	Ps.	(2)	Ps.	264	Ps.	1,289
Seniority premiums		102		-		(1)		41		44
Postretirement medical services		23		-		-		33		178
Post-employment		-		-		-		-		-
Total	Ps.	447	Ps.	9	Ps.	(3)	Ps.	338	Ps.	1,511
Expected salary increase										
Pension and retirement plans	Ps.	355	Ps.	10	Ps.	(2)	Ps.	286	Ps.	1,496
Seniority premiums		112		-		(1)		43		42
Postretirement medical services		-		-		-		-		-
Post-employment		-		-		-		-		-
Total	Ps.	467	Ps.	10	Ps.	(3)	Ps.	329	Ps.	1,538
Assumed rate of increase in healthcare costs										
Postretirement medical services	Ps.	26	Ps.	-	Ps.	-	Ps.	33	Ps.	265

(1) Amounts accumulated in other comprehensive income as of the end of the period.

-0.5%:			Income Statement		OCI [1]
Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or Curtailment	Effect of Net Interest on the Net Defined Benefit Liability (Asset)	Remeasurements of the Net Defined Benefit Liability (Asset)
Pension and retirement plans	Ps. 355	Ps. 10	Ps. (2)	Ps. 268	Ps. 1,506
Seniority premiums	111	-	(1)	40	46
Postretirement medical services	26	-	-	31	267
Post-employment	-	-	-	-	-
Total	Ps. 492	Ps. 10	Ps. (3)	Ps. 339	Ps. 1,819
Expected salary increase					
Pension and retirement plans	Ps. 323	Ps. 9	Ps. (2)	Ps. 253	Ps. 1,291
Seniority premiums	100	-	(1)	38	56
Postretirement medical services	-	-	-	-	-
Post-employment	-	-	-	-	-
Total	Ps. 423	Ps. 9	Ps. (3)	Ps. 291	Ps. 1,347
Assumed rate of increase in healthcare costs					
Postretirement medical services	Ps. 23	Ps. -	Ps. -	Ps. 28	Ps. 179

[1] Amounts accumulated in other comprehensive income as of the end of the period.

16.8 Employee benefits expense

For the years ended December 31, 2017, 2016 and 2015, employee benefits expenses recognized in the consolidated income statements as cost of goods sold, administrative and selling expenses are as follows:

	2017	2016	2015
Wages and salaries	Ps. 53,056	Ps. 39,459	Ps. 39,459
Social security costs	9,860	6,114	6,114
Employee profit sharing	1,209	1,506	1,243
Post employment benefits	815	625	493
Share-based payments	351	468	463
Termination benefits	455	503	503
	Ps. 65,746	Ps. 48,675	Ps. 48,275

Note 17. Bonus Programs

17.1 Quantitative and qualitative objectives

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

The quantitative objectives represent approximately 50% of the bonus, and are based on the Economic Value Added ("EVA") methodology. The objective established for the executives at each entity is based on a combination of the EVA generated per entity and the EVA generated by the Company, calculated at approximately 70% and 30%, respectively. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

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

17.2 Share-based payment bonus plan

The Company has implemented a stock incentive plan for the benefit of its senior executives. As discussed above, this plan uses as its main evaluation metric the EVA. Under the EVA stock incentive plan, eligible employees are entitled to receive a special annual bonus (fixed amount), to be paid in shares of FEMSA or Coca-Cola FEMSA, as applicable or stock options (the plan considers providing stock options to employees; however, since inception only shares of FEMSA or Coca-Cola FEMSA have been granted).

The plan is managed by FEMSA's chief executive officer (CEO), with the support of the board of directors, together with the CEO of the respective sub-holding company. FEMSA's Board of Directors is responsible for approving the plan's structure, and the annual amount of the bonus. Each year, FEMSA's CEO in conjunction with the Evaluation and Compensation Committee of the board of directors and the CEO of the respective sub-holding company determine the employees eligible to participate in the plan and the bonus formula to determine the number of shares to be received. Until 2015 the shares were vested ratably over a six year period, beginning with January 1, 2016 onwards they were ratably vest over a four year period, with retrospective effects, on existing grants recognized in 2016. FEMSA accounts for its share-based payment bonus plan as an equity-settled share based payment transaction as it will ultimately settle its obligations with its employees by issuing its own shares or those of its subsidiary Coca-Cola FEMSA.

The Company contributes the individual employee's special bonus (after taxes) in cash to the Administrative Trust (which is controlled and consolidated by FEMSA), who then uses the funds to purchase FEMSA or Coca-Cola FEMSA shares (as instructed by the Administrative Trust's Technical Committee), which are then allocated to such employee. The Administrative Trust tracks the individual employees' account balance. FEMSA created the Administrative Trust with the objective of conducting the purchase of FEMSA and Coca-Cola FEMSA shares by each of its subsidiaries with eligible executives participating in the stock incentive plan. The Administrative Trust's objectives are to acquire FEMSA shares, or shares of Coca-Cola FEMSA and to manage the shares granted to the individual employees based on instructions set forth by the Technical Committee. Once the shares are acquired following the Technical Committee's instructions, the Administrative Trust assigns to each participant their respective rights. As the trust is controlled and therefore consolidated by FEMSA, shares purchased in the market and held within the Administrative Trust are presented as treasury stock (as it relates to FEMSA's shares) or as a reduction of the noncontrolling interest (as it relates to Coca-Cola FEMSA's shares) in the consolidated statement of changes in equity, on the line issuance (purchase) of shares associated with share-based payment plans. Should an employee leave prior to their shares vesting, they would lose the rights to such shares, which would then remain within the Administrative Trust and be able to be reallocated to other eligible employees as determined by the Company. The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. For the years ended December 31, 2017, 2016 and 2015, the compensation expense recorded in the consolidated income statement amounted to Ps. 351, Ps. 468 and Ps. 463, respectively.

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

As of December 31, 2017 and 2016, the number of shares held by the trust associated with the Company's share based payment plans is as follows:

	Number of Shares			
	FEMSA UBD		KOFL	
	2017	2016	2017	2016
Beginning balance	3,625,171	4,246,792	1,068,327	1,160,311
Shares acquired by the administrative trust to employees	1,311,599	2,375,196	344,770	695,487
Shares released from administrative trust to employees upon vesting	(1,991,561)	(2,996,817)	(477,198)	(787,471)
Forfeitures	-	-	-	-
Ending balance	2,945,209	3,625,171	935,899	1,068,327

The fair value of the shares held by the trust as of the end of December 31, 2017 and 2016 was Ps. 673 and Ps. 712, respectively, based on quoted market prices of those dates.

Note 18. Bank Loans and Notes Payables

(in millions of Mexican pesos)	At December 31, [1] 2018	2019	2020	2021	2022	2023 and Thereafter	Carrying Value at December 31, 2017	Fair Value at December 31, 2017	Carrying Value at December 31, 2016 [1]
Short-term debt:									
Fixed rate debt:									
Argentine pesos									
Bank loans	Ps. 106	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 106	Ps. 107	Ps. 644
Interest rate	22.4%	-	-	-	-	-	22.4%	-	32.0%
Chilean pesos									
Bank loans	770	-	-	-	-	-	770	770	338
Interest rate	3.1%	-	-	-	-	-	3.1%	-	4.3%
U.S. dollars									
Bank loans	-	-	-	-	-	-	-	-	206
Interest rate	-	-	-	-	-	-	-	-	3.4%
Variable rate debt:									
Colombian pesos									
Bank loans	1,951	-	-	-	-	-	1,951	1,949	723
Interest rate	7.3%	-	-	-	-	-	7.3%	-	9.1%
Chilean pesos									
Bank loans	3	-	-	-	-	-	3	3	1
Interest rate	6.1%	-	-	-	-	-	6.1%	-	10.0%
Total short-term debt	Ps. 2,830	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 2,830	Ps. 2,829	Ps. 1,912
Long-term debt:									
Fixed rate debt:									
Euro									
Senior unsecured notes	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 23,449	Ps. 23,449	Ps. 24,697	Ps. 21,627
Interest rate	-	-	-	-	-	1.8%	1.8%	-	1.8%
U.S. dollars									
Yankee bond	8,774	-	9,844	-	-	29,425	48,043	51,938	61,703
Interest rate	2.4%	-	4.6%	-	-	4.4%	4.1%	-	3.8%
Bank of NY (FEMSA USD 2023)	-	-	-	-	-	5,852	5,852	5,870	6,117
Interest rate [1]	-	-	-	-	-	2.9%	2.9%	-	2.9%
Bank of NY (FEMSA USD 2043)	-	-	-	-	-	13,510	13,510	14,539	14,128
Interest rate [1]	-	-	-	-	-	4.4%	4.4%	-	4.4%
Finance leases	6	5	2	-	-	-	13	13	20
Interest rate [1]	4.0%	3.8%	3.5%	-	-	-	3.8%	-	3.9%
Mexican pesos									
Units of investment (UDIs)	-	-	-	-	-	-	-	-	3,245
Interest rate	-	-	-	-	-	-	-	-	4.2%
Domestic senior notes	-	-	-	2,498	-	15,981	18,479	17,035	9,991
Interest rate	-	-	-	8.3%	-	6.7%	6.9%	-	6.2%
Brazilian reais									
Bank loans	391	247	152	92	78	73	1,033	1,055	742
Interest rate	5.7%	5.8%	5.8%	5.8%	5.8%	5.8%	5.7%	-	5.3%
Notes payable [2]	-	6,707	-	-	-	-	6,707	6,430	7,022
Interest rate	-	0.4%	-	-	-	-	0.4%	-	0.4%
Chilean pesos									
Bank loans	40	-	-	-	-	-	40	40	164
Interest rate	7.9%	-	-	-	-	-	7.9%	-	7.0%
Finance leases	27	28	26	17	-	-	98	98	114
Interest rate	3.8%	3.7%	3.4%	3.2%	-	-	3.5%	-	3.4%
Colombian pesos									
Bank loans	728	-	-	-	-	-	728	741	758
Interest rate	9.6%	-	-	-	-	-	9.6%	-	9.6%
Finance leases	6	6	5	-	-	-	17	17	-
Interest rate	4.0%	4.0%	4.0%	-	-	-	4.2%	-	-
Subtotal	Ps. 9,972	Ps. 6,993	Ps. 10,029	Ps. 2,607	Ps. 78	Ps. 88,290	Ps. 117,969	Ps.122,473	Ps.125,631

[1] All interest rates shown in this table are weighted average contractual annual rates.

(in millions of Mexican pesos)	At December 31, (1) 2018	2019	2020	2021	2022	2023 and Thereafter	Carrying Value at December 31, 2017	Fair Value at December 31, 2017	Carrying Value at December 31, 2016 (1)
Variable rate debt:									
U.S. dollars									
Bank loans	Ps. -	Ps. -	Ps. -	Ps. 4,032	Ps. -	Ps. -	Ps. 4,032	Ps. 4,313	Ps. 4,218
Interest rate (1)	-	-	-	2.1%	-	-	2.1%	-	1.6%
Mexican pesos									
Domestic senior notes	-	-	-	-	1,496	-	1,496	1,500	-
Interest rate (1)	-	-	-	-	7.7%	-	7.7%	-	-
Argentine pesos									
Bank loans	-	-	-	-	-	-	-	-	40
Interest rate	-	-	-	-	-	-	-	-	27.8%
Brazilian reais									
Bank loans	284	284	229	66	7	-	870	883	1,864
Interest rate	8.5%	8.5%	8.5%	8.5%	8.5%	-	8.5%	-	5.5%
Notes payable	10	5	-	-	-	-	15	14	26
Interest rate	0.4%	0.4%	-	-	-	-	0.4%	-	0.4%
Colombian pesos									
Bank loans	-	-	-	-	-	-	-	-	1,206
Interest rate	-	-	-	-	-	-	-	-	9.6%
Chilean pesos									
Bank loans	494	664	1,110	732	751	385	4,136	4,135	4,351
Interest rate	4.3%	4.2%	4.1%	4.0%	4.1%	3.9%	4.1%	-	3.7%
Subtotal	Ps. 788	Ps. 953	Ps. 1,339	Ps. 4,830	Ps. 2,254	Ps. 385	Ps. 10,549	Ps. 10,845	Ps. 11,705
Total long-term debt	Ps.10,760	Ps. 7,946	Ps. 11,368	Ps. 7,437	Ps. 2,332	Ps. 88,675	Ps. 128,518	Ps. 133,318	Ps.137,336
Current portion of long term debt							(10,760)		(5,369)
							Ps. 117,758		Ps.131,967

(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.

Hedging Derivative Financial Instruments [1]	2018	2019	2020	2021	2022	2023 and Thereafter	Total 2017	Total 2016
	(notional amounts in millions of Mexican pesos)							
Cross currency swaps:								
Units of investments to Mexican pesos and variable rate:								
Fixed to variable	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. 2,500
Interest pay rate	-	-	-	-	-	-	-	5.9%
Interest receive rate	-	-	-	-	-	-	-	4.2%
U.S. dollars to Mexican pesos								
Fixed to variable [2]	-	-	-	-	-	11,403	11,403	11,403
Interest pay rate	-	-	-	-	-	8.9%	8.9%	7.4%
Interest receive rate	-	-	-	-	-	4.0%	4.0%	4.0%
Fixed to fixed	-	-	9,868	-	-	9,951	19,818	19,451
Interest pay rate	-	-	9.0%	-	-	9.1%	9.1%	8.8%
Interest receive rate	-	-	3.9%	-	-	4.0%	3.9%	4.1%
U.S. dollars to Brazilian reais								
Fixed to variable	8,782	6,263	4,571	-	-	-	19,617	21,210
Interest pay rate	6.3%	5.2%	6.6%	-	-	-	6.0%	11.9%
Interest receive rate	2.7%	0.4%	2.9%	-	-	-	2.0%	1.9%
Variable to variable	15,571	-	-	4,046	-	-	19,617	22,834
Interest pay rate	6.7%	-	-	6.1%	-	-	6.6	12.4%
Interest receive rate	2.6%	-	-	1.9%	-	-	2.5	2.0%
Chilean pesos								
Variable to fixed	-	-	620	-	-	-	620	827
Interest pay rate	-	-	6.9%	-	-	-	6.9%	6.9%
Interest receive rate	-	-	3.9%	-	-	-	3.9%	6.2%
Interest rate swap:								
Mexican pesos								
Variable to fixed rate:	-	65	-	650	875	1,925	3,515	3,591
Interest pay rate	-	6.5%	-	7.6%	6.6%	5.8%	5.8%	6.4%
Interest receive rate	-	3.7%	-	3.8%	4.5%	4.5%	4.5%	5.1%
Variable to fixed rate:								
Interest pay rate	-	-	-	-	-	-	-	5.9%
Interest receive rate	-	-	-	-	-	-	-	6.0%
Variable to fixed rate [2]:								
Interest pay rate	-	-	-	-	-	-	7.2%	7.2%
Interest receive rate	-	-	-	-	-	-	8.9%	7.4%

[1] All interest rates shown in this table are weighted average contractual annual rates.

[2] Interest rate swaps with a notional amount of Ps. 11,403 that receive a variable rate of 8.9% and pay a fixed rate of 7.2%; joined with a cross currency swap, which covers U.S. dollars to Mexican pesos, that receives a fixed rate of 4.0% and pay a variable rate of 8.9%.

For the years ended December 31, 2017, 2016 and 2015, the interest expense is comprised as follows:

	2017	2016	2015
Interest on debts and borrowings	Ps. 6,409	Ps. 5,694	Ps. 4,586
Capitalized interest	(10)	(32)	(60)
Finance charges for employee benefits	317	282	276
Derivative instruments	4,339	3,519	2,894
Finance operating charges	69	183	79
Finance charges payable under finance leases	-	-	2
	Ps. 11,124	Ps. 9,646	Ps. 7,777

In March 14, 2016, the Company issued long-term debt on the Irish Stock Exchange (ISE) in the amount of €1,000, which was made up of senior notes with a maturity of 7 years, a fixed interest rate of 1.75% and a spread of 155 basis points over the relevant benchmark mid-swap, for a total yield of 1.824%. The Company has designated this non-derivative financial liability as a hedge on the net investment in Heineken. For the year ended December 31, 2017, a foreign exchange loss, net of tax, has been recognized as part of the exchange differences on translation of foreign operations within the cumulative other comprehensive income of Ps. 1,259.

In August 18, 2017, Coca-Cola FEMSA partially prepaid U.S. $555 of a dollar denominated bond due in 2018, reducing the outstanding senior note to U.S. $445 with interest at a fixed rate of 2.38%.

