MEXICAN ECONOMIC DEVELOPMENT INC
Form 20-F
April 24, 2018

As filed with the Securities and Exchange Commission on April 24, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

Commission file number 001-35934

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

(Exact name of registrant as specified in its charter)

Mexican Economic Development, Inc.

(Translation of registrant s name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

General Anaya No. 601 Pte.

Colonia Bella Vista

Monterrey, NL 64410 Mexico

(Address of principal executive offices)

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

address of company contact person)

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

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

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

None

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

None

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

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

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

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

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

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

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

U.S. GAAP   IFRS   Other

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

Item 17   Item 18

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

Yes   No

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INTRODUCTION

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

References

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

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

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

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

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 19.6395 to US$ 1.00, the noon buying rate for Mexican pesos on December 29, 2017, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. On April 20, 2018, this exchange rate was Ps. 18.6145 to US$ 1.00. **See Item 3. Key Information Exchange Rate Information** for information regarding exchange rates since 2013.

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

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

Forward-Looking Information

This annual report contains words such as believe, expect, anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including, but not limited to, effects on our company from changes in our relationship with or among our affiliated companies, movements in the prices of raw materials, competition, significant developments in Mexico and the other countries where we operate, our ability to successfully integrate mergers and acquisitions we have completed in recent years, international economic or political conditions or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

ITEMS 1-2. NOT APPLICABLE

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017, 2016, and 2015. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Pursuant to IFRS, the information presented in this annual report presents financial information for 2017, 2016, 2015, 2014 and 2013 in nominal terms in Mexican pesos, taking into account local inflation of any hyperinflationary economic environment and converting the inflation adjusted local currency to Mexican pesos using the exchange rate at the end of the period of each country categorized as a hyperinflationary economic environment (for this annual report, only Venezuela).

Furthermore, pursuant to IFRS, determined as a result of Venezuela s hyperinflationary economic environment and currency exchange regime, Coca-Cola FEMSA reported the results of its Venezuelan subsidiary, Coca-Cola FEMSA de Venezuela, S.A., or KOF Venezuela, as a separate consolidated reporting segment. Since its Venezuelan subsidiary will continue doing operations in Venezuela, 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 of December 31, 2017. Prior to December 31, 2017, Coca-Cola FEMSA s recognition of the operations of KOF Venezuela involved a three-step accounting process to (1) translate all transactions based in foreign currencies into bolivars, (2) restate all nonmonetary accounts to current bolivar by applying the general price index and (3) then translate the bolivar amounts to Mexican Pesos. We translated the Venezuela subsidiary figures at an exchange rate of 22,793 bolivars per U.S. dollar at December 31, 2017, which better represents the economic conditions in Venezuela that are not otherwise reflected in the market exchange rate (the exchange rate was not published by the local central bank). For further information, see Notes 3.3, and 3.4 to our audited consolidated financial statements. For each non-hyperinflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for equity and the average exchange rate for the income statement. See Note 3.3 to our audited consolidated financial statements.

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

Commencing on February 1, 2017 Coca-Cola FEMSA started consolidating the financial results of Coca-Cola FEMSA Philippines, Inc., or KOF Philippines, in Coca-Cola FEMSA s financial statements.

Except when specifically indicated, information in this annual report on Form 20-F is presented as of December 31, 2017 and does not give effect to any transaction, financial or otherwise, subsequent to that date.

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

	December 31,					
	2017[1][2]	**2017[2][3]**	**2016[2][4]**	**2015[2][5]**	**2014**	**2013[6]**
	(in millions of Mexican pesos or millions of U.S. dollars, except percentages and share and per share data)					
Income Statement Data (for the year ended):						
Total revenues	$ 23,445	Ps. 460,456	Ps. 399,507	Ps. 311,589	Ps. 263,449	Ps. 258,097
Gross Profit	8,669	170,268	148,204	123,179	110,171	109,654
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	23,744	25,080
Income taxes	539	10,583	7,888	7,932	6,253	7,756
Consolidated net income	1,895	37,206	27,175	23,276	22,630	22,155
Controlling interest net income	2,160	42,408	21,140	17,683	16,701	15,922
Non-controlling interest net income	(265)	(5,202)	6,035	5,593	5,929	6,233
Basic controlling interest net income:						
Per Series B Share	0.11	2.12	1.05	0.88	0.83	0.79
Per Series D Share	0.13	2.65	1.32	1.10	1.04	1.00
Diluted controlling interest net income:						
Per Series B Share	0.11	2.11	1.05	0.88	0.83	0.79
Per Series D Share	0.13	2.64	1.32	1.10	1.04	0.99
Weighted average number of shares outstanding (in millions):						
Series B Shares	9,246.4	9,246.4	9,246.4	9,246.4	9,246.4	9,246.4
Series D Shares	8,644.7	8,644.7	8,644.7	8,644.7	8,644.7	8,644.7
Allocation of earnings:						
Series B Shares	46.11%	46.11%	46.11%	46.11%	46.11%	46.11%
Series D Shares	53.89%	53.89%	53.89%	53.89%	53.89%	53.89%
Financial Position Data (as of):						
Total assets	$ 29,967	Ps. 588,541	Ps. 545,623	Ps. 409,332	Ps. 376,173	Ps. 359,192
Current liabilities	5,348	105,022	86,289	65,346	49,319	48,869
Long-term debt[7]	5,996	117,758	131,967	85,969	82,935	72,921
Other long-term liabilities	1,468	28,849	41,197	16,161	13,797	14,852
Capital stock	170	3,348	3,348	3,348	3,347	3,346
Total equity	17,155	336,912	286,170	241,856	230,122	222,550
Controlling interest	12,744	250,291	211,904	181,524	170,473	159,392
Non-controlling interest	4,411	86,621	74,266	60,332	59,649	63,158
Other Information						
Depreciation	$ 795	Ps. 15,613	Ps. 12,076	Ps. 9,761	Ps. 9,029	Ps. 8,805
Capital expenditures[8]	1,282	25,180	22,155	18,885	18,163	17,882
Gross margin[9]	37%	37%	37%	40%	42%	42%

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 19.6395 to US$ 1.00 solely for the convenience of the reader.

(2) The exchange rate used to translate our operations in Venezuela as of and for the year ended on December 31, 2017 was an exchange rate of 22,793 bolivars to US$ 1.00, compared to the year ended on December 31, 2016 which was the DICOM rate of 673.76 bolivars to US$ 1.00 and compared to the year ended on December 31, 2015 which was the SIMADI rate of 198.70 bolivars to US$ 1.00. **See Item 3. Key Information Selected Consolidated Financial Data** Note 3.3 of our audited consolidated financial statements.

(3) Includes results of Coca-Cola FEMSA Philippines (CCFPI or KOF Philippines) (formerly Coca-Cola Bottlers Philippines, Inc.), from February 2017 starting of consolidation accounting method. **See Item 4. Information on the Company The Company Corporate Background** and Note 4 to our audited consolidated financial statements.

(4) Includes results of Vonpar, S.A. (Vonpar or Group Vonpar), from December 2016, and other business acquisitions. **See Item 4. Information on the Company The Company Corporate Background** and Note 4 to our audited consolidated financial statements.

(5) Includes results of Socofar, S.A. (Socofar or Group Socofar), from October 2015, the Fuel Division from March 2015 and other business acquisitions. **See Item 4. Information on the Company The Company Corporate Background** and Note 4 of our audited consolidated financial statements.

(6) Includes results of KOF Philippines, from February 2013 using the equity method, Grupo Yoli, S.A. de C.V. (Group Yoli) from June 2013, Companhia Fluminense de Refrigerantes (Companhia Fluminense) from September 2013, Spaipa S.A. Indústria Brasileira de Bebidas (Spaipa) from November 2013 and other business acquisitions. **See Item 4. Information on the Company Coca-Cola FEMSA Corporate History.**

(7) Includes long-term debt minus the current portion of long-term debt.

(8) Includes investments in property, plant and equipment, intangible and other assets, net of cost of long lived assets sold, and write-off.
(9) Gross margin is calculated by dividing gross profit by total revenues.

Dividends

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

The following table sets forth for each year the nominal amount of dividends per share that we declared in Mexican peso and U.S. dollar amounts and their respective payment dates for the 2013 to 2017 fiscal years:

Date Dividend Paid	Fiscal Year with Respect to which Dividend was Declared	Aggregate Amount of Dividend Declared	Per Series B Share Dividend	Per Series B Share Dividend[7]	Per Series D Share Dividend	Per Series D Share Dividend[7]
May 7, 2013 and November 7, 2013[1]	2012	Ps.6,684,103,000	Ps.0.3333	$ 0.0264	Ps.0.4166	$ 0.0330
May 7, 2013			Ps.0.1666	$ 0.0138	Ps.0.2083	$ 0.0173
November 7, 2013			Ps.0.1666	$ 0.0126	Ps.0.2083	$ 0.0158
December 18, 2013[2]	2012	Ps.6,684,103,000	Ps.0.3333	$ 0.0257	Ps.0.4166	$ 0.0321
May 7, 2015 and November 5, 2015[3]	2014	Ps.7,350,000,000	Ps.0.3665	$ 0.0230	Ps.0.4581	$ 0.0287
May 7, 2015			Ps.0.1833	$ 0.0120	Ps.0.2291	$ 0.0149
November 5, 2015			Ps.0.1833	$ 0.0110	Ps.0.2291	$ 0.0132
May 5, 2016 and November 3, 2016[4]	2015	Ps.8,355,000,000	Ps.0.4167	$ 0.0225	Ps.0.5208	$ 0.0282
May 5, 2016			Ps.0.2083	$ 0.0117	Ps.0.2604	$ 0.0146
November 3, 2016			Ps.0.2083	$ 0.0108	Ps.0.2604	$ 0.0135
May 5, 2017 and November 3, 2017[5]	2016	Ps.8,636,000,000	Ps.0.4307	$ 0.0226	Ps.0.5383	$ 0.0282
May 5, 2017			Ps.0.2153	$ 0.0113	Ps.0.2692	$ 0.0142
November 3, 2017			Ps.0.2153	$ 0.0112	Ps.0.2692	$ 0.0140
May 4, 2018 and November 6, 2018[6]	2017	Ps.9,220,625,674	Ps.0.4598	N/A	Ps.0.5748	N/A
May 4, 2018			Ps.0.2299	N/A	Ps.0.2874	N/A
November 6, 2018			Ps.0.2299	N/A	Ps.0.2874	N/A

(1) The dividend payment for 2012 was divided into two equal payments in Mexican pesos. The first payment was payable on May 7, 2013 with a record date of May 6, 2013, and the second payment was payable on November 7, 2013 with a record date of November 6, 2013.
(2) The dividend payment declared in December 2013 was payable on December 18, 2013 with a record date of December 17, 2013.
(3) The dividend payment for 2014 was divided into two equal payments in Mexican pesos. The first payment was payable on May 7, 2015 with a record date of May 6, 2015, and the second payment was payable on November 5, 2015 with a record date of November 4, 2015. The dividend payment for 2014 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. See Note 22 to our audited consolidated financial statements.
(4) The dividend payment for 2015 was divided into two equal payments. The first payment was payable on May 5, 2016 with a record date of May 4, 2016, and the second payment was payable on November 3, 2016 with a record date of November 1, 2016. The dividend payment for 2015 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. See Note 22 to our audited consolidated financial statements.
(5) The dividend payment for 2016 was divided into two equal payments. The first payment was payable on May 5, 2017 with a record date of May 4, 2017, and the second payment was payable on November 3, 2017 with a record date of November 1, 2017. The dividend payment for 2016 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. See Note 22 to our audited consolidated financial statements.
(6) The dividend payment for 2017 will be divided into two equal payments. The first payment will become payable on May 4, 2018 with a record date of May 3, 2018 and the second payment will become payable on November 6, 2018 with a record date of November 5, 2018. The dividend payment for 2017 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. See Note 22 to our audited consolidated financial statements.
(7) Translations to U.S. dollars are based on the exchange rates on the dates the payments were made.

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

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

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

Exchange Rate Information

The following table sets forth, for the periods indicated, the high, low, average and year-end noon exchange rate, expressed in Mexican pesos per US$ 1.00, as published by the Federal Reserve Bank of New York. The rates have not been restated in constant currency units and therefore represent nominal historical figures.

Year ended December 31,	Exchange Rate			
	High	Low	Average(1)	Year End
2013	13.43	11.98	12.86	13.10
2014	14.79	12.85	13.35	14.75
2015	17.36	14.56	15.97	17.20
2016	20.84	17.19	18.70	20.62
2017	21.89	17.48	18.89	19.64

(1) Average month-end rates.

	Exchange Rate		
	High	Low	Period End
2016:			
First Quarter	Ps.19.19	Ps.17.21	Ps.17.21
Second Quarter	19.15	17.19	18.49
Third Quarter	19.86	17.98	19.34
Fourth Quarter	20.84	18.44	20.62
2017:			
First Quarter	Ps.21.89	Ps.18.67	Ps.18.83
Second Quarter	19.15	17.88	18.08
Third Quarter	18.33	17.48	18.15
Fourth Quarter	19.73	18.21	19.64
October	19.18	18.21	19.13
November	19.26	18.51	18.63
December	19.73	18.62	19.64
2018:			
January	Ps.19.48	Ps.18.49	Ps.18.62
February	18.90	18.36	18.84
March	18.86	18.17	18.17
First Quarter	19.48	18.17	18.17

Risk Factors

Risks Related to Our Company

Coca-Cola FEMSA

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

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

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

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

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

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

The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA s business. As of April 13, 2018, The Coca-Cola Company indirectly owned 27.8% of Coca-Cola FEMSA s outstanding capital stock, representing 37.0% of Coca-Cola FEMSA s capital stock with full voting rights. The Coca-Cola Company is entitled to appoint five of Coca-Cola FEMSA s maximum of 21 directors and the vote of at least two of them is required to approve certain actions by Coca-Cola FEMSA s board of directors. As of April 13, 2018, we indirectly owned 47.2% of Coca-Cola FEMSA s outstanding capital stock, representing 63.0% of Coca-Cola FEMSA s capital stock with full voting rights. We are entitled to appoint 13 of Coca-Cola FEMSA s maximum of 21 directors and all of Coca-Cola FEMSA s executive officers. We and The Coca-Cola Company together, or only us in certain circumstances, have the power to determine the outcome of all actions requiring approval by Coca-Cola FEMSA s board of directors, and we and The Coca-Cola Company together, or only us in certain circumstances, have the power to determine the outcome of all actions requiring approval of Coca-Cola FEMSA s shareholders. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA The Shareholders Agreement.** The interests of The Coca-Cola Company may be different from the interests of Coca-Cola FEMSA s other shareholders, which may result in Coca-Cola FEMSA taking actions contrary to the interests of such other shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where Coca-Cola FEMSA operates. Currently, there are no price controls on Coca-Cola FEMSA s products in any of the territories where Coca-Cola FEMSA has operations, except for those voluntary price restraints in Argentina, where authorities directly supervise certain of Coca-Cola FEMSA s products sold through supermarkets as a measure to control inflation, and statutory price controls in the Philippines, where the government has imposed price controls on certain products considered as basic necessities, such as Coca-Cola FEMSA s bottled water. We cannot assure you that existing or future laws and regulations in the countries where Coca-Cola FEMSA operates relating to goods and services (in particular, laws and regulations imposing statutory price controls) will not affect Coca-Cola FEMSA s products, or that Coca-Cola FEMSA will not need to implement voluntary price restraints, which could have a negative effect on its business, financial condition, results of operations and prospects. **See Item 4. Information on the Company Regulatory Matters Price Controls.**

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

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

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

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

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

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

FEMSA Comercio

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

The retail sector is highly competitive in the markets where FEMSA Comercio operates. The Retail Division participates in the retail sector primarily through its OXXO stores, which face competition from small-format stores such as 7-Eleven, Circle K, other numerous chains of grocery retailers across Mexico and other regional small-format retailers and small informal neighborhood stores. In particular, small informal neighborhood stores can sometimes avoid regulatory oversight and taxation, enabling them to sell certain products at prices below average market prices. In addition, these small informal neighborhood stores could improve their technological capabilities so as to enable credit card transactions and electronic payment of utility bills, which would diminish one of the Retail Division s competitive advantages.

In the pharmacy sector, FEMSA Comercio participates through the Health Division in Mexico, Chile and Colombia. In Mexico, it faces competition from other drugstore chains such as Farmacias Guadalajara, Farmacias del Ahorro and Farmacias Benavides, as well as regional and independent pharmacies, supermarkets and other informal neighborhood drugstores. In Chile, relevant competitors are chain drugstores such as Farmacias Ahumada and Salcobrand, while in Colombia, the most relevant competitors are Farmatodo, Olimpica, Farmacenter, La Rebaja and Colsubsidio.

For the Fuel Division, the opening of the Mexican fuel distribution market is expected to alter the competitive dynamics of the industry. The consolidation process, expected to take place as large companies and international competitors enter the market, may occur rapidly and materially alter the market dynamics in Mexico. Currently, the Fuel Division faces competition from small independently owned and operated service stations, regional chains such as Corpogas, Hidrosina, Petro-7, Orsan and international players such as British Petroleum and Shell.

Additionally, we expect the competitive landscape to continue to evolve as new technologies are developed based on changing consumer behavior. The continuing migration and evolution of retailing to on-line and mobile-based platforms for consumers may present competition in the retail space in the future that could adversely affect the Retail Division.

