

COCA COLA FEMSA SAB DE CV

Form 20-F

April 18, 2018

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**As filed with the Securities and Exchange Commission on April 18, 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 1-12260**

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

**(Exact name of registrant as specified in its charter)**

**Not Applicable**

**(Translation of registrant's name into English)**

**United Mexican States**

**(Jurisdiction of incorporation or organization)**

**Calle Mario Pani No. 100,**

**Santa Fe Cuajimalpa,**

**Cuajimalpa de Morelos,**

**05348, Ciudad de México, México**

**(Address of principal executive offices)**

**Maria Dyla Castro Varela**

**Calle Mario Pani No. 100,**

**Santa Fe Cuajimalpa,**

**Cuajimalpa de Morelos,**

**05348 Ciudad de México, México**

**(52-55) 1519-5121**

**kofmxinves@kof.com.mx**

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

**address of company contact person)**

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

| <b>Title of Each Class</b>  | <b>Name of Each Exchange on Which Registered</b>   |
|---|--|
| <b>American Depositary Shares, each representing 10<br/>Series L shares, without par value<br/>Series L shares, without par value</b> | <b>New York Stock Exchange, Inc.<br/><br/>New York Stock Exchange, Inc. (not for trading,<br/>for listing purposes only)</b> |

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

None

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

None

**The number of outstanding shares of each class of capital or common stock as of December 31, 2017 was:**

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

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

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

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

Yes

No

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

Yes

No

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

Yes

No

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

Yes

No

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

Large accelerated filer

Accelerated filer

Emerging growth company

Non-accelerated filer

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

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

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

U.S. GAAP

IFRS

Other

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

Item 17

Item 18

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

Yes

No

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### INTRODUCTION

#### References

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

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

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

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

#### Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps.19.64 to US\$1.00, the exchange rate for Mexican pesos on December 29, 2017, the last day in 2017 for which information is available, according to the U.S. Federal Reserve Board. On April 13, 2018, this exchange rate was Ps.18.08 to US\$1.00. See **Item 3. Key Information Exchange Rate Information** for information regarding exchange rates since January 1, 2013.

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

#### Sources

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

#### Forward-Looking Information

This annual report contains words such as believe, expect, anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views of future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including, but not limited to, effects on our company from changes in our relationship with The Coca-Cola Company, movements in the prices of raw materials, competition, significant developments in economic or political conditions in Mexico, Central and South America and Asia, including changes in currency



exchange and interest rates, our ability to successfully integrate mergers and acquisitions, or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

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**Item 3. Key Information**

**SELECTED CONSOLIDATED FINANCIAL DATA**

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

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2017 and 2016 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2017, 2016 and 2015.

Pursuant to IFRS, the information presented in this annual report presents financial information in nominal terms that has been presented in Mexican pesos. For each non-hyperinflationary economic environment, functional currency was 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. In the case of Venezuela, the only country of the countries where we operated with a hyperinflationary economic environment, local inflation was taken into account and functional currency was converted to Mexican pesos using (i) the official exchange rate published by the local central bank at the end of each of the periods ended December 31, 2013, 2014, 2015 and 2016, and (ii) an exchange rate of 22,793 bolivars per US\$1.00 for the period ended December 31, 2017. See Notes 2.3.1.10 and 3.3 to our consolidated financial statements. Our non-Mexican subsidiaries maintain their accounting records in their local currency and in accordance with accounting principles generally accepted in the country where they are located. For presentation in our consolidated financial statements, we adjust these accounting records into IFRS and report in Mexican pesos under these standards.

Pursuant to IFRS, as a result of Venezuela's hyperinflationary economic environment and currency exchange regime, we reported the results of our Venezuelan operations as a separate consolidated reporting segment. However, effective as of December 31, 2017, we deconsolidated our operations in Venezuela, and as a result began accounting for the results of operations of Coca-Cola FEMSA de Venezuela, S.A., or KOF Venezuela, as an investment under the fair value method pursuant to IFRS 9, *Financial Instruments*. Beginning on January 1, 2018, we will no longer include the results of operations of KOF Venezuela in our consolidated financial statements. See Notes 3.3 and 25 to our consolidated financial statements.

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

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 subsequent to that date.

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

|  | <b>Year Ended December 31,</b>  |                           |                           |             |             |                           |
|--|---|---------------------------|---------------------------|-------------|-------------|---------------------------|
|  | <b>2017<sup>(1)(2)</sup></b>  | <b>2017<sup>(2)</sup></b> | <b>2016<sup>(3)</sup></b> | <b>2015</b> | <b>2014</b> | <b>2013<sup>(4)</sup></b> |
|  | <b>(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)</b> |                           |                           |             |             |                           |
| <b>Income Statement Data:</b>  |   |                           |                           |             |             |                           |
| Total revenues   | US\$ 10,376   | Ps. 203,780               | Ps. 177,718               | Ps. 152,360 | Ps.147,298  | Ps.156,011                |
| Cost of goods sold   | 5,708   | 112,094                   | 98,056                    | 80,330      | 78,916      | 83,076                    |
| Gross profit   | 4,668   | 91,686                    | 79,662                    | 72,030      | 68,382      | 72,935                    |
| Administrative expenses  | 457   | 8,983                     | 7,423                     | 6,405       | 6,385       | 6,487                     |
| Selling expenses   | 2,848   | 55,927                    | 48,039                    | 41,879      | 40,465      | 44,828                    |
| Other income   | 223   | 4,371                     | 1,281                     | 620         | 1,001       | 478                       |
| Other expenses   | 1,682 <sup>(5)</sup>  | 33,032 <sup>(5)</sup>     | 5,093                     | 2,368       | 1,159       | 1,101                     |
| Interest expenses  | 449   | 8,809                     | 7,471                     | 6,337       | 5,546       | 3,341                     |
| Interest income  | 45  | 887                       | 715                       | 414         | 379         | 654                       |
| Foreign exchange gain (loss), net  | 41  | 810                       | (1,792)                   | (1,459)     | (968)       | (739)                     |
| Gain (loss) on monetary position for subsidiaries in hyperinflationary economies   | 81  | 1,591                     | 2,417                     | (33)        | (312)       | (393)                     |
| Market value gain on financial instruments   | 13  | 246                       | 51                        | 142         | 25          | 46                        |
| (Loss) income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method | (365)   | (7,160)                   | 14,308                    | 14,725      | 14,952      | 17,224                    |
| Income taxes   | 232   | 4,554                     | 3,928                     | 4,551       | 3,861       | 5,731                     |
| Share of the profit of associates and joint ventures   | 3   | 60                        | 147                       | 155         | (125)       | 289                       |

accounted for using  
the equity method,  
net of taxes

|                                  |       |          |        |        |        |        |
|----------------------------------|-------|----------|--------|--------|--------|--------|
| Net (loss) income                | (594) | (11,654) | 10,527 | 10,329 | 10,966 | 11,782 |
| Attributable to:                 |       |          |        |        |        |        |
| Equity holders of<br>the parent  | (652) | (12,802) | 10,070 | 10,235 | 10,542 | 11,543 |
| Non-controlling<br>interest      | 58    | 1,148    | 457    | 94     | 424    | 239    |
| Net (loss) income                | (594) | (11,654) | 10,527 | 10,329 | 10,966 | 11,782 |
| <b>Ratio to Revenues<br/>(%)</b> |       |          |        |        |        |        |
| Gross profit margin              | 45.0  | 45.0     | 44.8   | 47.3   | 46.4   | 46.7   |
| Net income margin                | (5.7) | (5.7)    | 5.9    | 6.8    | 7.4    | 7.6    |

**As of December 31,**  
**2017<sup>(1)(2)</sup>      2017<sup>(2)</sup>      2016<sup>(3)</sup>      2015      2014      2013<sup>(4)</sup>**  
**(in millions of Mexican pesos or millions of**

**U.S. dollars, except ratio, share and per share data)**

***Balance Sheet***

***Data:***

|   |      |       |     |         |     |         |     |        |     |        |     |        |
|---|------|-------|-----|---------|-----|---------|-----|--------|-----|--------|-----|--------|
| Cash and cash<br>equivalents  | US\$ | 956   | Ps. | 18,767  | Ps. | 10,476  | Ps. | 15,989 | Ps. | 12,958 | Ps. | 15,306 |
| Accounts<br>receivable, net,<br>inventories,<br>recoverable taxes,<br>other current<br>financial assets and<br>other current assets |      | 1,878 |     | 36,890  |     | 34,977  |     | 26,243 |     | 25,170 |     | 27,925 |
| Total current assets  |      | 2,834 |     | 55,657  |     | 45,453  |     | 42,232 |     | 38,128 |     | 43,231 |
| Investments in<br>other entities  |      | 639   |     | 12,540  |     | 22,357  |     | 17,873 |     | 17,326 |     | 16,767 |
| Property, plant and<br>equipment, net   |      | 3,861 |     | 75,827  |     | 65,288  |     | 50,532 |     | 50,527 |     | 51,785 |
| Intangible assets,<br>net   |      | 6,326 |     | 124,243 |     | 123,964 |     | 90,754 |     | 97,024 |     | 98,974 |

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|  | As of December 31,   |                     |                     |         |         |                     |
|--|--|---------------------|---------------------|---------|---------|---------------------|
|  | 2017 <sup>(1)(2)</sup>   | 2017 <sup>(2)</sup> | 2016 <sup>(3)</sup> | 2015    | 2014    | 2013 <sup>(4)</sup> |
|  | (in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data) |                     |                     |         |         |                     |
| Deferred tax assets, other non-current financial assets and other non-current assets   | 886  | 17,410              | 22,194              | 8,858   | 9,361   | 5,908               |
| Total non-current assets   | 11,712   | 230,020             | 233,803             | 168,017 | 174,238 | 173,434             |
| Total assets   | 14,546   | 285,677             | 279,256             | 210,249 | 212,366 | 216,665             |
| Bank loans and notes payable   | 105  | 2,057               | 1,573               | 384     | 301     | 495                 |
| Current portion of non-current debt  | 515  | 10,114              | 1,479               | 3,086   | 905     | 3,091               |
| Interest payable   | 25   | 487                 | 520                 | 411     | 371     | 324                 |
| Suppliers, accounts payable, taxes payable and other current financial liabilities   | 2,186  | 42,936              | 36,296              | 26,599  | 26,826  | 28,488              |
| Total current liabilities  | 2,831  | 55,594              | 39,868              | 30,480  | 28,403  | 32,398              |
| Bank loans and notes payable   | 3,625  | 71,189              | 85,857              | 63,260  | 64,821  | 56,875              |
| Post-employment and other non-current employee benefits, deferred tax liabilities, other non-current financial liabilities, provisions and other non-current liabilities | 925  | 18,184              | 24,298              | 7,774   | 9,024   | 10,239              |
| Total non-current liabilities  | 4,550  | 89,373              | 110,155             | 71,034  | 73,845  | 67,114              |
| Total liabilities  | 7,381  | 144,967             | 150,023             | 101,514 | 102,248 | 99,512              |
| Total equity   | 7,165  | 140,710             | 129,233             | 108,735 | 110,118 | 117,153             |
| Equity attributable to equity holders of the parent <sup>(6)</sup>   | 6,241  | 122,569             | 122,137             | 104,749 | 105,717 | 113,111             |
| Non-controlling interest in consolidated subsidiaries  | 924  | 18,141              | 7,096               | 3,986   | 4,401   | 4,042               |
| Total liabilities and equity   | 14,546   | 285,677             | 279,256             | 210,249 | 212,366 | 216,665             |

As of December 31,  
 (in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)

|                               | 2017 <sup>(1)(2)</sup> | 2017 <sup>(2)</sup> | 2016 <sup>(3)</sup> | 2015 | 2014 | 2013 <sup>(4)</sup> |
|-------------------------------|------------------------|---------------------|---------------------|------|------|---------------------|
| <b>Financial Ratios (%)</b>   |                        |                     |                     |      |      |                     |
| Current <sup>(7)</sup>        | 1.00                   | 1.00                | 1.14                | 1.38 | 1.34 | 1.33                |
| Leverage <sup>(8)</sup>       | 1.03                   | 1.03                | 1.16                | 0.93 | 0.93 | 0.85                |
| Capitalization <sup>(9)</sup> | 0.39                   | 0.39                | 0.41                | 0.39 | 0.38 | 0.35                |
| Coverage <sup>(10)</sup>      | 4.20                   | 4.20                | 4.80                | 3.92 | 4.73 | 8.22                |
| <b>Share Data</b>             |                        |                     |                     |      |      |                     |

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|   |               |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| A Shares  | 992,078,519   | 992,078,519   | 992,078,519   | 992,078,519   | 992,078,519   | 992,078,519   |
| D Shares  | 583,545,678   | 583,545,678   | 583,545,678   | 583,545,678   | 583,545,678   | 583,545,678   |
| L Shares  | 525,208,065   | 525,208,065   | 497,298,032   | 497,298,032   | 497,298,032   | 497,298,032   |
| Number of<br>outstanding<br>shares                          | 2,100,832,262 | 2,100,832,262 | 2,072,922,229 | 2,072,922,229 | 2,072,922,229 | 2,072,922,229 |
| <b>Per Share Data</b>                                       |               |               |               |               |               |               |
| Book Value <sup>(11)</sup>                                  | 2.97          | 58.34         | 58.92         | 50.53         | 51.00         | 54.57         |
| Basic earnings<br>per share <sup>(12)</sup>                 | (0.31)        | (6.12)        | 4.86          | 4.94          | 5.09          | 5.61          |
| Diluted earnings<br>per share <sup>(13)</sup>               | (0.31)        | (6.12)        | 4.85          | 4.94          | 5.09          | 5.61          |
| Ratio of<br>Earnings to<br>Fixed<br>Charges <sup>(14)</sup> | 0.10          | 0.10          | 2.81          | 3.22          | 3.40          | 5.71          |

- (1) Translation to U.S. dollar amounts at an exchange rate of Ps.19.64 to US\$1.00 solely for the convenience of the reader.
- (2) Includes results of KOF Philippines, from February 1, 2017. See **Item 4. Information on the Company The Company Corporate History.**
- (3) Includes results of Vonpar S.A., or Vonpar, from December 2016. See **Item 4. Information on the Company The Company Corporate History.**

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- (4) Includes results of KOF Philippines from February 2013 using the equity method, results of Grupo Yoli, S.A. de C.V., or Grupo Yoli, from June 2013, Companhia Fluminense de Refrigerantes, or Companhia Fluminense, from September 2013 and Spaipa S.A. Industria Brasileira de Bebidas, or Spaipa, from November 2013. **See Item 4. Information on the Company The Company Corporate History.**
- (5) See Note 18 to our consolidated financial statements.
- (6) We translated our results of operations in Venezuela for the full year ended December 31, 2017 into our reporting currency, the Mexican peso, using an exchange rate of 22,793 bolivars per US\$1.00. **See Item 5. Operating and Financial Review and Prospects General Exchange Control Regime in Venezuela and Note 3.3 to our consolidated financial statements.**
- (7) Computed by dividing total current assets by total current liabilities.
- (8) Computed by dividing total liabilities by total equity.
- (9) Computed by adding current bank loans and notes payable, current portion of non-current debt and non-current bank loans and notes payable, and dividing such sum by the sum of total equity and non-current bank loans and notes payable.
- (10) Computed by dividing net cash flows from operating activities by the difference between interest expense and interest income.
- (11) Based on 2,100.83 million shares as of December 31, 2017, and 2,072.92 million shares as of December 31, 2016, 2015, 2014 and 2013.
- (12) Computed on the basis of the weighted average number of shares outstanding during the period: 2,091.35 million in 2017, 2,072.92 million in 2016, 2015 and 2014, and 2,056.20 million in 2013.
- (13) Computed on the basis of the diluted weighted average number of shares outstanding during the period: 2,091.35 million in 2017, 2,074.83 million in 2016, 2,072.92 million in 2015 and 2014, and 2,056.20 million in 2013. For further information see Note 3.25 to our consolidated financial statements.
- (14) Exhibit 7.2 to this annual report on Form 20-F includes a calculation of Ratio of Earnings to Fixed Charges.

Table of Contents**DIVIDENDS AND DIVIDEND POLICY**

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

| <b>Fiscal Year with Respect to which Dividend was Declared<sup>(1)</sup></b> | <b>Date Dividend Paid To Be Paid</b> | <b>Mexican Pesos per Share (Nominal)<sup>(2)</sup></b> | <b>U.S. Dollars per Share<sup>(3)</sup></b> |
|--|--------------------------------------|--|---|
| 2013   | May 2, 2014                          | 1.450  | 0.111                                       |
|  | November 5, 2014                     | 1.450  | 0.111                                       |
| 2014   | May 5, 2015                          | 1.540  | 0.090                                       |
|  | November 3, 2015                     | 1.550  | 0.090                                       |
| 2015   | May 3, 2016                          | 1.670  | 0.097                                       |
|  | November 1, 2016                     | 1.680  | 0.089                                       |
| 2016   | May 3, 2017                          | 1.680  | 0.086                                       |
|  | November 1, 2017                     | 1.670  | 0.087                                       |
| 2017   | May 3, 2018                          | 1.680  | (4)   |
|  | November 1, 2018                     | 1.670  | (4)   |

(1) The dividends declared for each fiscal year were divided into two payments.