Coca-Cola FEMSA has the following bonds: a) registered with the Mexican stock exchange: i) Ps. 2,500 (nominal amount) with a maturity date in 2021 and fixed interest rate of 8.27% and ii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46% Ps. 1,500 (nominal amount) with a maturity date 2022 and floating interest rate of TIIE + 0.25% iv) Ps. 8,500 (nominal amount) with a maturity date 2027 and fixed interest rate of 7.87%; and b) registered with the SEC: i) Senior notes of U.S. $500 with interest at a fixed rate of 4.63% and maturity date on February 15, 2020, ii) Senior notes of U.S. $445 with interest at a fixed rate of 2.38% and maturity date on November 26, 2018, iii) Senior notes of U.S. $900 with interest at a fixed rate of 3.88% and maturity date on November 26, 2023 and iv) Senior notes of U.S. $600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043 all of which are guaranteed by Coca-Cola FEMSA subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R.L. de C.V. ("Guarantors").

The Company has financing from different institutions under agreements that stipulate different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

18.1 Reconciliation of liabilities arising from financing activities

			Non-Cash Flows			
	Carrying Value at December 31, 2016	Cash Flows	Acquisition	Foreign Exchange Movement	Others	Carrying Value at December 31, 2017
Bank loans	Ps. 14,497	Ps. (949)	Ps. -	Ps. 190	Ps. (69)	Ps. 13,669
Notes payable	123,859	(3,574)	-	4,954	(7,688)	117,551
Lease liabilities	892	(8)	-	-	(756)	128
Total liabilities from financing activities	Ps. 139,248	Ps. (4,531)	Ps. -	Ps. 5,144	Ps. (8,513)	Ps. 131,348

			Non-Cash Flows			
	Carrying Value at December 31, 2015	Cash Flows	Acquisition	Foreign Exchange Movement	Others	Carrying Value at December 31, 2016
Bank loans	Ps. 7,357	Ps. (2,597)	Ps. 377	Ps. (50)	Ps. 9,410	Ps. 14,497
Notes payable	83,945	24,234	-	15,790	(110)	123,859
Lease liabilities	562	(466)	9	-	786	892
Total liabilities from financing activities	Ps. 91,864	Ps. 21,171	Ps. 386	Ps. 15,740	Ps. 10,086	Ps. 139,248

Note 19. Other Income and Expenses

	2017	2016	2015
Gain on sale of shares (see Note 4.2)	Ps. 123	Ps. -	Ps. 14
Gain on sale of Heineken shares	29,989	-	-
Gain on sale of long-lived assets	209	170	249
Sale of waste material	3	50	41
Write off-contingencies (see Note 25.5)	-	329	-
Recoveries from previous years	(35)	466	16
Insurance rebates	6	10	17
Foreign exchange gain	(4)	-	-
Consolidation of Philippines	2,830	-	-
Others	1,620	132	86
Other income	Ps. 34,741	Ps. 1,157	Ps. 423
Contingencies associated with prior acquisitions or disposals	Ps. 39	Ps. 1,582	Ps. 93
Loss on sale of equity financial assets	-	8	-
Loss on sale of other assets	148	159	-
Impairment of long-lived assets [2]	2,063	-	134
Disposal of long-lived assets [1]	451	238	416
Suppliers provisions	398	-	-
Foreign exchange losses related to operating activities	2,524	2,370	917
Non-income taxes from Colombia	636	53	30
Severance payments	363	98	285
Donations	242	203	362
Legal fees and other expenses from past acquisitions	612	241	223
Venezuela impact	26,123	-	-
Other	359	957	281
Other expenses	Ps. 33,958	Ps. 5,909	Ps. 2,741

(1) Charges related to fixed assets retirement from ordinary operations and other long-lived assets.

(2) Includes Venezuela impairment of Ps. 2,053 (see Note 3.3).

Note 20. Financial Instruments

Fair Value of Financial Instruments

The Company's financial assets and liabilities that are measured at fair value are based on level 2 applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes the Company's financial assets and liabilities measured at fair value, as of December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Level 1	Level 2	Level 1	Level 2
Derivative financial instrument (current asset)	22	211	374	1,543
Derivative financial instrument (non-current asset)	-	10,137	-	14,729
Derivative financial instrument (current liability)	26	3,921	-	264
Derivative financial instrument (non-current liability)	-	1,769	-	6,403

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, 2017 and 2016, which is considered to be level 1 in the fair value hierarchy.

	2017	2016
Carrying value	Ps. 131,348	Ps. 139,248
Fair value	136,147	140,284

20.2 Interest rate swaps

The Company uses interest rate swaps to offset the interest rate risk associated with its borrowings, pursuant to which it pays amounts based on a fixed rate and receives amounts based on a floating rate. These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value. The fair value is estimated using formal technical models. The valuation method involves discounting to present value the expected cash flows of interest, calculated from the rate curve of the cash flow currency, and expresses the net result in the reporting currency. Changes in fair value are recorded in cumulative other comprehensive income, net of taxes until such time as the hedged amount is recorded in the consolidated income statements.

At December 31, 2017, the Company has the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2017	Fair Value Asset December 31, 2017
2019	4,089	(35)	-
2020	3,669	(17)	-
2021	3,709	(103)	-
2022	875	(34)	-
2023	13,328	(77)	984

At December 31, 2016, the Company has the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2016	Fair Value Asset December 31, 2016
2017	Ps. 1,250	Ps. -	Ps. 10
2019	77	(4)	-
2021	727	(87)	-
2022	929	(35)	-
2023	13,261	(73)	1,028

The net effect of expired contracts treated as hedges are recognized as interest expense within the consolidated income statements.

20.3 Forward agreements to purchase foreign currency

The Company has entered into forward agreements to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies. Foreign exchange forward contracts measured at fair value are designated hedging instruments in cash flow hedges of forecast inflows in Euros and forecast purchases of raw materials in U.S. dollars. These forecast transactions are highly probable.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. The price agreed in the instrument is compared to the current price of the market forward currency and is discounted to present value of the rate curve of the relevant currency. Changes in the fair value of these forwards are recorded as part of cumulative other comprehensive income, net of taxes. Net gain/loss on expired contracts is recognized as part of cost of goods sold when the raw material is included in sale transaction, and as a part of foreign exchange when the inflow in Euros are received.

At December 31, 2017, the Company had the following outstanding forward agreements to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2017	Fair Value Asset December 31, 2017
2018	Ps. 7,739	Ps. (20)	Ps. 172

At December 31, 2016, the Company had the following outstanding forward agreements to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2016	Fair Value Asset December 31, 2016
2017	Ps. 8,265	Ps. (247)	Ps. 364

20.4 Options to purchase foreign currency

The Company has executed call option and collar strategies to reduce its exposure to the risk of exchange rate fluctuations. A call option is an instrument that limits the loss in case of foreign currency depreciation. A collar is a strategy that combines call and put options, limiting the exposure to the risk of exchange rate fluctuations in a similar way as a forward agreement.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these options, corresponding to the intrinsic value, are initially recorded as part of "cumulative other comprehensive income". Changes in the fair value, corresponding to the extrinsic value, are recorded in the consolidated income statements under the caption "market value gain/ (loss) on financial instruments," as part of the consolidated net income. Net gain/ (loss) on expired contracts including the net premium paid, is recognized as part of cost of goods sold when the hedged item is recorded in the consolidated income statements.

At December 31, 2017, the Company paid a net premium of Ps. 7 millions for the following outstanding collar options to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2017	Fair Value Asset December 31, 2017
2018	Ps. 266	Ps. (5)	Ps. 17

20.5 Cross-currency swaps

The Company has contracted for a number of cross-currency swaps to reduce its exposure to risks of exchange rate and interest rate fluctuations associated with its borrowings denominated in U.S. dollars and other foreign currencies. Cross-Currency swaps contracts are designated as hedging instruments through which the Company changes the debt profile to its functional currency to reduce exchange exposure.

These instruments are recognized in the consolidated statement of financial position at their estimated fair value which is estimated using formal technical models. The valuation method involves discounting to present value the expected cash flows of interest, calculated from the rate curve of the cash foreign currency, and expresses the net result in the reporting currency. These contracts are designated as financial instruments at fair value through profit or loss. The fair values changes related to those cross currency swaps are recorded under the caption "market value gain (loss) on financial instruments," net of changes related to the long-term liability, within the consolidated income statements.

The Company has cross-currency contracts designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value. Changes in fair value are recorded in cumulative other comprehensive income, net of taxes until such time as the hedge amount is recorded in the consolidated income statement.

At December 31, 2017, the Company had the following outstanding cross currency swap agreements:

Maturity Date	Notional Amount	Fair Value Liability 2017	Fair Value Asset December 31, 2017
2018	24,760	(3,878)	-
2019	6,263	(205)	-
2020	18,428	(927)	567
2021	4,853	(12)	24
2023	14,446	-	8,336
2026	888	(192)	-
2027	6,907	-	51

At December 31, 2016, the Company had the following outstanding cross currency swap agreements:

Maturity Date	Notional Amount	Fair Value Liability 2016	Fair Value Asset December 31, 2016
2017	Ps. 2,707	Ps. (10)	Ps. 1,165
2018	39,262	(4,837)	3,688
2019	7,022	(265)	-
2020	19,474	(842)	798
2021	5,076	(128)	28
2023	12,670	-	9,057
2026	925	(131)	-
2027	5,476	-	125

20.6 Commodity price contracts

The Company has entered into various commodity price contracts to reduce its exposure to the risk of fluctuation in the costs of certain raw material. The fair value is estimated based on the market valuations to terminate the contracts at the end of the period. These instruments are designated as Cash Flow Hedges and the changes in the fair value are recorded as part of "cumulative other comprehensive income."

The fair value of expired commodity price contract was recorded in cost of goods sold where the hedged item was recorded also in cost of goods sold.

At December 31, 2017, Coca-Cola FEMSA had the following sugar price contracts:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2017
2018	Ps. 992	Ps. (7)
2019	Ps. 150	Ps. 3

At December 31, 2016, Coca-Cola FEMSA had the following sugar price contracts:

Maturity Date	Notional Amount	Fair Value Asset December 31, 2016
2017	Ps. 572	Ps. 370

At December 31, 2016, Coca-Cola FEMSA had the following aluminum price contracts:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2016
2017	Ps. 74	Ps. 5

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 Coca-Cola FEMSA's acquisition of Vonpar, Spal issued and delivered a three-year promissory note to the sellers, for a total amount of 1,090 million Brazilian reais (approximately Ps. 6,503 and Ps. 7,022 million as of December 31, 2017 and 2016, respectively). 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 Coca-Cola FEMSA 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 Coca-Cola FEMSA having a sufficient number of Series L shares available for issuance.

Coca-Cola FEMSA uses Black & Scholes valuation technique to measure the call option at fair value. The call option had an estimated fair value of Ps. 343 million at inception of the option and Ps. 242 million and 368 million as of December 31, 2017 and 2016, respectively. The option is recorded as part of the Promissory Note disclosed in Note 18.

Coca-Cola FEMSA estimates that the call option is "out of the money" as of December 31, 2017 and 2016 by approximately 30.4% and 35.9% or U.S. $82 million and U.S. $93 million with respect to the strike price.

20.8 Net effects of expired contracts that met hedging criteria

Type of Derivatives	Impact in Consolidated Income Statement		2017		2016		2015
Cross currency swap [1]	Interest expense	Ps.	2,102	Ps.	-	Ps.	2,595
Cross currency swap [1]	Foreign exchange		-		-		(10,911)
Forward agreements to purchase foreign currency	Foreign exchange		(40)		160		(180)
Commodity price contracts	Cost of goods sold		(6)		(241)		619
Options to purchase foreign currency	Cost of goods sold		-		-		(21)
Forward agreements to purchase foreign currency	Cost of goods sold		89		(45)		(523)

[1] This amount corresponds to the settlement of cross currency swaps portfolio in Brazil presented as part of the other financial activities.

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

Type of Derivatives	Impact in Consolidated Income Statement		2017		2016		2015
Cross currency swaps	gain (loss) on	Ps.	-	Ps.	-	Ps.	(20)
Others	financial instruments		-		-		56

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		2017		2016		2015
Cross-currency swaps	Market value gain on financial instruments	Ps.	(438)	Ps.	-	Ps.	204

20.11 Market risk

Market risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market prices. Market prices include currency risk and commodity price risk.

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

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

The Company tracks the fair value (mark to market) of its derivative financial instruments and its possible changes using scenario analyses.

The following disclosures provide a sensitivity analysis of the market risks management considered to be reasonably possible at the end of the reporting period based on a stress test of the exchange rates according to an annualized volatility estimated with historic prices obtained for the underlying asset over a period of time, in the cases of derivative financial instruments related to foreign currency risk, which the Company is exposed to as it relates to in its existing hedging strategy:

Foreign Currency Risk	Change in Exchange Rate		Effect on Equity
2017			
FEMSA [1]	+13% MXN/EUR	Ps.	(141)
	+8% CLP/USD		2
	-13% MXN/EUR		141
	-8% CLP/USD		(2)
Coca-Cola FEMSA	+12% MXN/USD		626
	+9% COP/USD		73
	+14% BRL/USD		234
	+10% ARS/USD		29
	-12% MXN/USD		(625)
	-9% COP/USD		(73)
	-14% BRL/USD		(234)
	-10% ARS/USD		(29)
2016			
FEMSA [1]	-17% MXN/EUR	Ps.	293
	+17% MXN/EUR		(293)
	+11% CLP/USD		12
	-11% CLP/USD		(12)
Coca-Cola FEMSA	-18% BRL/USD		(203)
	+18% BRL/USD		203
	-17% MXN/USD		(916)
	+17% MXN/USD		916
	-18% COP/USD		(255)
	+18% COP/USD		255
2015			
FEMSA [1]	-14% MXN/EUR	Ps.	319
	+14% MXN/EUR		(319)
	+10% CLP/USD		9
	-10% CLP/USD		(9)
	-11% MXN/USD		197
Coca-Cola FEMSA	+11% MXN/USD		(197)
	+21% BRL/USD		(387)
	+17% COP/USD		(113)
	-36% ARS/USD		231
	+36% ARS/USD		(231)
	-21% BRL/USD		387
	-17% COP/USD		113
	+17% COP/USD		(113)

[1] Does not include Coca-Cola FEMSA.

Cross Currency Swaps [1] [2]	Change in Exchange Rate	Effect on Equity	Effect on Profit or Loss
2017			
FEMSA [3]	+8% CLP/USD	Ps. -	Ps. 373
	-8% CLP/USD	-	(373)
	+12% MXN/USD	-	3,651
	-12% MXN/USD	-	(3,651)
	+9% COP/USD	-	304
	-9% COP/USD	-	(304)
	+14% MXN/BRL	-	23
	-14% MXN/BRL	-	(23)
Coca-Cola FEMSA	+12% MXN/USD	3,540	-
	+14% BRL/USD	7,483	-
	-12% MXN/USD	(3,540)	-
	-14% BRL/USD	(7,483)	-
2016			
	-11% CLP/USD	Ps. -	Ps. (549)
	+11% CLP/USD	-	549
	-17% MXN/USD	-	(3,836)
FEMSA [3]	+17% MXN/USD	-	3,836
	-18% COP/USD	-	(448)
	+18% COP/USD	-	448
Coca-Cola FEMSA	+17% MXN/USD	3,687	1,790
	+18% BRL/USD	9,559	-
	-17% MXN/USD	(3,687)	(1,790)
	-18% BRL/USD	(9,559)	-
2015			
FEMSA [3]	-11% MXN/USD	Ps. -	Ps. (2,043)
	+11% MXN/USD	-	2,043
Coca-Cola FEMSA	-11% MXN/USD	-	(938)
	+11% MXN/USD	-	938
	-21% BRL/USD	(4,517)	(1,086)
	+21% BRL/USD	4,517	1,086

(1) The sensitivity analysis effects include all subsidiaries of the Company.

(2) Includes the sensitivity analysis effects of all derivative financial instruments related to foreign exchange risk.

(3) Does not include Coca-Cola FEMSA.