FEMSA Comercio may face additional competition from new market participants. The increase in competition may limit the number of new locations available and could require FEMSA Comercio to modify its product offering or pricing scheme. As a consequence, future competition may affect the financial situation, operation results and prospects of FEMSA Comercio.

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

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

FEMSA Comercio s business expansion strategy and entry into new markets and retail formats may lead to decreased profit margins.

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

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

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

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

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

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

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

The performance of FEMSA Comercio s points of sale would be adversely affected by increases in the price of utilities on which the stores and stations depend, such as electricity. As an example, given the relevance of the Mexican market, the price of electricity in Mexico generally remained stable or decreased in recent years, with an exception for the second half of 2016 and 2017, when the price increased significantly. Electricity prices could potentially increase further as a result of inflation, shortages, interruptions in supply or other reasons, and such an increase could adversely affect the financial situation, operation results and prospects of FEMSA Comercio s business.

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

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

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

The Retail Division increased the number of OXXO stores at a compound annual growth rate of 9.0% from 2013 to 2017. The growth in the number of OXXO stores has driven growth in total revenue and results at the Retail Division over the same period. As the overall number of stores increases, percentage growth in the number of OXXO stores is likely to slow. In addition, as small-format store penetration in Mexico grows, the number of viable new store locations may decrease, and new store locations may be less favorable in terms of same-store sales, average ticket and store traffic. Thus, our future results and financial situation may not be consistent with prior periods and may be characterized by lower growth rates in terms of total revenue and results of operations. In Chile and Colombia, OXXO stores may not be able to achieve or maintain historic growth rates like those in Mexico. We cannot assure that the revenues and cash flows of the Retail Division that come from future retail stores will be comparable with those generated by existing retail stores. **See Item 4. Information on the Company FEMSA Comercio Retail Division Store Locations.**

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

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

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

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

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

The Fuel Division mainly sells gasoline and diesel through owned or leased retail service stations. Previously, the prices of these products were regulated in Mexico by the government agency named *Comisión Reguladora de Energía* (CRE or Energy Regulatory Commission). During 2017, fuel prices gradually began to follow the dynamics of the international fuel market, and in 2018 we expect them to continue to do so in accordance with the regulatory framework, which may also adversely affect the financial situation, operation results and prospects of the Fuel Division s business.

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

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

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

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

Risks Related to Mexico and the Other Countries Where We Operate

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

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. For the year ended December 31, 2017, 63% of our consolidated total revenues were attributable to Mexico. During 2015 and 2016 the Mexican gross domestic product, or GDP, increased by approximately 2.6% and 2.3% respectively, and in 2017 it increased by approximately 2.3% on an annualized basis compared to 2016, due to stronger performance in the services and primary sectors, which were partially offset by lower volumes and higher prices in the oil and gas industries. We cannot assure that such conditions will not slow down in the future or will not have a material adverse effect on our business, financial condition, results of operations and prospects going forward. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our results.

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

In addition, an increase in interest rates in Mexico would increase the cost of our debt and would cause an adverse effect on our financial position and results. Mexican peso-denominated debt (including currency hedges) constituted 39.6% of our total debt as of December 31, 2017.

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

Depreciation of the Mexican peso and of our other local currencies relative to the U.S. dollar increases the cost of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars, and thereby negatively affects our financial position and results. A severe devaluation or depreciation of the Mexican peso, which is our main operating currency, may result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated debt or obligations in other currencies. The Mexican peso is a free-floating currency and, as such, it experiences exchange rate fluctuations relative to the U.S. dollar over time. During 2017, the Mexican peso appreciated relative to the U.S. dollar by approximately 4.8% compared to 2016. During 2016 and 2015, the Mexican peso experienced fluctuations relative to the U.S. dollar consisting of 19.9% of depreciation and 16.6% of depreciation respectively, compared to the years of 2015, 2014. Through April 20, 2018, the Mexican peso has appreciated 5.2% since December 29, 2017.

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

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

Political events in Mexico could adversely affect our operations.

Mexican political events may significantly affect our operations. The most recent presidential and congressional elections took place in July 2012 and 2015, respectively. Enrique Peña Nieto, a member of the Institutional Revolutionary Party (*Partido Revolucionario Institucional* or PRI), was elected President of Mexico and took office on December 1, 2012. Mexico s next presidential election will be in July 2018. We cannot predict whether potential changes in Mexican governmental and economic policy could adversely affect economic conditions in Mexico or the sector in which we operate. The Mexican president strongly influences new policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law, policy and regulations in Mexico, which could negatively affect our business, financial condition, results of operations and prospects. In response to these actions, opponents of the administration could react with, among other things, riots, protests and looting that could negatively affect our operations.

Furthermore, no single party has a majority in the Senate or the *Cámara de Diputados* (House of Representatives). Mexican congressional elections held in June 2015 in the lower house resulted in a relative majority (29.18%) for the PRI, but the PRI still lacks an absolute majority. The absence of a clear majority by a single party could result in government gridlock and political uncertainty on further reforms and secondary legislation to modernize key sectors of the Mexican economy. Mexico s next federal legislative election will be in July 2018 for both the Senate and House of Representatives. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition, results of operations and prospects.

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

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

The Mexican economy and the market value of securities issued by Mexican issuers may be, to varying degrees, affected by economic and market conditions in other emerging market countries and in the United States. Furthermore, economic conditions in Mexico are highly correlated with economic conditions in the United States as a result of the North American Free Trade Agreement (NAFTA), and increased economic activity between the two countries. In November 2016, presidential elections took place in the United States that resulted in a change of the nation s leadership. President Donald Trump has made public his intention to terminate or re-negotiate the terms of NAFTA, but the content of any potential revisions has not been specified. Furthermore, President Donald Trump has stated that if Canada and Mexico do not agree to the United States terms to re-negotiate the pact, the United States may withdraw from NAFTA. However, there can be no assurance as to what the U.S. administration will do, and the impact of these measures or any others adopted by the new U.S. administration cannot be predicted.

Adverse economic conditions in the United States, the termination or re-negotiation of NAFTA in North America or other related events could have an adverse effect on the Mexican economy. Although economic conditions in other emerging market countries and in the United States may differ significantly from economic conditions in Mexico, investors reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican issuers or of Mexican assets. There can be no assurance that future developments in other emerging market countries and in the United States, over which we have no control, will not have a material adverse effect on our financial situation and results.

Natural disasters could adversely affect our business.

From time to time, different regions of Mexico and certain areas of the other countries in which we operate experience torrential rains and hurricanes, as well as earthquakes. FEMSA Comercio s points of sales and some operating facilities have been affected by hurricanes and other weather events in the past, which have resulted in temporary closures and losses. Natural disasters may impede operations, damage facilities necessary to our operations and adversely affect the purchasing power of our clients. Also, any of these events could force us to increase our capital expenditures to put our stores back in operation. Accordingly, the occurrence of natural disasters in the locations where we have operations could adversely affect our business, results of operations and financial condition. **See Item 4. Information on the Company Insurance.**

Technology and cyber-security risks.

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

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

In recent years, Mexico has experienced a period of increasing criminal activity, primarily due to organized crime. The presence of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, pose a risk to our business. Historically, these incidents have been relatively concentrated along the northern Mexican border, and during 2017 in certain other Mexican states such as Tabasco, Baja California, Estado de Mexico, Morelos and Colima. The north of Mexico is an important region for some of our FEMSA Comercio operations, and an increase in crime rates could negatively affect our sales and customer traffic, increase our security expenses, and result in higher turnover of personnel or damage to the perception of our brands. This situation could worsen and adversely impact our business and financial results because consumer habits and patterns adjust to the increased perceived and real security risks, as people refrain from going out as much and gradually shift some on-premise consumption to off-premise consumption of food and beverages on certain social occasions.

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

The devaluation of the local currencies against the U.S. dollar in our non-Mexican territories can increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso can negatively affect the translation of our results for these countries. In recent years, the Venezuelan currency has been volatile against the Mexican peso. During 2017, in addition to the Venezuelan currency, the currency of Argentina also depreciated against the Mexican peso. Future currency devaluation or the imposition of exchange controls in any of these countries, or in Mexico, would have an adverse effect on our financial position and results.

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

In February 2016, the Venezuelan government announced a 37% devaluation of the official exchange rate and changed the existing three-tier exchange rate system into a dual system by combining the official exchange rate and the SICAD exchange rate into a single official exchange rate and maintaining the SIMADI exchange rate.

Coca-Cola FEMSA translated its results of operations in Venezuela for the year ended December 31, 2017 into Mexican pesos using an exchange rate of 22,793 bolivars per U.S. dollar. As explained in Note 3.3 to our audited consolidated financial statements, as of December 31, 2017, the exchange rate used to translate the financial statements of our Venezuelan subsidiary for reporting purposes into the consolidated financial statements was 22,793 bolivars per U.S. dollar which reflects management s judgment about the effects of the economic environment in Venezuela on the variability in the exchange rate.

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

Risks Related to the Heineken Investment

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

On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in Heineken N.V. and Heineken Holding N.V. (which, together with their respective subsidiaries, we refer to as Heineken or the Heineken Group). As a consequence of this transaction, which we refer to as the Heineken transaction, FEMSA participates in the Heineken Holding N.V. Board of Directors, which we refer to as the Heineken Holding Board, and in the Heineken N.V. Supervisory Board, which we refer to as the Heineken Supervisory Board. However, FEMSA is not a majority or controlling shareholder of Heineken N.V. or Heineken Holding N.V., nor does it control the decisions of the Heineken Holding Board or the Heineken Supervisory Board. Therefore, the decisions made by the majority or controlling shareholders of Heineken N.V. or Heineken Holding N.V. or the Heineken Holding Board or the Heineken Supervisory Board may not be consistent with or may not consider the interests of FEMSA s shareholders or may be adverse to the interests of FEMSA s shareholders. Additionally, FEMSA has agreed not to disclose non-public information and decisions taken by Heineken. On September 21, 2017, FEMSA completed the sale of a 5.24% of combined shareholding in the Heineken Group, reducing our economic interest from 20% to 14.76%. FEMSA s aforementioned governance rights did not change as a result of the sale.

Heineken operates in a large number of countries.

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

The Mexican peso may strengthen compared to the Euro.

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

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

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

Risks Related to Our Principal Shareholders and Capital Structure

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

As of March 16, 2018, the voting trust owned 38.69% of our capital stock and 74.86% of our capital stock with full voting rights, consisting of Series B Shares. Consequently, the voting trust has the power to elect a majority of the members of our board of directors and to play a significant or controlling role in the outcome of substantially all matters to be decided by our board of directors or our shareholders. The interests of the voting trust may differ from those of our other shareholders. **See Item 7. Major Shareholders and Related-Party Transactions and Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are a holding company. Accordingly, our cash flows are principally derived from dividends, interest and other distributions made to us by our subsidiaries. Currently, our subsidiaries do not have contractual obligations that require them to pay dividends to us. In addition, debt and other contractual obligations of our subsidiaries may in the future impose restrictions on our subsidiaries ability to make dividend or other payments to us, which in turn may adversely affect our ability to pay dividends to shareholders and meet our debt and other obligations. As of March 31, 2018, we had no restrictions on our ability to pay dividends. Further, our non-controlling shareholder position in Heineken means that we will be unable to require payment of dividends with respect to the Heineken Investment.

ITEM 4. INFORMATION ON THE COMPANY

The Company

Overview

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

We are a leading company that participates in the following businesses:

In the beverage industry through Coca-Cola FEMSA, the largest franchise bottler of Coca-Cola products in the world by volume;

In the retail industry through FEMSA Comercio, comprising the Retail Division operating various small-format store chains including OXXO, the Fuel Division, operating the OXXO GAS chain of retail service stations, and the Health Division, which includes drugstores and related operations;

In the beer industry, through the Heineken Investment, which is the second largest equity holding in Heineken, one of the world s leading brewers with operations in over 70 countries; and

In other ancillary businesses, through FEMSA Strategic Businesses, including logistics services, point-of-sale refrigeration and plastics solutions.

Corporate Background

FEMSA traces its origins to the establishment of Mexico s first brewery, Cervecería Cuauhtémoc, S.A., which was established in 1890. It was founded by five Monterrey businessmen: Francisco Sada Gómez, José A. Muguerza Crespo, Isaac Garza Garza, José Calderón Penilla and Joseph M. Schneider. Descendants of certain of the founders of Cervecería Cuauhtémoc, S.A. are participants of the voting trust that controls the management of our company.

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

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

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

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

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

In April 2008, FEMSA s shareholders approved a proposal to amend our bylaws in order to preserve the unit structure for our shares that has been in place since May 1998 and to maintain our existing share structure beyond May 11, 2008. Following the shareholder approvals of April 2008, absent shareholder action, our share structure will continue to be composed of Series B Shares, which must represent not less than 51% of our outstanding capital stock, and Series D-B and Series D-L Shares, which together may represent up to 49% of our outstanding capital stock. Our Unit structure, absent shareholder action, will continue to consist of B Units, which bundle five Series B Shares, and BD Units, which bundle one Series B Share, two Series D-B Shares and two Series D-L Shares. **See Item 9. The Offer and Listing Description of Securities.**

In January 2010, FEMSA entered into an agreement under which FEMSA exchanged its brewery business of Cuauhtémoc Moctezuma for a 20% economic interest in the Heineken Group, one of the world s leading brewers. Under the terms of this transaction, which closed in April 2010, FEMSA received 43,018,320 shares of Heineken Holding N.V. and 43,009,699 shares of Heineken N.V., with an additional 29,172,504 shares of Heineken N.V. (which shares we refer to as the Allotted Shares) delivered pursuant to an allotted share delivery instrument, or the ASDI, with the final installment delivered in October 2011. On September 18, 2017, FEMSA completed the sale of Heineken N.V. shares representing 3.90% of issued share capital of Heineken N.V. and the sale of Heineken Holding N.V. shares representing 2.67% of the issued share capital of Heineken Holding N.V., reducing our aggregate economic interest in the Heineken Group from 20% to 14.76%.

In January 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Since January 2017, Coca-Cola FEMSA controls KOF Philippines, as all decisions relating to the day-to-day operation and management of KOF Philippines 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.

In May 2013, FEMSA Comercio through one of its subsidiaries, Cadena Comercial de Farmacias, S.A.P.I. de C.V. (which we refer to as CCF), closed the acquisition of Farmacias YZA, a leading drugstore operator in Southeast Mexico. The founding shareholders of Farmacias YZA hold a 22.7% stake in CCF. In a separate transaction, also in May 2013, CCF acquired Farmacias FM Moderna, a leading drugstore operator in the western state of Sinaloa. In June 2015, CCF acquired 100% of Farmacias Farmacon, a regional pharmacy chain in the northwestern Mexican states of Sinaloa, Sonora, Baja California and Baja California Sur.

In March 2015, following changes to the legal framework resulting from the adoption of Mexico s energy reform, FEMSA Comercio began to acquire service station franchises of Petroleos Mexicanos (PEMEX) and obtain permits from PEMEX to operate such service stations as a franchisee. These acquisitions started taking place after two decades (1995-2015) of FEMSA Comercio providing operation services to retail service stations for fuels, motor oils and other car care products through agreements with third parties that owned PEMEX franchises.

In September 2015, FEMSA Comercio acquired 60% of Group Socofar, a leading South American drugstore operator based in Santiago, Chile. Socofar operated at that time, directly and through franchises, more than 600 drugstores and 150 beauty stores throughout Chile and over 150 drugstores throughout Colombia. FEMSA Comercio has the right to appoint the majority of the members of Socofar s board of directors and exercises day-to-day operating control over Socofar. As part of the shareholders agreement entered into with the former controlling shareholder, such minority shareholder has the right to appoint two members of the board of directors of Socofar.

In 2016, FEMSA Comercio, through its subsidiary Cadena Comercial USA Corporation, LLC. (Cadena Comercial USA), completed the acquisition of an 80% economic stake in Specialty s Café & Bakery, Inc. (Specialty s), which operates café restaurants in the states of California, Washington and Illinois. In January 2017, Cadena Comercial USA completed the acquisition of the remaining 20% economic stake in Specialty s becoming its sole owner.

In June 2016, FEMSA Comercio acquired Comercial Big John Limitada (Big John), a leading convenience store operator based in Santiago, Chile.

In December 2016, Coca-Cola FEMSA acquired Vonpar, a Brazilian bottler of *Coca-Cola* trademark products, with operations in the states of Rio Grande do Sul and Santa Catarina in Brazil. As part of their acquisition, Coca-Cola FEMSA also acquired an additional minority equity interest in Leão Alimentos e Bebidas, Ltda., or Leão Alimentos.

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

Ownership Structure

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

Ownership Structure as of March 31, 2018

(1) Compañía Internacional de Bebidas, S.A. de C.V., which we refer to as CIBSA.
(2) Percentage of issued and outstanding capital stock owned by CIBSA (63% of Coca-Cola FEMSA s capital stock with full voting rights). **See Item 4. Information on the Company Coca-Cola FEMSA Capital Stock.**
(3) Our Heineken Investment is held indirectly by subsidiaries of FEMSA, including CB Equity. Our economic interest in the Heineken Group decreased from 20.0% as of December 31, 2016 to 14.76% as of December 31, 2017 as a result of a partial disposition. See Note 4.2 to our audited consolidated financial statements. **See Item 4. Information on the Company Corporate Background.**
(4) Includes the Retail Division, the Health Division and the Fuel Division.

Significant Subsidiaries

The following table sets forth our significant subsidiaries as of December 31, 2017:

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

(1) Percentage of capital stock. FEMSA, through CIBSA, owns 63% of the ordinary voting shares of Coca-Cola FEMSA.