(2) Based on the number of shares outstanding at the time the dividend is paid.

(3) Expressed in U.S. dollars using the applicable exchange rate when the dividend was paid.

(4) Since the dividend declared for the fiscal year 2017 has not been paid at the time of this annual report, the U.S. dollar per share amount has not been determined.

The declaration, amount and payment of dividends are subject to approval by a simple majority of the shareholders up to an amount equivalent to 20.0% of the preceding years' retained earnings and by a majority of the shareholders of each of the Series A and Series D shares voting together as a single class above 20.0% of the preceding years' retained earnings, generally upon the recommendation of our board of directors, and will depend upon our results, financial condition, capital requirements, general business conditions and the requirements of Mexican law. Accordingly, our historical dividend payments are not necessarily indicative of future dividends. **See Item 10. Additional Information Bylaws Dividend Rights.**

Holders of Series L shares, including in the form of ADSs, are not entitled to vote on the declaration and payment of dividends.

We pay all cash dividends in Mexican pesos. As a result, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of our ADSs, which represent 10 Series L shares, on conversion by the depository for our ADSs of cash dividends on the shares represented by such ADSs. In addition, fluctuations in the exchange rate between the Mexican peso and the U.S. dollar would affect the market price of our ADSs.

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





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The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rate expressed in Mexican pesos per U.S. dollar.

| <b>Period</b> | <b>Exchange Rate</b> |            |                              | <b>End of Period</b> |
|---------------|----------------------|------------|------------------------------|----------------------|
|               | <b>High</b>          | <b>Low</b> | <b>Average<sup>(1)</sup></b> |                      |
| 2013          | 13.43                | 11.98      | 12.76                        | 13.10                |
| 2014          | 14.79                | 12.85      | 13.30                        | 14.75                |
| 2015          | 17.36                | 14.56      | 15.87                        | 17.20                |
| 2016          | 20.84                | 17.19      | 18.67                        | 20.62                |
| 2017          | 21.89                | 17.48      | 18.88                        | 19.64                |

Source: U.S. Federal Reserve Board.

(1) Average month-end rates.

|                | <b>Exchange Rate</b> |            |                      |
|----------------|----------------------|------------|----------------------|
|                | <b>High</b>          | <b>Low</b> | <b>End of Period</b> |
| 2016:          |                      |            |                      |
| First Quarter  | 19.19                | 17.21      | 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  | 21.89                | 18.67      | 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        | 19.48                | 18.49      | 18.62                |
| February       | 18.90                | 18.36      | 18.84                |
| March          | 18.86                | 18.17      | 18.17                |

Source: U.S. Federal Reserve Board.

On April 13, 2018, the exchange rate was Ps.18.08 to US\$1.00, according to the U.S. Federal Reserve Board.



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**RISK FACTORS**

**Risks Related to Our Company**

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

Substantially all of our sales are derived from sales of *Coca-Cola* trademark beverages. We produce, market, sell and distribute *Coca-Cola* trademark beverages through standard bottler agreements in the territories where we operate, which we refer to as our territories. We are required to purchase concentrate for all *Coca-Cola* trademark beverages from 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. We are also required to purchase sweeteners and other raw materials only from companies authorized by The Coca-Cola Company. **See Item 4. Information on the Company The Company Our Territories.** Pursuant to our bottler agreements, The Coca-Cola Company has the right to participate in the process for making certain decisions related to our business.

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

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

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

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

The Coca-Cola Company and Fomento Económico Mexicano, S.A.B. de C.V., which we refer to as FEMSA, have substantial influence on the conduct of our business. As of April 13, 2018, The Coca-Cola Company indirectly owned 27.8% of our outstanding capital stock, representing 37.0% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint five of our maximum of 21 directors and the vote of at least two of them is required to approve certain actions by our board of directors. As of April 13, 2018, FEMSA indirectly owned 47.2% of our outstanding capital stock, representing 63.0% of our capital stock with full voting rights. FEMSA is entitled to appoint 13 of our maximum of 21 directors and all of our executive officers. The Coca-Cola Company and FEMSA together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval by our board of directors, and FEMSA and The Coca-Cola Company together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval of our shareholders. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.** The interests of The Coca-Cola Company and FEMSA may be different from the interests of our other shareholders, which may result in us taking actions contrary to the interests of such other shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

contracts.

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

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

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

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

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

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

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

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

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

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



financial condition, results of operations and prospects.

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

We are subject to several laws and regulations in each of the territories where we operate. The principal areas in which we are subject to laws and regulations are water, environment, labor, taxation, health and antitrust. Laws and regulations can also affect our ability to set prices for our products. **See Item 4. Information on the Company Regulation.** Changes in existing laws and regulations, the adoption of new laws or regulations, or a stricter interpretation or enforcement thereof in the countries where we operate may increase our operating and compliance costs or impose restrictions on our operations which, in turn, may adversely affect our financial condition, business, results of operations and prospects. In particular, environmental standards are becoming more stringent in several of the countries where we operate. There is no assurance that we 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 Regulation Environmental Matters.**

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where we operate. Currently, there are no price controls on our products in any of the territories where we have operations, except for those voluntary price restraints in Argentina, where authorities directly supervise certain of our products sold through supermarkets as a

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

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

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

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

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

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

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

## **Risks Related to the Series L shares and the ADSs**

*Holders of our Series L shares have limited voting rights.*

Holders of our Series L shares are entitled to vote only in certain circumstances. In general terms, they may elect up to three of our maximum of 21 directors and are only entitled to vote on specific matters, including certain changes in our corporate form, mergers involving our company when our company is the merged entity or when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of our shares on the *Bolsa Mexicana de Valores* (Mexican Stock Exchange, or BMV) or any other foreign stock exchange, and those matters for which the *Ley del Mercado de Valores* (Mexican Securities Market Law)

expressly allows them to vote. As a result, Series L shareholders 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, Transfer Restrictions and Certain Minority Rights.**

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

Our Series L shares are traded on the New York Stock Exchange (NYSE) in the form of ADSs. Holders of our Series L shares in the form of ADSs may not receive notice of shareholder meetings from our ADS depository in sufficient time to enable such holders to return voting instructions to the ADS depository in a timely manner.

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

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

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

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

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

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

### ***Holders of Series L shares in the United States and holders of ADSs may not be able to participate in any capital offering and as a result may be subject to dilution of their equity interests.***

Under applicable Mexican law, if we issue new shares for cash as a part of a capital increase, other than in connection with a public offering of newly issued shares 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 United States Securities and Exchange Commission, or SEC, with respect to that future issuance of shares or (2) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933, as amended. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, as well as the benefits of preemptive rights to holders of our 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 that would allow holders of our Series L shares or ADSs who are located in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, the sale by the ADS depository of preemptive rights and the distribution of the proceeds from such sales to the holders of our shares in the form of ADSs is not possible. As a result, the equity interest of holders of our shares in the form of ADSs would be diluted proportionately. See **Item 10. Additional Information Bylaws Preemptive Rights.**

## **Risks Related to the Countries Where We Operate**

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

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. We also conduct an important part of our operations in Brazil. For the year ended December 31, 2017, approximately 67.9% of our total revenues were attributable to Mexico and Brazil. In addition, we conducted operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Argentina, Venezuela and the Philippines. Our results are affected by the economic conditions in the countries where we conduct operations. Consumer demand and preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic conditions, which vary by country and may not be correlated. In addition, adverse economic conditions may affect and reduce consumer per capita income, thereby adversely affecting consumer demand for our products as a result of a decrease in consumer purchasing power. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our business, financial condition, results of operations and prospects.

Some of the countries where we conduct operations are influenced by the U.S. economy. Deterioration in economic conditions in the U.S. economy may affect these economies. In particular, economic conditions in Mexico are correlated with economic conditions in the U.S. as a result of the North American Free Trade Agreement, or NAFTA. Negotiations among the United States, Mexico and Canada seeking to amend and update NAFTA began on August 16, 2017 and are currently ongoing. The United States current administration has stated that it is willing to terminate NAFTA unless the United States is able to reach a fair deal in the NAFTA renegotiations. Any adverse event affecting the relationship between Mexico and the U.S., including the termination or an unfavorable re-negotiation of NAFTA, may have a significant adverse effect on the Mexican economy.

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Our business may also be significantly affected by interest rates, inflation rates and exchange rates of the local currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk.** In addition, an increase in interest rates would increase the cost to us of variable rate funding (which, after giving effect to our swap contracts, and calculated by weighting each year's outstanding debt balance mix, constituted approximately 9.3% of our total debt as of December 31, 2017), which would have an adverse effect on our financial position. A continued and prolonged increase in inflation rates in any of the countries where we operate may result in such country being categorized as a hyperinflationary economy for accounting purposes, which would change the manner in which we present and report financial information related to our operations in such country. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.**

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

Depreciation of local currencies relative to the U.S. dollar increases our cost of some of the raw materials we acquire, the price of which may be paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and may therefore negatively affect our results, financial position and equity. In addition, depreciation of local currencies of the countries where we operate relative to the U.S. dollar may also potentially increase inflation rates in such countries. Significant fluctuations of local currencies relative to the U.S. dollar have occurred in the past and may continue in the future, negatively affecting our results. Future currency devaluations or the imposition of exchange controls in any of the countries where we operate may potentially increase our operating costs, which could have an adverse effect on our financial position and results of operations. **See Item 3. Key Information Exchange Rate Information and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.**

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

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

In recent years, some of the governments in the countries where we operate have implemented and may continue to implement significant changes in laws, public policy or regulations that could affect the political and social conditions in these countries. Any such changes, and similar changes in other countries such as the U.S., may have an adverse effect on our business, results of operations, prospects and financial condition. Furthermore, national presidential and legislative elections have taken place or are scheduled to take place in 2018 in several of the countries where we operated in 2017, including Mexico, Brazil, Costa Rica, Colombia and Venezuela. We cannot assure you that political or social developments in the countries where we operate or elsewhere, such as the election of new administrations, changes in laws, public policy or regulations, political disagreements, civil disturbances and the rise in violence and

perception of violence, over which we have no control, will not have a corresponding adverse effect on the local or global markets or on our business, financial condition, results of operations and prospects.

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**Item 4. Information on the Company**

**THE COMPANY**

**Overview**

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

Mexico a substantial portion of central Mexico, the southeast and northeast of Mexico.

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.

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

The following is an overview of our operations by consolidated reporting segment in 2017.

**Operations by Consolidated Reporting Segment Overview**

**Year Ended December 31, 2017**



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

(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**

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

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

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

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

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

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

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

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

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

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

In March 2011, we acquired together with The Coca-Cola Company, 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, we merged with Administradora de Acciones del Norte, S.A.P.I. de C.V., or Grupo Tampico, a Mexican bottler with operations in the states of Tamaulipas, San Luis Potosi, and Veracruz, as well as in parts of the

states of Hidalgo, Puebla and Queretaro.

In December 2011, we merged with Corporación de los Angeles, S.A. de C.V., 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. As part of our merger with Grupo CIMSA, we also acquired a minority equity interest in Promotora Industrial Azucarera, S.A de C.V., or PIASA.

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

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

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In January 2013, we acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Since January 25, 2017, we control 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, we merged with Grupo Yoli, a Mexican bottler with operations mainly in the state of Guerrero, as well as in parts of the state of Oaxaca. As part of our merger with Grupo Yoli, we also acquired an additional minority equity interest in PIASA.

In August 2013, we 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 our acquisition of Companhia Fluminense, we also acquired an additional minority equity interest in Leão Alimentos.

In October 2013, we acquired Spaipa, a Brazilian bottler with operations in the state of Parana and in parts of the state of Sao Paulo. As part of our acquisition of Spaipa, we 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, we entered into certain distribution agreements with Monster Energy Company to sell and distribute *Monster* trademark energy drinks in most of our territories. These agreements have a ten-year term and are automatically renewed for up to two five-year terms.

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

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

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

For further information, see **Item 7. Major Shareholders and Related Party Transactions Related Party Transactions The Coca-Cola Company.**

## **Capital Stock**

As of April 13, 2018, FEMSA indirectly owned Series A shares equal to 47.2% of our 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 our 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 our capital stock.

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### **Business Strategy**

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

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

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

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

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

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**Our Territories**

The following map shows our territories giving estimates in each case of the population to which we offer products and the number of retailers of our beverages as of December 31, 2017:

**Our Products**

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

Our most important brand, *Coca-Cola*, together with its main line extensions, accounted for 58.3% of total sales volume in 2017. Our 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. We use the term line extensions to refer to the different flavors and low-calorie versions in which we offer our brands.

The following table sets forth our main products as of December 31, 2017:

***Colas:***

|                             |                        |
|-----------------------------|------------------------|
| <i>Coca-Cola</i>            | <i>Coca-Cola Zero</i>  |
| <i>Coca-Cola Sin Azúcar</i> | <i>Coca-Cola Light</i> |

***Flavored Sparkling Beverages:***

|              |             |                  |
|--------------|-------------|------------------|
| <i>Crush</i> | <i>Kuat</i> | <i>Quatro</i>    |
| <i>Fanta</i> | <i>Lift</i> | <i>Schweppes</i> |

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|                         |                        |                  |                |
|-------------------------|------------------------|------------------|----------------|
| <i>Fresca</i>           | <i>Mundet</i>          | <i>Sprite</i>    |                |
| <b>Still Beverages:</b> |                        |                  |                |
| <i>Cepita</i>           | <i>Hi-C</i>            | <i>Leão</i>      | <i>Monster</i> |
| <i>Estrella Azul</i>    | <i>Santa Clara</i>     | <i>Powerade</i>  | <i>AdeS</i>    |
| <i>FUZE Tea</i>         | <i>Jugos del Valle</i> | <i>ValleFrut</i> |                |
| <b>Water:</b>           |                        |                  |                |
| <i>Alpina</i>           | <i>Brisa</i>           | <i>Dasani</i>    | <i>Wilkins</i> |
| <i>Aquarius</i>         | <i>Ciel</i>            | <i>Manantial</i> | <i>Viva</i>    |
| <i>Bonaqua</i>          | <i>Crystal</i>         | <i>Nevada</i>    |                |
| <b>Packaging</b>        |                        |                  |                |

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

**Sales Volume and Transactions Overview**

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

The characteristics of our territories are very diverse. Central Mexico and our territories in Argentina are densely populated and have a large number of competing beverage brands as compared to the rest of our territories. Our territories in Brazil are densely populated but have lower consumption of beverage products as compared to Mexico. 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 our consolidated reporting segments, as well as our unit case and transaction mix by category.

|   | <b>Year Ended December 31,</b>                |                |                |
|---|---|----------------|----------------|
|   | <b>2017</b>                                   | <b>2016</b>    | <b>2015</b>    |
|   | <b>(millions of unit cases or millions of</b> |                |                |
|   | <b>single units, except percentages)</b>      |                |                |
| <b>Sales Volume</b>                                   |   |                |                |
| Mexico and Central America                            | 2,017.9                                       | 2,025.6        | 1,952.4        |
| South America (excluding Venezuela) <sup>(1)(2)</sup> | 1,236.0                                       | 1,165.3        | 1,247.6        |
| Venezuela   | 64.2  | 143.1          | 235.6          |
| Asia <sup>(3)</sup>                                   | 552.4   |                |                |
| <b>Total Sales Volume</b>                             | <b>3,870.6</b>                                | <b>3,334.0</b> | <b>3,435.6</b> |
| <b>Growth</b>   | <b>16.1%</b>                                  | <b>(3.0)%</b>  | <b>0.5%</b>    |
| <b>Unit Case Mix by Category</b>                      |   |                |                |
| Sparkling beverages                                   | 78.2%   | 77.7%          | 78.1%          |
| Water <sup>(4)</sup>                                  | 15.0%   | 15.9%          | 15.7%          |



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|   | <b>Year Ended December 31,</b>                |             |             |
|---|---|-------------|-------------|
|   | <b>2017</b>                                   | <b>2016</b> | <b>2015</b> |
|   | <b>(millions of unit cases or millions of</b> |             |             |
|   | <b>single units, except percentages)</b>      |             |             |
| Still beverages                                       | 6.8%  | 6.4%        | 6.2%        |
| Total   | 100.0%  | 100.0%      | 100.0%      |
| <b>Number of Transactions</b>                         |   |             |             |
| Mexico and Central America                            | 11,231.7                                      | 11,382.1    | 10,877.1    |
| South America (excluding Venezuela) <sup>(1)(2)</sup> | 7,924.1                                       | 7,619.7     | 8,084.4     |
| Venezuela   | 441.0   | 772.6       | 1,318.1     |
| Asia <sup>(3)</sup>                                   | 6,278.5                                       |             |             |
| Total Number of Transactions                          | 25,875.3                                      | 19,774.4    | 20,279.6    |
| Growth  | 30.9%   | (2.5)%      | 0.7%        |
| <b>Transaction Mix by Category</b>                    |   |             |             |
| Sparkling beverages                                   | 83.4%   | 81.1%       | 81.3%       |
| Water <sup>(4)</sup>                                  | 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 our 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) our recent acquisition of Vonpar, and (ii) our 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 our sparkling beverage portfolio increased 16.9% as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 1.7%, driven by volume contractions across most of our operations, which were partially offset by volume growth in the Philippines. On the same basis, our colas portfolio's sales volume would have declined 1.4%, while our flavored sparkling beverage portfolio would have declined 2.6%. Sales volume of our still beverage portfolio increased 23.7% as compared to 2016. On a comparable basis, sales volume of our 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.