Net Cash in Foreign Currency [1]	Change in Exchange Rate		Effect on Profit or Loss
2017			
FEMSA [2]	+13% EUR/ +12% USD	Ps.	8,077
	-13% EUR/ -12% USD		(8,077)
Coca-Cola FEMSA	+12% USD		(553)
	-12% USD		553
2016			
FEMSA [2]	+17% EUR/ +17% USD	Ps.	3,176
	-17% EUR/ -17% USD		(3,176)
Coca-Cola FEMSA	+17% USD		(105)
	-17% USD		105
2015			
FEMSA [2]	+14% EUR/ +11%USD	Ps.	504
	-14% EUR/ -11%USD		(504)
Coca-Cola FEMSA	+11%USD		(1,112)
	-11%USD		1,112

[1] The sensitivity analysis effects include all subsidiaries of the Company.

[2] Does not include Coca-Cola FEMSA.

Commodity Price Contracts [1]	Change in U.S.$ Rate		Effect on Equity
2017			
Coca-Cola FEMSA	Sugar - 30%	Ps.	(32)
2016			
Coca-Cola FEMSA	Sugar - 33%	Ps.	(310)
	Aluminum - 16%		(13)
2015			
Coca-Cola FEMSA	Sugar - 31%	Ps.	(406)
	Aluminum - 18%		(58)

[1] Effects on commodity price contracts are only in Coca-Cola FEMSA.

20.12 Interest rate risk

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

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

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

Interest Rate Swap [1]	Change in Bps.		Effect on Equity
2017			
FEMSA [2]	(100 Bps.)	Ps.	(452)
Coca-Cola FEMSA	(100 Bps.)		(234)
2016			
FEMSA [2]	(100 Bps.)	Ps.	(550)
2015			
FEMSA [2]	(100 Bps.)	Ps.	(542)

[1] The sensitivity analysis effects include all subsidiaries of the Company.

[2] Does not include Coca-Cola FEMSA.

Interest Effect of Unhedged Portion Bank Loans		2017		2016		2015
Change in interest rate		+100 Bps.		+100 Bps.		+100 Bps.
Effect on profit loss	Ps.	(251)	Ps.	(354)	Ps.	(192)

20.13 Liquidity risk

Each of the Company's sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2017 and 2016, 64.3% and 64.5%, respectively of the Company's outstanding consolidated total indebtedness was at the level of its sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA. Currently, the Company's management expects to continue financing its operations and capital requirements when it is considering domestic funding at the level of its sub-holding companies, otherwise; it is generally more convenient that its foreign operations would be financed directly through the Company because of better market conditions obtained by itself. Nonetheless, sub-holdings companies may decide to incur indebtedness in the future to finance their own operations and capital requirements of the Company's subsidiaries or significant acquisitions, investments or capital expenditures. As a holding company, the Company depends on dividends and other distributions from its subsidiaries to service the Company's indebtedness.

The Company's principal source of liquidity has generally been cash generated from its operations. The Company has traditionally been able to rely on cash generated from operations because a significant majority of the sales of Coca-Cola FEMSA and FEMSA Comercio are on a cash or short-term credit basis, and FEMSA Comercio's OXXO stores are able to finance a significant portion of their initial and ongoing inventories with supplier credit. The Company's principal use of cash has generally been for capital expenditure programs, acquisitions, debt repayment and dividend payments.

Ultimate responsibility for liquidity risk management rests with the Company's board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity requirements. The Company manages liquidity risk by maintaining adequate cash reserves and continuously monitoring forecast and actual cash flows, and with a low concentration of maturities per year.

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

As part of the Company's financing policy, management expects to continue financing its liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which the Company operates, it may not be beneficial or, as in the case of exchange controls in Venezuela, practicable to remit cash generated in local operations to fund cash requirements in other countries. Exchange controls like those in Venezuela may also increase the real price of remitting cash from operations to fund debt requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, management may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In addition, the Company's liquidity in Venezuela could be affected by changes in the rules applicable to exchange rates as well as other regulations, such as exchange controls. In the future the Company management may finance its working capital and capital expenditure needs with short-term or other borrowings.

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

The Company's sub-holding companies generally incur short-term indebtedness in the event that they are temporarily unable to finance operations or meet any capital requirements with cash from operations. A significant decline in the business of any of the Company's sub-holding companies may affect the sub-holding company's ability to fund its capital requirements. A significant and prolonged deterioration in the economies in which we operate or in the Company's businesses may affect the Company's ability to obtain short-term and long-term credit or to refinance existing indebtedness on terms satisfactory to the Company's management.

The Company presents the maturity dates associated with its long-term financial liabilities as of December 31, 2017, see Note 18. The Company generally makes payments associated with its long-term financial liabilities with cash generated from its operations.

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected net cash outflows from derivative financial liabilities that are in place as of December 31, 2017. 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, 2017.

	2018	2019	2020	2021	2022	2023 and thereafter
Non-derivative financial liabilities:						
Notes and bonds	Ps. 9,961	Ps. 7,828	Ps. 10,939	Ps. 3,574	Ps. 2,532	Ps. 97,602
Loans from banks	4,915	1,239	1,480	4,917	766	414
Obligations under finance leases	49	39	33	16	-	-
Derivative financial liabilities	(3,452)	26	654	190	236	(4,831)

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

20.14 Credit risk

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

The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in cash. The Company's maximum exposure to credit risk for the components of the statement of financial position at December 31, 2017 and 2016 is the carrying amounts (see Note 7).

The Company manages the credit risk related to its derivative portfolio by only entering into transactions with reputable and credit-worthy counterparties as well as by maintaining in some cases a Credit Support Annex (CSA) that establishes margin requirements, which could change upon changes to the credit ratings given to the Company by independent rating agencies. As of December 31, 2017, the Company concluded that the maximum exposure to credit risk related with derivative financial instruments is not significant given the high credit rating of its counterparties.

Note 21. Non-Controlling Interest in Consolidated Subsidiaries

An analysis of FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
Coca-Cola FEMSA	Ps. 82,366	Ps. 70,293
Other	4,255	3,973
	Ps. 86,621	Ps. 74,266

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

	2017	2016	2015
Balance at beginning of the year	Ps. 74,266	Ps. 60,332	Ps. 59,649
Net income of non controlling interest	(5,202)	6,035	5,593
Other comprehensive income (loss):	7,240	9,463	(2,999)
Exchange differences on translation of foreign operation	7,349	9,238	(3,110)
Remeasurements of the net defined benefits liability	30	(63)	75
Valuation of the effective portion of derivative financial instruments	(139)	288	36
Capitalization of issued shares to former owners of Vonpar in Coca-Cola FEMSA	2,867	-	-
Other acquisitions and remeasurments	(50)	1,710	1,133
Contribution from non-controlling interest	11,072	892	250
Equity instruments	-	(485)	-
Dividends	(3,622)	(3,690)	(3,351)
Share based payment	50	9	57
Balance at end of the year	Ps. 86,621	Ps. 74,266	Ps. 60,332

Non controlling accumulated other comprehensive loss is comprised as follows:

	December 31, 2017	December 31, 2016
Exchange differences on translation foreign operation	Ps. 7,150	Ps. (199)
Remeasurements of the net defined benefits liability	(274)	(304)
Valuation of the effective portion of derivative financial instruments	56	195
Accumulated other comprehensive loss	Ps. 6,932	Ps. (308)

Coca-Cola FEMSA shareholders, especially the Coca-Cola Company which hold Series D shares, have some protective rights about investing in or disposing of significant businesses. However, these rights do not limit the continued normal operations of Coca-Cola FEMSA.

Summarized financial information in respect of Coca-Cola FEMSA is set out below:

	December 31, 2017	December 31, 2016
Total current assets	Ps. 55,657	Ps. 45,453
Total non-current assets	230,020	233,803
Total current liabilities	55,594	39,868
Total non-current liabilities	89,373	110,155
Total revenue	Ps. 203,780	Ps. 177,718
Total consolidated net (loss) income	(11,654)	10,527
Total consolidated comprehensive income	Ps. 3,315	Ps. 27,171
Net cash flow from operating activities	33,323	32,446
Net cash flow from used in investing activities	(10,890)	(26,915)
Net cash flow from financing activities	(10,775)	(9,734)

Note 22. Equity

22.1 Equity accounts

The capital stock of FEMSA is comprised of 2,161,177,770 BD units and 1,417,048,500 B units.

As of December 31, 2017 and 2016, the capital stock of FEMSA was comprised of 17,891,131,350 common shares, without par value and with no foreign ownership restrictions. Fixed capital stock amounts to Ps. 300 (nominal value) and the variable capital may not exceed 10 times the minimum fixed capital stock amount.

The characteristics of the common shares are as follows:

- Series "B" shares, with unlimited voting rights, which at all times must represent a minimum of 51% of total capital stock;
- Series "L" shares, with limited voting rights, which may represent up to 25% of total capital stock; and
- Series "D" shares, with limited voting rights, which individually or jointly with series "L" shares may represent up to 49% of total capital stock.

The Series "D" shares are comprised as follows:

- Subseries "D-L" shares may represent up to 25% of the series "D" shares;
- Subseries "D-B" shares may comprise the remainder of outstanding series "D" shares; and
- The non-cumulative premium dividend to be paid to series "D" shareholders will be 125% of any dividend paid to series "B" shareholders.

The Series "B" and "D" shares are linked together in related units as follows:

- "B units" each of which represents five series "B" shares and which are traded on the BMV; and
- "BD units" each of which represents one series "B" share, two subseries "D-B" shares and two subseries "D-L" shares, and which are traded both on the BMV and the NYSE.

As of December 31, 2017 and 2016, FEMSA's capital stock is comprised as follows:

	"B" Units	"BD" Units	Total
Units	1,417,048,500	2,161,177,770	3,578,226,270
Shares:			
Series "B"	7,085,242,500	2,161,177,770	9,246,420,270
Series "D"	-	8,644,711,080	8,644,711,080
Subseries "D-B"	-	4,322,355,540	4,322,355,540
Subseries "D-L"	-	4,322,355,540	4,322,355,540
Total shares	7,085,242,500	10,805,888,850	17,891,131,350

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve equals 20% of capital stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company, except as a stock dividend. As of December 31, 2017 and 2016, this reserve amounted to Ps. 596.

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect at the date of distribution, except when capital reductions come from restated shareholder contributions and when the distributions of dividends come from net taxable income, denominated "Cuenta de Utilidad Fiscal Neta" ("CUFIN").

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. A new Income Tax Law (LISR) went into effect on January 1, 2014; such law no longer includes the tax consolidation regime which allowed calculating the CUFIN on a consolidated basis; therefore, beginning in 2014, distributed dividends must be taken from the individual CUFIN balance of FEMSA, which can be increased with the subsidiary companies' individual CUFINES through the transfers of dividends. The sum of the individual CUFIN balances of FEMSA and its subsidiaries as of December 31, 2017 amounted to Ps. 193,348. Dividends distributed to its stockholders who are individuals and foreign residents must withhold 10% for LISR purposes, which will be paid in Mexico. The foregoing will not be applicable when distributed dividends arise from the accumulated CUFIN balances as December 31, 2013.

At an ordinary shareholders' meeting of FEMSA held on March 19, 2015, the shareholders approved a dividend of Ps. 7,350 that was paid 50% on May 7, 2015 and other 50% on November 5, 2015; and a reserve for share repurchase of a maximum of Ps. 3,000. As of December 31, 2015, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 17.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 12, 2015, the shareholders approved a dividend of Ps. 6,405 that was paid 50% on May 5, 2015 and other 50% on November 3, 2015. The corresponding payment to the non-controlling interest was Ps. 3,340.

At an ordinary shareholders' meeting of FEMSA held on March 8, 2016, the shareholders approved a dividend of Ps. 8,355 that was paid 50% on May 5, 2016 and other 50% on November 3, 2016; and a reserve for share repurchase of a maximum of Ps. 7,000. As of December 31, 2016, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 17.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 7, 2016, the shareholders approved a dividend of Ps. 6,945 that was paid 50% on May 3, 2016 and other 50% on November 1, 2016. The corresponding payment to the non-controlling interest was Ps. 3,621.

At an ordinary shareholders' meeting of FEMSA held on March 16, 2017, the shareholders approved a dividend of Ps. 8,636 that was paid 50% on May 5, 2017 and other 50% on November 3, 2017; and a reserve for share repurchase of a maximum of Ps. 7,000. As of December 31, 2017, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 17.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 16, 2017, the shareholders approved a dividend of Ps. 6,991 that was paid 50% on May 3, 2017 and other 50% on November 1, 2017. The corresponding payment to the non-controlling interest was Ps. 3,622.

For the years ended December 31, 2017, 2016 and 2015 the dividends declared and paid by the Company and Coca-Cola FEMSA were as follows:

	2017	2016	2015
FEMSA	Ps. 8,636	Ps. 8,355	Ps. 7,350
Coca-Cola FEMSA (100% of dividend)	6,991	6,945	6,405

For the years ended December 31, 2017 and 2016 the dividends declared and paid per share by the Company are as follows:

Series of Shares	2017	2016
"B"	Ps. 0.43067	Ps. 0.41666
"D"	0.53833	0.52083

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, 2017 and 2016.

The Company is not subject to any externally imposed capital requirements, other than the legal reserve (see Note 22.1) and debt covenants (see Note 18).

The Company's finance committee reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In conjunction with this objective, the Company seeks to maintain the highest credit rating both national and international, currently rated AAA and A- respectively, which requires it to have a debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio lower than 1.5. As a result, prior to entering into new business ventures, acquisitions or divestures, management evaluates the optimal ratio of debt to EBITDA in order to maintain its credit rating.

Note 23. Earnings per Share

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

Diluted earnings per share amounts are calculated by dividing consolidated net income for the year attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the effects of dilutive potential shares (originated by the Company's share based payment program).

		2017		2016		2015	
		Per Series "B" Shares	Per Series "D" Shares	Per Series "B" Shares	Per Series "D" Shares	Per Series "B" Shares	Per Series "D" Shares
Shares expressed in millions:							
Weighted average number of shares for basic earnings per share		9,243.14	8,631.57	9,242.48	8,628.97	9,241.91	8,626.69
Effect of dilution associated with non-vested shares for share based payment plans		3.29	13.14	3.94	15.74	4.51	18.02
Weighted average number of shares adjusted for the effect of dilution (Shares outstanding)		9,246.42	8,644.71	9,246.42	8,644.71	9,246.42	8,644.71
Dividend rights per series (see Note 22.1)		100%	125%	100%	125%	100%	125%
Weighted average number of shares further adjusted to reflect dividend rights		9,246.42	10,805.89	9,246.42	10,805.89	9,246.42	10,805.89
Allocation of earnings, weighted		46.11%	53.89%	46.11%	53.89%	46.11%	53.89%
Net Controlling Interest Income Allocated	Ps.	19,555	Ps. 22,853	Ps. 9,748	Ps. 11,392	Ps. 8,154	Ps. 9,529

Note 24. Income Taxes

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, 2018, a new tax reform became effective in the Philippines. This reform mainly (i) reduced the income tax rate imposed on individuals in approximately 65.0%, (ii) increased the income tax rate from 5.0% on net capital gains from the sale of shares traded on or outside the stock exchange that do not exceed $100,000 Philippine pesos and 10.0% when the sale of shares exceeded $100,000 Philippine pesos, to a general tax rate of 15.0% on net capital gains from the sale of shares traded outside of the stock exchange by companies and individuals that are resident and non-resident, (iii) imposed an excise tax of 6.00 Philippine pesos per liter for sweetened beverages using caloric and non-caloric sweeteners, except for high fructose corn syrup (HFCS), and 12.00 Philippine pesos per liter for sweetened beverages using HFCS, (iv) imposed the obligation to issue electronic invoices and electronic sales reports, and (v) reduced the time period for keeping books and accounting records from 10 years to three years.

On January 1, 2017, a new general tax reform became effective in Colombia. This reform modifies the income tax rate to 33.0%, starting with a 34.0% for 2017 and then 33.0% for the next years. In addition, this reform includes an extra income tax rate of 6.0% for 2017 and 4.0% for 2018, for entities located outside free trade zone. Regarding taxpayers located in free trade zone, the special income tax rate increase to 20% for 2017. In 2016 the rate is 15.0%. Additionally, the supplementary income tax (9.0 %) the temporary contribution to social programs (5.0 % to 9.0 % for 2015 to 2018), and the tax on net equity which were included in tax reform 2015 were eliminated. For 2017, the dividends received by individuals that are Colombian residents will be subject to a withholding of 35.0%; the dividends received by foreign individuals or entities non-residents in Colombia will be subject to a withholding of 5.0%. Finally, regarding the presumptive income on patrimony, the rate increased to a 3.5% for 2017 instead of 3.0% in 2016. Starting in 2017, the Colombian general rate of value-added tax (VAT) increased to 19.0%, replacing the 16.0% rate in effect till 2016.