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

Operations by Segment Overview

Year Ended December 31, 2017 and % of growth (decrease) vs. previous year

	Coca-Cola FEMSA [4]		Retail Division		Health Division[3]		Fuel Division		Heineken Investment	
	(in millions of Mexican pesos, except for employees and percentages)									
Total revenues	Ps. 203,780	15%	Ps. 154,204	12%	Ps. 47,421	9%	Ps. 38,388	34%	Ps.	
Gross Profit	91,685	15%	58,245	14%	14,213	12%	2,767	23%		
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	60	(59%)[1]	5	(67%)[2]					7,848	24%
Total assets	285,677	2%	68,820	15%	38,496	7%	4,678	28%	76,555	(30%)[5]
Employees	101,686	19%	134,171	7%	21,493	1%	5,839	9%		

(1) Reflects the percentage decrease between the gain of Ps. 60 million recorded in 2017 and the gain of Ps. 147 million recorded in 2016.
(2) Reflects the percentage decrease between the gain of Ps. 5 million recorded in 2017 and the gain of Ps. 15 million recorded in 2016.
(3) The operations that compose the Health Division have been treated as a separate reportable segment since 2016.
(4) Includes results of CCFPI, with consolidation accounting method beginning February 2017 and the full year of Vonpar, which was consolidated in December 2016.
(5) Reflects sale of 5.24% combined economic interest in the Heineken Group.

Total Revenues Summary by Segment[1]

	Year Ended December 31, 2017		
	2017	2016	2015
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	Ps.203,780	Ps.177,718	Ps.152,360
FEMSA Comercio			
Retail Division	154,204	137,139	119,884
Health Division	47,421	43,411	13,053
Fuel Division	38,388	28,616	18,510
Other	35,357	29,491	22,774
Consolidated total revenues	Ps.460,456	Ps.399,507	Ps.311,589

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

Total Revenues Summary by Geographic Area[1]

	Year Ended December 31, 2017		
	2017	2016	2015
	(in millions of Mexican pesos)		
Mexico and Central America[2]	Ps.301,463	Ps.267,732	Ps.228,563
South America[3]	135,608	113,937	74,928
Asia	20,524		
Venezuela	3,932	18,937	8,904
Consolidated total revenues	Ps.460,456	Ps.399,507	Ps.311,589

(1) The sum of the financial data for each geographic area differs from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation.
(2) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico-only) revenues were Ps. 288,783 million, Ps. 254,643 million and Ps. 218,809 million for the years ended December 31, 2017, 2016 and 2015, respectively.
(3) South America includes Brazil, Colombia, Argentina and Chile. South America revenues include revenues from our operations in Brazil of Ps. 64,345 million, Ps. 48,924 million and Ps. 39,749 million; revenues from our operations in Colombia of Ps. 17,545 million, Ps. 17,027 million and Ps. 14,283 million; revenues from our operations in Argentina of Ps. 13,938 million, Ps. 12,340 million and Ps. 14,004 million; revenues from our operations in Chile of Ps. 40,660 million Ps. 36,631 million, and Ps. 7,586 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Business Strategy

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

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

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

Recent examples include our entry into the drugstore business in Mexico and South America, and into the fuel service station business in Mexico, where we are applying our retail and operational capabilities to develop attractive value propositions for consumers in these formats.

Coca-Cola FEMSA

Overview

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

- Mexico a substantial portion of central Mexico, the southeast and northeast of Mexico.
- Central America Guatemala (Guatemala City and surrounding areas), Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).
- Colombia most of the country.
- Venezuela nationwide (through an investment in KOF Venezuela).
- Brazil a major part of the states of Sao Paulo and Minas Gerais, the states of Parana, Santa Catarina and Mato Grosso do Sul and part of the states of Rio de Janeiro, Rio Grande do Sul and Goias.
- Argentina Buenos Aires and surrounding areas.
- The Philippines nationwide.

Coca-Cola FEMSA was organized on October 30, 1991 as a stock corporation with variable capital (*sociedad anónima de capital variable*) under the laws of Mexico for a term of 99 years. On December 5, 2006, as required by amendments to the Mexican Securities Market Law, Coca-Cola FEMSA became a publicly traded stock corporation with variable capital (*sociedad anónima bursátil de capital variable*). Coca-Cola

FEMSA s legal name is Coca-Cola FEMSA, S.A.B. de C.V. Coca-Cola FEMSA s principal executive offices are located at Calle Mario Pani No. 100, Colonia Santa Fe Cuajimalpa, Delegación Cuajimalpa de Morelos, 05348, Ciudad de México, México. Coca-Cola FEMSA s telephone number at this location is (52-55) 1519-5000. Coca-Cola FEMSA s website is www.coca-colafemsa.com.

The following is an overview of Coca-Cola FEMSA s operations by consolidated reporting segment in 2017.

Operations by Consolidated Reporting Segment Overview

Year Ended December 31, 2017

	Total Revenues		Gross Profit	
	(in millions of Mexican pesos, except percentages)			
Mexico and Central America[1]	Ps. 92,643	45.5%	Ps. 45,106	49.2%
South America (excluding Venezuela)[2]	86,608	42.5%	37,756	41.2%
Venezuela	4,005	2.0%	646	0.7%
Asia[3]	20,524	10.1%	8,178	8.9%
Consolidated	Ps. 203,780	100.0%	Ps. 91,686	100.0%

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama.
(2) Includes Colombia, Brazil and Argentina.
(3) Includes results of KOF Philippines from February 1, 2017.

Corporate History

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

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

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

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

In December 2007 and May 2008, Coca-Cola FEMSA sold most of its proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to Coca-Cola FEMSA by The Coca-Cola Company pursuant to its bottler agreements. In May 2008, Coca-Cola FEMSA entered into a transaction with The Coca-Cola Company to acquire its wholly owned bottling franchise Refrigerantes Minas Gerais, Ltda., or REMIL, located in the State of Minas Gerais in Brazil.

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

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

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

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

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

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

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

In May 2012, Grupo Fomento Queretano, S.A.P.I. de C.V., or Grupo Fomento Queretano, a Mexican bottler with operations mainly in the state of Queretaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato, merged with Coca-Cola FEMSA. As part of Coca-Cola FEMSA s merger with Grupo Fomento Queretano, it also acquired an additional minority equity interest in PIASA.

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

In January 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Since January 25, 2017, Coca-Cola FEMSA controls KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines 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.

In May 2013, Grupo Yoli, a Mexican bottler with operations mainly in the state of Guerrero, as well as in parts of the state of Oaxaca, merged with Coca-Cola FEMSA. As part of Coca-Cola FEMSA s merger with Grupo Yoli, Coca-Cola FEMSA also acquired an additional minority equity interest in PIASA.

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

In October 2013, Coca-Cola FEMSA acquired Spaipa, a Brazilian bottler with operations in the state of Parana and in parts of the state of Sao Paulo. As part of Coca-Cola FEMSA s acquisition of Spaipa, it also acquired an additional minority equity interest in Leão Alimentos and a 50.0% stake in Fountain Água Mineral Ltda., a joint venture to develop the water category together with The Coca-Cola Company.

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

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

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

In March 2017, Coca-Cola FEMSA s acquired, through its Mexican, Brazilian, Argentine, Colombian subsidiaries and also through its interest in Jugos del Valle in Mexico, a participation in the AdeS soy-based beverage businesses. As a result of this acquisition, Coca-Cola FEMSA has exclusive distribution rights of AdeS soy-based beverages in Coca-Cola FEMSA s territories in these countries.

Capital Stock

As of April 13, 2018, we indirectly owned Series A shares equal to 47.2% of Coca-Cola FEMSA s capital stock (63.0% of our capital stock with full voting rights). As of April 13, 2018, The Coca-Cola Company indirectly owned Series D shares equal to 27.8% of the capital stock of Coca-Cola FEMSA s company (37.0% of our capital stock with full voting rights). Series L shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the NYSE, constitute the remaining 25.0% of Coca-Cola FEMSA s capital stock.

Business Strategy

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

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

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

Coca-Cola FEMSA seeks to accelerate its revenue growth through the introduction of new categories, products and presentations that better meet market demand, while maintaining Coca-Cola FEMSA s core products and improving its profitability. To address Coca-Cola FEMSA consumers diverse lifestyles, Coca-Cola FEMSA has developed new products through innovation and has expanded the availability of low- and non-caloric beverages by reformulating existing products to reduce added sugar and offering smaller presentations of its products. As of December 31, 2017, approximately 41.0% of Coca-Cola FEMSA s brands were low- or non-caloric beverages, and Coca-Cola FEMSA continues to expand its product portfolio to offer more options to its consumers so they can satisfy their hydration and nutrition needs. **See Item 4. Information on the Company Coca-Cola FEMSA Products and Item 4. Information on the Company Coca-Cola FEMSA Packaging.** In addition, Coca-Cola FEMSA informs its consumers through front labeling on the nutrient composition and caloric content of Coca-Cola FEMSA s beverages. Coca-Cola FEMSA has been pioneers in the introduction of the Guideline Daily Amounts (GDA), and Coca-Cola FEMSA performs responsible advertising practices and marketing. Coca-Cola FEMSA voluntarily adheres to national and international codes of conduct in advertising and marketing, including communications targeted to minors who are developed based on the Responsible Marketing policies and Global School Beverage Guidelines of The Coca-Cola Company, achieving full compliance with all such codes in all of the countries where we operate.

Coca-Cola FEMSA views its relationship with The Coca-Cola Company as integral to Coca-Cola FEMSA s business, and together Coca-Cola FEMSA and The Coca-Cola Company has developed marketing strategies to better understand and address our consumer needs. **See Item 4. Information on the Company Coca-Cola FEMSA Marketing.**

Coca-Cola FEMSA s Territories

The following map shows Coca-Cola FEMSA s territories giving estimates in each case of the population to which Coca-Cola FEMSA offers products and the number of retailers of its beverages as of December 31, 2017:

Products

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

Coca-Cola FEMSA s most important brand, *Coca-Cola*, together with its main line extensions, accounted for 58.3% of total sales volume in 2017. Coca-Cola FEMSA s next largest brands, *Ciel* (a water brand from Mexico and its line extensions), *Fanta* (and its line extensions), *Del Valle* (and its line extensions) and *Sprite* (and its line extensions) accounted for 9.9%, 5.7%, 4.0% and 3.7%, respectively, of total sales volume in 2017. Coca-Cola FEMSA uses the term line extensions to refer to the different flavors and low-calorie versions in which Coca-Cola FEMSA offers its brands.

The following table sets forth Coca-Cola FEMSA s main products as of December 31, 2017:

Colas:			
Coca-Cola	Coca-Cola Zero		
Coca-Cola Sin Azúcar	Coca-Cola Light		
Flavored Sparkling Beverages:			
Crush	Kuat	Quatro	
Fanta	Lift	Schweppes	
Fresca	Mundet	Sprite	
Still Beverages:			
Cepita	Hi-C	Leão	Monster
Estrella Azul	Santa Clara	Powerade	AdeS
FUZE Tea	Jugos del Valle	ValleFrut	
Water:			
Alpina	Brisa	Dasani	Wilkins
Aquarius	Ciel	Manantial	Viva
Bonaqua	Crystal	Nevada	

Packaging

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

Sales Volume and Transactions Overview

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

The characteristics of Coca-Cola FEMSA s territories are very diverse. Central Mexico and Coca-Cola FEMSA s territories in Argentina are densely populated and have a large number of competing beverage brands as compared to the rest of its territories. Coca-Cola FEMSA s territories in Brazil are densely populated but have lower consumption of beverage products as compared to Mexico. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with low population density, low per capita income and low consumption of beverages. In the Philippines, although there are more than 7,600 islands, the population is concentrated on three main islands with low per capita income and low consumption of beverages.

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

	Year Ended December 31,		
	2017	2016	2015
	(millions of unit cases or millions of single units, except percentages)		
Sales Volume			
Mexico and Central America	2,017.9	2,025.6	1,952.4
South America (excluding Venezuela)[(1)(2)]	1,236.0	1,165.3	1,247.6
Venezuela	64.2	143.1	235.6
Asia[(3)]	552.4		
Total Sales Volume	3,870.6	3,334.0	3,435.6
Growth	16.1%	(3.0)%	0.5%
Unit Case Mix by Category			
Sparkling beverages	78.2%	77.7%	78.1%
Water[(4)]	15.0%	15.9%	15.7%
Still beverages	6.8%	6.4%	6.2%
Total	100.0%	100.0%	100.0%
Number of Transactions			
Mexico and Central America	11,231.7	11,382.1	10,877.1
South America (excluding Venezuela)[(1)(2)]	7,924.1	7,619.7	8,084.4
Venezuela	441.0	772.6	1,318.1
Asia(3)	6,278.5		
Total Number of Transactions	25,875.3	19,774.4	20,279.6
Growth	30.9%	(2.5)%	0.7%
Transaction Mix by Category			
Sparkling beverages	83.4%	81.1%	81.3%
Water[(4)]	7.4%	8.7%	8.6%
Still beverages	9.2%	10.2%	10.1%
Total	100.0%	100.0%	100.0%

(1) Includes sales volume and transactions from the operations of Vonpar from December 2016.
(2) Excludes beer sales volume and transactions.
(3) Includes sales volume and transactions from Coca-Cola FEMSA S operations in the Philippines from February 1, 2017.
(4) Includes bulk water volume and transactions.

Total sales volume increased by 16.1% to 3,870.6 million unit cases in 2017 as compared to 2016, mainly as a result of the acquisition of Vonpar and the consolidation of KOF Philippines, which was partially offset by volume contraction in Argentina, Colombia and Venezuela as discussed below. On a comparable basis, excluding the effects of (i) Coca-Cola FEMSA s recent acquisition of Vonpar, and (ii) Coca-Cola FEMSA s operations in Venezuela, and including the results of KOF Philippines as if its consolidation had occurred on January 1, 2016, total sales volume would have decreased by 1.5% in 2017 as compared to 2016. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio increased 16.9% as compared to 2016. On a comparable basis, sales volume of its sparkling beverage portfolio would have decreased by 1.7%, driven by volume contractions across most of its operations, which were partially offset by volume growth in the Philippines. On the same basis, Coca-Cola FEMSA s colas portfolio s sales volume would have declined 1.4%, while its flavored sparkling beverage portfolio would have declined 2.6%. Sales volume of Coca-Cola FEMSA s still beverage portfolio increased 23.7% as compared to 2016. On a comparable basis, sales volume of its still beverage portfolio would have declined 2.6%, mainly due to volume contractions in Brazil, Colombia and the Philippines, which were partially offset by growth in Mexico and Argentina. Sales volume of bottled water, excluding bulk water, increased 9.2% as compared to 2016. On a comparable basis, bottled water, excluding bulk water, would have increased by 0.9%, driven mainly by growth in Mexico, Central America and the Philippines, which was partially offset by volume contractions in South America. Sales volume of bulk water

increased 9.0% as compared to 2016. On a comparable basis, sales volume of bulk water would have decreased by 0.7%, driven mainly by a volume contraction in Colombia, which was partially offset by volume growth in Argentina, Brazil and the Philippines.

The total number of transactions in 2017 increased by 30.9% to 25,875.3 million transactions as compared to 2016, mainly as a result of the acquisition of Vonpar and the consolidation of KOF Philippines. On a comparable basis, the total number of transactions in 2017 would have decreased by 1.4% as compared to 2016. Total number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio increased by 34.6% as compared to 2016. On a comparable basis, total transactions for Coca-Cola FEMSA s sparkling beverage portfolio in 2017 would have decreased by 1.5% as compared to 2016, mainly driven by transaction contractions across most of Coca-Cola FEMSA s operations, which were partially offset by an increase in transactions in Argentina and the Philippines. Total transactions for Coca-Cola FEMSA s still beverage category increased 17.8% as compared to 2016. On a comparable basis, total transactions for its still beverage category would have decreased 2.1% as compared to 2016, mainly driven by a transaction decline in Colombia, which was partially offset by an increase in transactions in Mexico, Argentina and the Philippines. Total transactions for bottled water, including bulk water, increased 11.6% as compared to 2016. On a comparable basis, total transactions for Coca-Cola FEMSA s water category would have remained flat as compared to 2016, driven mainly by an increase in transactions in Mexico and the Philippines, which was offset by transaction declines in the rest of its operations.

In 2017, multiple serving presentations represented 64.8% of total sparkling beverages sales volume, a 430 basis points decrease as compared to 2016. Returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 32.3%, a 320 basis points increase as compared to 2016.