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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 our sparkling beverage portfolio increased by 34.6% as compared to 2016. On a comparable basis, total transactions for our sparkling beverage portfolio in 2017 would have decreased by 1.5% as compared to 2016, mainly driven by transaction contractions across most of our operations, which were partially offset by an increase in transactions in Argentina and the Philippines. Total transactions for our still beverage category increased 17.8% as compared to 2016. On a comparable basis, total transactions for our 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 our 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 our 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 (i) our recent acquisition of Vonpar and (ii) our operations in Venezuela, total sales volume would have decreased by 0.9% in 2016 as compared to 2015. Sales volume of our sparkling beverage portfolio decreased by 3.4% as compared to 2015. On a comparable basis, sales volume of our 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 our flavored sparkling beverage portfolio in Mexico and Central America. Sales volume of our still beverage portfolio decreased by 0.6% as compared to 2015. On a comparable basis, sales volume of our 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. On a comparable basis, 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. On a comparable basis, 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 our 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 our 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 our historical sales volume, number of transactions and unit case and transaction mix by category for each of our consolidated reporting segments.

***Mexico and Central America.*** Our 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:

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

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

(2) Includes bulk water volumes and transactions.

Total sales volume in our Mexico and Central America consolidated reporting segment decreased by 0.4% to 2,017.9 million unit cases in 2017 as compared to 2016, as a result of volume contraction in both Mexico and Central America as discussed below. Sales volume of our sparkling beverage portfolio decreased by 0.9%, mainly driven by a 1.4% decrease in sales volume of our colas portfolio, which was partially offset by a 1.1% increase in sales volume of our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 3.8%, mainly due to growth in both Mexico and Central America. Sales volume of bottled water, excluding bulk water, increased by 2.6%, as Mexico and Central America had a positive performance. Our 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 our sparkling beverage portfolio decreased by 0.8%, driven by a 1.3% decrease in sales volume of our colas portfolio, which was partially offset by a 1.6% increase in sales volume of our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 4.4%. Sales volume of bottled water, excluding bulk water, increased by 2.3%, while our 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 our sparkling beverage portfolio decreased by 1.8%, driven by a 1.7% decrease in our colas portfolio and a 2.0% decrease in sales volume of our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased slightly by 0.5%. Sales volume of bottled water, excluding bulk water, increased by 5.7%, while our bulk water portfolio's sales volume declined by 3.9%.

The total number of transactions in 2017 in our Mexico and Central America division decreased by 1.3% to 11,231.7 million transactions as compared to 2016. The number of transactions for our sparkling beverage portfolio in 2017 decreased by 1.6% as compared to 2016, driven by a 1.9% decrease in our colas portfolio and a 0.3% decrease in our flavored sparkling beverage portfolio. Transactions for our 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 our sparkling beverage portfolio decreased by 1.6% and 1.9%, respectively as compared to 2016. Transactions for our 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.

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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. Our 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 our initiatives in the region aimed at making our products more affordable to the consumer.

Total sales volume in our 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 our 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 our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 11.8%, mainly due to the performance of the Jugos del Valle portfolio and our 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 our 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 our flavored sparkling beverage portfolio, mainly supported by the performance of *Naranja&Nada* and *Limon&Nada*, our sparkling orangeade and lemonade, and the *Mundet* brand. Sales volume of our still beverage portfolio increased by 14.2%, mainly as a result of the performance of *ValleFrut* brand products, the *Del Valle* juice portfolio and our 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 our sparkling beverage portfolio increased by 5.0%, supported by the strong performance of *Coca-Cola* brand products and our flavored sparkling beverages portfolio in Guatemala, Nicaragua and Costa Rica. Sales volume of our 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 our Mexico and Central America division increased by 4.6% to 11,382.1 million transactions as compared to 2015. The number of transactions for our sparkling beverage portfolio in 2016 increased by 4.3% as compared to 2015, driven by the positive performance of the *Coca-Cola* brand and our flavored sparkling beverage portfolio. Transactions for our 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 our sparkling beverage portfolio increased by 4.5% and 3.1%, respectively, as compared to 2015. Transactions for our 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. Our 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).*** Our 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 we sell and distribute pursuant to our agreement with Cervejarias Kaiser Brasil S.A., or Heineken Brazil, a subsidiary of the Heineken Group. Since 2005, we stopped considering beer sold and distributed in Brazil as part of our sales volume.



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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:

|                                     | <b>Year Ended December 31,</b>                       |                |                |
|-------------------------------------|--|----------------|----------------|
|                                     | <b>2017</b>  | <b>2016</b>    | <b>2015</b>    |
|                                     | <b>(millions of unit cases or millions of single</b> |                |                |
|                                     | <b>units, except percentages)</b>                    |                |                |
| <b>Sales Volume</b>                 |  |                |                |
| Brazil <sup>(1)</sup>               | 765.1  | 649.2          | 693.6          |
| Colombia                            | 265.1  | 307.0          | 320.0          |
| Argentina                           | 205.9  | 209.1          | 233.9          |
| <b>Total Sales Volume</b>           | <b>1,236.0</b>                                       | <b>1,165.3</b> | <b>1,247.6</b> |
| <b>Growth</b>                       | <b>6.1%</b>  | <b>(6.6)%</b>  | <b>(0.8)%</b>  |
| <b>Unit Case Mix by Category</b>    |  |                |                |
| Sparkling beverages                 | 84.7%  | 83.0%          | 82.8%          |
| Water <sup>(2)</sup>                | 9.3%   | 10.3%          | 10.4%          |
| Still beverages                     | 6.1%   | 6.7%           | 6.8%           |
| <b>Total</b>                        | <b>100.0%</b>  | <b>100.0%</b>  | <b>100.0%</b>  |
| <b>Number of Transactions</b>       |  |                |                |
| Brazil <sup>(1)</sup>               | 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        |
| <b>Total Number of Transactions</b> | <b>7,924.1</b>                                       | <b>7,619.6</b> | <b>8,084.3</b> |
| <b>Growth</b>                       | <b>4.0%</b>  | <b>(5.7)%</b>  | <b>(0.7)%</b>  |
| <b>Transaction Mix by Category</b>  |  |                |                |
| Sparkling beverages                 | 80.8%  | 79.0%          | 79.4%          |
| Water <sup>(2)</sup>                | 9.8%   | 10.7%          | 10.5%          |
| Still beverages                     | 9.4%   | 10.3%          | 10.1%          |
| <b>Total</b>                        | <b>100.0%</b>  | <b>100.0%</b>  | <b>100.0%</b>  |

(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 our 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 our 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 our South America operations. Sales volume of our sparkling beverage portfolio increased by 5.1% as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 5.3%, mainly due to a volume contraction of our 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 our still beverage portfolio decreased by 3.3% as compared to 2016. On a comparable basis, sales volume of our still beverage portfolio would have decreased by 10.4%, mainly driven by a sales volume contraction in Colombia, which was partially offset by volume growth in Argentina. Sales volume of our bottled water category, excluding bulk water, decreased by 2.4% as compared to 2016. On a comparable basis, sales volume of our bottled water category, excluding bulk water, would have decreased by 7.7% as compared to 2016, with volume contractions in Argentina, Brazil and Colombia. Sales volume of our bulk water portfolio decreased by 8.0% as compared to 2016. On a comparable basis, sales volume of our bulk water portfolio would have declined by 11.1%, mainly driven by 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 our sparkling beverage portfolio increased by 18.8% as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 3.9%, as a result of a 3.2% sales volume decrease in our colas portfolio and a 5.8% sales volume decrease in our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 14.9% as compared to 2016. On a comparable basis, sales volume of our still beverage portfolio would have decreased by 2.1%. Sales volume of our bottled water, excluding bulk water, increased by 7.4% as compared to 2016, while sales volume of our bulk water portfolio increased by 18.0%. On a comparable basis, sales volume of bottled water, excluding bulk water, would have decreased by 4.8%, while sales volume of our bulk water portfolio would have increased by 2.5%.

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Sales volume in Colombia decreased by 13.7% to 265.0 million unit cases in 2017, as compared to 307.0 million unit cases in 2016. Sales volume of our sparkling beverage portfolio decreased by 11.8% as compared to 2016, mainly driven by a 6.0% decrease in sales volume of our colas portfolio and a 31.2% decrease of our flavored sparkling beverages portfolio. Sales volume of our 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 our bulk water portfolio decreased by 18.1%.

Sales volume in Argentina decreased by 1.5% to 205.9 million unit cases in 2017, as compared to 209.1 million unit cases in 2016. Sales volume of our sparkling beverage portfolio decreased by 1.5% as compared to 2016, mainly driven by a decrease in sales volume of our colas portfolio. Sales volume of our 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 our bulk water portfolio decreased by 11.1%.

The total number of transactions in 2017 in our 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 our sparkling beverage portfolio in 2017 increased by 6.4% as compared to 2016. On a comparable basis, the number of transactions for our 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 our 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 our 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 our sparkling portfolio in Brazil would have decreased by 2.9%. The number of transactions for our 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 our 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 our 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 our 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 our 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 our 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 our territories in this division. On a comparable basis, sales volume of our 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 our 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 our 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 our 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 our 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.

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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 our sparkling beverage portfolio decreased by 13.6%, mainly driven by a decrease in sales volume of *Coca-Cola* brand products and our flavored sparkling beverage portfolio. Sales volume of our 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 our 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 our 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 our 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 our 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 our 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, we implemented a product portfolio rationalization strategy that allowed us 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:

| <b>Year Ended December 31,</b>                       |             |             |
|--|-------------|-------------|
| <b>2017</b>  | <b>2016</b> | <b>2015</b> |
| <b>(millions of unit cases or millions of single</b> |             |             |

|                                    | <b>units, except percentages)</b> |         |         |
|------------------------------------|-----------------------------------|---------|---------|
| <b>Sales Volume</b>                |                                   |         |         |
| Total                              | 64.2                              | 143.1   | 235.6   |
| Growth                             | (55.1)%                           | (39.3)% | (2.3)%  |
| <b>Unit Case Mix by Category</b>   |                                   |         |         |
| Sparkling beverages                | 84.9%                             | 83.8%   | 86.2%   |
| Water <sup>(1)</sup>               | 11.4%                             | 10.0%   | 6.8%    |
| Still beverages                    | 3.6%                              | 6.2%    | 7.0%    |
| Total                              | 100.0%                            | 100.0%  | 100.0%  |
| <b>Number of Transactions</b>      |                                   |         |         |
| Total                              | 441.0                             | 772.6   | 1,318.1 |
| Growth                             | (42.9)%                           | (41.4)% | (3.6)%  |
| <b>Transaction Mix by Category</b> |                                   |         |         |
| Sparkling beverages                | 81.2%                             | 75.0%   | 79.0%   |
| Water <sup>(1)</sup>               | 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.

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Total sales volume in Venezuela decreased by 55.1% to 64.2 million unit cases in 2017 as compared to 2016, mainly due to an overall sales volume contraction in all our categories as a result of the conditions in the country, facing high inflation and scarcity of raw materials. Sales volume of our sparkling beverage portfolio decreased by 54.5%. Sales volume of our still beverage portfolio decreased by 29.1%. Sales volume of 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 our sparkling beverage portfolio in 2017 decreased by 38.1% as compared to 2016, driven by a contraction in our colas and flavored sparkling beverage portfolios. Transactions for our 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 our categories as a result of the scarcity of raw materials and demand for our products. Sales volume of our sparkling beverage portfolio decreased by 41.0%. Sales volume of our 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 our 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 our flavored sparkling beverage portfolio. Transactions for our 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.* Our 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:

|                                   | <b>Year Ended December 31,<br/>2017</b>   |
|-----------------------------------|---|
|                                   | <b>(millions of unit cases or millions of single<br/>units, except percentages)</b> |
| <b>Sales Volume<sup>(1)</sup></b> |   |
| Total                             | 552.4   |
| <b>Unit Case Mix by Category</b>  |   |
| Sparkling beverages               | 79.4%   |

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|                                       |         |
|---------------------------------------|---------|
| Water                                 | 10.7%   |
| Still beverages                       | 9.9%    |
| Total                                 | 100.0%  |
| Number of Transactions <sup>(1)</sup> |         |
| Total                                 | 6,278.5 |
| <b>Transaction Mix by Category</b>    |         |
| Sparkling beverages                   | 88.0%   |
| Water                                 | 4.7%    |
| Still beverages                       | 7.3%    |
| Total                                 | 100.0%  |

(1) Includes sales volume and transactions of our operations in the Philippines from February 1, 2017.



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The consolidation of our operations in the Philippines began in February 1, 2017. As a result, we 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. Our sparkling beverage category represented 79.4% of our total sales volume. Our still beverage category represented 9.9% of our sales volume. Our 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. Our sparkling beverage category represented 88.0% of our transactions. Our still beverage and water categories represented 7.3% and 4.7% of our 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 our products are seasonal in all of the countries where we operate, as our sales volumes generally increase during the summer of each country and during the year-end holiday season. In Mexico, Central America, Colombia and the Philippines, we typically achieve our highest sales during the summer months of April through August as well as during the year-end holidays in December. In Brazil and Argentina, our highest sales levels occur during the summer months of October through March, including the year-end holidays in December.

## **Marketing**

We, in conjunction with The Coca-Cola Company, have developed a marketing strategy to promote the sale and consumption of our products. We rely extensively on advertising, sales promotions and retailer support programs to target the particular preferences of our consumers. Our consolidated marketing expenses in 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 our clients' plans for success. Increasing both cooler coverage and the number of cooler doors among our retailers is important to ensure that our wide variety of products are properly displayed, while strengthening our merchandising capacity in the traditional sales channel to significantly improve our point-of-sale execution.

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

***Channel Marketing.*** In order to provide more dynamic and specialized marketing of our products, our strategy is to classify our markets and develop targeted efforts for each consumer segment or distribution channel. Our principal channels are small retailers, on-premise accounts, such as restaurants and bars, supermarkets and third party

distributors. Presence in these channels entails a comprehensive and detailed analysis of the purchasing patterns and preferences of various groups of beverage consumers in each of the different types of locations or distribution channels. In response to this analysis, we tailor our product, price, packaging and distribution strategies to meet the particular needs of and exploit the potential of each channel.

***Multi-Segmentation.*** We have implemented a multi-segmentation strategy in all of our markets. These strategies consist of the 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.

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We believe that the implementation of these strategies described above also enables us to respond to competitive initiatives with channel-specific responses as opposed to market-wide responses. In addition, it allows us to be more efficient in the way we go to market and invest our marketing resources in those segments that could provide a higher return. Our marketing, segmentation and distribution activities are facilitated by our management information systems, and are all incorporated within our centers of excellence.

**Product Sales and Distribution**

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

|                          | <b>As of December 31, 2017</b>        |                                    |                                |                           |
|--------------------------|---------------------------------------|------------------------------------|--------------------------------|---------------------------|
|                          | <b>Mexico and<br/>Central America</b> | <b>South America<sup>(2)</sup></b> | <b>Venezuela<sup>(3)</sup></b> | <b>Asia<sup>(4)</sup></b> |
| Distribution centers     | 181                                   | 67                                 | 24                             | 52                        |
| Retailers <sup>(5)</sup> | 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.

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

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

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

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

**Mexico.** We contract a subsidiary of FEMSA for the transportation of finished products to our distribution centers from our production facilities. See **Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.** From the distribution centers, we then distribute our finished products to retailers through our fleet of trucks.

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

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

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

### **Competition**

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

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

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

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

***South America (excluding Venezuela).*** Our 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. We also compete with low-price producers, such as the producers of *Big Cola*, which principally offer multiple serving size presentations in the sparkling and still beverage industry.