During 2017, the Mexican government issued the Repatriation of Capital Decree which vas valid from January 19 until October 19, 2017. Through this decree, a fiscal benefit was attributed to residents in Mexico by applying an income tax of 8% (instead of the statutory rate of 30% normally applicable) to the total amount of income returned to the country resulting from foreign investments held until December 2016.

Additionally, the Repatriation of Capital Decree sustains that the benefit will solely apply to income and investments returned to the country throughout the period of the decree. The resources repatriated must be invested during the fiscal year of 2017 and remain in national territory for a period of at least two years from the return date.

Also in Brazil, starting 2016 the rates of value-added tax in certain states will be changed as follows: Mato Grosso do Sul – from 17.0% to 20.0%; Rio Grande do Sul from 18.0% to 20.0%; Minas Gerais - the tax rate will remain at 18.0% but there will be an additional 2.0% as a contribution to poverty eradication just for the sales to non-taxpayer (final consumers); Rio de Janeiro - the contribution related to poverty eradication fund will be increased from 1.0% to 2.0% effectively in April; Paraná - the rate will be reduced to 16.0% but a rate of 2.0% as a contribution to poverty eradication will be charged on sales to non-taxpayers.

Additionally in Brazil, starting on January 1st, 2016, the rates of federal production tax will be reduced and the rates of the federal sales tax will be increased. Coca-Cola FEMSA estimates of these taxes is 16.2% over the net sales. For 2017, we expected the average of these taxes will range between 15.0% and 17.0% over the net sales.

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

On January 1, 2015, a general tax reform became effective in Colombia. This reform included the imposition of a new temporary tax on net equity through 2017 to Colombian residents and non-residents who own property in Colombia directly or indirectly through branches or permanent establishments. The relevant taxable base will be determined annually based on a formula. For net equity that exceeds 5.0 billion Colombian pesos (approximately US$2.1 million) the rate will be 1.15% in 2015, 1.00% in 2016 and 0.40% in 2017. In addition, the tax reform in Colombia imposed that the supplementary income tax at a rate of 9.0% as contributions to social programs, which was previously scheduled to decrease to 8.0% by 2015, will remain indefinitely. Additionally, this tax reform included the imposition of a temporary contribution to social programs at a rate of 5.0%, 6.0%, 8.0% and 9.0% for the years 2015, 2016, 2017 and 2018, respectively. Finally, this reform establishes an income tax deduction of 2.0% of value-added tax paid in the acquisition or import of hard assets, such as tangible and amortizable assets that are not sold or transferred in the ordinary course of business and that are used for the production of goods or services. Some of these rules were changed again through a new tax reform introduced at the end of 2016 and be effective in 2017, as described below.

On December 30, 2015, the Venezuelan government enacted a package of tax reforms that became effective in 2016. This reform mainly (i) eliminated the inflationary adjustments for the calculation of income tax as well as the new investment tax deduction, and (ii) imposed a new tax on financial transactions effective as of February 1, 2016, for those identified as "special taxpayers," at a rate of 0.75% over certain financial transactions, such as bank withdrawals, transfer of bonds and securities, payment of debts without intervention of the financial system and debits on bank accounts for cross-border payments, which will be immediately withheld by the banks. Given the inherent uncertainty as to how the Venezuelan Tax Administration will require that the aforementioned inflation adjustments be applied, starting 2016 the Company decided to recognize the effects of elimination of the inflationary adjustments.

24.1 Income Tax

The major components of income tax expense for the years ended December 31, 2017, 2016 and 2015 are:

		2017		2016		2015
Current tax expense	Ps.	18,801	Ps.	13,548	Ps.	9,879
Deferred tax expense:						
Origination and reversal of temporary differences		(7,385)		(3,947)		826
(Recognition) application of tax losses, net		(823)		(1,693)		(2,789)
Change in the statutory rate		(10)		(20)		16
Total deferred tax income		(8,218)		(5,660)		(1,979)
	Ps.	10,583	Ps.	7,888	Ps.	7,932

Recognized in Consolidated Statement of Other Comprehensive Income (OCI)

Income tax related to items charged or recognized directly in OCI during the year:		2017		2016		2015
Unrealized loss on cash flow hedges	Ps.	(191)	Ps.	745	Ps.	93
Exchange differences on translation of foreign operations		387		4,478		1,699
Remeasurements of the net defined benefit liability		(154)		(49)		49
Share of the other comprehensive income of associates and joint ventures		(1,465)		(1,385)		193
Total income tax cost recognized in OCI	Ps.	(1,423)	Ps.	3,789	Ps.	2,034

A reconciliation between tax expense and income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method multiplied by the Mexican domestic tax rate for the years ended December 31, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Mexican statutory income tax rate	30.0%	30.0%	30.0%
Difference between book and tax inflationary values and translation effects	(6.2%)	(2.4%)	(1.3%)
Annual inflation tax adjustment	0.4%	0.6%	(1.5%)
Difference between statutory income tax rates	1.8%	1.2%	0.4%
Repatriation of capital benefit decree	(20.2%)	-	-
Non-deductible expenses	2.4%	2.8%	3.3%
(Non-taxable) income	-	(0.4%)	(0.3%)
Hedge of a net investment in foreign operations	(1.4%)	(2.2%)	-
Effect of changes in Venezuela tax law	-	3.6%	-
Income tax credits	(1.8%)	(3.9%)	-
Philippines consolidation profit	(2.2%)	-	-
Venezuela desconsolidation effect	23.4%	-	-
Others	0.3%	(1.6%)	0.8%
	26.5%	27.6%	31.5%

Deferred Income Tax Related to:

	Consolidated Statement of Financial Position as of		Consolidated Statement of Income		
	December 31, 2017	December 31, 2016	2017	2016	2015
Allowance for doubtful accounts	Ps. (152)	Ps. (172)	Ps. 16	Ps. (17)	Ps. 93
Inventories	(151)	(112)	(1)	(151)	(14)
Other current assets	101	64	34	(80)	21
Property, plant and equipment, net [3]	(2,733)	(471)	(2,537)	670	(314)
Investments in associates and joint ventures	(6,989)	(1,227)	(5,094)	75	684
Other assets	254	257	(155)	234	(52)
Finite useful lived intangible assets	894	201	207	(1,506)	201
Indefinite lived intangible assets	9,957	9,376	968	7,391	84
Post-employment and other long-term employee benefits	(965)	(692)	(217)	(34)	86
Derivative financial instruments	84	255	(171)	128	165
Provisions	(3,500)	(2,956)	(557)	(411)	(8)
Temporary non-deductible provision	(222)	(3,450)	(144)	(9,118)	735
Employee profit sharing payable	(351)	(340)	(11)	(29)	(43)
Tax loss carryforwards	(10,218)	(8,889)	(823)	(1,693)	(2,789)
Tax credits to recover [2]	(2,308)	(1,150)	(705)	(1,150)	-
Accumulated other comprehensive income [1]	239	537	(224)	-	-
Exchange differences on translation of foreign operations in OCI	7,168	7,694	-	-	-
Other liabilities	(828)	59	1,220	102	(113)
Deferred tax income			Ps. (8,194)	Ps. (5,589)	Ps.(1,264)
Deferred tax income net recorded in share of the profit of associates and joint ventures accounted for using the equity method			(24)	(71)	(683)
Deferred tax income, net			Ps. (8,218)	Ps. (5,660)	Ps.(1,947)
Deferred income taxes, net	(9,720)	(1,016)			
Deferred tax asset	(15,853)	(12,053)			
Deferred tax liability	Ps. 6,133	Ps. 11,037			

[1] Deferred tax related to derivative financial instruments and remeasurements of the net defined benefit liability.

[2] Correspond to income tax credits arising from dividends received from foreign subsidiaries to be recovered within the next ten years accordingly to the Mexican Income Tax law as well as effects of the exchange of foreign currencies with a related and non-related parties.

[3] As a result of the change in the application of the law, the Company recognized a deferred tax liability in Venezuela for an amount of Ps. 1,107 with their corresponding impact on the income tax of the year as disclosed in the effective tax rate reconciliation.

As a result of the change in the application of the law, the Company recognized a deferred tax liability in Venezuela for an amount of Ps. 1,107 with their corresponding impact on the income tax of the year as disclosed in the effective tax rate reconciliation. The liability was derecognized in 2017 upon deconsolidation of Coca-Cola FEMSA's Venezuelan operations.

Deferred tax related to Accumulated Other Comprehensive Income (AOCI)

Income tax related to items charged or recognized directly in AOCI as of the year:		2017		2016
Unrealized loss on derivative financial instruments	Ps.	641	Ps.	847
Remeasurements of the net defined benefit liability		(402)		(306)
Total deferred tax loss (income) related to AOCI	Ps.	239	Ps.	541

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

		2017		2016		2015
Initial balance	Ps.	(1,016)	Ps.	(2,063)	Ps.	(2,635)
Deferred tax provision for the year		(8,218)		(5,660)		(1,979)
Deferred tax income net recorded in share of the profit of associates and joint ventures accounted for using the equity method		(67)		71		683
Acquisition of subsidiaries (see Note 4)		(367)		1,375		(161)
Effects in equity:						
Unrealized loss on cash flow hedges		(83)		1,008		184
Exchange differences on translation of foreign operations		(1,472)		3,260		1,729
Remeasurements of the net defined benefit liability		131		(479)		121
Retained earnings of associates		(38)		(224)		(396)
Cash flow hedges in foreign investments		(540)		(618)		-
Restatement effect of the year and beginning balances associated with hyperinflationary economies		1,689		2,314		359
Deconsolidation of subsidiaries		261		-		-
Ending balance	Ps.	(9,720)	Ps.	(1,016)	Ps.	(2,063)

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

Tax Loss Carryforwards

The subsidiaries in Mexico, Colombia and Brazil have tax loss carryforwards. The tax losses carryforwards and their years of expiration are as follows:

Year		Tax Loss Carryforwards
2018	Ps.	665
2019		98
2020		111
2021		116
2022		122
2023		479
2024		86
2025		410
2026 and thereafter		10,681
No expiration (Brazil and Colombia)		16,719
	Ps.	29,487

The Company recorded certain goodwill balances due to acquisitions that are deductible for Brazilian income tax reporting purposes. The deduction of such goodwill amortization has resulted in the creation of NOLs in Brazil. NOLs in Brazil have no expiration, but their usage is limited to 30% of Brazilian taxable income in any given year. As of December 31, 2017, The Company believes that it is more likely than not that it will ultimately recover such NOLs through the reversal of temporary differences and future taxable income. Accordingly the related deferred tax assets have been fully recognized.

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

		2017		2016
Balance at beginning of the year	Ps.	27,452	Ps.	16,463
Reserved		-		(2)
Additions		5,673		6,349
Usage of tax losses		(3,157)		(168)
Translation effect of beginning balances		(481)		4,810
Balance at end of the year	Ps.	29,487	Ps.	27,452

There were no withholding taxes associated with the payment of dividends in either 2017, 2016 or 2015 by the Company to its shareholders.

The Company has determined that undistributed profits of its subsidiarieswill not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized, aggregate to Ps. 41,915 (December 31, 2016: Ps. 41,204 and December 31, 2015: Ps. 44,082).

24.2 Recoverable taxes

Recoverable taxes are mainly integrated by higher provisional payments of income tax during 2017 in comparison to prior year, which will be compensated during 2018.

The operations in Guatemala, Panama, Philippines and Colombia are subject to a minimum tax, which is based primary on a percentage of assets and gross margin, except in the case of Panama. Any payments are recoverable in future years, under certain conditions.

Note 25. Other Liabilities, Provisions, Contingencies and Commitments

25.1 Other current financial liabilities

		December 31, 2017		December 31, 2016
Sundry creditors	Ps.	9,116	Ps.	7,244
Derivative financial instruments (see Note 20)		3,947		264
Others		16		75
Total	Ps.	13,079	Ps.	7,583

The carrying value of short-term payables approximates its fair value as of December 31, 2017 and 2016.

25.2 Provisions and other long term liabilities

		December 31, 2017		December 31, 2016
Provisions	Ps.	12,855	Ps.	16,428
Taxes payable		458		508
Others		1,233		1,457
Total	Ps.	14,546	Ps.	18,393

25.3 Other financial liabilities

		December 31, 2017		December 31, 2016
Derivative financial instruments (see Note 20)	Ps.	1,769	Ps.	6,403
Security deposits		1,028		917
Total	Ps.	2,797	Ps.	7,320

25.4 Provisions recorded in the consolidated statement of financial position

The Company has various loss contingencies, and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. Most of these loss contingencies are the result of the Company's business acquisitions. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Indirect taxes	Ps. 6,836	Ps. 11,065
Labor	2,723	2,578
Legal	3,296	2,785
Total	Ps. 12,855	Ps. 16,428

25.5 Changes in the balance of provisions recorded

25.5.1 Indirect taxes

	December 31, 2017	December 31, 2016	December 31, 2015
Balance at beginning of the year	Ps. 11,065	Ps. 1,725	Ps. 2,271
Penalties and other charges	362	173	21
New contingencies (see Note 19)	91	768	84
Contingencies added in business combination [1]	861	7,840	-
Cancellation and expiration	(796)	(106)	(205)
Payments	(947)	(6)	(214)
Brazil amnesty adoption	(3,321)	-	-
Effects of changes in foreign exchange rates	(479)	671	(232)
Balance at end of the year	Ps. 6,836	Ps. 11,065	Ps. 1,725

25.5.2 Labor

	December 31, 2017	December 31, 2016	December 31, 2015
Balance at beginning of the year	Ps. 2,578	Ps. 1,372	Ps. 1,587
Penalties and other charges	56	203	210
New contingencies	283	397	44
Contingencies added in business combination [1]	-	500	-
Cancellation and expiration	(32)	(186)	(102)
Payments	(92)	(336)	(114)
Effects of changes in foreign exchange rates	(69)	628	(253)
Venezuela deconsolidation effect	(1)	-	-
Balance at end of the year	Ps. 2,723	Ps. 2,578	Ps. 1,372

25.5.3 Legal

	December 31, 2017	December 31, 2016	December 31, 2015
Balance at beginning of the year	Ps. 2,785	Ps. 318	Ps. 427
Penalties and other charges	121	34	-
New contingencies	186	196	-
Contingencies added in business combination [1]	783	2,231	-
Cancellation and expiration	(16)	(46)	(33)
Payments	(417)	(81)	-
Brazil amnesty adoption	7	-	-
Effects of changes in foreign exchange rates	(151)	133	(76)
Venezuela deconsolidation effect	(2)	-	-
Balance at end of the year	Ps. 3,296	Ps. 2,785	Ps. 318

[1] Coca-Cola FEMSA recognized an amount of Ps. 7,840 corresponding to tax claims with local Brazil IRS (including a contingency of Ps. 5,321 related to the deductibility of a tax goodwill balance). The remaining contingencies relate to multiple claims with loss expectations assessed by management and supported by the analysis of legal counsels as possible, the total amount of contingencies guaranteed agreements amounts to Ps. 8,081. During 2017, Coca-Cola FEMSA 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 which has been offset against the corresponding indemnifiable assets.

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

25.6 Unsettled lawsuits

The Company has entered into several proceedings with its labor unions, tax authorities and other parties that primarily involve Coca-Cola FEMSA and its subsidiaries. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. The aggregate amount being claimed against the Company resulting from such proceedings as of December 31, 2017 is Ps. 70,830. Such contingencies were classified by legal counsel as less than probable but more than remote of being settled against the Company. However, the Company believes that the ultimate resolution of such several proceedings will not have a material effect on its consolidated financial position or result of operations.

Included in this amount Coca-Cola FEMSA has tax contingencies, most of which are related to its Brazilian operations, amounting to approximately Ps. 51,014, with loss expectations assessed by management and supported by the analysis of legal counsel consider as possible. Among these possible contingencies, are Ps. 12,346 in various tax disputes related primarily to credits for ICMS (VAT) and Ps. 33,217 related to tax credits of IPI over raw materials acquired from Free Trade Zone Manaus. Possible claims also include Ps. 4,787 related to compensation of federal taxes not approved by the IRS (Tax authorities) and Ps. 664 related to the requirement by the Tax Authorities of State of São Paulo for ICMS (VAT), interest and penalty due to the alleged underpayment of tax arrears for the period 1994-1996. Coca-Cola FEMSA is defending its position in these matters and final decision is pending in court. In addition, the Company has Ps. 6,272 in unsettled indirect tax contingencies regarding indemnification accorded with Heineken over FEMSA Cerveza. These matters are related to different Brazilian federal taxes which are pending final decision.