Total sales volume decreased by 3.0% to 3,334.0 million unit cases in 2016 as compared to 2015, as a result of the sales volume contraction in Brazil, Colombia, Argentina and Venezuela discussed below. On a comparable basis, excluding the effects of Coca-Cola FEMSA s recent acquisition of Vonpar and the results of its operations in Venezuela, total sales volume would have decreased by 0.9% in 2016 as compared to 2015. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 3.4% as compared to 2015. Excluding the effects of Coca-Cola FEMSA s recent acquisition of Vonpar and the results of its operations in Venezuela, sales volume of its sparkling beverage portfolio would have decreased by 1.0%, mainly as a result of a contraction in Brazil and Colombia, which was partially offset by the positive performance of the *Coca-Cola* brand in Mexico, Central America and Colombia, and Coca-Cola FEMSA s flavored sparkling beverage portfolio in Mexico and Central America. Sales volume of Coca-Cola FEMSA s still beverage portfolio decreased by 0.6% as compared to 2015. Excluding the effects of Coca-Cola FEMSA s recent acquisition of Vonpar and the results of its operations in Venezuela, sales volume of its still beverage portfolio would have grown 2.9% mainly driven by the positive performance of *ValleFrut* orangeade, *Del Valle* juice and the Santa Clara dairy business in Mexico and *Fuze tea* in Central America. Sales volume of bottled water, excluding bulk water, decreased by 1.2% as compared to 2015. Excluding the effects of Coca-Cola FEMSA s recent acquisition of Vonpar and the results of its operations in Venezuela, bottled water, excluding bulk water, would have decreased by 1.1%, driven by a contraction in Brazil and Colombia, which was partially offset by increased volume in Mexico and Argentina. Sales volume of bulk water decreased by 2.0% as compared to 2015. Excluding the effects of Coca-Cola FEMSA s recent acquisition of Vonpar and the results of its operations in Venezuela, sales volume of bulk water would have decreased by 1.9%, mainly driven by a sales volume contraction of the *Brisa* and *Crystal* brand products in Colombia and Brazil, respectively.

The total number of transactions in 2016 decreased by 2.5% to 19,774.4 million transactions as compared to 2015. On a comparable basis, the total number of transactions in 2016 would have decreased by 0.3% to 18,902.4 million as compared to 2015. On the same basis, total transactions for Coca-Cola FEMSA s sparkling beverage portfolio in 2016 would have decreased by 0.6% as compared to 2015, mainly driven by a contraction in Brazil, Colombia and Argentina, which was partially offset by the positive performance in Mexico and Central America. On a comparable basis, total transactions for Coca-Cola FEMSA s still beverage category would have grown 2.6% as compared to 2015, mainly driven by the positive performance in Mexico and Central America. On the same basis, total transactions for bottled water, including bulk water, would have decreased by 1.1% as compared to 2015, driven by a contraction in Brazil, which was partially offset by the positive performance in Mexico, Central America and Colombia.

In 2016, multiple serving presentations represented 69.1% of total sparkling beverages sales volume, a 70 basis points increase as compared to 2015. Returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 29.1%, a 90 basis points decrease as compared to 2015.

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

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

The following table highlights historical sales volume, number of transactions and unit case and transaction mix by category in Mexico and Central America:

	Year Ended December 31,		
	2017	2016	2015
	(millions of unit cases or millions of single units, except percentages)		
Sales Volume			
Mexico	1,845.0	1,850.7	1,784.6
Central America[1]	173.0	174.9	167.8
Total Sales Volume	2,017.9	2,025.6	1,952.4
Growth	(0.4)%	3.7%	1.8%
Unit Case Mix by Category			
Sparkling beverages	73.8%	74.1%	74.0%
Water[2]	19.8%	19.6%	20.2%
Still beverages	6.5%	6.2%	5.8%
Total	100.0%	100.0%	100.0%
Number of Transactions			
Mexico	9,764.5	9,884.1	9,429.1
Central America[1]	1,467.2	1,498.0	1,448.0
Total Number of Transactions	11,231.7	11,382.1	10,877.1
Growth	(1.3)%	4.6%	2.4%
Transaction Mix by Category			
Sparkling beverages	82.6%	82.9%	83.1%
Water[2]	7.0%	6.9%	7.0%
Still beverages	10.3%	10.2%	9.9%
Total	100.0%	100.0%	100.0%

(1) Includes Guatemala, Nicaragua, Costa Rica and Panama.
(2) Includes bulk water volumes and transactions.

Total sales volume in Coca-Cola FEMSA s Mexico and Central America consolidated reporting segment decreased by 0.4% to 2,017.9 million unit cases in 2017 as compared to 2016, as a result of volume contraction in both Mexico and Central America as discussed below. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 0.9%, mainly driven by a 1.4% decrease in sales volume of its colas portfolio, which was partially offset by a 1.1% increase in sales volume of its flavored sparkling beverage portfolio. Sales volume of Coca-Cola FEMSA s still beverage portfolio increased by 3.8%, mainly due to growth in both Mexico and Central America. Sales volume of bottled water, excluding bulk water, increased by 2.6%, as Mexico and Central America had a positive performance. Coca-Cola FEMSA s bulk water portfolio s sales volume declined 0.7%.

Sales volume in Mexico decreased by 0.3% to 1,845.0 million unit cases in 2017, as compared to 1,850.7 million unit cases in 2016. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 0.8%, driven by a 1.3% decrease in sales volume of Coca-Cola FEMSA s colas portfolio, which was partially offset by a 1.6% increase in sales volume of its flavored sparkling beverage portfolio. Sales volume of Coca-Cola FEMSA s still beverage portfolio increased by 4.4%. Sales volume of bottled water, excluding bulk water, increased by

2.3%, while Coca-Cola FEMSA s bulk water portfolio s sales volume declined by 0.6%.

Sales volume in Central America decreased by 1.1% to 173.0 million unit cases in 2017, as compared to 174.9 million unit cases in 2016. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 1.8%, driven by a 1.7% decrease in its colas portfolio and a 2.0% decrease in sales volume of its flavored sparkling beverage portfolio. Sales volume of Coca-Cola FEMSA s still beverage portfolio increased slightly by 0.5%. Sales volume of bottled water, excluding bulk water, increased by 5.7%, while Coca-Cola FEMSA s bulk water portfolio s sales volume declined by 3.9%.

The total number of transactions in 2017 in Coca-Cola FEMSA s Mexico and Central America division decreased by 1.3% to 11,231.7 million transactions as compared to 2016. The number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio in 2017 decreased by 1.6% as compared to 2016, driven by a 1.9% decrease in Coca-Cola FEMSA s colas portfolio and a 0.3% decrease in its flavored sparkling beverage portfolio. Transactions for Coca-Cola FEMSA s still beverage category in 2017 remained flat as compared to 2016. Transactions for bottled water, including bulk water, in 2017 increased by 0.3% as compared to 2016.

In 2017, the total number of transactions in Mexico and Central America decreased by 1.2% to 9,764.5 million, and by 2.1% to 1,467.2 million, respectively, as compared to 2016. The number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio decreased by 1.6% and 1.9%, respectively as compared to 2016. Transactions for Coca-Cola FEMSA s still beverage category increased by 0.9% in Mexico and decreased by 3.0% in Central America as compared to 2016. Transactions for bottled water, including bulk water, increased by 0.4% in Mexico and decreased 0.8% in Central America, as compared to 2016.

In 2017, multiple serving presentations represented 65.2% of total sparkling beverages sales volume in Mexico, a 50 basis points increase as compared to 2016; and 56.0% of total sparkling beverages sales volume in Central America, a 260 basis points increase as compared to 2016. Coca-Cola FEMSA s strategy continues to be to encourage consumption of single serve presentations while maintaining multiple serving volumes, however Mexico and Central America faced higher inflation and other challenging conditions during 2017 that encouraged consumption of multiple serving presentations. In 2017, returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 34.8% in Mexico, a 30 basis points decrease as compared to 2016; and 41.7% in Central America, a 200 basis points increase as compared to 2016, driven by the rollout of Coca-Cola FEMSA s initiatives in the region aimed at making Coca-Cola FEMSA s products more affordable to the consumer.

Total sales volume in Coca-Cola FEMSA s Mexico and Central America consolidated reporting segment increased by 3.7% to 2,025.6 million unit cases in 2016 as compared to 2015, as a result of volume increase in both Mexico and Central America as discussed below. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio increased by 3.9%, mainly driven by a 2.8% increase in sales volume of *Coca-Cola* brand products and an 8.3% increase in sales volume of Coca-Cola FEMSA s sparkling beverage portfolio. Sales volume of Coca-Cola FEMSA s still beverage portfolio increased by 11.8%, mainly due to the performance of the Jugos del Valle portfolio and Coca-Cola FEMSA s Santa Clara dairy business in Mexico. Sales volume of bottled water, including bulk water, increased by 0.7%, mainly driven by an increase in sales volume of *Ciel* flavored water products in Mexico.

Sales volume in Mexico increased by 3.7% to 1,850.7 million unit cases in 2016, as compared to 1,784.6 million unit cases in 2015. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio increased by 3.8%, driven by a 2.7% increase in sales volume of *Coca-Cola* brand products and a 9.1% increase in sales volume of Coca-Cola FEMSA s flavored sparkling beverage portfolio, mainly supported by the performance of *Naranja&Nada* and *Limon&Nada*, Coca-Cola FEMSA s sparkling orangeade and lemonade, and the *Mundet* brand. Sales volume of Coca-Cola FEMSA s still beverage portfolio increased by 14.2%, mainly as a result of the performance of *ValleFrut* brand products, the *Del Valle* juice portfolio and Coca-Cola FEMSA s Santa Clara dairy business. Sales volume of bottled water, including bulk water, increased by 0.7%, mainly driven by the performance of *Ciel Exprim* flavored water products.

Sales volume in Central America increased by 4.2% to 174.9 million unit cases in 2016, as compared to 167.8 million unit cases in 2015. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio increased by 5.0%, supported by the strong performance of *Coca-Cola* brand products and Coca-Cola FEMSA s flavored sparkling beverages portfolio in Guatemala, Nicaragua and Costa Rica. Sales volume of Coca-Cola FEMSA s still beverage portfolio decreased slightly by 0.3%. Sales volume of bottled water, including bulk water, increased by 1.7%.

The total number of transactions in 2016 in Coca-Cola FEMSA s Mexico and Central America division increased by 4.6% to 11,382.1 million transactions as compared to 2015. The number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio in 2016 increased by 4.3% as compared to 2015, driven by the positive performance of the *Coca-Cola* brand and Coca-Cola FEMSA s flavored sparkling beverage portfolio. Transactions for its still beverage category in 2016 increased by 8.3% as compared to 2015. Transactions for bottled water, including bulk water, in 2016 increased by 3.2% as compared to 2015.

In 2016, the total number of transactions in Mexico and Central America increased by 4.8% to 9,884.1 million, and by 3.4% to 1,498.0 million, respectively, as compared to 2015. The number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio increased by 4.5% and 3.1%, respectively, as compared to 2015. Transactions for Coca-Cola FEMSA s still beverage category increased by 9.2% and 4.9%, respectively, as compared to 2015. Transactions for bottled water, including bulk water, increased by 3.1% and 3.8%, respectively, as compared to 2015.

In 2016, multiple serving presentations represented 64.7% of total sparkling beverages sales volume in Mexico, a 10 basis points increase as compared to 2015; and 53.4% of total sparkling beverages sales volume in Central America, a 160 basis points decrease as compared to 2015. Coca-Cola FEMSA s strategy continues to be to encourage consumption of single serve presentations while maintaining multiple serving volumes. In 2016, returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 35.1% in Mexico, a 140 basis points decrease as compared to 2015; and 39.7% in Central America, a 210 basis points increase as compared to 2015.

South America (Excluding Venezuela). Coca-Cola FEMSA s product portfolio in South America (excluding Venezuela) consists mainly of *Coca-Cola* trademark beverages, including the *Jugos del Valle* line of juice-based beverages in Colombia and Brazil, and *Heineken* beer products in Brazil, which Coca-Cola FEMSA sells and distributes pursuant to its agreement with Cervejarias Kaiser Brasil S.A., or Heineken Brazil, a subsidiary of the Heineken Group. Since 2005, Coca-Cola FEMSA stopped considering beer sold and distributed in Brazil as part of its sales volume.

The following table highlights historical sales volume, number of transactions and unit case and transaction mix by category in South America (excluding Venezuela), not including beer:

	Year Ended December 31,		
	2017	**2016**	**2015**
	(millions of unit cases or millions of single units, except percentages)		
Sales Volume			
Brazil[1]	765.1	649.2	693.6
Colombia	265.1	307.0	320.0
Argentina	205.9	209.1	233.9
Total Sales Volume	1,236.0	1,165.3	1,247.6
Growth	6.1%	(6.6)%	(0.8)%
Unit Case Mix by Category			
Sparkling beverages	84.7%	83.0%	82.8%
Water[2]	9.3%	10.3%	10.4%
Still beverages	6.1%	6.7%	6.8%
Total	100.0%	100.0%	100.0%

	Year Ended December 31,		
	2017	2016	2015
	(millions of unit cases or millions of single units, except percentages)		
Number of Transactions			
Brazil[1]	4,857.6	4,206.1	4,578.6
Colombia	2,046.5	2,400.9	2,410.7
Argentina	1,019.9	1,012.6	1,095.0
Total Number of Transactions	7,924.1	7,619.6	8,084.3
Growth	4.0%	(5.7)%	(0.7)%
Transaction Mix by Category			
Sparkling beverages	80.8%	79.0%	79.4%
Water[2]	9.8%	10.7%	10.5%
Still beverages	9.4%	10.3%	10.1%
Total	100.0%	100.0%	100.0%

(1) Includes sales volume and transactions from the operations of Vonpar from December 2016.
(2) Includes bulk water volumes and transactions.

Total sales volume in Coca-Cola FEMSA s South America (excluding Venezuela) consolidated reporting segment increased by 6.1% to 1,236.0 million unit cases in 2017 as compared to 2016. On a comparable basis, excluding the effects of Coca-Cola FEMSA s recent acquisition of Vonpar, total sales volume would have decreased by 6.0% in 2017 as compared to 2016, as a result of a volume contraction in all of Coca-Cola FEMSA s South America operations. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio increased by 5.1% as compared to 2016. On a comparable basis, sales volume of Coca-Cola FEMSA s sparkling beverage portfolio would have decreased by 5.3%, mainly due to a volume contraction of its colas portfolio in all our territories in this consolidated reporting segment and a volume contraction in our flavored sparkling beverages in Brazil and Colombia. Sales volume of Coca-Cola FEMSA s still beverage portfolio decreased by 3.3% as compared to 2016. On a comparable basis, sales volume of Coca-Cola FEMSA s still beverage portfolio would have decreased by 10.4%, mainly driven by a sales volume contraction in Colombia, which was partially offset by volume growth in Argentina. Sales volume of Coca-Cola FEMSA s bottled water category, excluding bulk water, decreased by 2.4% as compared to 2016. On a comparable basis, sales volume of Coca-Cola FEMSA s bottled water category, excluding bulk water, would have decreased by 7.7% as compared to 2016, with volume contractions in Argentina, Brazil and Colombia. Sales volume of Coca-Cola FEMSA s bulk water portfolio decreased by 8.0% as compared to 2016. On a comparable basis, sales volume of Coca-Cola FEMSA s bulk water portfolio would have declined by 11.1%, mainly driven by a volume decline in Colombia, which was partially offset by volume growth in Argentina and Brazil.

Sales volume in Brazil increased by 17.9% to 765.1 million unit cases in 2017, as compared to 648.9 million unit cases in 2016. On a comparable basis, sales volume would have decreased by 3.8%. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio increased by 18.8% as compared to 2016. On a comparable basis, sales volume of Coca-Cola FEMSA s sparkling beverage portfolio would have decreased by 3.9%, as a result of a 3.2% sales volume decrease in its colas portfolio and a 5.8% sales volume decrease in its flavored sparkling beverage portfolio. Sales volume of Coca-Cola FEMSA s still beverage portfolio increased by 14.9% as compared to 2016. On a comparable basis, sales volume of its still beverage portfolio would have decreased by 2.1%. Sales volume of Coca-Cola FEMSA s bottled water, excluding bulk water, increased by 7.4% as compared to 2016, while sales volume of its bulk water portfolio increased by 18.0%. On a comparable basis, sales volume of bottled water, excluding bulk water, would have decreased by 4.8%, while sales volume of Coca-Cola FEMSA s bulk water portfolio would have increased by 2.5%.

Sales volume in Colombia decreased by 13.7% to 265.0 million unit cases in 2017, as compared to 307.0 million unit cases in 2016. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 11.8% as compared to 2016, mainly driven by a 6.0% decrease in sales volume of Coca-Cola FEMSA s colas portfolio and a 31.2% decrease of its flavored sparkling beverages portfolio. Sales volume of Coca-Cola FEMSA s still beverage portfolio decreased by 29.1%, as compared to 2016. Sales volume of bottled water, excluding bulk water, decreased by 8.1% as compared to 2016, while sales volume of Coca-Cola FEMSA s bulk water portfolio decreased by 18.1%.

Sales volume in Argentina decreased by 1.5% to 205.9 million unit cases in 2017, as compared to 209.1 million unit cases in 2016. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 1.5% as compared to 2016, mainly driven by a decrease in sales volume of its colas portfolio. Sales volume of Coca-Cola FEMSA s still beverage portfolio increased by 12.3% as compared to 2016. Sales volume of bottled water, excluding bulk water, decreased by 7.7%, while sales volume of Coca-Cola FEMSA s bulk water portfolio decreased by 11.1%.

The total number of transactions in 2017 in Coca-Cola FEMSA s South America (excluding Venezuela) consolidated reporting segment increased by 4.0% to 7,924.1 million transactions as compared to 2016. On a comparable basis, the total number of transactions in 2017 in this consolidated reporting segment would have decreased by 6.2% as compared to 2016. Transactions for Coca-Cola FEMSA s sparkling beverage portfolio in 2017 increased by 6.4% as compared to 2016. On a comparable basis, the number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio in 2017 would have decreased by 4.6% as compared to 2016, driven by a contraction in the number of transactions in Brazil and Colombia, which were partially offset by transaction growth in Argentina. Transactions for Coca-Cola FEMSA s still beverage category in 2017 decreased by 5.5% as compared to 2016. On a comparable basis, transactions for our still beverage category in 2017 would have decreased by 13.7% as compared to 2016. Transactions for bottled water, including bulk water, decreased by 4.9% in 2017 as compared to 2016. On a comparable basis, transactions for bottled water, including bulk water, in 2017 would have decreased by 10.8% as compared to 2016.