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

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

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

**Asia.** In the Philippines our 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.

**Table of Contents****Raw Materials**

Pursuant to our bottler agreements, we are authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and we are required to purchase concentrate for all *Coca-Cola* trademark beverages in all of our territories from 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 Bottler Agreements.**

In the past, The Coca-Cola Company has increased concentrate prices for Coca-Cola trademark beverages in some of the countries where we operate. For example, The Coca-Cola Company (i) 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 us 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 us it would continue to do so through 2018. Based on our estimates, we currently do not expect these increases will have a material adverse effect on our results of operations. The Coca-Cola Company may continue to unilaterally increase concentrate prices in the future, and we may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the prices of our products or our results. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders Cooperation Framework with The Coca-Cola Company.**

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

Under our agreements with The Coca-Cola Company, we may use raw or refined sugar and HFCS in our products. Sugar prices in all of the countries where we operate, other than Brazil, are subject to local regulations and other barriers to market entry that, in certain countries, cause us to pay for sugar in excess of international market prices. In recent years, international sugar prices experienced significant volatility. Across our territories (excluding Venezuela), our average price for sugar in U.S. dollars, taking into account our 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.

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

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

***Mexico and Central America.*** In Mexico, we mainly purchase PET resin from Indorama Ventures Polymers México, S. de R.L. de C.V. (formerly Arteva Specialties, S. de R.L. de C.V.), 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, we have introduced into our business Asian global suppliers, such as Far Eastern New Century Corp. and SFX Jiangyin Xingyu New Material Co. Ltd., which support our PET strategy and are known as the top PET global suppliers.

We purchase all of our 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, we held a 35.0% equity interest. We mainly purchase our 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.



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We purchase 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, we held a 36.4% and 2.7% equity interest, respectively. We purchase HFCS from Ingredion México, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

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

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

**South America (excluding Venezuela).** In Colombia, we use sugar as a sweetener in all of our caloric beverages, which we buy from several domestic sources. Sugar prices in Colombia decreased approximately 11.2% in U.S. dollars and 14.3% in local currency, as compared to 2016. We purchase 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.). We have historically purchased all of our non-returnable glass bottles from O-I Peldar and other global suppliers in the Middle East. We purchase all of our cans from Crown Colombiana, S.A. Grupo Ardila Lulle (owners of our competitor Postobón) owns a minority equity interest in certain of our suppliers, including O-I Peldar, Crown Colombiana, S.A and Incauca S.A.S.

In Brazil, we also use sugar as a sweetener in all of our caloric beverages, which is available at local market prices, which historically have been similar to international prices. Sugar prices in Brazil decreased approximately 3.1% in U.S. dollars and decreased 10.5% in local currency as compared to 2016. Taking into account our financial hedging activities, our 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.** We purchase non-returnable glass bottles, plastic bottles and cans from several domestic and international suppliers. We mainly purchase PET resin from local suppliers such as M&G Polímeros México, S.A. de C.V. and Companhia Integrada Textil de Pernambuco.

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

**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 we 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, we use both local sugar and HFCS that we purchase 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, we expect to use sugar as the sweetener in all of our caloric beverages in the Philippines. **See Item 4. Information on the Company Regulation Taxation of Beverages.**

We purchase 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, we purchase our 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. We purchase 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.

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**REGULATION**

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

**Price Controls**

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

**Taxation of Beverages**

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

Mexico imposes an excise tax of Ps.1.00 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 we are 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 our Nicaraguan gross income.

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

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

Brazil assesses an average production tax of approximately 4.1% 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 our invoices, instead of an average retail price combined with a fixed tax rate and multiplier per presentation. Except for sales to wholesalers, this production and sales taxes apply only to the first sale and we are responsible for charging and collecting these taxes from each of our retailers. For sales to wholesalers, they are entitled to recover the sales tax and charge this tax again upon the resale of our products to retailers.

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

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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.

**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 the 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. Given the inherent uncertainty as to how the Venezuelan government would require that the inflationary adjustments for the calculation of income tax be applied, in 2016 and 2017 we recognized the effects of the elimination of such inflationary adjustments in our Venezuelan operations.

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

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 up to 10.0%, 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.

### **Water Supply**

In Mexico, we obtain water directly from wells pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the 1992 Water Law (*Ley de Aguas Nacionales de 1992*), as amended, and

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

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

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

In Colombia, in addition to natural spring water for *Manantial*, we obtain water directly from wells and from utility companies. We are required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees No. 2811 of 1974 and No. 3930 of 2010. In addition, Decree No. 303 of 2012 requires us to apply for water concessions and for authorization to discharge our water into public waterways. The Ministry of Environment and Sustainable Development and Regional Autonomous Corporations supervises companies that use water as a raw material for their businesses. Furthermore, in Colombia, Law No. 142 of 1994 provides that public sewer services are charged based on volume (usage). The Water and Sewerage Company of the City of Bogota has interpreted this rule to be the volume of water captured, and not the volume of water discharged by users. Based on our production process, our Colombian subsidiary discharges into the public sewer system significantly less water than the water it captures. As a result, since October 2010 our 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 our subsidiary has not properly paid since 2005. In connection with such proceeding, in March 2016, this authority issued an order freezing certain of our bank accounts. See Note 8.2 to our consolidated financial statements. In June 2017, our Colombian subsidiary held conciliatory hearings with the Water and Sewerage Company of the City of Bogota and reached an agreement to settle this matter by payment of 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 our 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 we are currently awaiting the final settlement approval.

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

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



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

We cannot assure that water will be available in sufficient quantities to meet our future production needs, that we will be able to maintain our current concessions or that additional regulations relating to water use will not be adopted in the future in our territories. We believe we are in material compliance with the terms of our existing water concessions and that we are in compliance with all relevant water regulations currently in place. **See Item 3. Key Information Risk Factors Water shortages or any failure to maintain existing concessions could adversely affect our business.**

## **Environmental Matters**

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

**The Company Product Sales and Distribution.**

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

In our Mexican operations, we established a partnership with The Coca-Cola Company and Alpla, our supplier of plastic bottles in Mexico, to create Industria Mexicana de Reciclaje (IMER), a PET recycling facility located in Toluca, Mexico. 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 re-used for food packaging purposes. We have also continued contributing funds to ECOCE, A.C., a nationwide collector of containers and packaging materials.

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

As part of our environmental protection and sustainability strategies, in December 2009, we, jointly with strategic partners, 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 our bottling facility in Toluca, Mexico, owned by our subsidiary, Propimex, S. de R.L. de C.V., or Propimex, and to some of our suppliers of PET bottles. In 2010, GAMESA sold its interest in the Mexican entity that owned the wind farm to Iberdrola Renovables México, S.A. de C.V. This wind farm, which is located in La Ventosa, Oaxaca, generates approximately 100,000 megawatt hours annually. In 2015, 2016 and 2017, this wind farm provided us with approximately 64,430, 57,750 and 49,767 megawatt hours, respectively.

Additionally, we have entered into 20-year wind power supply agreements with two suppliers to receive clean and renewable energy for use at our production and distribution facilities throughout Mexico: (a) Energía Eólica del Sur, S.A.P.I. de C.V. (formerly known as Mareña Renovables Wind Power Farm) with a 396,000 megawatt installed capacity wind farm in Oaxaca, Mexico, which is expected to begin operations in 2018; and (b) Enel Green Power with a 100,000 megawatt installed capacity wind farm in San Luis Potosi, Mexico, which provided a total of 77,262 megawatt hours to 50 of our production and distribution facilities in 2017. In 2017, five of our manufacturing facilities received a total of 33,015 megawatt hours from renewable energy sources such as bagasse cogeneration from the PIASA Tres Valles sugar mill. Currently, 22 of our Mexican manufacturing facilities receive energy from renewable energy sources, which represent 56.0% of our current energy consumption in Mexico.

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

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

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*).

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

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

In November 2015, we 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 our 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 Comercialização Brasil, S.A., which provided a total of 72,132 megawatt hours in 2017. In 2017, 13 of our Brazilian facilities received energy from renewable energy sources, which represented 83.0% of our 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 us to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the City of Sao Paulo. Beginning in May 2011, we were required to collect 90.0% of PET bottles sold. Currently, we are not able to collect the entire required volume of PET bottles we sell in the City of Sao Paulo. Since we do not meet the requirements of this regulation, which we believe to be more onerous than those imposed by the countries with the highest recycling standards, we could be fined and be subject to other sanctions, such as the suspension of operations in any of our plants and/or distribution centers located in the City of Sao Paulo. In May 2008, when this law came into effect, we and other bottlers in the City of Sao Paulo, through the Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR (*Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas*), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In November 2009, in response to a request by a municipal authority to provide evidence of the destination of the PET bottles sold in Sao Paulo, we filed a motion presenting all of our recycling programs and requesting a more practical timeline to comply with the requirements imposed. In October 2010, the municipal authority of Sao Paulo levied a fine on our Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps.1.5 million as of December 31, 2017) on the grounds that the report submitted by our Brazilian operating subsidiary did not comply with the 75.0% proper disposal requirement for the period from May 2008 to May 2010. We filed an appeal against this fine, which was denied by the municipal authority in May 2013. This resolution by the municipal authority is final and not subject to appeal. However, in July 2012, the State Appellate Court of Sao Paulo rendered a decision on an interlocutory appeal filed on

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

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

Our Argentine operations are subject to federal and municipal laws and regulations relating to the protection of the environment. The most significant of these are regulations concerning waste 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. Our Alcorta plant is in compliance with environmental standards and we have been, and continue to be, certified for ISO 14001:2004 for the plants and operative units in Buenos Aires.

Our 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). Our Philippine subsidiary has water treatment facilities in all of its plants, where waste water is treated to reach acceptable standards imposed by applicable law. Also, our Philippine subsidiary treats waste water to use it within their plants for cleaning and watering plants, among others activities.

In addition, all of our 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 our plant operations, we employ the following 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*).

We have spent, and may be required to spend in the future, funds for compliance with and remediation under local environmental laws and regulations. Currently, we do not believe that such costs will have a material adverse effect on

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

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

### **Other Regulations**

In June 2014, the Brazilian government enacted Law No. 12,997 (Law of Motorcycle Drivers), which requires employers to pay a 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. We believe that these rules and regulations (Decree No. 1.565/2014) were unduly issued because such Ministry did not comply with all the requirements of applicable law (Decree No. 1.127/2003). In November 2014, our Brazilian subsidiary, in conjunction with other bottlers of the Coca-Cola system in Brazil and through the ABIR, filed a claim before the Federal Court to stay

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the effects of such decree. ABIR's associated companies, including our Brazilian subsidiary, were issued a preliminary injunction staying the effects of the decree and exempting us from paying the premium. The Ministry of Labor and Employment filed an interlocutory appeal against the preliminary injunction in order to restore the effects of Decree No. 1.565/2014. This interlocutory appeal was denied. In October 2016, a decision was rendered by the Federal Court declaring Decree No. 1.565/2014 to be null and void and requesting the Ministry of Labor and Employment to revise and reissue its regulations under Law No. 12,997. The Ministry of Labor and Employment, with the participation of all interested parties, is in the process of revising Decree No. 1.565/2014. Such revision has not concluded, therefore we cannot assure you that any changes made to Decree No. 1.565/2014 will not have an adverse effect on our business.

In 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. We are currently in compliance with this law. However, we cannot assure you that this new law will not have an adverse effect on our business or our inorganic growth plans.

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

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. We cannot assure you that these restrictions and any further restrictions will not have an adverse impact on our results of operations.

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

**BOTTLER AGREEMENTS****Coca-Cola Bottler Agreements**

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers. Pursuant to our bottler agreements, we are authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and we are required to purchase concentrate for all *Coca-Cola*

trademark beverages in all of our territories from companies designated by The Coca-Cola Company and sweeteners and other raw materials from companies authorized by The Coca-Cola Company.

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

The bottler agreements include an acknowledgment by us that The Coca-Cola Company is the sole owner of the trademarks that identify the *Coca-Cola* trademark beverages and of the formulas with which The Coca-Cola Company's concentrates are made. Subject to our exclusive right to distribute *Coca-Cola* trademark beverages in our territories, The Coca-Cola Company reserves the



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

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

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

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

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

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

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

The Coca-Cola Company contributed a significant portion of our total marketing expenses in our territories during 2017 and has reiterated its intention to continue providing such support as part of our cooperation framework. Although we believe that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola

Company may vary materially from the levels historically provided. See **Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement** and **Item 7. Major Shareholders and Related Party Transactions Major Shareholders Cooperation Framework with The Coca-Cola Company**.

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

As of December 31, 2017, we had:

nine bottler agreements in Mexico: (i) two agreements for the Valley of Mexico territory, which are up for renewal in May 2018 and June 2023, (ii) the agreement for the southeast territory, which is up for renewal in June 2023, (iii) three agreements for the central territory, which are up for renewal in May 2018 (two agreements) and May 2025, (iv) the agreement for the northeast territory, which is up for renewal in May 2018, and (v) two agreements for the Bajío territory, which are up for renewal in May 2018 and May 2025;

nine bottler agreements in Brazil, which are up for renewal in May 2018 (seven agreements) and April 2024 (two agreements); and

one bottler agreement in each of Argentina, which is up for renewal in September 2024, Colombia, which is up for renewal in June 2024; Guatemala, which is up for renewal in March 2025; Costa Rica, which is up for renewal in September 2027; Nicaragua, which is up for renewal in May 2026; Panama, which is up for renewal in November 2024; and the Philippines, which is up for renewal in December 2022.

As of December 31, 2017, KOF Venezuela had one bottler agreement, which is up for renewal in August 2026.

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

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

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**DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT**

Over the past several years, we made significant capital investments to modernize our facilities and improve operating efficiency and productivity, including:

increasing the annual capacity of our bottling plants by installing new production lines;

installing clarification facilities to process different types of sweeteners;

installing plastic bottle-blowing equipment;

modifying equipment to increase flexibility to produce different presentations, including faster sanitation and changeover times on production lines; and

closing obsolete production facilities.

For more information on our capital investments, see **Item 5. Operating and Financial Review and Prospects Capital Expenditures.**

As of December 31, 2017, we owned 60 bottling plants company-wide. By country, as of such date, we had 17 bottling facilities in Mexico, 5 in Central America, 7 in Colombia, 10 in Brazil, 2 in Argentina and 19 in the Philippines. In addition, KOF Venezuela owned 4 bottling plants as of December 31, 2017.

As of December 31, 2017, we operated 300 distribution centers, approximately 60.3% of which were in our Mexican territories. As of such date, we owned more than 83.0% of these distribution centers and leased the remainder. As of December 31, 2017, KOF Venezuela operated 24 distribution centers. See **The Company Product Sales and Distribution.**

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

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

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

**Bottling Facility Summary**

As of December 31, 2017

| <b>Country</b>           | <b>Installed Capacity<br/>(thousands of unit cases)</b> | <b>Average Annual<br/>Utilization<sup>(1)(2)</sup> (%)</b> | <b>Utilization in Peak<br/>Month<sup>(1)</sup><br/>(%)</b> |
|--------------------------|---|--|--|
| 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 <sup>(3)</sup> | 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.

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

**Bottling Facility by Location****As of December 31, 2017**

| <b>Country</b>           | <b>Plant</b>                    | <b>Facility Area<br/>(thousands of sq. meters)</b> |
|--------------------------|---------------------------------|--|
| 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 <sup>(1)</sup> | 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.

**Table of Contents****SIGNIFICANT SUBSIDIARIES**

The table below sets forth all of our direct and indirect significant subsidiaries and the percentage of equity of each subsidiary we owned directly or indirectly as of December 31, 2017:

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

**Item 4.A. Unresolved Staff Comments**

None.

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**Table of Contents****Item 5. Operating and Financial Review and Prospects**  
**General**

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

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

***Effects of Changes in Economic Conditions.*** Our results are affected by changes in economic conditions in Mexico, Brazil and in the other countries where we operate. For the year ended December 31, 2017, approximately 67.9% of our total revenues were attributable to Mexico and Brazil. In addition to Mexico and Brazil, during 2017, we also conducted operations in Central America (including Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela, Argentina and the Philippines. Our results are affected by the economic conditions in the countries where we conduct operations. Some of these economies continue to be influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect these economies. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our results and financial condition. Our business may also be significantly affected by the interest rates, inflation rates and exchange rates of the local currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. In addition, an increase in interest rates would increase the cost to us of variable rate funding, which would have an adverse effect on our financial position.

***Changes to the Accounting Method for our Venezuelan Operations.*** As disclosed in Note 3.3 to our consolidated financial statements, effective as of December 31, 2017, we determined that deteriorating conditions in Venezuela had led us to no longer meet the accounting criteria to consolidate the results of operations of KOF Venezuela. Such deteriorating conditions had significantly impacted our ability to manage our capital structure and our capacity to import and purchase raw materials and had imposed limitations on our portfolio dynamics. In addition, government controls over the pricing of certain products, labor law restrictions and an inability to obtain U.S. dollars and imports have affected the normal course of our business. Therefore, as of December 31, 2017, we changed the method of accounting for the results of operations of KOF Venezuela from consolidation to fair value method.