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

25.7 Collateralized contingencies

As is customary in Brazil, Coca-Cola FEMSA has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 9,433, Ps. 8,093 and 3,569 as of December 31, 2017, 2016 and 2015, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies (see Note 13).

25.8 Commitments

As of December 31, 2017, the Company has contractual commitments for finance leases for computer equipment and operating leases for the rental of production machinery and equipment, distribution and computer equipment, and land for FEMSA Comercio's operations.

The contractual maturities of the operating lease commitments by currency, expressed in Mexican pesos as of December 31, 2017, are as follows:

	Mexican Pesos	U.S. Dollars	Others
Not later than 1 year	Ps. 6,553	Ps. 426	Ps. 5,700
Later than 1 year and not later than 5 years	26,098	3,145	27,581
Later than 5 years	25,131	280	4,749
Total	Ps. 57,782	Ps. 3,851	Ps. 38,030

Rental expense charged to consolidated net income was Ps. 9,468, Ps. 8,202 and Ps. 6,088 for the years ended December 31, 2017, 2016 and 2015, respectively.

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows:

	2017 Minimum Payments	Present Value of Payments	2016 Minimum Payments	Present Value of Payments
Not later than 1 year	Ps. 41	Ps. 34	Ps. 32	Ps. (68)
Later than 1 year and not later than 5 years	91	82	103	83
Later than 5 years	-	-	-	97
Total mínimum lease payments	132	116	135	112
Less amount representing finance charges	16	-	23	-
Present value of minimum lease payments	116	116	112	112

Note 26. Information by Segment

The analytical information by segment is presented considering the Company's business units (as defined in Note 1) based on its products and services, which is consistent with the internal reporting presented to the Chief Operating Decision Maker. A segment is a component of the Company that engages in business activities from which it earns renenues, and incurs the related costs and expenses, including revenues, costs and expenses that relate to transactions with any of Company's other components. All segments' operating results are reviewed regularly by the Chief Operating Decision Maker, which makes decisions about the resources that would be allocated to the segment and to assess its performance, and for which financial information is available.

Inter-segment transfers or transactions are entered into and presented under accounting policies of each segment, which are the same to those applied by the Company. Intercompany operations are eliminated and presented within the consolidation adjustment column included in the tables below.

a) By Business Unit:

2017	Coca-Cola FEMSA	FEMSA Comercio Retail Division	FEMSA Comercio Health Division	FEMSA Comercio Fuel Division	CB Equity	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 203,780	Ps. 154,204	Ps. 47,421	Ps. 38,388	Ps. -	Ps. 35,357	Ps. (18,694)	Ps. 460,456
Intercompany revenue	4,678	198	-	-	-	13,818	(18,694)	-
Gross profit	91,685	58,245	14,213	2,767	-	7,186	(3,828)	170,268
Administrative expenses	-	-	-	-	-	-	-	16,512
Selling expenses	-	-	-	-	-	-	-	111,456
Other income	-	-	-	-	-	-	-	34,741
Other expenses	-	-	-	-	-	-	-	33,959
Interest expense	8,810	1,317	685	156	-	2,359	(2,203)	11,124
Interest income	887	298	23	47	23	2,491	(2,203)	1,566
Other net finance expenses [3]	-	-	-	-	-	-	-	6,342
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	(7,162)	11,518	956	146	30,000	4,472	(64)	39,866
Income taxes	4,554	734	434	23	(5,132)	9,970	-	10,583
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	60	5	-	-	7,848	10	-	7,923
Consolidated net income	-	-	-	-	-	-	-	37,206
Depreciation and amortization [2]	11,657	4,403	942	118	-	545	-	17,665
Non-cash items other than depreciation and amortization	1,714	296	31	18	-	255	-	2,314
Investments in associates and joint ventures	11,500	642	-	-	83,720	235	-	96,097
Total assets	285,677	68,820	38,496	4,678	76,555	150,816	(36,501)	588,541
Total liabilities	144,968	49,696	25,885	4,091	1,343	62,147	(36,501)	251,629
Investments in fixed assets [4]	14,612	8,563	774	291	-	1,311	(371)	25,180

(1) Includes other companies (see Note 1) and corporate.

(2) Includes bottle breakage.

(3) Includes foreign exchange loss, net; loss on monetary position for subsidiaries in hyperinflationary economies; and market value gain on financial instruments.

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

2016	Coca-Cola FEMSA	FEMSA Comercio Retail Division	FEMSA Comercio Health Division	FEMSA Comercio Fuel Division	CB Equity	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 177,718	Ps. 137,139	Ps. 43,411	Ps. 28,616	Ps. -	Ps. 29,491	Ps. (16,868)	Ps. 399,507
Intercompany revenue	4,269	-	-	-	-	12,599	(16,868)	-
Gross profit	79,662	50,990	12,738	2,248	-	6,114	(3,548)	148,204
Administrative expenses	-	-	-	-	-	-	-	14,730
Selling expenses	-	-	-	-	-	-	-	95,547
Other income	-	-	-	-	-	-	-	1,157
Other expenses	-	-	-	-	-	-	-	5,909
Interest expense	7,473	809	654	109	-	1,580	(979)	9,646
Interest income	715	246	31	37	20	1,229	(979)	1,299
Other net finance expenses [3]	-	-	-	-	-	-	-	3,728
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	14,308	11,046	914	182	9	2,218	(121)	28,556
Income taxes	3,928	719	371	16	3	2,851	-	7,888
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	147	15	-	-	6,342	3	-	6,507
Consolidated net income	-	-	-	-	-	-	-	27,175
Depreciation and amortization [2]	8,666	3,736	855	92	-	360	-	13,709
Non-cash items other than depreciation and amortization	2,908	288	8	17	-	630	-	3,851
Investments in associates and joint ventures	22,357	611	-	-	105,229	404	-	128,601
Total assets	279,256	59,740	35,862	3,649	108,976	90,429	(32,289)	545,623
Total liabilities	150,023	42,211	24,368	3,132	7,132	64,876	(32,289)	259,453
Investments in fixed assets [4]	12,391	7,632	474	299	-	1,671	(312)	22,155

[1] Includes other companies (see Note 1) and corporate.

[2] Includes bottle breakage.

[3] Includes foreign exchange loss, net; loss on monetary position for subsidiaries in hyperinflationary economies; and market value gain on financial instruments.

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

2015	Coca-Cola FEMSA	FEMSA Comercio Retail Division	FEMSA Comercio Health Division	FEMSA Comercio Fuel Division	CB Equity	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 152,360	Ps. 119,884	Ps. 13,053	Ps. 18,510	Ps. -	Ps. 22,774	Ps. (14,992)	Ps. 311,589
Intercompany revenue	3,794	46	-	-	-	11,152	(14,992)	-
Gross profit	72,030	43,649	3,688	1,420	-	5,334	(2,942)	123,179
Administrative expenses	-	-	-	-	-	-	-	11,705
Selling expenses	-	-	-	-	-	-	-	76,375
Other income	-	-	-	-	-	-	-	423
Other expenses	-	-	-	-	-	-	-	(2,741)
Interest expense	(6,337)	(612)	(148)	(78)	-	(1,269)	667	(7,777)
Interest income	414	149	8	35	18	1,067	(667)	1,024
Other net finance expenses [3]	-	-	-	-	-	-	-	(865)
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	14,725	9,714	416	164	8	208	(72)	25,163
Income taxes	4,551	859	97	28	2	2,395	-	7,932
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	155	(10)	-	-	5,879	21	-	6,045
Consolidated net income	-	-	-	-	-	-	-	23,276
Depreciation and amortization [2]	7,144	3,132	204	63	-	282	-	10,825
Non-cash items other than depreciation and amortization	1,443	296	(16)	17	-	326	-	2,066
Investments in associates and joint ventures	17,873	744	-	19	92,694	401	-	111,731
Total assets	210,249	44,677	22,534	3,230	95,502	49,213	(16,073)	409,332
Total liabilities	101,514	30,661	14,122	2,752	4,202	30,298	(16,073)	167,476
Investments in fixed assets [4]	11,484	5,731	317	228	-	1,448	(323)	18,885

(1) Includes other companies (see Note 1) and corporate.

(2) Includes bottle breakage.

(3) Includes foreign exchange loss, net; loss on monetary position for subsidiaries in hyperinflationary economies; and market value gain on financial instruments.

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

b) By Geographic Area:

The Company aggregates geographic areas into the following for the purposes of its consolidated financial statements: (i) Mexico and Central America division (comprising the following countries: Mexico, Guatemala, Nicaragua, Costa Rica and Panama) and (ii) the South America division (comprising the following countries: Brazil, Argentina, Colombia, Chile and Venezuela). Venezuela operates in an economy with exchange controls and hyper-inflation; and as a result,it is not aggregated into the South America area, (iii) Europe (comprised of the Company's equity method investment in Heineken) and (iv) the Asian division comprised of Philippines commencing on February 1, 2017, started to consolidated in the Company financial statements. The Company's results for 2017 reflect a reduction in the share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, as a result of this consolidation (see Note 4.1.2).

Geographic disclosure for the Company is as follow:

2017	Total Revenues	Total Non Current Assets
Mexico and Central America [1]	Ps. 301,463	Ps. 176,174
Asia	20,524	17,233
South America [2]	135,608	130,225
Venezuela	3,932	1
Europe	-	83,720
Consolidation adjustments	(1,071)	-
Consolidated	Ps. 460,456	Ps. 407,353

2016		
Mexico and Central America [1]	Ps. 267,732	Ps. 176,613
South America [2]	113,937	138,549
Venezuela	18,937	7,281
Europe	-	105,229
Consolidation adjustments	(1,099)	-
Consolidated	Ps. 399,507	Ps. 427,672

2015		
Mexico and Central America [1]	Ps. 228,563	Ps. 158,506
South America [2]	74,928	67,568
Venezuela	8,904	3,841
Europe	-	92,694
Consolidation adjustments	(806)	-
Consolidated	Ps. 311,589	Ps. 322,609

(1) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 288,783, Ps. 254,643 and Ps. 218,809 during the years ended December 31, 2017, 2016 and 2015, respectively. Domestic (Mexico only) non-current assets were Ps. 170,547 and Ps. 168,976, as of December 31, 2017, and December 31, 2016, respectively.

(2) South America includes Brazil, Argentina, Colombia, Chile and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 64,345, Ps. 48,924 and Ps. 39,749 during the years ended December 31, 2017, 2016 and 2015, respectively. Brazilian non-current assets were Ps. 89,137 and Ps. 97,127, as of December 31, 2017 and December 31, 2016, respectively. South America revenues include Colombia revenues of Ps. 17,545, Ps. 17,027 and Ps. 14,283 during the years ended December 31, 2017, 2016 and 2015, respectively. Colombia non-current assets were Ps. 18,396 and Ps. 18,835, as of December 31, 2017 and December 31, 2016, respectively. South America revenues include Argentina revenues of Ps. 13,938, Ps. 12,340 and Ps. 14,004 during the years ended December 31, 2017, 2016 and 2015, respectively. Argentina non-current assets were Ps. 3,052 and Ps. 3,159, as of December 31, 2017 and December 31, 2016, respectively. South America revenues include Chile revenues of Ps. 40,660 and Ps. 36,631 during the year ended December 31, 2017 and 2016, respectively. Chile non-current assets were Ps. 19,590 and Ps. 19,367, as of December 31, 2017 and 2016, respectively.

Note 27. Future Impact of Recently Issued Accounting Standards not yet in Effect

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

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued the IFRS 15 Revenue from Contracts with Customers, which establishes a 5-step model to determine the timing and amount to be applied when recognizing revenues from contracts with costumers. The new standard replaces existing revenue recognition guidelines, including the IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The standard is effective for annual periods beginning on January 1, 2018 and its earlier adoption is permitted. The standard permits to elect between the retrospective method and modified retrospective approach. The Company plans to adopt the IFRS 15 in its consolidated financial statements on January 1, 2018 using modified retrospective approach (prospective method).

The transition considerations that the Company takes into account by applying the modified retrospective approach (prospective method) in the adoption of the IFRS 15 involve the recognition of the cumulative effect of the adoption of the IFRS 15 as of January 1, 2018; consequently, there is no obligation under this method to restate the comparative financial information for the years ended December 31, 2016 and 2017, nor to adjust the amounts that arise as a result of the accounting differences between the current accounting standard IAS 18 and the new standard, IFRS 15.

The Company has conducted a qualitative and quantitative evaluation of the impacts that the adoption of the IFRS 15 will have in its consolidated financial statements. The evaluation includes, among others, the following activities:

- Analysis of contracts with customers and their main characteristics;
- Identification of the performance obligations included in such contracts;
- Determination of the transaction price and the effects derived from variable consideration;
- Allocation of the transaction price to each performance obligation;
- Analysis of the timing when the revenue should be recognized, either at a point in time or over time, as appropriate;
- Analysis of the disclosures required by the IFRS 15 and their impacts on internal processes and controls; and
- Analysis of the potential costs of obtaining and fulfilling contracts with customers that should be capitalized in accordance with the requirements of the new IFRS 15.

As of today, the Company has completed the analysis of the new standard and has concluded that there will be no significant impacts on the consolidated financial statements derived from the adoption of the IFRS 15. However, IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the consolidated financial statements. In 2017 the Company developed and started testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

As of December 31, 2017, the consolidated and business unit level accounting policies in regards to revenue recognition have been modified and submitted for approval of the Audit Committee of the Company, with the objective that these are fully implemented as of January 1, 2018, which will establish the new bases of accounting for revenues from contracts with customers under IFRS 15. Similarly, the Company has analyzed and evaluated the aspects related to internal control derived from IFRS 15 adoption, with the objective of ensuring that the Company's internal control environment is appropriate for financial reporting purposes once the standard is adopted.

IFRS 9, Financial Instruments

IFRS 9 *Financial Instruments,* sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets and cash flow are managed. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost and FVOCI, except for investments in equity instruments, and to contract assets.

Furthermore, IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibits voluntary discontinuation of hedge accounting. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

This standard is effective for annual periods beginning on or after January 1, 2018 and the Company plans to adopt IFRS 9 in its consolidated financial statements on January 1, 2018. For Hedge Accounting, IFRS 9 will be adopted prospectively. Regarding Classification and Measurement, the Company will not reestablish financial information for the comparative year given that the business models of financial assets will not originate any accounting difference between the adoption and comparative year. Therefore the comparative figures under IFRS 9 and IAS 39 will be consistent. In relation to Impairment, the adoption approach will be prospective; however, financial information will not be reestablished for comparative periods (year ended December 31, 2017 and 2016).

The Company performed a qualitative and quantitative assessment of the impacts of IFRS 9. The activities that have been carried out are:

- Review and documentation of the business models for managing financial assets, accounting policies, processes and internal controls related to financial instruments.
- Analysis of financial assets and the impact of the expected loss model required under IFRS 9.
- Update of documentation of the hedging relationships, as well as the policies for hedge accounting, and internal controls.
- Determination of the model to compute the loss allowances based on the Expected Loss model.
- Analysis of the new disclosures required by IFRS 9 and its impacts on internal processes and controls for the Company.

The Company has carried out an analysis for the business models that best suit the current management of its financial assets.

For classification and measurement and hedge accounting there were no significant changes identified, except those related to the documentation of the business model and their cash flow characteristics. There was also a need to update the hedge relationships documentation. Therefore, no significant impacts are expected in the financial information that require adjustments for the adoption of IFRS 9 in the consolidated financial statements in relation to the Classification, Measurement and Hedge Accounting.

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 recorded. An increase is not expected for the provisions of financial assets under the new standard because the accounts receivable are characterized by recovering in the short term, which results in estimates of expected loss that converge to the provisions under IAS39.

As of December 31, 2017, the Company has defined policies and procedures for the adoption of the new standard, strengthening the control of information, and has prepared Manuals and Processes for Operation, Management and Risk Management.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 *Leases*, with which it introduces a unique accounting lease model for lessees. The lessee recognizes an asset by right of use that represents the right to use the underlying asset and a lease liability that represents the obligation to make lease payments.

The standard is effective for the annual periods started on January 1, 2019. Early adoption is permitted for entities applying IFRS 15 on the initial application date. The Company plans to adopt the new IFRS 16 in its consolidated financial statements on January 1, 2019, using the modified retrospective approach (prospective method).