In 2017, the total number of transactions in Argentina and Brazil increased by 0.7% and 15.5% to 1,019.9 and 4,857.6, respectively, while the number of transactions in Colombia decreased by 14.8% to 2,046.5 million as compared to 2016. On a comparable basis, the total number of transactions in Brazil would have decreased by 3.0%. The number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio in Argentina and Brazil in 2017 increased by 16.0% and 1.6% respectively, while the number of transactions in Colombia decreased by 11.0%, as compared to 2016. On a comparable basis, total transactions of Coca-Cola FEMSA s sparkling portfolio in Brazil would have decreased by 2.9%. The number of transactions for Coca-Cola FEMSA s still beverage portfolio in Argentina and Brazil in 2017 increased by 16.8% and 1.7%, respectively, while the number of transactions in Colombia decreased by 32.2%, in each case as compared to 2016. On a comparable basis, transactions for Coca-Cola FEMSA s still beverage category in Brazil would have decreased by 1.1% in 2017. The number of transactions for bottled water, including bulk water, in 2017 increased by 8.5% in Brazil, while the number of transactions in Argentina and Colombia decreased by 6.5% and 16.4%, respectively, as compared to 2016. On a comparable basis, transactions for Coca-Cola FEMSA s bottled water, including bulk water, in Brazil would have decreased by 5.9% in 2017.

In 2017, multiple serving presentations represented 77.7% of total sparkling beverages sales volume in Brazil, a 140 basis points increase as compared to 2016; 69.4% of total sparkling beverages sales volume in Colombia, a 10 basis points increase as compared to 2016; and 82.1% of total sparkling beverages sales volume in Argentina, a 60 basis points decrease as compared to 2016. In 2017, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 16.6% in Brazil a 150 basis points decrease as compared to 2016 driven by the integration of Coca-Cola FEMSA s recent acquisition of Vonpar; 33.7% in Colombia, an increase of 380 basis points as compared to 2016; and 24.7% in Argentina, an increase of 80 basis points as compared to 2016.

Total sales volume in Coca-Cola FEMSA s South America (excluding Venezuela) consolidated reporting segment decreased by 6.6% to 1,165.3 million unit cases in 2016 as compared to 2015. On a comparable basis, total sales volume would have decreased by 8.2% to 1,145.7 million unit cases in 2016 as compared to 2015, as a result of volume contraction in all of our South America operations. On the same basis, sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 8.0%, mainly due to a volume contraction of *Coca-Cola* brand products in Brazil and Argentina and flavored sparkling beverages in all of Coca-Cola FEMSA s territories in this division. On a comparable basis, sales volume of Coca-Cola FEMSA s still beverage portfolio decreased by 8.9%, mainly driven by a sales volume contraction of the *Jugos del Valle* line of business in Colombia and *Kapo* and *Del Valle Mais* brand products in Brazil. On the same basis, sales volume of bottled water, including bulk water, decreased by 8.7%, mainly due to a sales volume contraction of *Brisa* brand products in Colombia and *Crystal* brand products in Brazil.

Sales volume in Brazil decreased by 6.4% to 649.2 million unit cases in 2016, as compared to 693.6 million unit cases in 2015. On a comparable basis, sales volume would have decreased by 9.2% to 629.7 million unit cases. On the same basis, sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 9.0%, mainly as a result of a sales volume decrease in *Coca-Cola* brand products. On a comparable basis, sales volume of Coca-Cola FEMSA s still beverage portfolio decreased by 7.2%, mainly as a result of a sales volume contraction of *Kapo* and *Del Valle Mais* brand products. On the same basis, sales volume of bottled water, including bulk water, decreased by 13.1%, mainly due to a sales volume contraction of *Crystal* brand products.

Sales volume in Colombia decreased by 4.1% to 307.0 million unit cases in 2016, as compared to 320.0 million unit cases in 2015. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 0.7%, mainly driven by a 9.4% decrease in sales volume of our flavored sparkling beverages portfolio, which was partially offset by a 1.9% sales volume increase of *Coca-Cola* brand products. Sales volume of Coca-Cola FEMSA s still beverage portfolio decreased by 13.6%, mainly as a result of a sales volume contraction of *Del Valle* and *ValleFrut* brand products. Sales volume of bottled water, including bulk water, decreased by 11.8%, driven by a sales volume contraction of *Brisa* brand products in multiple serving presentations.

Sales volume in Argentina decreased by 10.6% to 209.1 million unit cases in 2016, as compared to 233.9 million unit cases in 2015. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 13.6%, mainly driven by a decrease in sales volume of *Coca-Cola* brand products and Coca-Cola FEMSA s flavored sparkling beverage portfolio. Sales volume of Coca-Cola FEMSA s still beverage portfolio decreased by 0.6%, mainly driven by a decrease in sales volume of *Cepita* and *Powerade* brand products. Sales volume of bottled water, including bulk water, increased by 6.9%, mainly driven by an increase in sales volume of *Kin* and *Bonaqua* brand products.

The total number of transactions in 2016 in Coca-Cola FEMSA s South America (excluding Venezuela) consolidated reporting segment decreased by 5.7% to 7,619.7 million transactions as compared to 2015. On a comparable basis, the total number of transactions in 2016 in this consolidated reporting segment would have decreased by 7.0% to 7,520.3 million. On the same basis, the number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio in 2016 decreased by 7.5% as compared to 2015, driven by a contraction in the number of transactions across all our territories in the division. On a comparable basis, transactions for Coca-Cola FEMSA s still beverage category in 2016 decreased by 4.8% as compared to 2015. On the same basis, transactions for bottled water, including bulk water, in 2016 decreased by 5.0% as compared to 2015.

In 2016, the total number of transactions in Brazil, Colombia and Argentina decreased by 8.1% to 4,206.1 million, 0.4% to 2,400.9 million and 7.5% to 1,012.6 million, respectively, as compared to 2015. On a comparable basis, the total number of transactions in Brazil in 2016 would have decreased by 10.3% to 4,106.7 million. On the same basis, the number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio in Brazil, Colombia and Argentina in 2016 decreased by 10.0%, 1.2% and 9.2%, respectively, as compared to 2015. On a comparable basis, transactions for Coca-Cola FEMSA s still beverage category in 2016 decreased by 10.3% and 0.5% in Brazil and Argentina, respectively, and increased by 0.5% in Colombia, in each case as compared to 2015. On the same basis, the number of transactions for bottled water, including bulk water, in 2016 decreased by 13.6% and 1.1% in Brazil and Argentina, respectively, and increased by 2.7% in Colombia, in each case as compared to 2015.

In 2016, multiple serving presentations represented 76.3% of total sparkling beverages sales volume in Brazil, a 66 basis points increase as compared to 2015; 69.3% of total sparkling beverages sales volume in Colombia, a 121 basis points decrease as compared to 2015; and 82.7% of total sparkling beverages sales volume in Argentina, a 178 basis points decrease as compared to 2015. In 2016, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 18.1% in Brazil a 120 basis points increase as compared to 2015; 29.9% in Colombia, an increase of 80 basis points as compared to 2015; and 23.9% in Argentina, an increase of 150 basis points as compared to 2015.

Venezuela. KOF Venezuela s product portfolio consists of *Coca-Cola* trademark beverages. Over the last several years, Coca-Cola FEMSA implemented a product portfolio rationalization strategy that allowed Coca-Cola FEMSA s to minimize the impact of certain operating disruptions that were recurrent in Venezuela. These operating disruptions were mainly related to difficulties in accessing raw materials due to the delay in obtaining the corresponding import authorizations and the Venezuelan exchange control regime.

The following table highlights historical sales volume, number of transactions and unit case and transaction mix by category in Venezuela:

	Year Ended December 31,		
	2017	2016	2015
	(millions of unit cases or millions of single units, except percentages)		
Sales Volume			
Total	64.2	143.1	235.6
Growth	(55.1)%	(39.3)%	(2.3)%
Unit Case Mix by Category			
Sparkling beverages	84.9%	83.8%	86.2%
Water[1]	11.4%	10.0%	6.8%
Still beverages	3.6%	6.2%	7.0%
Total	100.0%	100.0%	100.0%
Number of Transactions			
Total	441.0	772.6	1,318.1
Growth	(42.9)%	(41.4)%	(3.6)%
Transaction Mix by Category			
Sparkling beverages	81.2%	75.0%	79.0%
Water[1]	14.0%	15.3%	9.7%
Still beverages	4.8%	9.7%	11.3%
Total	100.0%	100.0%	100.0%

(1) Includes bulk water volumes and transactions.

Total sales volume in Venezuela decreased by 55.1% to 64.2 million unit cases in 2017 as compared to 2016, mainly due to an overall sales volume contraction in all Coca-Cola FEMSA s categories as a result of the conditions in the country, facing high inflation and scarcity of raw materials. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 54.5%. Sales volume of Coca-Cola FEMSA s still beverage portfolio decreased by 29.1%. Sales volume of bottled water, including bulk water, decreased by 48.8%.

The number of transactions in 2017 in Venezuela decreased by 42.9% to 441.0 million transactions as compared to 2016. The number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio in 2017 decreased by 38.1% as compared to 2016, driven by a contraction in Coca-Cola FEMSA s colas and flavored sparkling beverage portfolios. Transactions for Coca-Cola FEMSA s still beverage category in 2017 decreased by 71.7% as compared to 2016. Transactions for bottled water, including bulk water, in 2017 decreased by 48.1% as compared to 2016.

In 2017, multiple serving presentations represented 73.3% of total sparkling beverages sales volume in Venezuela, an 11.7% decrease as compared to 2016. In 2017, returnable presentations represented 18.4% of total sparkling beverages sales volume in Venezuela, an increase of 11.4% as compared to 2016.

Total sales volume in Venezuela decreased by 39.3% to 143.1 million unit cases in 2016 as compared to 2015, mainly due to an overall sales volume contraction in all of Coca-Cola FEMSA s categories as a result of the scarcity of raw materials and demand for Coca-Cola FEMSA s products. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio decreased by 41.0%. Sales volume of Coca-Cola FEMSA s still beverage portfolio decreased by 46.4%. Sales volume of bottled water, including bulk water, decreased by 10.0%.

The number of transactions in 2016 in Venezuela decreased by 41.4% to 772.6 million transactions as compared to 2015. The number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio in 2016 decreased by 44.4% as compared to 2015, mainly driven by a contraction in the number of transactions of *Coca-Cola* brand products and Coca-Cola FEMSA s flavored sparkling beverage portfolio. Transactions for Coca-Cola FEMSA s still beverage category in 2016 decreased by 49.6% as compared to 2015. Transactions for bottled water, including bulk water, in 2016 decreased by 7.2% as compared to 2015.

In 2016, multiple serving presentations represented 85.0% of total sparkling beverages sales volume in Venezuela, a 260 basis points increase as compared to 2015. In 2016, returnable presentations represented 6.5% of total sparkling beverages sales volume in Venezuela, a decrease of 40 basis points as compared to 2015.

Asia. Coca-Cola FEMSA s product portfolio in the Philippines consists of *Coca-Cola* trademark beverages, including the *Minute Maid* line of juice-based beverages.

The following table highlights sales volume, number of transactions and unit case and transaction mix by category in the Philippines in 2017:

	Year Ended December 31, 2017 (millions of unit cases or millions of single units, except percentages)
Sales Volume[1]	
Total	552.4
Unit Case Mix by Category	
Sparkling beverages	79.4%
Water	10.7%
Still beverages	9.9%
Total	100.0%
Number of Transactions[1]	
Total	6,278.5
Transaction Mix by Category	
Sparkling beverages	88.0%
Water	4.7%
Still beverages	7.3%
Total	100.0%

(1) Includes sales volume and transactions of Coca-Cola FEMSA s operations in the Philippines from February 1, 2017.

The consolidation of Coca-Cola FEMSA s operations in the Philippines began in February 1, 2017. As a result, Coca-Cola FEMSA only reported results for 11 months in 2017 for this consolidated reporting segment.

Total sales volume in the Philippines was 552.4 million unit cases in 2017. Coca-Cola FEMSA s sparkling beverage category represented 79.4% of its total sales volume. Coca-Cola FEMSA s still beverage category represented 9.9% of its sales volume. Coca-Cola FEMSA s water portfolio s sales volume represented 10.7%, with 4.5% in bottled water and 6.2% in bulk water.

Total transactions in the Philippines were 6,278.5 million in 2017. Coca-Cola FEMSA s sparkling beverage category represented 88.0% of Coca-Cola FEMSA s transactions. Coca-Cola FEMSA s still beverage and water categories represented 7.3% and 4.7% of Coca-Cola FEMSA s transactions, respectively.

In 2017, multiple serving presentations represented 38.4% of total sparkling beverages sales volume in the Philippines. In 2017, returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 48.5% in the Philippines.

Seasonality

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

Marketing

Coca-Cola FEMSA, in conjunction with The Coca-Cola Company, has developed a marketing strategy to promote the sale and consumption of Coca-Cola FEMSA s products. Coca-Cola FEMSA relies extensively on advertising, sales promotions and retailer support programs to target the particular preferences of Coca-Cola FEMSA s consumers. Coca-Cola FEMSA s consolidated marketing expenses in 2017, net of contributions by The Coca-Cola Company, were Ps.4,504 million. The Coca-Cola Company contributed an additional Ps.4,023 million in 2017, which includes contributions for coolers, bottles and cases.

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

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

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

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

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

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

Product Sales and Distribution

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

	As of December 31, 2017			
	Mexico and Central America[1]	South America[2]	Venezuela[3]	Asia[4]
Distribution centers	181	67	24	52
Retailers[5]	971,844	817,401	158,563	818,502

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama.
(2) Includes Colombia, Brazil and Argentina.
(3) Includes KOF Venezuela.
(4) Includes the Philippines.
(5) Estimated.

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

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

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

Coca-Cola FEMSA s distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to Coca-Cola FEMSA s fleet of trucks, Coca-Cola FEMSA distributes its products in certain locations through electric carts and hand-trucks in order to comply with local environmental and traffic regulations. In some of Coca-Cola FEMSA s territories, Coca-Cola FEMSA retains third parties to transport its finished products from the bottling plants to the distribution centers.

Mexico. Coca-Cola FEMSA contracts a subsidiary of FEMSA for the transportation of finished products to Coca-Cola FEMSA s distribution centers from its production facilities. From the distribution centers, Coca-Cola FEMSA then distributes its finished products to retailers through its fleet of trucks.

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

Brazil. In Brazil, Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third party distributors, including related parties such as us, while Coca-Cola FEMSA maintains control over the selling activities. In designated zones in Brazil, third-party distributors purchase Coca-Cola FEMSA s products at a discount from the wholesale price and resell the products to retailers. Coca-Cola FEMSA also sells its products through the same modern distribution channels used in Mexico.

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

Competition

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

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

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

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

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

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

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

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

Asia. In the Philippines Coca-Cola FEMSA s main competitors are Pepsi-Cola Products Philippines, Inc. (PCPPI), the exclusive bottler of *Pepsi* products in the Philippines and Asiawide Refreshments Corporation (ARC), a licensed Philippine bottler of *RC Cola* beverages. PCPPI manufactures and sells soft drinks, ready-to-drink juices, ready-to-drink energy drinks and water. ARC manufactures and sells soft drinks and root beer.

Raw Materials

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

In the past, The Coca-Cola Company has increased concentrate prices for Coca-Cola trademark beverages in some of the countries where Coca-Cola FEMSA operates. For example, The Coca-Cola Company (i) began to gradually increase concentrate prices for certain *Coca-Cola* trademark beverages in Mexico beginning in 2017 and Costa Rica and Panama beginning in 2014, and informed Coca-Cola FEMSA that it would continue to do so through 2019 in Mexico and 2018 in Costa Rica and Panama; (ii) increased concentrate prices for certain *Coca-Cola* trademark beverages in Colombia in 2016 and 2017; and (iii) began to gradually increase concentrate prices for flavored water in Mexico beginning in 2015, and informed Coca-Cola FEMSA it would continue to do so through 2018. Based on Coca-Cola FEMSA s estimates, it currently does not expect these increases will have a material adverse effect on Coca-Cola FEMSA s results of operations. The Coca-Cola Company may continue to unilaterally increase concentrate prices in the future, and Coca-Cola FEMSA may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the prices of Coca-Cola FEMSA s products or Coca-Cola FEMSA s results. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Cooperation Framework with The Coca-Cola Company.**

In addition to concentrate, Coca-Cola FEMSA purchases sweeteners, carbon dioxide, PET resin and preforms to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Coca-Cola FEMSA s bottler agreements provide that these materials may be purchased only from suppliers approved by The Coca-Cola Company. Prices for certain raw materials, including those used in the bottling of Coca-Cola FEMSA s products, mainly PET resin, finished plastic bottles, aluminum cans, HFCS and certain sweeteners, are paid in or determined with reference to the U.S. dollar, and therefore local prices in a particular country may increase based on changes in the applicable exchange rates. Coca-Cola FEMSA s most significant packaging raw material costs arise from the purchase of PET resin, the price of which is related to crude oil prices and global PET resin supply. The average price that Coca-Cola FEMSA paid for PET resin in U.S. dollars in 2017 increased only 2.7% as compared to 2016 in all of Coca-Cola FEMSA s territories, excluding Venezuela. In addition, given that high currency volatility has affected and continues to affect most of its territories, the average price for PET resin in local currencies was higher in 2017 in Argentina and Mexico. In 2017, Coca-Cola FEMSA purchased certain raw materials in advance, implemented a price fixing strategy and entered into certain derivative transactions, which helped Coca-Cola FEMSA to capture opportunities with respect to raw material costs and currency exchange rates.