As a result of the deconsolidation, we recorded an extraordinary loss in other expenses of Ps.28,177 million as of December 31, 2017. This amount includes the reclassification of Ps.26,123 million, which were previously recorded in accumulated foreign currency translation losses in equity, to the income statement and impairment charges of Ps.2,053 million. The impairment charges include the following: Ps.745 million of distribution rights, Ps.1,098 million of property, plants and equipment and Ps.210 million of remeasurement at fair value of the operations in Venezuela. Prior to deconsolidation, during 2017, our operations in Venezuela contributed Ps.4,005 million to net sales and losses of Ps.2,223 million to net income.

Beginning on January 1, 2018, we will recognize the results of operations of KOF Venezuela as an investment under the fair value method pursuant to IFRS 9, *Financial Instruments*. While we continue to report the results of operations of KOF Venezuela as a consolidated reporting segment for the periods ended December 31, 2017, 2016 and 2015, as a result of this change, we will no longer include the results of operations of KOF Venezuela in our consolidated financial statements beginning on January 1, 2018.



**Exchange Control Regime in Venezuela.** For the years ended December 31, 2016 and 2015, we translated our results of operations in Venezuela into our reporting currency, the Mexican peso, using the official exchange rate of 673.76 bolivars per U.S. dollar and 198.70 bolivars per U.S. dollar, respectively. We translated our 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. We believe that this exchange rate better represented the economic conditions in Venezuela and provided more useful and relevant information with respect to the financial position, financial performance and cash flows of our Venezuelan operations. On January 29, 2018, a new auction of the *Divisas Complementarias*, or DICOM, the official exchange rate in Venezuela, conducted by the Venezuelan government resulted in an estimated exchange rate of 30,987 bolivars per 1.00 (equivalent to approximately 25,000 bolivars per US\$1.00).

**Recent Developments in the Consolidation of KOF Philippines.** Since January 25, 2017, we control 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. Commencing on February 1, 2017, we started consolidating KOF Philippines' s financial results in our financial statements. Our results in 2017 reflect a reduction in our share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, as a result of this consolidation. For further information, see Note 4.1.2 to our consolidated financial statements.

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**Recent Acquisitions.** In March 2017, we acquired, through our Mexican, Brazilian, Argentine, Colombian subsidiaries and also through our interest in Jugos del Valle in Mexico, a participation in the AdeS soy-based beverage businesses. As a result of this acquisition, we have exclusive distribution rights of AdeS soy-based beverages in our territories in these countries.

**Recent Developments Relating to Our Indebtedness.** On April 10, 2018 we entered into certain bank loans in Mexican pesos for an aggregate principal amount of Ps.10,100 million.

**Critical Accounting Judgments and Estimates**

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

**New Accounting Pronouncements**

For a description of the new IFRS and amendments to IFRS adopted during 2017, see Note 2.4 to our consolidated financial statements. In addition, for a description of the recently issued accounting standards effective in 2018 and 2019, see Note 26 to our consolidated financial statements.

**Results**

The following table sets forth our consolidated income statements for the years ended December 31 2017, 2016 and 2015.

|                            | <b>Year Ended December 31,</b>                      |                |                           |                |
|----------------------------|---|----------------|---------------------------|----------------|
|                            | <b>2017<sup>(1)(2)</sup></b>                        | <b>2017</b>    | <b>2016<sup>(3)</sup></b> | <b>2015</b>    |
|                            | <b>(in millions of Mexican pesos or millions of</b> |                |                           |                |
|                            | <b>U.S. dollars, except per share data)</b>         |                |                           |                |
| <b>Revenues:</b>           |   |                |                           |                |
| Net sales                  | US\$ 10,355   | Ps.203,374     | Ps.177,082                | Ps.151,914     |
| Other operating revenues   | 21  | 406            | 636                       | 446            |
| <b>Total revenues</b>      | <b>10,376</b>                                       | <b>203,780</b> | <b>177,718</b>            | <b>152,360</b> |
| <b>Cost of goods sold</b>  | <b>5,708</b>  | <b>112,094</b> | <b>98,056</b>             | <b>80,330</b>  |
| <b>Gross profit</b>        | <b>4,668</b>  | <b>91,686</b>  | <b>79,662</b>             | <b>72,030</b>  |
| <b>Costs and expenses:</b> |   |                |                           |                |
| Administrative expenses    | 457   | 8,983          | 7,423                     | 6,405          |
| Selling expenses           | 2,848   | 55,927         | 48,039                    | 41,879         |

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|  |                      |                       |        |        |
|--|----------------------|-----------------------|--------|--------|
| Other income   | 223                  | 4,371                 | 1,281  | 620    |
| Other expenses   | 1,682 <sup>(4)</sup> | 33,032 <sup>(4)</sup> | 5,093  | 2,368  |
| Interest expenses  | 449                  | 8,809                 | 7,471  | 6,337  |
| Interest income  | 45                   | 887                   | 715    | 414    |
| Foreign exchange gain (loss), net  | 41                   | 810                   | 1,792  | 1,459  |
| Gain (loss) on monetary position for subsidiaries in hyperinflationary economies   | 81                   | 1,591                 | 2,417  | (33)   |
| Market value gain on financial instruments   | 13                   | 246                   | 51     | 142    |
| (Loss) income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method | (365)                | (7,160)               | 14,308 | 14,725 |
| Income taxes   | 232                  | 4,554                 | 3,928  | 4,551  |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes                         | 3                    | 60                    | 147    | 155    |
| Net income   | (594)                | (11,654)              | 10,527 | 10,329 |
| Attributable to:   |                      |                       |        |        |
| Equity holders of the parent   | (652)                | (12,802)              | 10,070 | 10,235 |
| Non-controlling interest   | 58                   | 1,148                 | 457    | 94     |

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**Year Ended December 31,**  
**2017<sup>(1)(2)</sup> 2017 2016<sup>(3)</sup> 2015**  
**(in millions of Mexican pesos or**  
**millions of**

|   | <b>U.S. dollars, except per share data)</b> |          |        |        |
|---|---|----------|--------|--------|
| Net income                                | (594)                                       | (11,654) | 10,527 | 10,329 |
| Per share data:                           |   |          |        |        |
| Basic earnings per share <sup>(5)</sup>   | (0.31)                                      | (6.12)   | 4.86   | 4.94   |
| Diluted earnings per share <sup>(6)</sup> | (0.31)                                      | (6.12)   | 4.85   | 4.94   |

- (1) Translation to U.S. dollar amounts at an exchange rate of Ps.19.64 per US\$1.00 solely for the convenience of the reader.
- (2) Includes results of KOF Philippines from February 1, 2017. See **Item 4. Information on the Company The Company Corporate History.**
- (3) Includes results of Vonpar from December 2016. See **Item 4. Information on the Company The Company Corporate History.**
- (4) See Note 18 to our consolidated financial statements.
- (5) Computed on the basis of the weighted average number of shares outstanding during the period: 2,091.35 million in 2017 and 2,072.92 million in 2016 and 2015.
- (6) Computed on the basis of the diluted weighted average number of shares outstanding during the period: 2,091.35 million in 2017, 2,074.83 million in 2016 and 2,072.92 million in 2015. For further information see Note 3.25 to our consolidated financial statements.

**Operations by Consolidated Reporting Segment**

The following table sets forth certain financial information for each of our consolidated reporting segments for the years ended December 31, 2017, 2016 and 2015. See Note 25 to our consolidated financial statements for additional information about all of our consolidated reporting segments.

|  | <b>Year Ended December 31,</b>        |             |             |
|--|---------------------------------------|-------------|-------------|
|  | <b>2017</b>                           | <b>2016</b> | <b>2015</b> |
|  | <b>(in millions of Mexican pesos)</b> |             |             |
| <b>Total revenues</b>                              |                                       |             |             |
| Mexico and Central America <sup>(1)</sup>          | 92,643                                | 87,557      | 78,709      |
| South America (excluding Venezuela) <sup>(2)</sup> | 86,608                                | 71,293      | 64,752      |
| Venezuela  | 4,005                                 | 18,868      | 8,899       |
| Asia <sup>(3)</sup>                                | 20,524                                |             |             |
| <b>Gross profit</b>                                |                                       |             |             |
| Mexico and Central America <sup>(1)</sup>          | 45,106                                | 43,569      | 40,130      |
| South America (excluding Venezuela) <sup>(2)</sup> | 37,756                                | 29,263      | 27,532      |
| Venezuela  | 646                                   | 6,830       | 4,368       |
| Asia <sup>(3)</sup>                                | 8,178                                 |             |             |

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

- (2) Includes Colombia, Brazil and Argentina. Includes results of Vonpar from December 2016.
- (3) Includes the Philippines.

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

**Consolidated Results**

The comparability of our financial and operating performance in 2017 as compared to 2016 was affected by the following factors: (1) the ongoing integration of mergers, acquisitions, and divestitures completed in recent years; (2) translation effects from fluctuations in exchange rates; (3) our results in Venezuela, which is considered a hyperinflationary economy, and the extraordinary charges as a result of the deconsolidation of our Venezuelan operations; and (4) the consolidation of KOF Philippines commencing on February 1, 2017. In certain information presented below, we have excluded the effects of (i) translation effects resulting from exchange rate fluctuations, (ii) our recent acquisition of Vonpar in Brazil, and (iii) our operations in Venezuela, and included the results of KOF Philippines as if its consolidation had occurred on January 1, 2016, in order to better describe the performance of our business on a comparable basis in 2017 as compared to 2016. To translate the results of our Venezuelan operations in 2017, we used the exchange rate of 22,793 bolivars per U.S. dollar, as compared to 673.76 bolivars per U.S. dollar used to translate our 2016

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reported results. In addition, the average depreciation of currencies used in our main operations relative to the U.S. dollar in 2017, as compared to 2016, were: 12.1% for the Argentine peso, 1.5% for the Mexican peso and 6.1% for the Philippine peso. Moreover, the average appreciation of currencies used in our main operations relative to the U.S. dollar in 2017, as compared to 2016, were: 3.4% for the Colombian peso and 8.5% for the Brazilian real.

**Total Revenues.** Our consolidated total revenues increased by 14.7% to Ps.203,780 million in 2017, as a result of the acquisition of Vonpar in Brazil and the consolidation of our operations in the Philippines beginning on February 1, 2017. Total revenues were also driven by average price per unit case increases in local currency aligned with or above inflation in key territories, supported by the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso, despite the depreciation of the Argentine peso, the Philippine peso and the Venezuelan bolivar; in each case relative to the Mexican peso. On a comparable basis, total revenues would have increased by 3.6%, driven by growth in our average price per unit case across most of our operations and volume growth in the Philippines, which were partially offset by volume declines in our South American (excluding Venezuela) consolidated reporting segment.

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, total sales volume would have decreased by 1.5% in 2017 as compared to 2016. Sales volume of our sparkling beverage portfolio increased 16.9% as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 1.7%, driven by volume contractions across most of our operations, which were partially offset by volume growth in the Philippines. On the same basis, our colas portfolio's sales volume would have declined 1.4%, while our flavored sparkling beverage portfolio would have declined 2.6%. Sales volume of our still beverage portfolio increased 23.7% as compared to 2016. On a comparable basis, sales volume of our 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.

Consolidated average price per unit case decreased by 2.9% to Ps.49.29 in 2017, as compared to Ps.50.75 in 2016, mainly as a result of the negative translation effect resulting from depreciation of the Argentine peso, the Philippine peso and the Venezuelan bolivar relative to the Mexican peso, which was partially offset by the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso, in each case relative to the Mexican peso. On a comparable basis, average price per unit case would have increased by 5.1% in 2017, driven by average price per unit case increases in local currency in Mexico, Argentina, Brazil and Colombia.

**Gross Profit.** Our gross profit increased by 15.1% to Ps.91,686 million in 2017; however, our gross profit margin decreased by 20 basis points to reach 45.0% in 2017 as compared to 2016. On a comparable basis, our gross profit would have increased by 6.1% in 2017, as compared to 2016. Our pricing initiatives, together with our currency and raw material hedging strategies, offset higher costs resulting from higher sweetener and concentrate prices in Mexico and the depreciation in the average exchange rate of the Mexican peso, the Argentine peso, and the Philippine peso as applied to U.S. dollar-denominated raw material costs.

The components of cost of goods sold include raw materials (principally concentrate, sweeteners and packaging materials), depreciation costs attributable to our production facilities, wages and other labor costs associated with

labor force employed at our production facilities and certain overhead costs. Concentrate prices are determined as a percentage of the retail price of our products in local currency, net of applicable taxes. Packaging materials, mainly PET resin and aluminum, and HFCS, used as a sweetener in some countries, are denominated in U.S. dollars.

**Administrative and Selling Expenses.** Our administrative and selling expenses as a percentage of total revenues increased by 70 basis points to 31.9% in 2017 as compared to 2016. Our administrative and selling expenses in absolute terms increased by 17.0% to Ps.64,910 million as compared to Ps.55,462 million in 2016, mainly as a result of the consolidation of KOF Philippines and the recent acquisition of Vonpar; however, this increase was partially offset by an operating foreign exchange gain. In 2017, we continued investing across our territories to support marketplace execution, increase our cooler coverage, and bolster our returnable presentation base.

**Other Expenses Net.** We recorded other expenses net of Ps.28,661 million in 2017 as compared to Ps.3,812 million in 2016, mainly due to the deconsolidation of Venezuela, which was partially offset by the consolidation of KOF Philippines. For more information, see Note 3.3 to our consolidated financial statements.

**Comprehensive Financing Result.** The term comprehensive financing result refers to the combined financial effects of net interest expenses, net financial foreign exchange gains or losses, and net gains or losses on the monetary position of hyperinflationary countries where we operate. Net financial foreign exchange gains or losses represent the impact of changes in foreign exchange rates

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

Comprehensive financing result in 2017 recorded an expense of Ps.5,275 million as compared to an expense of Ps.6,080 million in 2016. This decrease was mainly driven by an increase in interest expenses of Ps.8,809 million in 2017 as compared to interest expenses of Ps.7,741 million in 2016, which was more than offset by a foreign exchange gain of Ps.810 million in 2017 as compared to a foreign exchange loss of Ps.1,792 million in 2016, such gain resulting from the appreciation of the end-of-period exchange rate of the Mexican peso relative to the U.S. dollar as applied to our U.S. dollar-denominated debt.

**Income Taxes.** In 2017, reported income tax was Ps.4,554 million as compared to Ps.3,928 million in 2016. For more information, see Note 23 to our consolidated financial statements.

**Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method, Net of Taxes.** In 2017, we recorded a loss of Ps.60 million in the share of the profits of associates and joint ventures accounted for using the equity method, net of taxes, mainly due to the consolidation of KOF Philippines, which is no longer accounted for under the equity method from February 1, 2017; this loss was partially offset by gains in our joint ventures in Brazil.

**Net Income (Equity holders of the parent).** Consolidated net controlling interest loss was Ps.12,802 million during 2017, mainly as a result of the deconsolidation of our Venezuelan operations, which resulted in the reclassification of an accumulated non-cash item as a one-time charge to the other expenses line of the income statement in accordance with IFRS standards. On a comparable basis, controlling net income would have grown 34.7% in 2017.

**Results by Consolidated Reporting Segment****Mexico and Central America**

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

Total sales volume in our Mexico and Central America consolidated reporting segment decreased by 0.4% to 2,017.9 million unit cases in 2017 as compared to 2016, as a result of volume contraction in both Mexico and Central America as discussed below. Sales volume of our sparkling beverage portfolio decreased by 0.9%, mainly driven by a 1.4% decrease in sales volume of our colas portfolio, which was partially offset by a 1.1% increase in sales volume of our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 3.8%, mainly due to growth in both Mexico and Central America. Sales volume of bottled water, excluding bulk water, increased by 2.6%, as Mexico and Central America had a positive performance. Our 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 our sparkling beverage portfolio decreased by 0.8%, driven by a 1.3% decrease in sales volume of our colas portfolio, which was partially offset by a 1.6% increase in sales volume of our flavored sparkling



beverage portfolio. Sales volume of our still beverage portfolio increased by 4.4%. Sales volume of bottled water, excluding bulk water, increased by 2.3%, while our 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 our sparkling beverage portfolio decreased by 1.8%, driven by a 1.7% decrease in our colas portfolio and a 2.0% decrease in sales volume of our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased slightly by 0.5%. Sales volume of bottled water, excluding bulk water, increased by 5.7%, while our bulk water portfolio's sales volume declined by 3.9%.