The transition considerations required to be taken into account by the Company by the modified retrospective approach that it will use to adopt the new IFRS 16 involve recognizing the cumulative effect of the adoption of the new standard as from January 1, 2019. For this reason, the financial information will not be reestablished by the exercises to be presented (exercises completed as of December 31, 2017 and 2018). Likewise, as of the transition date of IFRS 16 (January 1, 2019), the Company may elect to apply the new definition of "leasing" to all contracts, or to apply the practical file of "Grandfather" and continue to consider as contracts for leasing those who qualified as such under the previous accounting rules "IAS 17 – Leases" and "IFRIC 4 – Determination of whether a contract contains a lease".

Currently, the Company is conducting a qualitative and quantitative assessment of the impacts that the adoption of IFRS 16 will originate in its consolidated financial statements. The evaluation includes, among others, the following activities:

- Detailed analysis of the leasing contracts and the characteristics of the same that would cause an impact in the determination of the right of use and the financial liabilities;
- Identification of the exceptions provided by IFRS 16 that may apply to the Company;
- Identification and determination of costs associated with leasing contracts;
- Identification of currencies in which lease contracts are denominated;
- Analysis of renewal options and improvements to leased assets, as well as amortization periods;
- Analysis of the revelations required by the IFRS 16 and the impacts of the same in internal processes and controls of the Company; and
- Analysis of the interest rate used in determining the present value of the lease payments of the different assets for which a right of use must be recognized.

The main impacts at a consolidated level, as well as the business unit level are derived from the recognition of leased assets as rights of use and liabilities for the obligation to make such payments. In addition, the linear operating lease expense is replaced by a depreciation expense for the right to use the assets and the interest expense of the lease liabilities that will be recognized at present value.

Based on the analysis carried out by the Company, FEMSA Comercio's business units will particularly generate a significant effect on the Company's consolidated financial statements as a result of the number of leases in effect as of the date of analysis, as well as an increase of them on daily basis.

At the date of issuance of these consolidated financial statements, the Company still has not decided whether or not to use the optional exemptions or practical files that the new standard allows, so it is still in the process of quantifying the impact of the adoption of IFRS 16 on the consolidated financial statements of the Company.

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

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. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company does not expect the effect of the amendments to be significant to its consolidated financial statements.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

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 derecognition 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 recognises 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 transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

i) The beginning of the reporting period in which the entity first applies the interpretation; or

ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its consolidated financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatment*

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

i) Whether an entity considers uncertain tax treatments separately;

ii) The assumptions an entity makes about the examination of tax treatments by taxation authorities;

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

iv) How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company is still in the process of quantifying the impact of the adoption of the IFRIC 23 in the consolidated financial statements.

Note 28. Subsequent Events

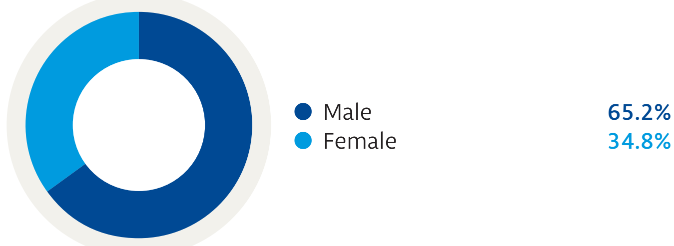
In January, 2018, Eduardo Padilla Silva replaced Carlos Salazar Lomelin as Chief Executive Officer.

2017

GRI Content Index

GRI Standard

GRI Standard Content Index

GRI Standard	Contents	Answer or reference	Business Unit		
			KOF	FC	FSB
General Disclosure					
102-02	Activities, brands, products, and services	See inside front cover.	•	•	•
102-04	Location of operations	See page 2 Our Presence.	•	•	•
102-06	Markets served	See pages 1-3.	•	•	•
102-07	Scale of the organization	See page 3 Operational Overview.	•	•	•
102-08	Information on employees and other workers	At the end of 2017, FEMSA had 295,027 employees. Employees by type of contract  Employees by gender  Employees by country / region  Information gathered from internal sources. Percentages of employees by gender do not include 9% of FEMSA's employees.	•	•	•

GRI Standard	Contents	Answer or reference	Business Unit		
			KOF	FC	FSB
102-09	Supply chain	The supplier network of FEMSA and its Business Units consists of 53,992 suppliers, 98% of which are from the same country as the operation to which they supply services. Our value chain generated an economic flow of Ps.171,791.26 billion equivalent to US$ 8,704.73 million. Excludes: Suppliers of merchandise (OXXO merchandise), finished product, employees or sales representatives, donations, inter-company transfers, government offices, unions, information of operations of Solistica in Brazil and Coca-Cola FEMSA in the Philippines.	•	•	•
102-10	Significant changes to the organization and its supply chain	See page 8 Dear Shareholders.	•	•	•
102-11	Precautionary principle or approach	Our risk management focus is aimed at detecting, measuring and evaluating risk, formulating strategies to control it and establishing follow-up measures to ensure that they function efficiently. This management entails specific responsibilities for FEMSA's Board of Directors, through its Audit Committee, which is in charge of overseeing procedures for identifying contingencies, lawsuits and business risks, including environmental risks. To address the possible environmental impact of our operations, we have a Strategic Sustainability Framework, which includes the guideline pillar Our Planet, in order to minimize the environmental impact of our operations.	•	•	•
102-12	External initiatives	Since 2005, FEMSA has adopted the 10 principles of the United Nations Global Compact, focused on the issues of human rights, labor conditions and the environment. We also continue to participate in efforts that promote the measurement of Greenhouse Gases and the development of capacities to identify opportunities and risks regarding climate change, among them: the GEI Mexico Program and Carbon Disclosure Project, in its Climate Change and Water version.	•	•	•

<table>
<tr><th rowspan="2">GRI Standard</th><th rowspan="2">Contents</th><th rowspan="2">Answer or reference</th><th colspan="3">Business Unit</th></tr>
<tr><th>KOF</th><th>FC</th><th>FSB</th></tr>
<tr><td>102-13</td><td>Membership of associations</td><td>Some of the associations to which we belong:

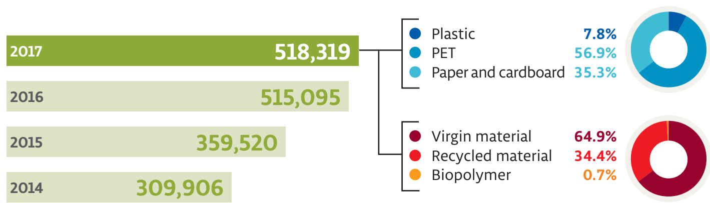
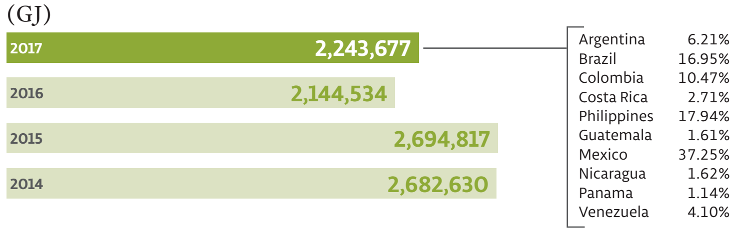
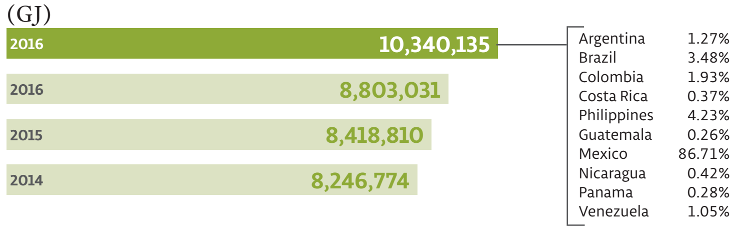
Argentina
• Asociación de Fabricantes Argentinos de Coca-Cola (AFACC)
• Cámara Argentina de la Industria de Bebidas sin Alcohol (CADIBSA)
• Cámara de Comercio Argentino Mexicana (CCAM)
• Coordinadora de las Industrias de Productos Alimenticios (COPAL)
Brazil
• Sindicato das Empresas de Transportes de Carga de São Paulo (SETCESP)
• Associação Brazileira das Indústrias de Refrigerantes e de Bebidas Não Alcoólicas (ABIR)
• Associação Brazileira de Indústria de Água Mineral (ABINAN/SINDNAN)
• Associação Brasileira Pró-Desenvolvimento Regional Sustentável (ADIAL)
Colombia
• Asociación Nacional de Empresarios de Colombia (ANDI)
• Asociación de Industriales de Tocancipá (ASIENORTE)
Central America
• American Chamber (AMCHAM) Costa Rica, Guatemala, Nicaragua and Panama
• Cámara Comercio Costa Rica, Guatemala, Nicaragua y Panamá
Philippines
• Beverage Industry Association of the Philippines
• Philippine Alliance for Recycling and Materials Sustainability
Mexico
• Cámara Nacional de la Industria de Transformación (CANACINTRA)
• Confederación de Cámaras Industriales (CONCAMIN)
• Confederación Patronal de la República Mexicana (COPARMEX)
• Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo (CONCANACO SERVYTUR)
• Asociación Nacional de Tiendas de Autoservicio y Departamentales (ANTAD)
• Consejo Coordinador Empresarial (CCE)
• Comisión de Estudios para el Desarrollo Sustentable del Consejo Coordinador Empresarial (CESPEDES)
• Consejo Mexicano de la Industria de Productos de Consumo (CONMEXICO)
• Asociación Nacional de Productores de Refrescos y Aguas Carbonatadas (ANPRAC)
• Asociación Nacional de Transporte Privado (ANTP)
• Consejo Mexicano de Negocios
• Consejo Consultivo del Agua
• Ecología y Compromiso Empresarial, A. C. (ECOCE)
• Bolsa Mexicana de Valores
• Centro Mexicano para la Filantropía (CEMEFI)
• Red SumaRSE
• Iniciativa Gemi
• Asociación de Embotelladoras Mexicanas de Coca-Cola A.C.
• Consejo Mexicano de Asuntos Internacionales (COMEXI)
• Fundación Mexicana para la Salud (FUNSALUD)
Venezuela
• Asociación de Industriales y Comerciantes de los Cortijos y los Ruices (ASICOR)
• Asociación Nacional de Bebidas Refrescantes (ANBER)
• Cámara de Comercio e Industria Venezolana Mexicana (CAVEMEX)
International
• American Beverage Associations (ABA)
• International Council of Beverage Associations (ICBA)
• Alianza Latinoamericana de Asociaciones de la Industria de Alimentos y Bebidas (ALAIAB)
• Consumer Goods Forum
• Business International Advisory Council (BIAC)
• Consejo Empresarial Alianza del Pacífico (CEAP)
• RedEAmérica
• Coporate EcoForum (CEF)
• World Trade Organization (WTO)
• World Economic Forum (WEF)
• World Environment Center (WEC)
• US Mexico Foundation
• LLILAS Benson Latinamerican Center</td><td>•</td><td>•</td><td>•</td></tr>
<tr><td>102-14</td><td>Statement from senior decision-maker</td><td>See page 8 Dear Shareholders.</td><td>•</td><td>•</td><td>•</td></tr>
</table>

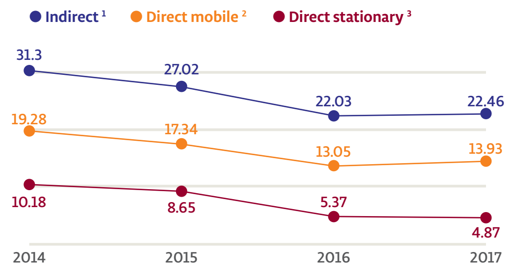
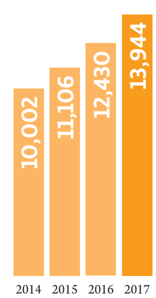
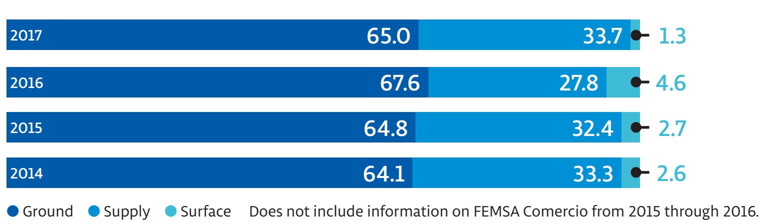
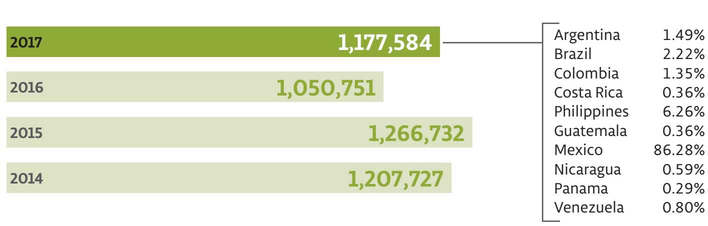
GRI Standard	Contents	Answer or reference	Business Unit KOF	FC	FSB
102-15	Key impacts, risks, and opportunities	Some of our principal business risks are: **Coca-Cola FEMSA** • Our business depends on its relationship with The Coca-Cola Company, and changes in this relationship may adversely affect our business, financial condition, results of operations and prospects. • Changes in consumer preferences and public concern about health issues could reduce the demand for some of our products. • Brand reputation or violations of brand ownership rights. • Negative or inadequate information on social media. • Competition could adversely influence our financial performance. • Water shortages or any failure to maintain existing concessions. • Increases in the prices of raw materials would increase our production costs. • Taxes and regulations in the regions where we operate. • Weather conditions may adversely affect our results. **FEMSA Comercio** • Competition from other retailers may affect our performance. • Impact on sales in economic conditions in the markets where we operate. • Significant changes in regulations or taxes. • Changes, failures or disruption of information technology systems. • Increase in electricity prices. • Likelihood of being unable to sustain the historic pace of growth. • Changes in energy and/or environmental regulations may affect the performance of FEMSA Comercio's Energy Division. Risks relating to the countries where we operate: • Economic or political conditions. • Depreciation of local currencies. • Crime rates. The Comprehensive Business Risk Management System is a tool used by senior management to manage, evaluate, control and monitor business-related risks.	•	•	•
102-16	Values, principles, standards, and norms of behavior	See pages 24 Our People and 37 Code of Ethics. For more information on the Code of Ethics, visit: http://ir.femsa.com/code_ethics.cfm	•	•	•
102-17	Mechanisms for advice and concerns about ethics	One of the mechanisms for ensuring compliance with the FEMSA Code of Business Ethics is our Whistleblower System, through which we can receive information on illegal practices, inappropriate conduct, or violations of the Code of Ethics detected in our operations. It is also used to identify possible risk situations of any kind, acts of corruption, privacy or human rights violations. This system, which is managed by an independent firm, is available 24/7, both for employees and stakeholders, by four different channels, all confidential and anonymous: phone, webpage, e-mail and chat. Complaints may cover issues ranging from labor or sexual harassment, discrimination, human rights violations, theft, corruption, improper use of information, negative impact on the community and the environment, among others.	•	•	•
102-18	Governance structure	See page 34 Board of Directors.	•	•	•
102-19	Delegating authority	See page 34 Board of Directors. This is the highest body of governance at FEMSA, and its authority permeates and is distributed throughout the organization.	•	•	•
102-20	Executive-level responsibility for economic, environmental, and social topics	See page 36 Executive Management. For more information on our management team, visit: http://www.femsa.com/en/meet-femsa/corporate-governance/management-team/	•	•	•
102-22	Composition of the highest governance body and its committees	See page 34 Board of Directors.	•	•	•