Under Coca-Cola FEMSA s agreements with The Coca-Cola Company, it may use raw or refined sugar and HFCS in its products. Sugar prices in all of the countries where Coca-Cola FEMSA operates, other than Brazil, are subject to local regulations and other barriers to market entry that, in certain countries, that cause Coca-Cola FEMSA to pay for sugar in excess of international market prices. In recent years, international sugar prices experienced significant volatility. Across Coca-Cola FEMSA s territories (excluding Venezuela), Coca-Cola FEMSA s average price for sugar in U.S. dollars, taking into account its financial hedging activities, increased by approximately 7.3% in 2017 as compared to 2016; however, the average price for sugar in local currency was lower in Panama, Colombia and the Philippines.

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

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

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

Coca-Cola FEMSA purchases all of its cans from Fábricas de Monterrey, S.A. de C.V., or FAMOSA, and Envases Universales de México, S.A.P.I. de C.V., through Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of *Coca-Cola* bottlers, in which, as of April 13, 2018, Coca-Cola FEMSA held a 35.0% equity interest. Coca-Cola FEMSA mainly purchases its glass bottles from Vitro America, S. de R.L. de C.V. (formerly Compañía Vidriera, S.A. de C.V., or Vitro), FEVISA Industrial, S.A. de C.V., known as FEVISA, and Glass & Silice, S.A. de C.V., or SIVESA.

Coca-Cola FEMSA purchases sugar from, among other suppliers, PIASA and Beta San Miguel, S.A. de C.V., both sugar cane producers in which, as of April 13, 2018, Coca-Cola FEMSA held a 36.4% and 2.7% equity interest, respectively. Coca-Cola FEMSA purchases HFCS from Ingredion México, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

Sugar prices in Mexico are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay higher prices than those paid in the international market. As a result, prices in Mexico have no correlation to international market prices. In 2017, sugar prices in local currency in Mexico increased approximately 24.4% as compared to 2016.

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

South America (excluding Venezuela). In Colombia, Coca-Cola FEMSA uses sugar as a sweetener in all of its caloric beverages, which Coca-Cola FEMSA buys from several domestic sources. Sugar prices in Colombia decreased approximately 11.2% in U.S. dollars and 14.3% in local currency, as compared to 2016. Coca-Cola FEMSA purchases non-returnable plastic bottles from Amcor Rigid Plastics de Colombia, S.A. and Tapón Corona de Colombia S.A. (affiliate of Envases Universales de México, S.A.P.I. de C.V.). Coca-Cola FEMSA has historically purchased all of its non-returnable glass bottles from O-I Peldar and other global suppliers in the Middle East. Coca-Cola FEMSA purchases all of its cans from Crown Colombiana, S.A. Grupo Ardila Lulle (owners of Coca-Cola FEMSA s competitor Postobón) which owns a minority equity interest in certain of Coca-Cola FEMSA s suppliers, including O-I Peldar, Crown Colombiana, S.A and Incauca S.A.S.

In Brazil, Coca-Cola FEMSA also uses sugar as a sweetener in all of its caloric beverages, which is available at local market prices, which historically have been similar to international prices. Sugar prices in Brazil decreased approximately 3.1% in U.S. dollars and decreased 10.5% in local currency as compared to 2016. Taking into account Coca-Cola FEMSA s financial hedging activities, its sugar prices in Brazil increased approximately 14.3% in U.S. dollars and increased 4.5% in local currency as compared to 2016. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk.** Coca-Cola FEMSA purchases non-returnable glass bottles, plastic bottles and cans from several domestic and international suppliers. Coca-Cola FEMSA mainly purchases PET resin from local suppliers such as M&G Polímeros México, S.A. de C.V. and Companhia Integrada Textil de Pernambuco.

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

Venezuela. KOF Venezuela uses sugar as a sweetener in all of its caloric beverages, which it purchases mainly from suppliers in the local market. Since 2003, KOF Venezuela has experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permission to import sugar on a timely basis. Because sugar distribution to the food and beverages industry and to retailers was controlled by the government, KOF Venezuela regularly experienced material disruptions with respect to access to sufficient sugar supply. For this reason, in 2016 Coca-Cola FEMSA decided to adjust KOF Venezuela s product portfolio from caloric beverages to non-caloric beverages. KOF Venezuela purchases glass bottles from one local supplier, Productos de Vidrio, C.A., the only supplier authorized by The Coca-Cola Company. KOF Venezuela acquires most of its non-returnable plastic bottles from Alpla de Venezuela, S.A., and most of its aluminum cans from a local producer, Dominguez Continental, C.A.

Asia. In the Philippines, Coca-Cola FEMSA uses both local sugar and HFCS that it purchases in China mainly from Archer Daniels Midland and Scents (Shandong Xiangchi Jianyuan Bio-Tech Co., Ltd), and in Korea from Daesang Corp.

In 2017, sugar prices in the Philippines decreased by approximately 17.9% in local currency and 22.5% in U.S. dollars, as compared to 2016. Due to a tax reform imposing new taxes on sugar and HFCS beginning on January 1, 2018, Coca-Cola FEMSA expects to use sugar as the sweetener in all of its caloric beverages in the Philippines. **See Item 4. Information on the Company Regulatory Matters Taxation of Beverages.**

Coca-Cola FEMSA purchases non-returnable plastic bottles from global PET converters such as Alpla Philippines Inc. and Indorama Ventures Packaging Philippines Corporation. In the case of PET resin, Coca-Cola FEMSA purchases its supply from top Asian suppliers from China, Taiwan and South East Asia, such as Indorama Ventures Polymers, Far Eastern New Century Corporation and SFX Jiangyin Xingyu New Material Co. Ltd. Coca-Cola FEMSA purchases non-returnable glass bottles from Frigoglass Jebel Ali Free Zone, Saudi Arabian Glass Company Limited, Asia Brewery Inc., San Miguel Yamamura Packaging Corporation and Yantai NBC Glass Packaging Co., Ltd.

FEMSA Comercio

Overview

FEMSA Comercio operates through the following divisions:

Retail Division: operates the largest chain of small-format stores in the Americas, measured in terms of number of stores as of December 31, 2017, mainly under the trade name OXXO. As of December 31, 2017, the Retail Division operated 16,526 OXXO stores in Mexico and Colombia, and 51 stores in Chile.

Health Division: operates drugstores and related operations with 1,123 points of sale in Mexico, 882 in Chile and 220 in Colombia as of December 31, 2017.

Fuel Division: operates retail service stations for fuels, motor oils and other car care products. As of December 31, 2017, the Fuel Division operated 452 service stations, concentrated mainly in the northern part of Mexico with a presence in 16 states throughout the country.

Operations by Division Overview

Year Ended December 31, 2017

	(in millions of Mexican pesos, except percentages)			
	Total Revenues		Gross Profit	
	2017	2017 vs. 2016[(1)]	2017	2017 vs. 2016[(1)]
Retail Division	Ps.154,204	12.4%	Ps.58,245	14.2%
Health Division	47,421	9.2%	14,213	11.6%
Fuel Division	38,388	34.1%	2,767	23.1%

(1) The operations that compose the Health Division have been treated as a separate reportable segment since 2016.

Corporate History

Retail Division

FEMSA s retail business started in 1978 with the opening of two OXXO stores in Monterrey, Nuevo Leon, one store in Mexico City and another store in Guadalajara, Jalisco. The motivating factor behind FEMSA s entrance into the retail industry was to enhance beer sales through company-owned retail outlets as well as to gather information on customer preferences.

In 1994, FEMSA Comercio consolidated its retail business into an independent business unit, and by 1998, it reached 1,000 OXXO stores in Mexico. By 2007, the store count surpassed 5,000 across Mexico, and in 2009, OXXO entered Colombia, where it has continued expanding its presence. Currently, there are 59 OXXO stores in Colombia.

In December 2013, FEMSA Comercio, through one of its subsidiaries, purchased the operating assets and trademarks of Doña Tota, a leading quick-service restaurant operator in Mexico. The founding shareholders of Doña Tota currently hold a 16.4% stake in the FEMSA Comercio subsidiary that now operates the Doña Tota business.

In January 2016, in order to explore the fast casual dining industry in the United States, FEMSA Comercio, through its subsidiary Cadena Comercial USA, completed the acquisition of an 80% economic stake in Specialty s, which then operated 56 café restaurants in the states of California, Washington and Illinois. In January 2017, Cadena Comercial USA completed the acquisition of the remaining 20% economic stake in Specialty s, becoming its sole owner.

In June 2016, the Retail Division, through its subsidiary Cadena Comercial Andina, SpA, acquired Big John, a leading convenience store operator based in Santiago, Chile. At the time of the acquisition, Big John operated 49 stores, mainly in the Santiago metropolitan area. In March 2017, the Retail Division opened its first OXXO store in Chile.

Health Division

Leveraging FEMSA Comercio s capabilities and skills in successfully operating small-box retail formats, in May 2013, FEMSA Comercio, through its subsidiary CCF, closed the acquisition of Farmacias YZA, a leading drugstore operator in Southeast Mexico, to create another avenue for growth for FEMSA Comercio. The founding shareholders of Farmacias YZA currently hold a 22.7% stake in CCF.

In a separate transaction, on May 13, 2013, CCF acquired Farmacias FM Moderna, a leading drugstore operator in the western state of Sinaloa.

In June 2015, CCF acquired Farmacias Farmacon, a regional pharmacy chain in the northwestern Mexican states of Sinaloa, Sonora, Baja California and Baja California Sur.

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

throughout Colombia.

In June 2016, CCF acquired Farmacias Generix, a regional pharmacy chain consisting at the time of the transaction of 70 drugstores in the Mexican states of Jalisco, Guanajuato, Mexico City, Queretaro and Nuevo Leon.

In July 2016, Sofocar through one of its subsidiaries, Drogueria y Farmacias Cruz Verde S.A.S., acquired Farmacias Acuña, a regional pharmacy chain consisting at the time of 51 drugstores in Colombia.

Fuel Division

Since 1995, FEMSA Comercio has provided operational and administrative services for gasoline service stations through agreements with third parties, using the commercial brand OXXO GAS. Over time, this brand has become synonymous of quality service among our customers, and revenues per service station have consistently grown. Historically, Mexican legislation precluded FEMSA Comercio from participating in the retail of gasoline, and therefore from owning PEMEX franchises, due to FEMSA s foreign institutional investor base. In March 2015, following changes to the legal framework and considering the potential expansion and synergies arising from this business as part of Mexico s energy reform, FEMSA Comercio began to acquire and lease PEMEX s service station franchises and to obtain permits to operate each of the franchises. The implementation of the reform evolved in 2017 and fuel prices gradually began to follow the dynamics of the international fuel market, in accordance with the regulatory framework. In 2018, we expect to have more flexibility to operate within a free retail market environment.

Retail Division

Business Strategy

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

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

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

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

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

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

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

Store Locations

With 16,526 OXXO stores in Mexico and Colombia, and 51 stores in Chile as of December 31, 2017, the Retail Division operates the largest small-format store chain in the Americas, measured by number of stores. The Retail Division has expanded its operations by opening 1,301 net new OXXO stores in Mexico and Colombia during 2017.

OXXO Stores

Regional Allocation in Mexico[*]

as of December 31, 2017

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

OXXO Stores

Total Growth

	Year Ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Total OXXO stores	16,526	15,225	14,061	12,853	11,721
Store growth (% change over previous year)	8.5%	8.3%	9.4%	9.7%	10.6%

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

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

Both the identification of locations and the pre-opening planning to optimize the results of new OXXO stores are important elements in the Retail Division s growth plan. The Retail Division continuously reviews store performance against certain operating and financial benchmarks to optimize the overall performance of the chain. Stores of the Retail Division that are unable to maintain benchmark standards are generally closed. Between December 31, 2013 and 2017, the total number of OXXO stores increased by 4,805, which resulted from the opening of 5,050 new stores and the closing of 245 stores.

Competition

The Retail Division, mainly through OXXO stores, competes in the overall retail market, which we believe is highly competitive. OXXO stores face competition from small-format stores like 7-Eleven, Circle K and other numerous chains of retailers across Mexico, from other regional small-format retailers to small informal neighborhood stores. OXXO competes not only for consumers and new store locations but also for human resources to operate those stores. The Retail Division operates in every state in Mexico and has a much broader geographic coverage than any of its competitors in Mexico.

Market and Store Characteristics

Market Characteristics

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

Approximately 60% of OXXO stores customers are between the ages of 15 and 35. The Retail Division also segments the market according to demographic criteria, including income level.

OXXO Store Characteristics

The average size of an OXXO store is approximately 104 square meters of selling space, excluding space dedicated to refrigeration, storage or parking. The average constructed area of a store is approximately 188 square meters and, when parking areas are included, the average store size is approximately 411 square meters. In 2017, a typical OXXO store carried an average of 3,157 different stock keeping units (SKUs) in 31 main product categories.

Retail Division Operating Indicators

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(percentage increase compared to previous year)				
Total Retail Division revenues	12.4%	14.4%[(1)]	21.2%[(3)]	12.4%	12.9%
OXXO same-store sales[(2)]	6.4%	7.0%	6.9%	2.7%	2.4%

(1) Includes revenues of Big John. **See Item 4. Information on the Company Corporate Background** and Note 4 to our audited consolidated financial statements.

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

(3) Includes revenues of Farmacias Farmacon from June 2015 and Socofar from October 2015. **See Item 4. Information on the Company Corporate Background** and Note 4 to our audited consolidated financial statements. The percentage is compared as reported the previous year.

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

Approximately 53% of OXXO stores are operated by independent managers responsible for all aspects of store operations. The store managers are commission agents and are not employees of the Retail Division. Each store manager is the legal employer of the store s staff, which typically numbers six people per store. The Retail Division continually invests in on-site operating personnel, with the objective of promoting loyalty, customer service and low personnel turnover in the stores.

Advertising and Promotion

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

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

Inventory and Purchasing

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

Management believes that the OXXO store chain s scale of operations provides the Retail Division with a competitive advantage in its ability to realize strategic alliances with suppliers. General category offerings are determined on a national level, although purchasing decisions are implemented on a local, regional or national level, depending on the nature of the product category. Given the fragmented nature of the retail industry in Mexico in general, Mexican producers of beer, soft drinks, bread, dairy products, snacks and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 60% of the OXXO store chain s total sales consist of products that are delivered directly to the stores by suppliers. Other products with longer shelf lives are distributed to stores by the Retail Division s distribution system, which includes 18 regional warehouses in Mexico, located in Monterrey, Guadalajara, Mexicali, Merida, Leon, Obregon, Puebla, Queretaro, Chihuahua, Reynosa, Saltillo, Tampico, Tijuana, Toluca, Veracruz, Villahermosa, two in Mexico City, and two regional warehouses in Colombia. Our logistics services subsidiary operates a fleet of approximately 1,034 trucks that make deliveries from the distribution centers to each store approximately twice per week.

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Seasonality

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

Quick-Service Restaurant Market

Following the rationale that the Retail Division has developed certain capabilities and skills that should be well suited to different types of small-format retail, in 2013 the Retail Division entered the quick-service restaurant market in Mexico through the acquisition of Doña Tota, with the founding shareholders retaining a minority position. This is a leading regional chain specializing in Mexican food with a particularly strong presence in the northeast of the country. This acquisition presented the Retail Division with the opportunity to grow Doña Tota s stand-alone store base across the country, as well as the possibility to acquire prepared food capabilities and expertise.

In January 2016, in order to explore the fast casual dining industry in the United States, FEMSA Comercio, through its subsidiary Cadena Comercial USA Corporation, LLC., completed the acquisition of an 80% economic stake in Specialty s, which operates café restaurants in California, Washington and Illinois. In January 2017, Cadena Comercial USA completed the acquisition of the remaining 20% economic stake in Specialty s, becoming its sole owner.

Other Stores

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

Health Division

Business Strategy

The Health Division s vision is focused on two main strategies: first, to gain relevant scale by building a Latin American pharmacy retail platform that operates across several countries and markets, and second, to constantly improve our value proposition and service by being closer to our customers and by giving them access to a broader assortment, better options and availability of required medications, as well as relevant health and wellness products and services. In order to achieve this, the Health Division is working on leveraging two strong capability sets: (i) the Health-industry marketing and operational skills acquired through the incorporation of Chile-based Socofar and (ii) the skills that FEMSA Comercio has developed in the operation and growth of other small retail formats, particularly in Mexico. These capabilities include commercial, marketing and production skills as well as site selection, logistics, business processes, human resources, inventory and supplier management.

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

Store Locations

As of December 31, 2017, the Health Division operates 2,225 points of sale, including 1,123 in Mexico, 882 in Chile and 220 in Colombia.

During 2017, the Health Division expanded its operations by opening 105 additional stores on top of the 2,120 stores operating in 2016. The average investment required to open a new store varies, depending on location and whether the store is opened in an existing store location or requires construction of a new store. The Health Division currently expects to continue implementing its expansion strategy by emphasizing growth in markets where it currently operates and by expanding in underserved and unexploited markets. Most of the drugstore-related real estate is operated under lease agreements.