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

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

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**Table of Contents****South America (excluding Venezuela)**

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

Total sales volume in our South America (excluding Venezuela) consolidated reporting segment increased by 6.1% to 1,236.0 million unit cases in 2017 as compared to 2016, mainly as a result of the acquisition of Vonpar in Brazil. On a comparable basis, total sales volume would have decreased by 6.0% in 2017 as compared to 2016, as a result of a volume contraction in all of our South America operations. Sales volume of our sparkling beverage portfolio increased by 5.1% as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 5.3%, mainly due to a volume contraction of our 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 our still beverage portfolio decreased by 3.3% as compared to 2016. On a comparable basis, sales volume of our still beverage portfolio would have decreased by 10.4%, mainly driven by a sales volume contraction in Colombia, which was partially offset by volume growth in Argentina. Sales volume of our bottled water category, excluding bulk water, decreased by 2.4% as compared to 2016. On a comparable basis, sales volume of our bottled water category, excluding bulk water, would have decreased by 7.7% as compared to 2016, with volume contractions in Argentina, Brazil and Colombia. Sales volume of our bulk water portfolio decreased by 8.0% as compared to 2016. On a comparable basis, sales volume of our bulk water portfolio would have declined by 11.1%, mainly driven by 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, mainly as a result of the acquisition of Vonpar in Brazil. On a comparable basis, sales volume would have decreased by 3.8%. Sales volume of our sparkling beverage portfolio increased by 18.8% as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 3.9%, as a result of a 3.2% sales volume decrease in our colas portfolio and a 5.8% sales volume decrease in our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 14.9% as compared to 2016. On a comparable basis, sales volume of our still beverage portfolio would have decreased by 2.1%. Sales volume of our bottled water, excluding bulk water, increased by 7.4% as compared to 2016, while sales volume of our bulk water portfolio increased by 18.0%. On a comparable basis, sales volume of bottled water, excluding bulk water, would have decreased by 4.8%, while sales volume of our bulk water portfolio would have increased by 2.5%.

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

Sales volume in Argentina decreased by 1.5% to 205.9 million unit cases in 2017, as compared to 209.1 million unit cases in 2016. Sales volume of our sparkling beverage portfolio decreased by 1.5% as compared to 2016, mainly driven by a decrease in sales volume of our colas portfolio. Sales volume of our 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 our bulk water portfolio decreased by 11.1%.

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

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

## **Venezuela**

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

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

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

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

**Philippines**

**Total Revenues.** Total revenues in the Philippines were Ps.20,524 million in 2017.

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

**Gross Profit.** Gross profit in the Philippines was Ps.8,178 million in 2017, and gross profit margin reached 39.8%. This figure reflected lower sweetener and PET resin prices and the depreciation of the Philippine peso as applied to our U.S. dollar-denominated raw material costs.

**Administrative and Selling Expenses.** Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment were 33.4% in 2017.

**Results for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015****Consolidated Results**

The comparability of our financial and operating performance in 2016 as compared to 2015 was affected by the following factors: (1) our acquisition and integration of Vonpar, (2) translation effects from fluctuations in exchange rates and (3) our results of operations in territories that are considered hyperinflationary economies (our only operation that was considered a hyperinflationary economy was Venezuela). In certain information presented below, we have excluded the effects of (i) our recent acquisition of Vonpar in Brazil, and (ii) our operations in Venezuela, in order to better describe the performance of our business on a comparable basis in 2016 as compared to 2015. To translate the results of our Venezuelan operations in 2016, we used the DICOM exchange rate of 673.76 bolivars per U.S. dollar, as compared to 198.70 bolivars per U.S. dollar exchange rate used to translate our 2015 results. The average depreciations to the U.S. dollar of currencies used in our main operations during 2016, as compared to 2015, were: 17.7% for the Mexican peso, 4.8% for the Brazilian real, 11.4% for the Colombian peso and 59.5% for the Argentine peso. Consolidated results include full-year figures of our territories and one month figures of Vonpar.

**Total Revenues.** Our consolidated total revenues increased by 16.6% to Ps.177,718 million in 2016, mainly as a result of the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso, which was partially offset by the negative translation effect resulting from the use of the DICOM exchange rate to translate the results of our Venezuelan operations and the depreciation of the Argentine peso relative to the Mexican peso. Excluding the effects of currency fluctuations, total revenues would have increased by a smaller amount, driven by the growth of the average price per unit case in most of our operations and volume growth in Mexico and Central America.

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, total sales volume would have decreased by 0.9% in 2016 as compared to 2015. Sales volume of our sparkling beverage

portfolio decreased by 3.4% as compared to 2015. On a comparable basis, sales volume of our 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 our flavored sparkling beverage portfolio in Mexico and Central America. Sales volume of our still beverage portfolio decreased by 0.6% as compared to 2015. On a comparable basis, sales volume of our 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. On a comparable basis, 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. On a comparable basis, 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.

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Consolidated average price per unit case increased by 19.8% reaching Ps.50.75 in 2016, as compared to Ps.42.34 in 2015, mainly as a result of the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso, which was partially offset by the negative translation effect resulting from the use of the DICOM exchange rate to translate the results of our Venezuelan operations and the depreciation of the Argentine peso relative to the Mexican peso. Excluding the effects of currency fluctuations, our recent acquisition of Vonpar and the results of our operations in Venezuela, average price per unit case would have grown 6.8% in 2016, driven by average price per unit case increases above inflation in local currency in most of our territories.

**Gross Profit.** Our gross profit increased by 10.6% to Ps.79,662 million in 2016; however, our gross profit margin decreased by 250 basis points to reach 44.8% in 2016, mainly as a result of higher sugar prices, the depreciation of the average exchange rate of the Mexican peso, the Brazilian real, the Colombian peso and the Argentine peso relative to the U.S. dollar as applied to U.S. dollar-denominated raw material costs and an unfavorable currency hedging position in Brazil, which were partially offset by lower PET resin prices and our overall currency hedging strategy.

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

**Administrative and Selling Expenses.** Our administrative and selling expenses as a percentage of total revenues decreased by 50 basis points to 31.2% in 2016 as compared to 2015. Our administrative and selling expenses in absolute terms increased by 14.9% as compared to 2015, mainly as a result of the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso, the inflationary effect of our operations in Venezuela, as well as the depreciation of the Mexican peso relative to the U.S. dollar. In local currency, administrative and selling expenses as a percentage of revenues decreased in Brazil and Colombia. In 2016, we continued investing in marketing across our territories to support marketplace execution, increase cooler coverage and bolster returnable presentation base.

**Other Expenses Net.** We recorded other expenses net of Ps.3,812 million in 2016 as compared to Ps.1,748 million in 2015, mainly due to negative currency fluctuation effects in our operations in Venezuela.

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

Comprehensive financing result in 2016 recorded an expense of Ps.6,080 million as compared to an expense of Ps.7,273 million in 2015. This decrease was mainly driven by a gain on the monetary position in our hyperinflationary operations in Venezuela due to an increase in the balance of accounts payable. This gain was partially offset by a foreign exchange loss resulting from the depreciation of the end-of-period exchange rate of the Mexican peso relative to the U.S. dollar as applied to our U.S. dollar-denominated debt.

**Income Taxes.** In 2016, income tax as a percentage of income before taxes was 27.2% as compared to 30.6% in 2015. This lower effective tax rate in 2016 was mainly due to certain tax efficiencies across our operations, a lower effective tax rate in Colombia and ongoing efforts to reduce non-deductible items across our operations. For more information, see Note 23 to our consolidated financial statements.

**Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method, Net of Taxes.** In 2016, we recorded a gain of Ps.147 million in the share of the profits of associates and joint ventures accounted for using the equity method, net of taxes, representing a decrease of 5.2% as compared to 2015, mainly due to a reduced equity method gain from our participation in associated companies.

**Net Income (Equity holders of the parent).** Our net controlling interest income reached Ps.10,070 million in 2016 as compared to Ps.10,235 million in 2015. Basic earnings per share in 2016 were Ps.4.86 (Ps.48.58 per ADS) computed on the basis of the weighted average number of shares outstanding during the period of 2,072.9 million shares outstanding (each ADS represents 10 Series L shares).

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**Table of Contents****Results by Consolidated Reporting Segment****Mexico and Central America**

**Total Revenues.** Total revenues in our Mexico and Central America consolidated reporting segment increased by 11.2% to Ps.87,557 million in 2016 as compared to 2015, mainly driven by a positive translation effect resulting from the appreciation of local currencies in our Central American territories relative to the Mexican peso. Excluding the effect of currency fluctuations, total revenues would have increased by a smaller amount, mainly as a result of positive volume performance and average price increases in both Mexico and Central America.

Total sales volume in our 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 our 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 our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 11.8%, mainly due to the performance of the Jugos del Valle portfolio and our 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 our 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 our flavored sparkling beverage portfolio, mainly supported by the performance of *Naranja&Nada* and *Limon&Nada*, our sparkling orangeade and lemonade, and the *Mundet* brand. Sales volume of our still beverage portfolio increased by 14.2%, mainly as a result of the performance of *ValleFrut* brand products, the *Del Valle* juice portfolio and our 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 our sparkling beverage portfolio increased by 5.0%, supported by the strong performance of *Coca-Cola* brand products and our flavored sparkling beverages portfolio in Guatemala, Nicaragua and Costa Rica. Sales volume of our still beverage portfolio decreased slightly by 0.3%. Sales volume of bottled water, including bulk water, increased by 1.7%.

**Gross Profit.** Our gross profit in this consolidated reporting segment increased by 8.6% to Ps.43,569 million in 2016 as compared to 2015; however, gross profit margin decreased by 120 basis points to 49.8% in 2016, mainly as a result of higher prices of sugar and the depreciation of the average exchange rate of the Mexican peso relative to the U.S. dollar as applied to our U.S. dollar-denominated raw material costs, which were partially offset by lower PET resin prices and our overall currency hedging strategy.

**Administrative and Selling Expenses.** Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment decreased by 60 basis points to 32.6% in 2016 as compared to 2015. Administrative and selling expenses in absolute terms increased by 9.4% as compared to 2015, mainly due to an increase in selling expenses in Mexico.

**South America (excluding Venezuela)**



**Total Revenues.** Total revenues in our South America (excluding Venezuela) consolidated reporting segment increased by 10.1% to Ps.71,293 million in 2016 as compared to 2015, mainly driven by the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso. Total revenues for beer amounted to Ps.7,887 million. Excluding the effects of currency fluctuations, total revenues would have grown by a smaller amount, driven by an average price per unit case increases across our territories.

Total sales volume in our South America (excluding Venezuela) consolidated reporting segment decreased by 6.6% to 1,165.3 million unit cases in 2016 as compared to 2015. Excluding the effects of our recent acquisition of Vonpar, 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 our 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 our territories in this division. Excluding the effects of our recent acquisition of Vonpar, sales volume of our 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. Excluding the effects of our recent acquisition of Vonpar, sales volume would have decreased by 9.2% to 629.7 million unit cases. On the same basis, sales volume of our sparkling beverage portfolio decreased by 9.0%, mainly as a result of a sales volume decrease in *Coca-Cola* brand products. Excluding the effects of our recent acquisition of Vonpar, sales volume of our 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.

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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 our 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 our 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 our sparkling beverage portfolio decreased by 13.6%, mainly driven by a decrease in sales volume of *Coca-Cola* brand products and our flavored sparkling beverage portfolio. Sales volume of our 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.

**Gross Profit.** Our gross profit in this consolidated reporting segment in 2016 reached Ps.29,263 million, an increase of 6.3% as compared to 2015; however, gross profit margin decreased by 150 basis points to 41.0% in 2016. This decrease was mainly driven by higher sugar prices, the depreciation of the average exchange rate of the Brazilian real, the Colombian peso and the Argentine peso relative to the U.S. dollar as applied to U.S. dollar-denominated raw material costs and an unfavorable currency hedging position in Brazil, which was partially offset by lower PET resin prices and our currency hedging strategy in Colombia and Argentina.

**Administrative and Selling Expenses.** Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment decreased by 50 basis points to 29.5% in 2016 as compared to 2015. Administrative and selling expenses in absolute terms increased by 8.5%, as compared to 2015, mainly driven by the negative translation effect resulting from the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso.

**Venezuela**

**Total Revenues.** Total revenues in Venezuela increased by 112.0% to Ps.18,868 million in 2016 as compared to 2015, mainly driven by an increase in the average price per unit case.

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 our categories as a result of the scarcity of raw materials and demand for our products. Sales volume of our sparkling beverage portfolio decreased by 41.0%. Sales volume of our still beverage portfolio decreased by 46.4%. Sales volume of bottled water, including bulk water, decreased by 10.1%.

**Gross Profit.** Gross profit in Venezuela reached Ps.6,830 million in 2016, an increase of 56.4% as compared to 2015 with a gross profit margin decrease of 12.9 percentage points reaching 36.2%. This decrease in gross profit margin was mainly driven by an increase in the prices of raw materials.

**Administrative and Selling Expenses.** Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment remained flat at 31.0% in 2016, as compared to 2015. Administrative and selling expenses in absolute terms increased by 112.0%, as compared to 2015, mainly driven by an increase in selling expenses in Venezuela.

**Liquidity and Capital Resources**

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

Our total indebtedness was Ps.83,360 million as of December 31, 2017, as compared to Ps.88,909 million as of December 31, 2016. Short-term debt and long-term debt were Ps.12,171 million and Ps.71,189 million, respectively, as of December 31, 2017, as compared to Ps.3,052 million and Ps.85,857 million, respectively, as of December 31, 2016. Total debt decreased Ps.5,549 million in 2017, compared to year end 2016. As of December 31, 2017, our cash and cash equivalents were Ps.18,767 million, as compared to Ps.10,476 million as of December 31, 2016. We had cash outflows in 2017 mainly resulting from dividend payments and the partial redemption of our 2.375% Notes due 2018. As of December 31, 2017, our cash and cash equivalents were comprised of 36.3% U.S. dollars, 24.0% Philippine pesos, 23.3% Mexican pesos, 11.3% Brazilian reais, 2.4% Argentine pesos, 1.9% Colombian pesos and 0.8% other legal currencies. As of March 31, 2018, our cash and cash equivalents balance was Ps.19,549 million, including US\$352 million denominated in U.S. dollars. We believe that these funds, in addition to the cash generated by our operations, are sufficient to meet our operating requirements.

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

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

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

**Sources and Uses of Cash.** The following table summarizes the sources and uses of cash for the years ended December 31, 2017, 2016 and 2015, from our consolidated statements of changes in cash flows:

|  | <b>Year Ended December 31,</b>        |             |             |
|--|---------------------------------------|-------------|-------------|
|  | <b>2017</b>                           | <b>2016</b> | <b>2015</b> |
|  | <b>(in millions of Mexican pesos)</b> |             |             |
| Net cash flows from operating activities                   | 33,236                                | 32,446      | 23,202      |
| Net cash flows used in investing activities <sup>(1)</sup> | (10,890)                              | (26,915)    | (10,945)    |
| Net cash flows used in financing activities                | (10,775)                              | (9,734)     | (8,567)     |
| Dividends paid   | (6,992)                               | (7,014)     | (6,416)     |

(1) Includes purchases of property, plant and equipment, the payment of a portion of the purchase price for our acquisition of Vonpar in 2016 and investments in other assets.

**Table of Contents****Contractual Obligations**

The table below sets forth our contractual obligations as of December 31, 2017:

|  | As of December 31, 2017         |                          |                          |                                     | Total  |
|--|---------------------------------|--------------------------|--------------------------|-------------------------------------|--------|
|  | Maturity<br>less than<br>1 year | Maturity<br>1<br>3 years | Maturity<br>4<br>5 years | Maturity<br>in excess of<br>5 years |        |
| (in millions of Mexican pesos)   |                                 |                          |                          |                                     |        |
| <b>Debt<sup>(1)</sup></b>  |                                 |                          |                          |                                     |        |
| Mexican pesos  |                                 | 2,498                    | 8,990                    | 8,487                               | 19,975 |
| U.S. dollars   | 8,774                           | 13,876                   | 17,576                   | 11,849                              | 52,076 |
| Brazilian reais  | 612                             | 7,755 <sup>(2)</sup>     | 130                      | 29                                  | 8,525  |
| Colombian pesos  | 2,679                           |                          |                          |                                     | 2,679  |
| Argentine pesos  | 106                             |                          |                          |                                     | 106    |
| <b>Interest Payments on Debt<sup>(3)</sup></b>   |                                 |                          |                          |                                     |        |
| Mexican pesos  | 1,399                           | 2,861                    | 2,512                    | 3,072                               | 9,844  |
| U.S. dollars   | 2,035                           | 2,761                    | 2,658                    | 14,483                              | 21,937 |
| Brazilian reais  | 153                             | 127                      | 15                       | 12                                  | 307    |
| Colombian pesos  | 121                             |                          |                          |                                     | 121    |
| Argentine pesos  | 11                              |                          |                          |                                     | 11     |
| <b>Cross Currency Swaps</b>  |                                 |                          |                          |                                     |        |
| U.S. dollars to Mexican pesos <sup>(4)</sup>   |                                 | (567)                    | (139)                    | (50)                                | (756)  |
| U.S. dollars to Brazilian reais <sup>(5)</sup>   | 3,863                           | 330                      | (24)                     |                                     | 4,169  |
| <b>Interest Rate Swaps</b>   |                                 |                          |                          |                                     |        |
| Brazilian variable interest rate to fixed rate <sup>(6)</sup>  |                                 | 48                       | 33                       |                                     | 81     |
| <b>Options</b>   |                                 |                          |                          |                                     |        |
| U.S. dollars to Mexican pesos <sup>(7)</sup>   | (12)                            |                          |                          |                                     | (12)   |
| <b>Forwards</b>  |                                 |                          |                          |                                     |        |
| U.S. dollars to Mexican pesos <sup>(8)</sup>   | (113)                           |                          |                          |                                     | (113)  |
| U.S. dollars to Brazilian reais <sup>(9)</sup>   | (51)                            |                          |                          |                                     | (51)   |
| U.S. dollars to Colombian pesos <sup>(10)</sup>  | 3                               |                          |                          |                                     | 3      |
| U.S. dollars to Argentine pesos <sup>(11)</sup>  | 7                               |                          |                          |                                     | 7      |
| <b>Commodity Hedge Contracts</b>   |                                 |                          |                          |                                     |        |
| Sugar <sup>(12)</sup>  | 4                               | (3)                      |                          |                                     | 1      |
| <b>Expected Benefits to be Paid for Pension and Retirement Plans, Seniority Premiums and Post-employment</b> |                                 |                          |                          |                                     |        |
|  | 346                             | 635                      | 193                      | 1,778                               | 2,952  |

(1) Excludes the effect of cross currency swaps.