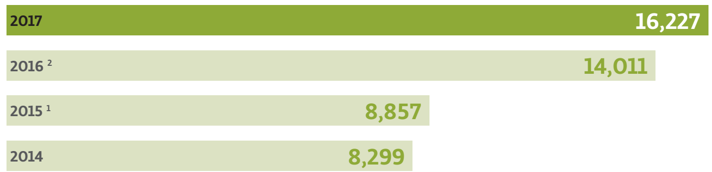
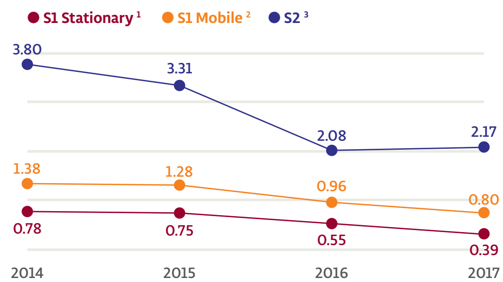
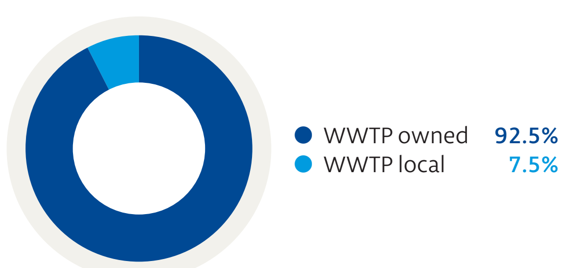
GRI Standard	Contents	Answer or reference	Business Unit		
			KOF	FC	FSB
102-23	Chair of the highest governance body	See page 36 Executive Management.	•	•	•
102-24	Nominating and selecting the highest governance body	Board members are appointed by company shareholders in the Ordinary Annual Shareholders' meeting. According to FEMSA's bylaws, shareholders owning series B shares appoint a minimum of 11 regular board members, while series D shareholders appoint 5 regular members. Furthermore, shareholders may appoint alternative board members. Committee members are also appointed at the Ordinary Annual Shareholders' Meeting and must be board members. Every member of the Audit Committee and Corporate Practices Committee is an independent board member, in keeping with the Securities Market Act and the applicable provisions of the NYSE. (for more information: see http://ir.femsa.com/documents.cfm)	•	•	•
102-25	Conflicts of interest	The Corporate Practices Committee is responsible for preventing or reducing the risk of transactions 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 the use of our company's assets or related party transactions, approve the compensation of the chief executive officer and key executives, and support the board of directors in drafting reports on the accounting and reporting policies and criteria followed in preparing financial information. Each member of the Corporate Practices Committee is an independent director, as required by the Mexican Securities Market Act. For more information, see: http://ir.femsa.com/corporate-governance-document.cfm?DocumentID=412	•	•	•
102-26	Role of highest governance body in setting purpose, values, and strategy	See page 36 Executive Management. For more information on our management team, visit: http://www.femsa.com/en/meet-femsa/corporate-governance/management-team/	•	•	•
102-27	Collective knowledge of highest governance body	The Committees of the Board of Directors are established as a mechanism of assisting the Board of Directors in its functions and to support it in making decisions on various issues, whether economic, social or environmental. Board Committees may ask board members, directors, employees, external consultants, or others, to attend meetings or to meet with one or more of its members to provide relevant information as necessary.	•	•	•
102-28	Evaluating the highest governance body's performance	At FEMSA, the members of the management team as well as the rest of the employees establish goals and targets based on their contribution level and responsibilities; progress is tracked against these goals at least four times a year. This evaluation is carried out in conjunction with the employee's direct superior, which permits an open, close and ongoing dialogue to ratify or correct strategies followed to achieve the established goals and generate economic and social value in a manner consistent with our vision.	•	•	•
102-29	Identifying and managing economic, environmental, and social impacts	The management team keeps track of the main risks to which FEMSA and its Business Units are exposed. Each Business Unit is responsible for identifying and tracking internal and external business risks, including social and environmental risks.	•	•	•
102-30	Effectiveness of risk management processes	Business Units establish measures to mitigate and manage risks, which are validated in the annual risk identification process.	•	•	•
102-31	Review of economic, environmental, and social topics	The Management Team and the Business Units conduct a strategic planning review at least four times a year, discussing the present business risks and opportunities, and any social and environmental issues that may arise.	•	•	•
102-32	Highest governance body's role in sustainability reporting	The Sustainability Department is responsible of providing sustainability information for the Annual Report.	•	•	•
102-33	Communicating critical concerns	See page 34 Corporate Governance.	•	•	•
102-35	Remuneration policies	Board Member compensation is approved in the General Shareholders' Meeting. The compensation policy for senior management is reviewed by the Corporate Practices Committee, based on compensation in the industry and/or historic practices and compensation levels at FEMSA.	•	•	•

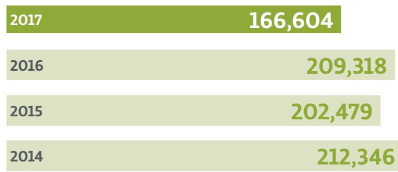
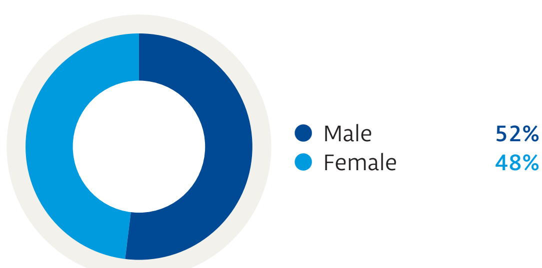
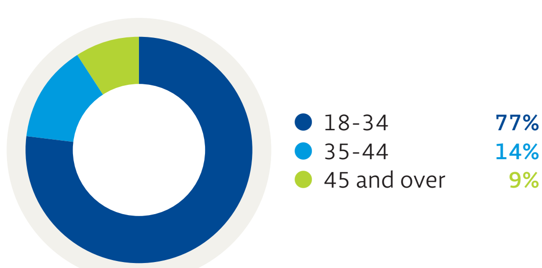
GRI Standard	Contents	Answer or reference	Business Unit KOF	FC	FSB
102-36	Process for determining remuneration	See standard 102-35.	•	•	•
102-40	List of stakeholder groups	At FEMSA we have various stakeholders with whom we engage, among them nonprofit organizations, investors, industry, specialized institutions, government, consumers, clients, suppliers, employees, society and the media.	•	•	•
102-41	Collective bargaining agreements	Of our total work force (221,789 of our own employees), 73% belong to a union, all of which are covered by a contract, agreement or collective agreement.	•	•	•
102-42	Identifying and selecting stakeholders	Every year, since 2014, we approach our stakeholders for their input on our Sustainability actions. By the end of 2016, we carried out an exercise in conjunction with The Partnering Initiative to strengthen the process and improve understanding of our stakeholders. This process included interviews with various areas of the company that interact with FEMSA's different stakeholders, and an industry-wide analysis of how the various stakeholder groups are served. This led us to develop a proposal for our main shareholders, aligned with FEMSA's Strategic Sustainability Framework, on the basis of which an engagement proposal is developed.	•	•	•
102-43	Approach to stakeholder engagement	We have approached our stakeholders for their input on our Sustainability Report and the actions reported in it. In addition to the consultations focused on the report, throughout the year we interacted individually with each group, through mechanisms such as surveys, conferences, breakfasts, work groups, among others.	•	•	•
102-44	Key topics and concerns raised	We continue to act on the basis of the results obtained in 2016, where we identified a need to continue strengthening communication and synergies in the area of sustainability, in keeping with our business strategy.	•	•	•
102-45	Entities included in the consolidated financial statements	The entities covered in our consolidated financial statements are: • FEMSA Servicios • Coca-Cola FEMSA • FEMSA Comercio • FEMSA Strategic Businesses	•	•	•
102-46	Defining report content and topic boundaries	The sustainability content of this report is based on the issues defined as material in our Strategic Sustainability Framework. We have followed the GRI Standards Guidelines, and its reporting principles (stakeholders' inclusion, sustainability context, materiality and exhaustivity) in preparing this table and the sustainability section. The information contained in this document is provided on a good-faith basis, with the intention of broadening understanding of the organization's non-financial performance. Although the information is considered to be correct at the time of publication, we cannot accept responsibility for any loss or damage caused by a person or organization acting or refraining from acting as a result of the information contained herein.	•	•	•
102-47	List of material topics	See page 22 Sustainability.	•	•	•
102-48	Restatements of information	Based on our regular process of internally verifying information, we found that we had counted consumption of renewable energy at Coca-Cola FEMSA in Mexico twice for the years 2014 and 2015. Restating those figures results in a reduction in total energy consumption reported for those years. The new updated values are 8,036,777 GJ (2014) and 8,184,713 GJ (2015).	•	•	•
102-49	Changes in reporting	There are no significant changes in the scope and material aspects addressed in the sustainability section and GRI table, compared to previous reports. As of this year, the GRI Content Index was based on the GRI Standards.	•	•	•
102-50	Reporting period	The information from the section on materiality and the GRI table in this annual report covers the period from January 1 to December 31, 2017 and corresponds to FEMSA and its Business Units only. It does not include the performance of Heineken because, since 2010, FEMSA has only an equity stake--not an operating influence--in that business. Businesses that were acquired less than a year ago are not included in the sustainability information.	•	•	•

GRI Standard	Contents	Answer or reference	Business Unit KOF	FC	FSB
102-51	Date of most recent report	The last report published was for fiscal year 2016, published in 2017.	•	•	•
102-52	Reporting cycle	The information from the section on materiality and the GRI table in this annual report covers the period from January 1 to December 31, 2017 and corresponds to FEMSA and its Business Units only. It does not include the performance of Heineken, because since 2010, FEMSA has only an equity stake--not an operating influence--in that business. Businesses that were acquired less than a year ago are not included in the sustainability report.	•	•	•
102-53	Contact point for questions regarding the report	Sustainability Víctor Manuel Treviño Vargas Gabriel Adrián González Anaya Phone: 52 (55) 5249 6800 sostenibilidad@femsa.com.mx	•	•	•
102-54	Claims of reporting in accordance with the GRI standards	This report has been prepared in accordance with the GRI Standards, Comprehensive option, and the materiality standards have been independently reviewed by EY Mexico (see verification letter at the end of this GRI Content Index). The information contained in this document is provided on a good-faith basis, with the intention of broadening understanding of the organization's non-financial performance. Although the information is considered to be correct at the time of publication, we cannot accept responsibility for any loss or damage caused by a person or organization acting or refraining from acting as a result of the information contained herein.	•	•	•
102-55	GRI content index	This table reports on the GRI Content Index.	•	•	•
102-56	External assurance	Independent Verification Letter.	•	•	•
Management focus					
103-1	Explanation of the material topic and its boundary	The Strategic Sustainability Framework defines material issues as those in which internal and external stakeholders consider FEMSA or its Business Units as capable of impacting them either positively or negatively. See page 22.	•	•	•
103-2	The management approach and its components	See page 22 Sustainability.	•	•	•
Economic					
201-1	Direct economic value generated and distributed	See page 4 Value Creation Highlights.	•	•	•
201-2	Financial implications and other risks and opportunities due to climate change	**Risks:** • Changes in the availability of natural resources. • Greater likelihood of excess precipitation or drought. • Increase in average temperature. • Change in the behavior of meteorological phenomena. **Consequences:** • Reduction or impact on production capacity. • Increase in operating costs.	•	•	•
201-3	Defined benefit plan obligations and other retirement plans	Employees receive the benefits established by law, and incentives in keeping with their performance. 100% of our full-time and temporary employees receive at least the benefits required by law. In Mexico, the Savings Fund covers 100% of employees and FEMSA contributes with a percentage. 100% of our employees are eligible for the Voluntary Retirement Savings Plan, and together with FEMSA contribute an additional percentage.	•	•	•
204-1	Proportion of spending on local suppliers	The percentage of expenses corresponding to local suppliers in 2017 was 86.75%. Local suppliers are defined as suppliers from the country where the purchase is made. Excludes: Suppliers of merchandise (OXXO suppliers), finished product, employees or sales representatives, donations, inter-company transfers, government offices, unions, information of operations of Solistica in Brazil and Coca-Cola FEMSA in the Philippines.	•	•	•

GRI Standard	Contents	Answer or reference	Business Unit KOF	FC	FSB
205-1	Operations assessed for risks related to corruption	In all of our operations, we encourage and facilitate the detection of illegal practices and/or inappropriate conduct, through open communication and formal mechanisms introduced in accordance with the provisions of our Code of Ethics, and we promptly report on any violations of it. The Whistleblower System is a formal mechanism introduced in all the Business Units that provides an open channel for people to notify the company of illegal practices or inappropriate conduct detected anywhere in our organization.	•	•	•
205-2	Communication and training about anti-corruption policies and procedures		•	•	•
205-3	Confirmed incidents of corruption and actions taken	See page 37 Code of Ethics.	•	•	•
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Our Code of Ethics also requires us to comply with the laws on fair competition in all the countries where we operate.	•	•	•
		Environmental			
301-1	Materials used by weight or volume	Used materials (Metric tons)	•	•	•
301-2	Recycled input materials used	Total packaged materials amounted to 518,319 metric tons.  Does not include information of Solistica and Imbera.	•	•	•
301-3	Reclaimed products and their packaging materials	See standard 301-2.	•	•	•
302-1	Energy consumption within the organization	Direct consumption of stationary energy (GJ)  Indirect consumption of stationary energy (GJ)  Indirect consumption of FEMSA Comercio for November and December are estimated.	•	•	•
302-2	Energy consumption outside of the organization	6,416,235.25 GJ in Mexico. *This indicator includes only fuel consumption by our clients through the use of our fleet. ** Coca-Cola FEMSA information is estimated. *** The scope of the information is only for Mexico.	•		•

GRI Standard	Contents	Answer or reference	Business Unit KOF	FC	FSB
302-3	Energy intensity	Intensive direct and indirect consumption of energy (GJ/ total FEMSA revenues in Ps. million)  1. Includes stationary consumption of non-renewable sources. 2. Includes fuel consumption by company-owned units. 3. Includes consumption from indirect renewable and non-renewable sources.	•	•	•
302-4	Reduction of energy consumption	At Coca-Cola FEMSA, we have the goal of supplying 85% of the Mexican manufacturing power consumption with clean energy sources by 2020, and we were 57% of the way toward that goal at the close of 2017. In our operations in Brazil, 100% of the electrical energy supplied comes from clean sources. FEMSA Comercio continued installing the Smart Automation and Energy Control System in different workplaces. By the end of 2017, 13,944 OXXO stores, 16 Distribution Centers and 17 offices in Mexico have installed this system, which uses sensors, alarms and controls for regulating refrigeration equipment, air conditioning and lighting circuits. Additionally, 23% of our OXXO stores are supplied with clean energy.	•	•	
302-5	Reductions in energy requirements of products and services	 OXXO Stores operating with the Smart Automation and Energy Control System See page 26 Our Planet.	•	•	
303-1	Water withdrawal by source	Breakdown of water consumption by source FEMSA water consumption: 37.6 million m^3 	•	•	•
303-3	Water recycled and reused	We have wastewater treatment plants at 100% of our bottling plants.	•		
305-1	Direct (Scope 1) GHG emissions	Direct and indirect greenhouse gas emissions Metric tons of CO_2e (stationary and indirect) 	•	•	•
305-2	Energy indirect (Scope 2) GHG emissions				

GRI Standard	Contents	Answer or reference	Business Unit		
			KOF	FC	FSB
305-3	Other indirect (Scope 3) GHG emissions	Metric tons of CO_2e from employee flights  1. Does not include 206 routes on which data was not available, and which represent 1% of total flights. 2. Routes are calculated based on the International Civil Aviation Organization calculator. Takes into account organic and non-organic growth of the organization.	•	•	•
305-4	GHG emissions intensity	Total intensive emissions Scope 1 (stationary) + Scope 2 Metric tons of CO_2e/total FEMSA revenues in Ps. million  1. Includes stationary consumption of non-renewable sources. 2. Includes fuel consumption by company-owned units. 3. Includes fuel consumption of indirect renewable and non-renewable sources.	•	•	•
305-5	Reduction of GHG emissions	At Coca-Cola FEMSA, we work to reduce the energy consumption of our products, benefiting our consumers and the environment. Over the past 12 years, we have succeeded in reducing the energy requirement of our main equipment by 44%. We are focusing efforts on our goal of using environmentally-friendly refrigerant gases in 80% of the equipment we make, by the year 2021. In 2017, we achieved a 30% reduction (compared to 2014) in the use of R134 and 141B refrigerant gases. To reduce our CO_2e emissions, we have implemented several initiatives, such as the use of recycled resin and bioPET, renewable energy consumption, initiatives for PET lightweighting and improved energy consumption in our manufacturing plants, which have achieved significant benefits and savings. Thanks to the renewable electrical energy supplied by wind farms to FEMSA, in 2017 we avoided the emission of 280,133 metric tons of CO_2, and since August 2015 we have avoided the emission of more than 500,000 metric tons of CO_2 (see Page 26, Our Planet).	•	•	•
306-1	Water discharge by quality and destination	Discharge of wastewater by quality and destination  WWTP: Wastewater treatment plant. 100% of our water discharge is sent to a WWTP (local or owned).	•		