Competition

The Health Division competes in the overall pharmacy services market, which we believe is highly competitive. Our stores face competition from other drugstore chains, independent pharmacies and supermarkets, online retailers and convenience stores. The biggest chains in Mexico competing with the Health Division based on number of drugstores are Farmacias Guadalajara, Farmacias del Ahorro and Farmacias Benavides, while in Chile, the biggest chains are Farmacias Ahumada and Salcobrand. In Colombia, Farmatodo, Olimpica, Farmacenter, La Rebaja and Colsubsidio are relevant players.

Market and Store Characteristics

Market Characteristics

The drugstore market in Mexico is highly fragmented among national and regional chains as well as independent drugstores, supermarkets and other informal neighborhood drugstores. There are more than 30,000 drugstores; however, the Health Division only has 4% of the total number of pharmacies in Mexico with a presence in 15 of 32 states in the country.

The market in Colombia is similar but slightly less fragmented and in general includes national and regional chains. The national healthcare system in Colombia covers a large amount of the country s population and works through *Entidades Promotoras de Salud* (Health Promoting Entities) in the private and public sectors to provide healthcare services to the Colombian population.

In Chile, the market is more concentrated among a limited number of participants and our operation is the leading drugstore operator in the country in terms of number of stores. Our operation is also the largest distributor of pharmaceuticals in the country. The Chilean market, where our operation s healthcare services are sold to both institutional and personal consumers, represents an attractive growth opportunity.

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

The Health Division s customers are aged 18 and above. In Mexico, 60% of the Health Division s customers are between the ages of 18 and 35, 52% of which are female. In Chile, 64% of the customers are between the ages of 25 and 54, 58% of which are female. The Health Division also segments the market according to demographic criteria, including income level and purchase frequency.

Store Characteristics

The Health Division s stores are operated under the following trade names: Farmacias YZA, Farmacias Moderna, Farmacias Farmacon and Farmacias Generix in Mexico; Farmacias Cruz Verde in Chile and Colombia and beauty stores under the trade name Maicao in Chile. The average size of the Health Division s stores is 93 square meters in Mexico, 182 square meters in Chile and 87 square meters in Colombia, including selling space and storage area. On average, each store has between 6 and 11 employees depending on the size of and traffic into the store. Patented and generic pharmaceutical drugs, beauty products, medical supplies, household goods and personal care products are the main products sold at the Health Division s stores.

The Health Division s stores also offer different value-added services, such as correspondent banking, product delivery services, medical examinations and some financial services in Chile.

Advertising and Promotion

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

Inventory and Purchasing

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

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

Seasonality

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

Fuel Division

Business Strategy

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

The Fuel Division s business strategy aims to strengthen its services in its retail gas stations in Mexico to fulfill consumers needs and increase traffic in those service stations while developing and maintaining an attractive value proposition to draw potential customers and face the entry of new competitors in the industry. Furthermore, the Fuel Division s service stations often have an OXXO store on the premises, strengthening the OXXO brand and complementing the value proposition.

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

Service Station Locations

As of December 31, 2017, the Fuel Division operated 452 service stations, concentrated mainly in the northern part of the country but with a presence in 16 states throughout Mexico.

In 2017, the Fuel Division leased 54 additional service stations and built 16 new service stations.

Competition

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

Market and Store Characteristics

Market Characteristics

The retail service station market in Mexico is highly fragmented. There are currently approximately 12,000 service stations; however, the Fuel Division, with approximately 3.8% of the total number of stations, is the largest participant in this market. The majority of the retail service stations in the country are owned by small regional family businesses.

Service Station Characteristics

Each service station under the OXXO GAS trade name comprises offices, parking lots, a fuel service area and an area for storage of gasoline in underground tanks. We are in an ongoing effort to re-brand some of our service stations with a new image featuring the trademark of OXXO GAS. This change will undoubtedly allow customers to more easily identify our service stations in the market.

The average size of the fuel service dispatch area is 216 square meters. On average, each service station has 13 employees.

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

Up until April of 2016, legal restrictions prevented the Fuel Division, as a franchisee of PEMEX, from having a different supplier of gasoline. However, the current law allows other suppliers to operate in Mexico.

Advertising and Promotion

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

Seasonality

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

Heineken Investment

FEMSA owns a non-controlling interest in the Heineken Group, one of the world s leading brewers. As of December 31, 2017, our 14.76% economic interest in the Heineken Group comprised 35,318,320 shares of Heineken Holding N.V. and 49,697,203 shares of Heineken N.V. For 2017, FEMSA recognized equity income of Ps. 7,847 million regarding its economic interest in the Heineken Group, which was 20.00% for the first eight months of the year and 14.76% for remaining four months of the year; see Note 10 to our audited consolidated financial statements.

As described above, the Retail Division has a distribution agreement with subsidiaries of Cuauhtémoc Moctezuma, now a part of the Heineken Group, pursuant to which OXXO stores in Mexico only carry beer brands produced and distributed by Cuauhtémoc Moctezuma. OXXO stores will continue to benefit from the existing relationship under which Cuauhtémoc Moctezuma will continue to be the exclusive supplier of beer to OXXO until June 2020. In addition, our logistic services subsidiary provides certain services to Cuauhtémoc Moctezuma and its subsidiaries. Coca-Cola FEMSA also continues to distribute and sell *Heineken* beer products in Coca-Cola FEMSA s Brazilian territories pursuant to Coca-Cola FEMSA s agreement with Heineken Brazil. **See Item 4. Information on the Company Coca-Cola FEMSA Sales Volume and Transactions Overview *South America (Excluding Venezuela)* and Item 8. Financial Information Legal Proceedings.**

Other Businesses

Our other businesses consist of the following smaller operations that support our core operations, which we refer to as FEMSA Strategic Businesses:

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

Our refrigeration business produces vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 54,203 units at December 31, 2017. In 2017, this business sold 529,339 refrigeration units, 26% of which were sold to Coca-Cola FEMSA, and the remainder of which were sold to other clients. Also, this business includes manufacturing operations for food processing, storage and weighing equipment.

Description of Property, Plant and Equipment

As of December 31, 2017, Coca-Cola FEMSA owned all of its manufacturing facilities and distribution centers, consisting primarily of production and distribution facilities for its soft drink operations and office space. In addition, the Retail Division owns approximately 13% of OXXO stores, while the remaining stores are located on leased properties and substantially almost all of its warehouses are under long-term lease arrangements with third parties. The Health Division owns five distribution centers, two of which are in Chile, two in Mexico and one in Colombia, and includes a manufacturing facility for generic pharmaceuticals in Chile. Most of the Health Division s stores are under lease arrangements with third parties.

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

Bottling Facility Summary

As of December 31, 2017

Country	Installed Capacity (thousands of unit cases)	Average Annual Utilization[1][2] (%)	Utilization in Peak Month[1] (%)
Mexico	2,818,533	63	78
Guatemala	49,379	67	67
Nicaragua	86,555	39	58
Costa Rica	88,207	51	56
Panama	70,605	43	47
Colombia	663,452	38	47
Venezuela[3]	242,121	27	30
Brazil	1,419,984	52	59
Argentina	367,620	41	48
Philippines	1,139,038	51	60

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

(2) Annualized rate.

(3) Includes bottling facilities owned by KOF Venezuela.

The table below summarizes by country plant location and facility area of Coca-Cola FEMSA s production facilities:

Bottling Facility by Location

As of December 31, 2017

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	Toluca, Estado de Mexico	317
	Leon, Guanajuato	124
	Morelia, Michoacan	50
	Ixtacomitan, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	La Pureza Altamira, Tamaulipas	300
	San Juan del Rio, Queretaro	84
Guatemala	Guatemala City	46
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San Jose	52
Panama	Panama City	29
Colombia	Barranquilla, Atlántico	37
	Bogota, DC	105
	Tocancipa, Cundinamarca	298
Venezuela(1)	Valencia, Carabobo	100
Brazil	Jundiai, Sao Paulo	191
	Marilia, Sao Paulo	159
	Curitiba, Paraná	119
	Itabirito, Minas Gerais	320
	Porto Alegre, Río Grande do Sul	196
Argentina	Alcorta, Buenos Aires	73
Philippines	Santa Rosa, La Laguna	294
	Misamis, Mindanao	112
	Canlubang, La Laguna	137
	Imus, Cavite	19
	San Fernando, Pampanga	60

(1) Includes bottling facilities owned by KOF Venezuela.

Insurance

We maintain an all risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disasters, including hurricanes, hail, earthquakes and damages caused by human acts, including explosions, fire, vandalism and riots. We also maintain a freight transport insurance policy that covers damages to goods in transit. In addition, we maintain a liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. In 2018, the policies for all risk property insurance were issued by AXA Seguros, S.A. de C.V., policies for liability insurance were issued by Mapfre Tepeyac Seguros, S.A. and the policy for freight transport insurance was issued by AXA Seguros, S.A. de C.V. Our all risk coverage was partially reinsured in the international reinsurance market. We believe that our coverage is consistent with the coverage maintained by similar companies.

Capital Expenditures and Divestitures

Our consolidated capital expenditures, net of disposals, for the years ended December 31, 2017, 2016 and 2015 were Ps. 25,180 million, Ps. 22,155 million and Ps. 18,885 million respectively and were for the most part financed from cash from operations generated by our subsidiaries. These amounts were invested in the following manner:

	Year Ended December 31,		
	2017	2016	2015
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	14,612	Ps. 12,391	Ps. 11,484
FEMSA Comercio			
Retail Division	8,563	7,632	5,625
Health Division	774	474	423
Fuel Division	291	299	228
Other	940	1,359	1,125
Total	Ps. 25,180	Ps. 22,155	Ps. 18,885

Coca-Cola FEMSA

In 2017, 2016 and 2015, Coca-Cola FEMSA focused its capital expenditures on investments in (i) increasing production capacity; (ii) placing coolers with retailers; (iii) returnable bottles and cases; (iv) improving the efficiency of its distribution infrastructure and (v) information technology. Through these measures, Coca-Cola FEMSA continuously seeks to improve its profit margins and overall profitability.

FEMSA Comercio

Retail Division

The Retail Division s principal investment activity is the construction and opening of new stores, which are mostly OXXO Stores. During 2017, FEMSA Comercio opened 1,301 net new OXXO stores. The Retail Division invested Ps. 8,563 million in 2017 in the addition of new stores, warehouses and improvements to leased properties, renewal of equipment and information technology related investments.

Health Division

The Health Division s principal investment activity is the construction and opening of new drugstores in the countries where we operate. During 2017, the Health Division opened 46 net new drugstores in Mexico and 59 net new drugstores in Chile and Colombia. The Health Division invested Ps. 774 million in 2017 in the addition of new stores, warehouses and improvements to leased properties and information technology investments.

Fuel Division

In 2017, the Fuel Division s business addressed its investments on capital expenditure mainly to the addition of 70 new retail service stations. During 2017, the Fuel Division invested Ps. 291 million.

Regulatory Matters

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

Tax Reforms

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). In addition, starting in 2016, the Brazilian federal production tax rates were reduced and the federal sales tax rates were increased. These rates continued to increase in 2017. However, the Supreme Court

decided in early 2017 that the value-added tax will not be used as the basis for calculating the federal sales tax, which resulted in a reduction of the federal sales tax. Notwithstanding the above, the tax authorities appealed the Supreme Court s decision and are still waiting for a final resolution. In 2017 the federal production and sales taxes together resulted in an average of 15.6% tax over net sales. For 2018, these taxes will continue to increase, and we expect the average of these taxes will range between 16.0% and 17.5% over net sales.

On December 30, 2015, the Venezuelan government enacted a new package of tax reforms that became effective in January 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 entities 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 indebtedness without intervention of the financial system and debits on bank accounts for cross-border payments.

In Guatemala the income tax rate for 2014 was 28.0% and it decreased to 25.0% for 2015.

On January 27, 2016, the Chilean National Congress approved a bill with the main object of simplifying the new income tax system enacted under the Tax Reform Law published in September 2014 (Law No. 20.780). In addition, in July 2016 Chilean tax authorities issued a public ruling containing extensive guidance on the new dual income tax regimes that will apply as from January 1, 2017. The new ruling revokes previous rulings issued in 2015 and reflects changes introduced in a February 2016 law designed to simplify and clarify the 2014 tax reform law, including the provisions relating to the dual income tax regimes. Some types of taxpayers are restricted to one of the two tax regimes, but taxpayers eligible for either regime must opt into their preferred regime before December 31, 2016. Starting in 2017, Chilean taxpayers subject to the first category income tax (FCIT) are subject to one of the following two tax regimes: (i) the fully integrated regime, under which shareholders are taxed on their share of the profits that are accrued annually by the Chilean entity; the combined income tax rate under the regime is 35% and (ii) the partially integrated regime, under which shareholders are taxed when profits are distributed. The combined income tax rate under the regime generally is 44.45% (27% plus a 35%WHT); however, foreign shareholders (Non-Chilean shareholders) that are residents in a country that has concluded a tax treaty with Chile (i.e. Mexico) are entitled to a full tax credit, and thus may benefit from a combined rate of 35%. All entities directly or indirectly held by FEMSA are deemed under the partially integrated regime.

On January 1, 2017, a new general tax reform became effective in Colombia. This reform reduced the income tax rate from 35.0% to 34.0% for 2017 and then to 33.0% for the following years. In addition, for entities located outside the free trade zone, this reform imposed an extra income tax rate of 6.0% for 2017 and 4.0% for 2018. For taxpayers located in the free trade zone, the special income tax rate increased from 15.0% to 20.0% for 2017. Additionally, the reform eliminated the temporary tax on net equity, the supplementary income tax at a rate of 9.0% as contributions to social programs and the 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. For 2017, the dividends paid to individuals that are Colombian residents will be subject to a withholding of 35.0%, and the dividends paid to foreign individuals or entities non-residents in Colombia will be subject to a withholding of 5.0%. This reform increased the rate of the minimum assumed income tax (renta presuntiva sobre el patrimonio), from 3.0% to 3.5% for 2017. Finally, starting in 2017, the Colombian general value-added tax rate increased from 16.0% to 19.0%.

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 a majority of individuals, (ii) increased the income tax rate on net capital gains from 5.0% or 10.0%, depending on the amount of shares sold, 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 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.

Taxation of Beverages

All the countries where Coca-Cola FEMSA operates, except for Panama, impose a value-added tax on the sale of sparkling beverages, with a rate of 16.0% in Mexico, 12.0% in Guatemala, 15.0% in Nicaragua, an average percentage of 15.8% in Costa Rica, 19.0% in Colombia (applied only to the first sale in the supply chain), 21.0% in Argentina, 12.0% in the Philippines and in Brazil as follows: 16.0% in the state of Parana, 17.0% in the state of Goias and Santa Catarina, 18.0% in the states of Sao Paulo, Minas Gerais and Rio de Janeiro and 20.0% in the states of Mato Grosso do Sul and Rio Grande do Sul. The states of Rio de Janeiro, Minas Gerais and Parana also charge an additional 2.0% on sales as a contribution to a poverty eradication fund. In Brazil the value-added tax is grossed-up and added, along with federal sales tax, at the taxable basis. In addition, Coca-Cola FEMSA is responsible for charging and collecting the value-added tax from each of its retailers in Brazil, based on average retail prices for each state where it operates, defined primarily through a survey conducted by the government of each state, which in 2017 represented an average taxation of approximately 17.8% over net sales. In addition, several of the countries where Coca-Cola FEMSA operates impose the following excise or other taxes:

Mexico imposes an excise tax of Ps. 1.00 per liter on the production, sale and import of beverages with added sugar and HFCS as of January 1, 2014. This excise tax is applied only to the first sale and Coca-Cola FEMSA is responsible for charging and collecting it. The excise tax is subject to an increase when accumulated inflation in Mexico reaches 10.0% since the most recent date of adjustment. The increased tax is imposed starting on the fiscal year following such increase. In November 2017, the accumulated inflation since the prior date of adjustment reached 17.0%. As a result, the excise tax increased to Ps.1.17 per liter as of January 1, 2018.

Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.48 as of December 31, 2017) per liter of sparkling beverage.

Costa Rica imposes a specific tax on non-alcoholic carbonated bottled beverages based on the combination of packaging and flavor, currently assessed at 18.49 colones (Ps. 0.64 as of December 31, 2017) per 250 ml, and an excise tax currently assessed at 6.457 colones (approximately Ps. 0.22 as of December 31, 2017) per 250 ml.

Nicaragua imposes a 9.0% tax on consumption, and municipalities impose a 1.0% tax on Coca-Cola FEMSA s Nicaraguan gross income.

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

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

Brazil assesses an average production tax of approximately 4.1% and an average sales tax of approximately 11.5% over net sales. Beginning on May 1, 2015, these federal taxes were applied based on the price sold, as detailed in Coca-Cola FEMSA s invoices, instead of an average retail price combined with a fixed tax rate and multiplier per presentation. Except for sales to wholesalers, these production and sales taxes apply only to the first sale and Coca-Cola FEMSA is responsible for charging and collecting these taxes from each of its retailers. For sales to wholesalers, they are entitled to recover the sales tax and charge this tax again upon the resale of Coca-Cola FEMSA s products to retailers.

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

Beginning in January 2018, the Philippines impose an excise tax of 6.00 Philippine pesos (approximately Ps.2.37 as of December 31, 2017) per liter for sweetened beverages using caloric and non-caloric sweeteners, except for HFCS, and 12.00 Philippine pesos (approximately Ps.4.74 as of December 31, 2017) per liter for sweetened beverages using HFCS.

In Venezuela, KOF Venezuela is subject to value-added tax on the sale of sparkling beverages at a rate of 12.0%. In addition, Venezuela s municipalities imposed a variable excise tax applied only to the first sale of KOF Venezuela s products that varied between 0.6% and 2.5% of net sales.