(2) Part of our debt denominated in Brazilian reais consists of a promissory note for 1,090 million Brazilian reais (approximately Ps.6,707 million as of December 31, 2017). This promissory note is denominated and payable in Brazilian reais; however, it is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

- (3) Interest was calculated using the contractual debt and nominal interest rates as of December 31, 2017. Liabilities denominated in U.S. dollars were converted to Mexican pesos at an exchange rate of Ps.19.74 per U.S. dollar, the exchange rate reported by *Banco de México* quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2017.
- (4) Cross-currency swaps used to convert U.S. dollar-denominated debt into Mexican peso-denominated debt with a notional amount of Ps.18,552 million. These cross-currency swaps are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2017.
- (5) Cross-currency swaps used to convert U.S. dollar-denominated debt into Brazilian real-denominated debt with a notional amount of Ps.39,233 million. These cross-currency swaps are considered hedges for accounting purposes and the amounts shown in the table are fair value figures (gain)/loss as of December 31, 2017.
- (6) Reflects the market value as of December 31, 2017 of the interest rate swaps used to hedge Brazilian interest rate variation. These interest rate swaps are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2017.

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- (7) Reflects the market value as of December 31, 2017 of a collar option derivative instrument used to hedge against fluctuation in the Mexican peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2017.
- (8) Reflects the market value as of December 31, 2017 of forward derivative instruments used to hedge against fluctuation in the Mexican peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2017.
- (9) Reflects the market value as of December 31, 2017 of forward derivative instruments used to hedge against fluctuation in the Brazilian real. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2017.
- (10) Reflects the market value as of December 31, 2017 of forward derivative instruments used to hedge against fluctuation in the Colombian peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2017.
- (11) Reflects the market value as of December 31, 2017 of forward derivative instruments used to hedge against fluctuation in the Argentine peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2017.
- (12) Reflects the market value as of December 31, 2017 of futures contracts used to hedge sugar cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2017.

**Debt Structure**

The following chart sets forth the debt breakdown of our company and its subsidiaries by currency and interest rate type as of December 31, 2017:

| <b>Currency</b> | <b>Percentage of Total Debt<sup>(1)(2)</sup></b> | <b>Average Nominal Rate<sup>(3)</sup></b> | <b>Average Adjusted Rate<sup>(1)(4)</sup></b> |
|-----------------|--|---|---|
| Mexican pesos   | 44.7%  | 7.0%                                      | 8.3%  |
| U.S. dollars    | 1.1%   | 3.5%                                      | 3.0%  |
| Brazilian reais | 51.0%  | 7.0%                                      | 7.4%  |
| Colombian pesos | 3.0%   | 7.9%                                      | 7.9%  |
| Argentine pesos | 0.2%   | 22.4%                                     | 22.4%   |

- (1) Includes the effects of our derivative contracts as of December 31, 2017, including cross currency swaps from U.S. dollars to Mexican pesos and U.S. dollars to Brazilian reais.
- (2) Due to rounding, these figures may not equal 100.0%.
- (3) Annual weighted average interest rate per currency as of December 31, 2017.
- (4) Annual weighted average interest rate per currency as of December 31, 2017 after giving effect to interest rate swaps and cross currency swaps. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.**

**Summary of Significant Debt Instruments**

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

***Mexican Peso-Denominated Bonds (Certificados Bursátiles).***

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

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



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

As of December 31, 2017, we had the following *certificados bursátiles* outstanding in the Mexican securities market:

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

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

**2.375% Notes due 2018.** On November 26, 2013, we issued US\$1 billion aggregate principal amount of 2.375% senior notes due November 26, 2018. On August 18, 2017, we redeemed 55.5% of the face value of the 2.375% senior notes in a principal amount of US\$555 million; therefore, the aggregate principal amount of the 2.375% senior notes outstanding is US\$445 million. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and the entering into sale and leaseback transactions by us and our significant subsidiaries.

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

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

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

**Bank Loans.** As of December 31, 2017, we had a number of bank loans in U.S. dollars, Colombian pesos, Brazilian reais, and Argentine pesos, with an aggregate principal amount of Ps.8,634 million. On April 10, 2018, we entered into certain bank loans in Mexican pesos for an aggregate principal amount of Ps.10,100 million. Our bank loans in U.S. dollars and Mexican pesos are guaranteed by the Guarantors.

***Promissory Note (Vonpar Acquisition)***. On December 6, 2016, as part of the purchase price paid for our acquisition of Vonpar, we issued and delivered a three-year promissory note to the sellers, for a total amount of 1,090 million Brazilian reais (approximately Ps.6,707 million as of December 31, 2017). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

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

### **Off-Balance Sheet Arrangements**

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

**Table of Contents****Contingencies**

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

We have various losses related to tax, labor and other legal proceedings. We periodically assess the probability of loss for such contingencies and accrue a provision and/or disclose the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a provision for the estimated loss. See Note 24 to our consolidated financial statements. We use outside legal counsel for certain complex legal proceedings. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2017:

|       | <b>As of December 31, 2017</b>        |        |
|-------|---------------------------------------|--------|
|       | <b>(in millions of Mexican pesos)</b> |        |
| Tax   | Ps.                                   | 6,717  |
| Labor |                                       | 2,365  |
| Legal |                                       | 1,985  |
| Total | Ps.                                   | 11,067 |

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

As is customary in Brazil, we have been required by the relevant authorities to collateralize tax contingencies currently in litigation amounting to Ps.9,433 million, Ps.8,093 million and Ps.3,569 million as of December 31, 2017, 2016 and 2015, respectively, by pledging fixed assets, or providing bank guarantees.

In connection with our acquisition of Vonpar, the sellers have agreed to indemnify us against certain contingencies that may arise as a result of the management of the business prior to the acquisition. See Note 24.5.1 to our consolidated financial statements.

**Capital Expenditures**

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

|   | <b>Year Ended December 31,</b>    |             |             |
|---|-----------------------------------|-------------|-------------|
|   | <b>2017</b>                       | <b>2016</b> | <b>2015</b> |
|   | <b>(in</b>                        |             |             |
|   | <b>millions of Mexican pesos)</b> |             |             |
| Mexico and Central America <sup>(1)</sup> | 8,231                             | 6,597       | 4,672       |

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|  |        |        |        |
|--|--------|--------|--------|
| South America (excluding Venezuela) <sup>(2)</sup> | 4,686  | 4,240  | 5,686  |
| Venezuela <sup>(3)</sup>                           |        | 1,554  | 1,126  |
| Asia <sup>(4)</sup>                                | 1,695  |        |        |
| Capital expenditures, net <sup>(5)</sup>           | 14,612 | 12,391 | 11,484 |

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

(2) Includes Colombia, Brazil and Argentina.

(3) Includes the effects of inflation.

(4) Includes the Philippines.

(5) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

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

We have budgeted approximately US\$650 million for our capital expenditures in 2018. Our capital expenditures in 2018 are primarily intended for:

investments in production capacity;

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market investments;

returnable bottles and cases;

improvements throughout our distribution network; and

investments in information technology.

We estimate that of our projected capital expenditures for 2018, approximately 40.0% will be for our Mexican territories and the remaining will be for our non-Mexican territories. We believe that internally generated funds will be sufficient to meet our budgeted capital expenditure for 2018. Our capital expenditure plan for 2018 may change based on market and other conditions, our results and financial resources.

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

**Table of Contents****Hedging Activities**

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

The following table provides a summary of the fair value of derivative instruments as of December 31, 2017. The fair market value is estimated using market prices that would apply to terminate the contracts at the end of the period and are confirmed by external sources, which generally are also our counterparties to the relevant contracts.

|  | Fair Value as of December 31, 2017 |                       |                       |                               | Total fair value |
|--|------------------------------------|-----------------------|-----------------------|-------------------------------|------------------|
|  | Maturity less than 1 year          | Maturity 1 to 3 years | Maturity 4 to 5 years | Maturity in excess of 5 years |                  |
| <b>Cross Currency Swaps</b>                    |                                    |                       |                       |                               |                  |
| U.S. dollars to Mexican pesos                  |                                    | (567)                 | (139)                 | (50)                          | (756)            |
| U.S. dollars to Brazilian reais                | 3,863                              | 330                   | (24)                  |                               | 4,169            |
| <b>Interest Rate Swaps</b>                     |                                    |                       |                       |                               |                  |
| Brazilian variable interest rate to fixed rate |                                    | 48                    | 33                    |                               | 81               |
| <b>Options</b>                                 |                                    |                       |                       |                               |                  |
| U.S. dollars to Mexican pesos                  | (12)                               |                       |                       |                               | (12)             |
| <b>Forwards</b>                                |                                    |                       |                       |                               |                  |
| U.S. dollars to Mexican pesos                  | (113)                              |                       |                       |                               | (113)            |
| U.S. dollars to Brazilian reais                | (51)                               |                       |                       |                               | (51)             |
| U.S. dollars to Colombian pesos                | 3                                  |                       |                       |                               | 3                |
| U.S. dollars to Argentine pesos                | 7                                  |                       |                       |                               | 7                |
| <b>Commodity Hedge Contracts</b>               |                                    |                       |                       |                               |                  |
| Sugar  | 4                                  | (3)                   |                       |                               | 1                |

**Table of Contents****Item 6. Directors, Senior Management and Employees****Directors**

Management of our business is vested in our board of directors and in our chief executive officer. In accordance with our bylaws and Article 24 of the Mexican Securities Market Law, our board of directors will consist of no more than 21 directors and their respective alternates, elected at the annual ordinary shareholders meeting for renewable terms of one year. Our board of directors currently consists of 21 directors and 18 alternate directors; 13 directors and their respective alternate directors are elected by holders of the Series A shares voting as a class; five directors and their respective alternate directors are elected by holders of the Series D shares voting as a class; and up to three directors and their respective alternate directors are elected by holders of the Series L shares voting as a class. Directors may only be elected by a majority of shareholders of the appropriate series, voting as a class.

In accordance with our bylaws and Article 24 of the Mexican Securities Market Law, at least 25.0% of the members of our board of directors must be independent (as defined by the Mexican Securities Market Law). The board of directors may designate interim directors in the case that a director is absent or an elected director and corresponding alternate are unable to serve; the interim directors serve until the next shareholders meeting, at which the shareholders elect a replacement.

Our bylaws provide that when Series B shares are issued, which has not yet occurred, for every 10.0% of issued and paid shares of capital stock of our company held by shareholders of such Series B shares, either individually or as a group, such shareholders shall have the right to designate and revoke one director and the corresponding alternate, pursuant to Article 50 of the Mexican Securities Market Law.

Our bylaws provide that the board of directors shall meet at least four times a year. Since our major shareholders amended their Shareholders Agreement in February 2010, our bylaws were modified accordingly establishing that actions by the board of directors must be approved by at least a majority of the directors present and voting, except under certain limited circumstances which must include the favorable vote of at least two directors elected by the Series D shares. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.** The chairman of the board of directors, the chairman of our audit or Corporate Practices Committee, or at least 25.0% of our directors may call a board of directors meeting to include matters in the meeting agenda.

At our general ordinary shareholders meeting held on March 9, 2018, the following directors were appointed or confirmed: 13 directors and their respective alternates as applicable, were appointed or confirmed by holders of Series A shares, five directors and their respective alternates as applicable, were appointed or confirmed by holders of Series D shares and three directors and their respective alternates as applicable, were appointed or confirmed by holders of Series L shares. Our board of directors is currently comprised of 21 members.

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

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

**Series A Directors**

|              |                |                                      |
|--------------|----------------|--------------------------------------|
| José Antonio | Born:          | February 1954                        |
| Vicente      | First elected: | 1993, as director; 2001 as chairman. |
|              | Term expires:  | 2019                                 |

Fernández Carbajal

*Chairman*

Principal occupation: Executive Chairman of the board of directors of FEMSA.  
Other directorships: Chairman of the board of directors of Fundación FEMSA, A.C. and Instituto Tecnológico y de Estudios Superiores de Monterrey, or ITESM. Chairman Emeritus of the US Mexico Foundation. Member of the board of directors of Heineken Holding, N.V., and Grupo Televisa, S.A.B. de C.V. and vice-chairman of the supervisory board of Heineken, N.V., Chairman of the Americas committee and member of the preparatory committee and selection and appointment committee of Heineken, N.V. Member of the board of directors of Industrias Peñoles, S.A.B. de C.V., Co-Chairman of the advisory board of Woodrow Wilson Center, Mexico Chapter and member of the board of trustees of the Massachusetts Institute of Technology Corporation.



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|                              |                       |  |
|------------------------------|-----------------------|--|
|                              | Business experience:  | Joined the strategic planning department of FEMSA in 1988, after which he held managerial positions at FEMSA Cerveza's commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991 and Chief Executive Officer in 1995, a position he held until December 31, 2013. As of January 1, 2014, he was appointed Executive Chairman of the board of directors of FEMSA.  |
|                              | Education:            | Holds a degree in Industrial Engineering and a Master in Business Administration, or MBA, from ITESM.  |
|                              | Alternate director:   | Eva María Garza Lagüera Gonda <sup>(3)</sup>   |
| Miguel Eduardo Padilla Silva | Born:                 | January 1955   |
|                              | First elected:        | 2016   |
|                              | Term expires:         | 2019   |
| <i>Director</i>              | Principal occupation: | Chief Executive Officer of FEMSA.  |
|                              | Other directorships:  | Member of the board of directors of FEMSA, and member of the board of directors of Grupo Lamosa, S.A.B. de C.V., Club Industrial, A.C., Universidad Tec Milenio and Coppel, S.A. de C.V.   |
|                              | Business experience:  | He held the position of Chief Financial and Corporate Officer of FEMSA from 2016 to 2017 and Chief Executive Officer of FEMSA Comercio from 2004 to 2016. Also, he held the positions of Planning and Control Officer of FEMSA from 1997 to 1999 and Chief Executive Officer of the Strategic Procurement Business Division of FEMSA from 2000 to 2003. He had a 20-year career in Alfa, S.A.B. de C.V., or Alfa, and held a position in Terza, S.A. de C.V. as Chief Executive Officer. |
|                              | Education:            | Holds a degree in Mechanical Engineering from ITESM, a MBA from Cornell University and executive management studies at Instituto Panamericano de Alta Dirección de Empresa, or IPADE.  |
|                              | Alternate director:   | Francisco José Calderón Rojas  |

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Javier Gerardo      Born:                      July 1959  
                                  First elected:            2006  
 Astaburuaga        Term expires:          2019  
 Sanjines

*Director*

Principal occupation: Vice-President of Corporate Development of FEMSA.  
 Business experience: Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance. He held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer and for two years he served as FEMSA Cerveza's Director of Sales for the north region of Mexico, prior to his current position and until 2003, when he was appointed FEMSA Cerveza's Co-Chief Executive Officer. He held the position of Chief Financial and Corporate Officer of FEMSA from 2006 to 2015.  
 Other directorships: Member of the board of directors of Heineken N.V. and FEMSA. Member of the audit committee of Heineken N.V., finance and investments committee of ITESM and of the investments committee of Grupo Acosta Verde.  
 Education: Holds a degree in accounting from ITESM and is licensed as a Certified Public Accountant, or CPA.  
 Alternate director: Mariana Garza Lagüera Gonda<sup>(2)</sup>

Federico Reyes      Born:                      September 1945  
                                  First elected:            1992  
 García                   Term expires:          2019

*Director*

Principal occupation: Independent consultant.  
 Business experience: At FEMSA, he held the position of Executive Vice-President of Corporate Development from 1992 to 1993, Chief Financial Officer from 1999 to 2006, and Corporate Development Officer until 2015.  
 Other directorships: Alternate member of the board of directors of FEMSA, and member of the board of directors of Fundación FEMSA and Tec Salud.  
 Education: Holds a degree in Business and Finance from ITESM.  
 Alternate director: Alejandro Bailleres Gual

John Anthony Santa      Born:                      August 1957  
 Maria Otazua            First elected:            2014  
                                  Term expires:          2019

*Director*

Principal occupation: Our Chief Executive Officer.  
 Business experience: Has served as our Strategic Planning and Business Development Officer and Chief Operating Officer of our Mexican operations. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of our South America division. He also has experience in several areas of our company,

namely development of new products and mergers and acquisitions. Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management.