GRI Standard	Contents	Answer or reference	Business Unit		
			KOF	FC	FSB
306-2	Waste by type and disposal method	Waste generated Metric tons  All hazardous waste is channeled to companies that specialize in its correct handling and disposal. Does not include wood waste by FEMSA Comercio.	•	•	•
306-4	Transport of hazardous waste				
307-1	Non-compliance with environmental laws and regulations	At FEMSA, we have processes for complying with the environmental laws that apply to our operations.	•	•	•
308-1	New suppliers that were screened using environmental criteria	As of today, we have conducted 735 supplier evaluations for issues of human rights, the environment and labor practices, 538 of them according to FEMSA's Supplier Guiding Principles since 2014, and 197 according the The Coca-Cola Company principles since 2013. *The information provided applies only to Coca-Cola FEMSA.	•		
308-2	Negative environmental impacts in the supply chain and actions taken	With the support of Trucost, in 2017 we carried out the excercise to quantify the environmental impact of our direct and supply chain operations, extending the process to our supply of raw materials.	•	•	•
		Social			
401-1	New employee hires and employee turnover	In 2017, we hired a total of 178,089 new employees. 1. New hires by gender:  2. New hires by age group:  Does not include information of IMBERA and PTM.	•	•	•

GRI Standard	Contents	Answer or reference	Business Unit		
			KOF	FC	FSB
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	These are some of the benefits our employees enjoy: • Annual bonus. • Complementary annual compensation. • Savings fund. • Scholarships. Additionally, through Sociedad Cuauhtémoc y Famosa (SCYF) in Monterrey, Nuevo León, Mexico, we offer comprehensive development programs for our employees, along with medical care, recreation, food and financial services, to promote a culture of work and savings that encourages family stability. Benefits are offered to full-time as well as temporary employees.	•	•	•
401-3	Parental leave	The return work rate after the parental leave in 2017 was 92% for men and 67% for women. This information does not include data for Imbera or PTM.	•	•	•
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	In 2017, the index of days lost due to work-related incidents per 100 workers was reduced from 40.36 days in 2016 to 28.56 in 2017, which is a 29% improvement in that period. The accident frequency rate / Accident Index was reduced by 1.4% from 2.13 in 2016 to 2.10 in 2017. The index of days lost due to general illness increased 2% from 332 to 338 days for every 100 workers, due mainly to increases in Brazil and Mexico. The general illness incidence index decreased by 14%, from 47.25 cases per 100 workers to 40.7 in 2017. In 2017, there were five work-related fatalities among our employees (four in Mexico and one in Colombia). Of these, two were the result of social violence (crime) and the other three were transit accidents. The work-related illness rate (WRIR) was 0.03 for every 100 workers, and 70% of these cases were in Mexico and Colombia. In line with global labor safety and health indicators and practices, we are migrating to indicators based on work-hours, with the following results: index of days lost due to work-related accidents, 24.75; accident frequency rate, 1.79; days lost due to general illness 287.89; general illness cases 34.67; work-related illness rate (WRIR) 0.026; and Lost Time incident Rate (LTIR) 1.819. For the company, creating safe and healthy working conditions is a crucial part of our Occupational Health and Safety policy, so it includes all people. Separating accident and fatality indicators by gender makes no difference in implementation of preventive and corrective measures in the various Occupational Health and Safety Systems of FEMSA's Business Units.	•	•	•
403-3	Workers with high incidence or high risk of diseases related to their occupation	Through our Occupational Health Management Model and 20 preventive programs, we promote and maintain the highest level of physical, mental and social wellness in all of our Business Units, by encouraging our employees to adopt healthy lifestyles, minimizing the risk of work-related illness and complying with the laws of all the countries where we operate.	•	•	•
403-4	Health and safety topics covered in formal agreements with trade unions	Our collective bargaining agreements include a commitment to fulfill occupational health and safety obligations, prevent accidents through mixed committees and provide safety equipment consistent with the duties performed.	•	•	•
404-1	Average hours of training per year per employee	Employees of FEMSA and its Business Units received an average of 33.9 hours of training in 2017. Does not include information of IMBERA and PTM.	•	•	•
404-2	Programs for upgrading employee skills and transition assistance programs	The comprehensive development of our employees, both professionally and personally, is of the utmost importance to FEMSA. We maintain a number of programs to pursue this objective, for example through Sociedad Cuauhtémoc y Famosa (SCYF) in Monterrey, México, we support programs to help employees transition to retirement through the Life and Development Program (PLAVIDE). The program is designed for employees approaching retirement, along with their partners, to prepare for this new phase, understanding it as a natural process in life. For more information on this standard, see Page 24, Our People.	•	•	•

GRI Standard	Contents	Answer or reference	Business Unit		
			KOF	FC	FSB
404-3	Percentage of employees receiving regular performance and career development reviews	As part of our talent management, during the year, 23,350 employees received individual performance and professional development evaluations.	•	•	•
405-1	Diversity of governance bodies and employees	Structure of Board of Directors, See page 34; See standard 102-08.	•	•	•
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	FEMSA has a policy of respecting employees' freedom of association and union affiliation; and their right to create or join a union, voluntarily and freely, without fear of reprisals or intimidation. In our work centers and among our significant suppliers, we have identified no threats or violations of the freedom of association and right to adhere to collective bargaining contracts.	•	•	•
408-1	Operations and suppliers at significant risk for incidents of child labor	In every country where we operate, FEMSA has a policy of operating in keeping with national and international laws regarding minimum hiring age and working conditions.	•	•	•
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	For FEMSA, human beings are the fundamental factor in the organization, and must be treated with dignity. Accordingly, we prohibit any form of labor that is not mutually agreed upon, and we reject all types of unpaid work, servitude, slavery or withholding of documents as a condition of employment.	•	•	•
410-1	Security personnel trained in human rights policies or procedures	80% of our security personnel received human rights training in 2017. This percentage does not include security personnel from FEMSA Comercio, Imbera and PTM.	•		•
412-1	Operations that have been subject to human rights reviews or impact assessments	At FEMSA we have a Workplace Information System through which each work center can conduct a self-evaluation that includes specific human right issues. To date, no potential impacts have been identified. Also, at Coca-Cola FEMSA, operations are audited by an external party for issues relating to human rights, among others.	•	•	•
412-2	Employee training on human rights policies or procedures	See standard 404-1.	•	•	•
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	FEMSA's Code of Ethics is one of the ways we give our unconditional support to a sense of respect, honesty and integrity in our organization. These values are an essential part of our corporate culture, and enable us to ensure our businesses are properly managed. The Code encourages all our suppliers to follow good human rights practices, and we provide every supplier of goods and services a copy of our Supplier Guiding Principles.	•	•	•
413-1	Operations with local community engagement, impact assessments, and development programs	See page 28 Our Community.	•	•	•
414-1	New suppliers that were screened using social criteria	See standard 308-1.	•		

GRI Standard	Contents	Answer or reference	Business Unit		
			KOF	FC	FSB
417-1	Requirements for product and service information and labeling	To enable our consumers to make informed dietary decisions across every one of our operations, our product labels include easy-to-access nutritional content information, including the nutrients, fats, sugar, sodium, and calories in each of our products. Calculated on the basis of a two-thousand-calorie diet, our nutritional labeling strategy is based on recommended Dietary Daily Allowance Guidelines and on applicable regulations in each country. As part of our commitment to the wellbeing of our consumers, our advertising adheres to The Coca-Cola Company's Responsible Marketing Policy and Global School Beverage Guidelines. We do not market any of our products directly to children under the age of 12 and also we don't place any of our brands' marketing in any media that directly targets children under 12—media in which 35% or more of the audience is composed of children under 12. We further voluntarily refrain from offering our caloric beverages for sale in primary and secondary schools. In this and other ways, we underscore our devotion to the healthy habits of our consumers. Furthermore, to ensure that our products comply with the highest quality standards—including ISO-9001 and ISO-22000 certifications—our manufacturing processes adhere to the Coca-Cola Operation Requirements (KORE) and to the Food Safety Management System. Accordingly, we guarantee the quality of our products throughout our plants' production chain, which are in turn certified in food safety through the Food Safety System Certification 22000 (FSSC 22000).	•		
417-2	Incidents of non-compliance concerning product and service information and labeling	There were no monetary fines and/or sanctions relating to non-compliance with laws or regulations or voluntary codes regarding information or labeling of products and services.	•	•	•
417-3	Incidents of non-compliance concerning marketing communications	There were no incidents relating to non-compliance with regulations on marketing communications, including advertising, promotion and sponsorship.	•	•	•
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	There were no claims of violation of privacy for our clients, or loss of client data.	•	•	•
419-1	Non-compliance with laws and regulations in the social and economic area	There were no incidents relating to non-compliance with social or environmental laws.	•	•	•

Independent Limited Verification Report

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Independent Limited Verification Report

To the Board of Directors of Fomento Económico Mexicano, S.A.B de C.V.:

Scope of our Work

We have undertaken an independent limited verification of the information and performance indicators included in Exhibit A and presented in the 2017 Annual Report (the "Report") of Fomento Económico Mexicano ("FEMSA" or the "Company"), in accordance with the reporting criteria set forth in the GRI Standards (the "Criteria").

The preparation of this report is the responsibility of FEMSA's Management. FEMSA's Management is also responsible for the information and the assertions contained therein, defining the scope of the Report and the management and control of the information systems that provided the information reported.

Our work was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000 issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). This standard requires that we plan and perform our engagement to obtain limited assurance about whether the report is free from material misstatement and that we comply with ethical requirements, including the independence requirements included in the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA).

Standards and verification procedures

The verification procedures we performed focused on the following:

- Interviews with the individuals responsible for the information in order to understand the activities performed and the procedures used to gather the information.
- Review of the structure and content of the Report in accordance with the GRI Standards.
- Understanding of the procedures used in compiling and consolidating quantitative and qualitative data, as well as their traceability.
- Review of the support documentation through analysis and recalculations, as well as sampling, to have more certainty of the indicators reported.

It is worth mentioning that the scope of this review is substantially less than a reasonable assurance engagement. Therefore, the assurance provided is also less. This Report shall in no way be considered to be an audit report.

The information and performance indicators that were verified are the following

102-4	102-18	102-26	102-31	102-46	204-1	303-1
102-15	102-19	102-27	102-41	102-48	301-1	305-4
102-16	102-20	102-28	102-42	103-1	301-2	401-2
102-17	102-22	102-29	102-45	103-2	302-3	404-2

- Total number of employees
- Total number of employees by labor contract
- Total number of employees by gender
- Total number of employees by region
- Direct stationary energy consumption
- Indirect energy consumption
- Direct and indirect GHG emissions (scope 1 and 2)
- Indirect GHG emissions due to business trips (scope 3)
- Percentage of water discharged by destination

- Total tons of waste generated
- Number of suppliers assessed on issues regarding human rights, the environment, and labor practices
- Number of new hires
- Accident rate
- General illness rate
- Average number of training hours
- Number of employees with performance assessments
- Number of work centers enabled with the Model for Addressing Risks and Relations with the Community (MARRCO)

Conclusions

Based on our work described in this Report, nothing has come to our attention that causes us to believe that the information and performance indicators selected are not presented, in all material respects, in accordance with the applicable criteria.

This report has been exclusively prepared for the Board of Directors of Fomento Económico Mexicano, S.A.B. de C.V., in accordance with the terms of our engagement agreement.

Mancera, S.C.
A Member Practice of Ernst & Young Global Limited

Saúl García
Partner

February 21, 2018; Mexico City

FEMSA

Exhibit A: Information and performance indicators exhibit

Information

GRI	Information name	GRI	Information name
102-4	Location of operations	102-29	Identifying and managing economic, environmental, and social impacts
102-15	Key impacts, risks, and opportunities	102-31	Review of economic, environmental, and social topics
102-16	Values, principles, standards, and norms of behavior	102-42	Identifying and selecting stakeholders
102-17	Mechanisms for advice and concerns about ethics	102-45	Entities included in the consolidated financial statements
102-18	Governance structure	102-46	Defining report content and topic Boundaries
102-19	Delegating authority	102-48	Restatements of information
102-20	Executive-level responsibility for economic, environmental, and social topics	103-1	Explanation of the material topic and its Boundary
102-22	Composition of the highest governance body and its committees	103-2	The management approach and its components
102-26	Role of highest governance body in setting purpose, values, and strategy	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees
102-27	Collective knowledge of highest governance body	404-2	Programs for upgrading employee skills and transition assistance programs
102-28	Evaluating the highest governance body's performance		

Performance indicators

GRI	Name of performance indicator	Scope	Information reported	Unit
	Total number of employees	FEMSA and its business units	295,027	Employees
	Total number of employees by labor contract	FEMSA and its business units	20.3	% of employees
			54.9	% of unionized employees
			5.4	% of external services
			19.5	% of sales commissions
	Total number of employees by gender	FEMSA and its business units[i]	34.8	% of female employees
			65.2	% of male employees
	Total number of employees by region	FEMSA and its business units	71.0	% in Mexico
			2.4	% in Central America
			4.3	% in Colombia
			9.2	% in Brazil
			1.0	% in Argentina
			4.1	% in Chile
			1.9	% in Venezuela
			5.6	% in the Philippines
			0.5	% in other countries
102-41	Collective bargaining agreements	FEMSA and its business units	73.0	% of own employees covered by collective bargaining agreements

204-1	Proportion of spending on local suppliers	FEMSA and its business units[ii]	86.8	% of spending on local suppliers
301-1	Materials used by weight or volume	Coca Cola FEMSA, FEMSA Comercio and PTM	518,319	Tons of resin and packaging material
301-2	Recycled input materials	Coca Cola FEMSA, FEMSA Comercio and PTM	34.4	% of recycled input materials
	Direct stationary energy consumption	Coca Cola FEMSA and Imbera	2,243,678	GJ
	Indirect energy consumption	FEMSA and its business units	10,340,135	GJ
302-3	Direct stationary energy intensity	Coca Cola FEMSA and Imbera	4.9	GJ/FEMSA's total revenue in millions of Mexican pesos
	Indirect energy intensity	FEMSA and its business units	22.5	GJ/FEMSA's total revenue in millions of Mexican pesos
303-1	Water withdrawal by source	FEMSA and its business units	37.6	Millions of cubic meters
			65.0	% underground
			33.7	% supply
			1.3	% surface
	Direct and indirect GHG emissions (scope 1 and 2)	Direct emissions: Coca Cola FEMSA and Imbera Indirect emissions: FEMSA and its business units	1,177,584	Tons of CO_2 equivalent
	Indirect GHG emissions due to business trips (scope 3)	FEMSA and its business units[iii]	16,227	Tons of CO_2 equivalent
305-4	Direct stationary GHG emissions intensity	Coca Cola FEMSA and Imbera	0.4	Tons of CO_2 equivalent/FEMSA's total revenue in millions of Mexican pesos
	Indirect stationary GHG emissions intensity	FEMSA and its business units	2.2	Tons of CO_2 equivalent/FEMSA's total revenue in millions of Mexican pesos
	Percentage of water discharged by destination	Coca Cola FEMSA	92.5%	% of discharge into own wastewater treatment plant
			7.5%	% of discharge into local wastewater treatment plant
	Total tons of waste generated	FEMSA and its business units	166,604	Tons of waste
	Number of suppliers assessed on issues regarding human rights, the environment, and labor practices	Coca Cola FEMSA	735	Suppliers

	Number of new hires	FEMSA and its business units	178,089	New hires
	Accident rate	FEMSA and its business units	2.1	Number of accidents per 100 employees
	General illness rate	FEMSA and its business units	40.7	Number of cases per 100 employees
	Average number of training hours	FEMSA and its business units	33.9	Training hours
	Number of employees with performance assessments	FEMSA and its business units	23,350	Employees
	Number of work centers enabled with the Model for Addressing Risks and Relations with the Community (MARRCO)	Coca Cola FEMSA	18	Work centers

[i] The percentages don't include 9% of FEMSA's employees.
[ii] Excludes: Suppliers or merchandise (OXXO merchandise), finished product, employees or sales representatives, donations, inter-company transfers, government offices, unions, information of operations of FEMSA Logística in Brazil and Coca-Cola FEMSA in Philippines.
[iii] 1% of the flights are not included.

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Stock Markets and Symbols
Fomento Económico Mexicano, S.A.B. de C.V. stock trades on the Bolsa Mexicana de Valores (BMV) in the form of units under the symbols FEMSA UBD and FEMSA UB. The FEMSA UBD units also trade on The New York Stock Exchange, Inc. (NYSE) in the form of ADRs under the symbol FMX.

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