Antitrust Legislation

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

We are subject to antitrust legislation in the countries where we operate, primarily in relation to mergers and acquisitions that we are involved in. The transactions in which we participate may be subject to the requirement to obtain certain authorizations from the relevant authorities.

Price Controls

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where Coca-Cola FEMSA operates. Currently, there are no price controls on Coca-Cola FEMSA s products in any of the territories where it has operations, except for voluntary price restraints in Argentina, where authorities directly supervise certain of Coca-Cola FEMSA s products sold through supermarkets as a measure to control inflation, and statutory price controls in the Philippines, where the government has imposed price controls on certain products considered as basic necessities, such as bottled water. In Venezuela, KOF Venezuela is subject to government-imposed price controls on certain of its products, including bottled water. In addition, KOF Venezuela is subject to the Fair Prices Law (*Ley Orgánica de Precios Justos*), which imposed a limit on profits earned on the sale of goods, including KOF Venezuela s products, seeking to maintain price stability and equal access to, goods and services.

Environmental Matters

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

In March 2015, the General Law of Climate Change (*Ley General de Cambio Climático*), its regulation and certain decrees related to such law became effective, imposing upon different industries (including the food and beverage industry) the obligation to report direct or indirect gas emissions exceeding 25,000 tons of carbon dioxide. Currently, we are not required to report these emissions, since they do not exceed this threshold.

In Coca-Cola FEMSA s Mexican operations, Coca-Cola FEMSA established a partnership with The Coca-Cola Company and Alpla, its supplier of plastic bottles in Mexico, to create Industria Mexicana de Reciclaje (IMER), a PET recycling facility located in Toluca, Mexico. This facility began operations in 2005 and has a recycling capacity of approximately 25,000 metric tons per year, from which 15,000 metric tons can be reused for food packaging purposes. Coca-Cola FEMSA has also continued contributing funds to Asociación Ambiental Sin Fines de Lucro (ECOCE, A.C.), a nationwide collector of containers and packaging materials.

In addition, all of Coca-Cola FEMSA s plants located in Mexico have received a Certificate of Clean Industry (*Certificado de Industria Limpia*).

As part of FEMSA s environmental protection and sustainability strategies, in December 2009, Coca-Cola FEMSA entered into a wind energy supply agreement with a Mexican subsidiary of the Spanish wind farm developer, GAMESA Energía, S.A., or GAMESA, to supply green energy to Coca-Cola FEMSA s bottling facility in Toluca, Mexico. The wind farm, which is located in La Ventosa, Oaxaca, has an installed capacity of 26.35 megawatts. In 2017, this wind farm supplied Coca-Cola FEMSA with approximately 72,450 megawatt hours of renewable energy.

Coca-Cola FEMSA has also entered into wind power supply agreements with two suppliers to receive clean and renewable energy for use at its production and distribution facilities throughout Mexico: (a) Energía Eólica del Sur, S.A.P.I. de C.V. (formerly Mareña Renovables Wind Power Farm, now known as Energía Eólica del Sur Wind Farm), with a 396,000 megawatt installed capacity wind farm in Oaxaca, Mexico, which is expected to begin operations in the fourth quarter of 2018; and (b) Enel Green Power s Dominica Wind Farm located in San Luis Potosi, Mexico, which supplied 77,262 megawatt hours to Coca-Cola FEMSA s production and distribution facilities.

FEMSA Comercio has also entered into wind power supply agreements with five suppliers to receive clean and renewable energy for use at its convenience stores, gas stations and drugstores throughout Mexico: (a) Energía Eólica del Sur Wind Farm; (b) Enel Green Power s Amistad Wind Farm located in Coahuila, Mexico, with a 198,000-megawatt installed capacity, which is expected to begin operations in 2018; (c) Enel Green Power s Dominica Wind Farm which supplied 59,990 megawatt hours to 492 OXXO stores and 370 drugstores in 2017; (d) Ventika Wind Farm located in Nuevo Leon, Mexico, which provided 341,498 megawatt hours to 3,282 OXXO stores in 2017; and (e) Fuerza Eólica de San Matías, S. de R.L. de C.V., or San Matías Wind Farm located in Baja California, Mexico, which is expected to begin operations in 2018. In 2017, 22% of FEMSA Comercio s energy consumption in Mexico came from renewable energy sources.

In 2017, five of Coca Cola FEMSA s manufacturing facilities received 38,707 megawatt hours from renewable energy sources such as bagasse cogeneration from the PIASA Tres Valles and Beta San Miguel sugar mills.

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

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

KOF Venezuela is subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the Organic Environmental Law (*Ley Orgánica del Ambiente*), the Substance, Material and Dangerous Waste Law (*Ley Sobre Sustancias, Materiales y Desechos Peligrosos*), the Criminal Environmental Law (*Ley Penal del Ambiente*), Waste Management Law (*Ley de Gestión Integral de Basura*) and the Water Law (*Ley de Aguas*).

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

In November 2015, Coca-Cola FEMSA entered into two five-year wind power supply agreements with the following suppliers to receive renewable energy from wind power, small hydroelectric plants and sugarcane biomass plants, for use at its production and distribution facilities in Brazil: (a) Brookfield Energía Comercializadora, Ltda., which provided a total of 21,725 megawatt hours in 2017 and (b) CPFL Comercializão Brasil, S.A., which provided a total of 72,132 megawatt hours in 2017. In 2017, 13 of Coca-Cola FEMSA s Brazilian facilities received energy from renewable energy sources, which represented 83.0% of Coca-Cola FEMSA s energy consumption in Brazil.

In May 2008, a municipal regulation of the City of Sao Paulo, implemented pursuant to Law 13.316/2002, came into effect requiring Coca-Cola FEMSA to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the City of Sao Paulo. Beginning in May 2011, Coca-Cola FEMSA was required to collect 90.0% of PET bottles sold. Currently, Coca-Cola FEMSA is not able to collect the entire required volume of PET bottles it sells in the City of Sao Paulo and could be fined or subject to other sanctions such as the suspension of operations of its plants and/or distribution centers in the City of Sao Paulo. In May 2008, when this requirement came into effect, Coca-Cola FEMSA and other bottlers in the City of Sao Paulo, through the Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR (*Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas*), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In November 2009, in response to a request by a municipal authority to provide evidence of the destination of the PET bottles sold in Sao Paulo, Coca-Cola FEMSA filed a motion presenting all of its recycling programs and requesting a more practical timeline to comply with the requirements imposed. In October 2010, the municipal authority of Sao Paulo levied a fine on Coca-Cola FEMSA s Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps. 1.5 million as of December 31, 2017) on the grounds that the report submitted by Coca-Cola FEMSA s Brazilian operating subsidiary did not comply with the 75.0% proper disposal requirement for the period from May 2008 to May 2010. Coca-Cola FEMSA filed an appeal against this fine, which was denied by the municipal authority in May 2013. This resolution by the municipal authority is final and not subject to appeal. However, in July 2012, the State Appellate Court of Sao Paulo rendered a decision on an interlocutory appeal filed on behalf of ABIR staying the requirement to pay the fines and other sanctions imposed on ABIR s associated companies, including Coca-Cola FEMSA s Brazilian subsidiary, pending the final resolution of the appeal. Coca-Cola FEMSA is still awaiting the final resolution of the appeal filed on behalf of ABIR. In November 2016, the municipal authority filed a tax enforcement claim against Coca-Cola FEMSA s Brazilian subsidiary in order to try to collect the fine imposed in October 2010. In February 2017, Coca-Cola FEMSA filed a motion for a stay of execution against the collection of the fine based on the decision rendered by the State Appellate Court of Sao Paulo in July 2012.

In August 2010, Law No. 12.305/2010 established the Brazilian National Solid Waste Policy. This policy is based on the principle of shared responsibility between the government, companies and the public, and provides for the post-consumption return of products to companies and requires public authorities to implement waste management programs. This law is regulated by Federal Decree No. 7.404/2010, and was published in December 2010. In response to the Brazilian National Solid Waste Policy, in December 2012, a proposal of agreement was provided to the Ministry of the Environment by almost 30 associations involved in the packaging sector, including ABIR in its capacity as representative for The Coca-Cola Company, Coca-Cola FEMSA s Brazilian subsidiary and other bottlers. This agreement proposed the creation of a coalition to implement systems for reverse logistics packaging non-dangerous waste that make up the dry fraction of municipal solid waste or equivalent. The goal of the proposal is to create methodologies for sustainable development, and improve the management of solid waste by increasing recycling rates and decreasing incorrect disposal in order to protect the environment, society and the economy. The Ministry of Environment approved and signed this agreement in November 2015. In August 2016, the public prosecutor s office of the state of Sao Paulo filed a class action against the parties that signed this agreement, challenging the validity of certain terms of the agreement and the effectiveness of the mandatory measures to be taken by the companies of the packaging sector, as provided in the agreement. ABIR is leading the lawsuit s defense.

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

Coca-Cola FEMSA s Philippine operations are subject to federal laws and regulations relating to the protection of the environment. Among the most relevant laws and regulations are those concerning air emissions (Clean Air Act), water pollution (Clean Water Act) and the protection and management of the environment (Philippine Environmental Code).

In addition, all of Coca-Cola FEMSA s Philippine subsidiary s plants have an Environmental Compliance Certificate, certifying that such plant does not have any significant negative environmental impact, and a discharge permit, certifying that the water discharge by such plant meets all legal requirements.

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

Water Supply

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

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

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

In Colombia, in addition to natural spring water for *Manantial*, Coca-Cola FEMSA obtains water directly from wells and from utility companies. Coca-Cola FEMSA is required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees No. 2811 of 1974 and No. 3930 of 2010. In addition, Decree No. 303 requires Coca-Cola FEMSA to apply for water concessions and for authorization to discharge its water into public waterways. The Ministry of Environment and Sustainable Development and Regional Autonomous Corporations supervises companies that use water as a raw material for their businesses. Furthermore, in Colombia, Law No. 142 of 1994 provides that public sewer services are charged based on volume (usage). The Water and Sewerage Company of the City of Bogota has interpreted this rule to be the volume of water captured, and not the volume of water discharged by users. Based on Coca-Cola FEMSA s production process, Coca-Cola FEMSA s Colombian subsidiary discharges into the public sewer system significantly less water than the water it captures. As a result, since October 2010, Coca-Cola FEMSA s Colombian subsidiary has filed monthly claims with the Water and Sewerage Company of the City of Bogota challenging these charges. In 2015, the highest court in Colombia issued a final ruling stating that the Water and Sewerage Company of the City of Bogota is not required to measure the volume of water discharged by users in calculating public sewer services charges. Based on this ruling, the Water and Sewerage Company of the City of Bogota commenced an administrative proceeding against our Colombian subsidiary requesting payment of approximately Ps. 309 million for the sewer services it claims Coca-Cola FEMSA s subsidiary has not properly paid since 2005. In connection with such proceeding, in March 2016, this authority issued an order freezing certain of our bank accounts (see Note 8.2 to Coca-Cola FEMSA s consolidated financial statements). In June 2017, Coca-Cola FEMSA s Colombian subsidiary held conciliatory hearings with the Water and Sewerage Company of the City of Bogota and reached an agreement to settle this matter by payment of approximately Ps. 216 million for the sewer services charged from June 2005 to May 2017. As of December 31, 2017, a reserve was created in Coca-Cola FEMSA s financial statements in the amount of this settlement. In June 2017, the settlement agreement was submitted before the administrative court seeking its judicial endorsement, and Coca-Cola FEMSA is currently awaiting the final settlement approval.

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

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

KOF Venezuela uses private wells in addition to water provided by the municipalities, and it takes the appropriate actions, including actions to comply with water regulations, to have water supply available from these sources, regulated by the Water Law (*Ley de Aguas*).

In the Philippines, Coca-Cola FEMSA primarily obtains water directly from local utility companies and from wells pursuant to water permits obtained from the Philippine government, which have an indefinite term. Notwithstanding the water permits, Coca-Cola FEMSA s Philippine subsidiary pays an annual fee to the Philippine government for pumping water from the wells. The extraction of water from wells is regulated by the National Water Resources Board.

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

Other Regulations

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

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

In August 2015, the Philippine Competition Act (Republic Act No. 10667) came into effect, which prohibited anti-competitive practices, abuse of dominant position, and mergers which prevent, lessen or restrict competition between or among competitors. This law provided a two-year transition period until August 2017 to allow companies to comply with its requirements.

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

In November 2017, the Panamanian government enacted Law No. 75 which regulates the sale of food and beverages in public and private schools (from elementary school through high school). According to Law No. 75, a list of authorized food and beverages will be published. As of the date of this annual report, no list has been published. However, the Ministry of Education issued a decree with certain products that they recommend should be sold in schools; the products mentioned do not include sparkling beverages, teas and still beverages that contain high amounts of sugar.

In December 2017, the Argentine government enacted Law No. 27,401 (Corporate Criminal Liability Law), which introduced the criminal liability regime for corporate entities who engage in corruption and bribery with governmental agencies. The main purpose of this law is to make corporate entities liable for corruption and bribery carried out directly or indirectly by such corporate entity, either with its participation, on its behalf or to its benefit.

In all of the countries where the Health Division operates, we are subject to local laws, regulations and administrative practices concerning retail and wholesale pharmacy operations, regulations prohibiting kickbacks, beneficiary inducement and the submission of false claims, licensure and registration requirements concerning the operation of pharmacies and the practice of pharmacy health regulation, as well as other health care laws and regulations.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview of Events, Trends and Uncertainties

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

Coca-Cola FEMSA has continued to grow at a steady but moderate pace, highlighting Mexico where operative results were strong. However, in the short-term Coca-Cola FEMSA faces some pressures from macroeconomic uncertainty in Mexico and certain South American markets, including currency volatility and the implementation of new excise taxes in some of the countries where we operate.

The Retail Division has maintained high rates of store openings across formats and continues to grow at solid rates in terms of total revenues. The Retail Division has lower operating margins than our beverage business. Given that the Retail Division has lower operating margins and given its fixed cost structure, it is more sensitive to changes in sales which could negatively affect operating margins.

The Health Division has continued its moderate rate of revenue growth, highlighting the strong growth trends delivered by Socofar s operations in Chile and Colombia, both of which partially benefited from a positive foreign exchange translation effect. However, in Mexico, the continued expansion across new territories and the integration process of its four legacy brands into a single business platform are pressuring the Health Division s results in the short term. Additionally, currency volatility between the Chilean and Colombian peso, compared with the Mexican peso, could further affect the Health Division s results.

The Fuel Division has continued its steady expansion across certain regions in Mexico. The implementation of the Mexican Energy Reform enacted by the current administration, which could result in certain business opportunities for the Fuel Division, moved forward and has begun to represent a retail market where the Fuel Division can have more flexibility to operate. Macroeconomic uncertainties that affect gasoline prices and the growth of competitors gas stations can also put pressure on the Fuel Division s operating margins, which are structurally lower than those of FEMSA Comercio s other divisions.

Our consolidated results are also significantly affected by the performance of the Heineken Group, as a result of our 14.76% economic interest. Our consolidated net income for 2017 included Ps. 7,847 million related to our non-controlling interest in the Heineken Group, as compared to Ps. 6,342 million for 2016.

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

Recent Developments

On January 1, 2018, after a long and productive career at the company spanning almost 45 years, Carlos Salazar Lomelín, former Chief Executive Officer of FEMSA, retired from his position. Miguel Eduardo Padilla Silva, who was FEMSA s Chief Financial and Corporate Officer became the new Chief Executive Officer of FEMSA on the same date.

Effects of Changes in Economic Conditions

Our results are affected by changes in economic conditions in Mexico, Brazil and the other countries where we operate. For the years ended December 31, 2017, 2016, and 2015, 63%, 64%, and 70% respectively, of our total sales were attributable to Mexico. Other than Venezuela and Chile, the participation of these other countries as a percentage of our total sales has not changed significantly during the last five years.

The Mexican economy is gradually recovering from the impact of the global financial crisis on many emerging economies in 2009. According to the INEGI, Mexican GDP expanded by 2.3% in 2017 and by approximately 2.3% and 2.6% in 2016 and 2015, respectively. According to the *Banco Nacional de México* survey regarding the economic expectations of specialists, Mexican GDP is expected to increase by 2.21% in 2018, as of the latest estimate, published on April 2, 2018. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery in Mexico.

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

Beginning in the fourth quarter of 2016 and through 2017, the exchange rate between the Mexican peso and the U.S. dollar fluctuated from a low of Ps. 17.48 per US$ 1.00, to a high of Ps. 21.89 per US$ 1.00. At December 29, 2017, the exchange rate (noon buying rate) was Ps. 19.64 per US$ 1.00. On April 20, 2018, this exchange rate was Ps. 18.61 per US$ 1.00. **See Item 3. Key Information Exchange Rate Information.** A depreciation of the Mexican peso or local currencies in the countries where we operate relative to the U.S. dollar increases our cost of raw materials priced in U.S. dollars, including raw materials whose prices are set with reference to the U.S. dollar. In addition, a depreciation of the Mexican peso or local currencies in the countries where we operate relative to the U.S. dollar will increase our U.S. dollar-denominated debt obligations, which could negatively affect our financial position and results. However, this effect could be offset by a corresponding appreciation of our U.S. dollar-denominated cash position.

Operating Leverage

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

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

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

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

Critical Accounting Judgments and Estimates

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

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

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

Intangible assets with indefinite lives including goodwill are s