Other directorships: Member of the board of directors of Gentera, S.A.B. de C.V., or Gentera and member of the board of directors and commercial committee of Banco Compartamos, S.A., Institución de Banca Múltiple.

Education: Holds a Bachelor's degree in Business Administration and a MBA with a major in Finance from Southern Methodist University.

Alternate director: Héctor Treviño Gutiérrez

Paulina Garza

Born: March 1972

First elected: 2009

Lagüera Gonda<sup>(2)</sup>

Term expires: 2019

*Director*

Business experience: Private investor

Other directorships: Alternate member of the board of directors of FEMSA. Member of the board of directors of Controladora Pentafem, S.A.P.I. de C.V., Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliaria La Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V. and Peñitas, S.A. de C.V.

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|                             |                       |  |
|-----------------------------|-----------------------|--|
|                             | Education:            | Holds a degree in Business Administration from ITESM.  |
|                             | Alternate director:   | Alfonso Garza Garza <sup>(1)</sup>   |
| Ricardo Guajardo Touché     | Born:                 | May 1948   |
|                             | First elected:        | 1988   |
|                             | Term expires:         | 2019   |
| <i>Director</i>             | Principal occupation: | Chairman of the board of directors of Solfi, S.A. de C.V.  |
|                             | Other directorships:  | Member of the board of directors of FEMSA, Grupo Valores Operativos Monterrey, S.A.P.I. de C.V., El Puerto de Liverpool, S.A.B. de C.V., Alfa, Grupo Financiero BBVA Bancomer, BBVA Bancomer, S.A., Institución de Banca Múltiple, or BBVA Bancomer, Grupo Aeroportuario del Sureste, S.A.B. de C.V., Grupo Bimbo, S.A.B. de C.V., or Bimbo, Grupo Coppel, S.A. de C.V., ITESM and Vitro, S.A.B. de C.V. |
|                             | Business experience:  | Has held senior executive positions at FEMSA, Grupo AXA, S.A. de C.V. and Grupo Valores de Monterrey, S.A.B. de C.V.   |
|                             | Education:            | Holds a degree in Electrical Engineering from ITESM and the University of Wisconsin and a Master's degree from the University of California at Berkeley.   |
|                             | Alternate director:   | Daniel Alberto Rodríguez Cofré   |
| Alfonso González Migoya     | Born:                 | January 1945   |
|                             | First elected:        | 2006   |
|                             | Term expires:         | 2019   |
| <i>Independent Director</i> | Principal occupation: | Chairman of the board of directors of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (Volaris), and managing partner of Acumen Empresarial, S.A. de C.V.  |
|                             | Other directorships:  | Member of the board of directors of FEMSA, Nemark, S.A.B. de C.V., Bolsa Mexicana de Valores, S.A.B. de C.V., Banregio Grupo Financiero, S.A., Grupo Cuprum, S.A. de C.V., Berel, S.A. de C.V., Servicios Corporativos Javer, S.A.P.I. de C.V., Grupo Senda Autotransporte, S.A. de C.V. and ITESM.  |
|                             | Business experience:  | Served as Corporate Director of Alfa from 1995 to 2005 and as Chairman of the board of directors and Chief Executive Officer of Grupo Industrial Saltillo, S.A.B. de C.V. from 2009 to 2014.   |
|                             | Education:            | Holds a degree in Mechanical Engineering from ITESM and a MBA from the Stanford University Graduate School of Business.  |
|                             | Alternate director:   | Ernesto Cruz Velázquez de León (independent director)  |
| Enrique F. Senior Hernández | Born:                 | August 1943  |
|                             | First elected:        | 2004   |
|                             | Term expires:         | 2019   |
| <i>Independent Director</i> | Principal occupation: | Managing Director of Allen & Company, LLC.   |
|                             | Other directorship:   | Alternate member of the board of directors of FEMSA, and member of the board of directors of Televisa, Cinemark USA, Inc. and Univision Communications, Inc.   |
|                             | Business experience:  | Among other clients, has provided financial advisory services to FEMSA and Coca-Cola FEMSA.  |

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Education: Holds a law degree from Yale University, an Honorary Law Doctorate from Emerson College and a MBA from Harvard University Business School.

Alternate director: Herbert A. Allen III (independent director)

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| Luis Rubio<br>Freidberg<br><br><i>Independent<br/>Director</i>           | Born:<br>First elected:<br>Term expires:<br>Principal occupation:<br><br>Other directorships:<br><br>Business experience:<br><br>Education:<br><br>Alternate director: | August 1955<br>2015<br>2019<br>President of the Organization México Evalúa<br><br>President of the board of directors of Consejo Mexicano de Asuntos Internacionales (COMEXI). He is also a member of the board of directors of Xanthrus, The India Fund-Asia Tigers, The Tinker Foundation and Transparencia Mexicana.<br><br>He is a contributing editor of the newspaper Reforma. In the 1970s he was Planning Director at Citibank in Mexico and served as an adviser to Mexico's Secretary of the Treasury.<br><br>Holds a degree in Financial Administration, a multinational MBA and a Master's degree and PhD in political science from Brandeis University.<br><br>Jaime A. El Koury (independent director)   |
| Daniel Javier<br>Servitje Montull<br><br><i>Independent<br/>Director</i> | Born:<br>First elected:<br>Term expires:<br>Principal occupation:<br><br>Other directorships:<br><br>Business experience:<br>Education:<br><br>Alternate director:     | April 1959<br>1998<br>2019<br>Chief Executive Officer and Chairman of the board of directors of Bimbo.<br><br>Member of the board of directors of Grupo Financiero Banamex, S.A. de C.V., Instituto Mexicano para la Competitividad, A.C., The Consumer Goods Forum, and Latin America Conservation Council (The Nature Conservancy). Member of Stanford GSB Advisory Council and Wal-Mart Mexico Advisory Board of Suppliers.<br>Chairman of the board of directors of Corporación Aura Solar, S.A.P.I. de C.V., Servicios Comerciales de Energía, S.A. de C.V., and Aura Solar II Corp.<br><br>Served as Vice-President of Bimbo.<br><br>Holds a degree in Business Administration from the Universidad Iberoamericana in Mexico and a MBA from the Stanford University Graduate School of Business.<br><br>Victor Alberto Tiburcio Celorio (independent director) |
| José Luis Cutrale<br><br><i>Director</i>                                 | Born:<br>First elected:<br>Term expires:<br>Principal occupation:<br>Other directorships:<br><br>Business experience:<br><br>Education:<br>Alternate director:         | September 1946<br>2004<br>2019<br>Chairman of the board of directors of Sucocítrico Cutrale, Ltda.<br>Member of the board of directors of Cutrale North America, Inc., Cutrale Citrus Juice USA, Inc., Citrus Products, Inc. and Chiquita Brands International and member of the Brazilian American Chamber of Commerce.<br><br>Founding partner of Sucocítrico Cutrale and member of the Brazilian American Chamber of Commerce.<br><br>Holds a degree in Business Administration.<br><br>José Luis Cutrale, Jr.  |

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Luis Alfonso  
Nicolau  
Gutiérrez  
*Director*

**Born:** June 1961

**First elected:** 2018

**Term expires:** 2019

**Principal occupation:** Partner at Ritch, Mueller, Heather y Nicolau, S.C., law firm; member of the firm's executive committee.

**Other directorships:** Member of the boards of directors of Morgan Stanley, Casa de Bolsa, S.A. de C.V., Grupo Financiero Credit Suisse, S.A. de C.V., UBS Asesores México, S.A. de C.V., Grupo Posadas, S.A.B. de C.V., Ignia Fund (*Fideicomiso Ignia*), Pizzas del Valle de México, S.A de C.V. (Shakey's Pizza Mexico) and KIO Networks. Member of the investment committee of Ignia Fund and Promotora Social México and an independent member of the supervisory board of Bolsa Mexicana de Valores, S.A.B. de C.V.

**Business experience:** Has been a partner at Ritch Mueller since 1990, specializes in mergers and acquisitions, debt and equity capital markets transactions and banking and finance. He is a leading expert in assisting underwriters and issuers in debt and equity offerings in Mexico and abroad. Also, he worked as a foreign associate for Johnson & Gibbs, Dallas and Shearman & Sterling, New York.

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Education: Holds a Law degree from the Escuela Libre de Derecho and a Master in Law from Columbia University.

**Series D Directors**

José Octavio Reyes  
Lagunes

Born: March 1952  
First elected: 2016  
Term expires: 2019

*Director*

Principal occupation: Retired.  
Other directorships: Member of the board of directors and President of the resources committee of MasterCard Worldwide and member of the board of directors and member of the sustainability committee of Coca-Cola Hellenic Bottling Company.

Business experience: He began his career with The Coca-Cola Company in 1980 as Manager of Strategic Planning at Coca-Cola de México, was appointed Manager of the *Sprite* and *Diet Coke* brands at the corporate headquarters in Atlanta in 1987, became Marketing Director for the Brazil Division in 1990, was named Marketing and Operations Vice President of the Mexico Division and became President of the Mexico Division in 1996. He served as President of the Latin American Group of The Coca-Cola Company from 2002 to 2012.

Education: Holds a degree in Chemical Engineering from the Universidad Nacional Autónoma de México and a MBA from ITESM.

Alternate director: T. Robin Rodgers Moore

Charles Brent Hastie

Born: July 1973  
First elected: 2017  
Term expires: 2019

*Director*

Principal occupation: Senior Vice President, Chief Financial and Supply Chain Officer of Coca-Cola North America.

Other directorships: Member of the executive committee of Piedmont Coca-Cola Bottling Partnership.

Business experience: He first joined The Coca-Cola Company in 2006 and his previous leadership

assignments included Chief Strategy Officer for Coca-Cola Refreshments;

President of active lifestyle brands, where he was responsible for managing the

glacéau business; and Vice President, Commercial Leadership of Still Beverages, and Vice President of Strategy and Planning, all for the North America Group. Prior to joining The Coca-Cola Company he was a Principal with McKinsey & Company in Atlanta, Brazil and South Africa. Additionally, he worked at Bain Capital as Vice President in the Portfolio Group. Recently, he was Senior Vice President of Strategic and Business Planning for The



|                    |                       |  |
|--------------------|-----------------------|--|
|                    |                       | Coca-Cola Company.   |
|                    | Education:            | Holds a Bachelor's degree in Chemical Engineering from the Georgia Institute of Technology, graduating summa cum laude, and holds a MBA with honors from Harvard University.   |
|                    | Alternate director:   | Franz Alscher  |
| Charles H. McTier  | Born:                 | January 1939   |
|                    | First elected:        | 1998   |
| <i>Independent</i> | Term expires:         | 2019   |
| <i>Director</i>    | Principal occupation: | Retired.   |
|                    | Business experience:  | Was associated with the Robert W. Woodruff Foundation for over forty years, serving as its President from 1988-2006 and served as a trustee from 2006-2015. Served on the board of directors of nine U.S. Coca-Cola bottling companies in the 1970s and 1980s. |
|                    | Education:            | Holds a Bachelor's degree in Business Administration from Emory University.  |
| Brian Smith        | Born:                 | December 1955  |
|                    | First elected:        | 2017   |
| <i>Director</i>    | Term expires:         | 2019   |
|                    | Principal occupation: | President of The Coca-Cola Company Europe, Middle East and Africa Group.   |
|                    | Other directorships:  | Member of the board of directors, the compensation committee and audit committee of Evertec, Inc.  |

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| Bárbara Garza<br>Lagüera Gonda <sup>(2)</sup><br><br><i>Director</i> | Business experience:<br><br><br>Education:<br>Alternate director:<br><br>Born:<br>First elected:<br>Term expires:<br>Principal occupation:<br>Other directorships:<br><br><br>Education:<br>Alternate director: | Joined The Coca-Cola Company in 1997 as Latin America Group Manager for Mergers and Acquisitions until 2001. From July 2001 to July 2002 he worked as Executive Assistant to the Chief Operating Officer and Vice-Chairman of The Coca-Cola Company. From August 2002 to October 2008 he was President of the Brazil Division and from 2008 to 2012 he was President of the Mexico Division. Before his current position, he was Group President of Latin America from 2013 to 2016.<br><br>Holds a MBA from the University of Chicago.<br>Marie D. Quintero-Johnson<br><br>December 1959<br>1999<br>2019<br>Private investor.<br>Alternate member of the board of directors of FEMSA. Vice-Chairman of the board of directors of ITESM Campus Mexico City. Member of the board of directors of Fresnillo, Plc., Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario La Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V., Controladora Pentafem, S.A.P.I. de C.V., BECL, S.A. de C.V., Soluciones Financieras (SOLFI), Fondo para la Paz, Museo Franz Mayer and member of the supervision commission of the Fondo Nacional para la Cultura y las Artes (FONCA).<br><br>Holds a degree in Business Administration from ITESM.<br>Maximino José Michel González |
|--|---|--|

**Table of Contents****Series L Directors**

|                                 |  |   |
|---------------------------------|--|---|
| Robert Alan<br>Fleishman Cahn   | Born:<br>First elected:<br>Term expires: | February 1962<br>2012<br>2019   |
| <i>Independent<br/>Director</i> | Principal occupation:                    | Chief Executive Officer of Grupo Tampico, S.A.P.I. de C.V.  |
|                                 | Other directorships:                     | Secretary of the board of directors of Grupo Tampico, S.A.P.I. de C.V. and its subsidiaries, and member of the regional board of Banco Nacional de México, S.A. and BBVA Bancomer. Member of the board of directors of Fundación Fleishman.   |
|                                 | Education:                               | Holds a Bachelor's degree in Business from the University of Texas and an executive development program certificate from the Wharton School at the University of Pennsylvania.  |
|                                 | Alternate:                               | Herman Harris Fleishman Cahn (independent director)   |
| José Manuel Canal<br>Hernando   | Born:<br>First elected:<br>Term expires: | February 1940<br>2003<br>2019   |
| <i>Independent<br/>Director</i> | Principal occupation:                    | Independent consultant on corporate governance matters, statutory examiner and director of several public and private companies.  |
|                                 | Business experience:                     | Former managing partner at Arthur Andersen (Ruiz, Urquiza y Cía, S.C.) from 1981 to 1999, acted as statutory examiner of FEMSA from 1984 to 2002, founder and chairman of the Mexican Accounting Standards Board.   |
|                                 | Other directorships:                     | Member of the board of directors of FEMSA, Estafeta Mexicana, S.A. de C.V. and Tapón Corona, S.A. de C.V., member of the board of directors and chairman of the audit committee of Grupo Kuo, S.A.B. de C.V., member of the board of directors and member of the audit committee of Grupo Industrial Saltillo, S.A.B. de C.V., member of the board of directors, member of the audit committee and chairman of the risk committee of Genera, and statutory examiner of Grupo BBVA Bancomer and Bank of America. |
|                                 | Education:                               | Holds a degree in Accounting from the Universidad Nacional Autónoma de México and is licensed as a CPA.   |
| Francisco Zambrano<br>Rodríguez | Born:<br>First elected:<br>Term expires: | January 1953<br>2003<br>2019  |
| <i>Independent<br/>Director</i> | Principal occupation:                    | Managing Partner of FORTE Estate Planning S.C.  |
|                                 | Other directorships:                     | Co-Chief Executive Officer and member of the board of directors of Desarrollo Inmobiliario y de Valores, S.A. de C.V., Corporativo Zeta DIVASA, S.A.P.I. and IPFC Inmuebles, S.A.P.I. de C.V. Member of the supervisory board of ITESM.   |
|                                 | Business experience:                     | Has extensive experience in investment banking and private investment services in Mexico, real estate projects, and as patrimonial and probate consultant.  |
|                                 | Education:                               |   |



**Table of Contents****Executive Officers**

The following are the executive officers of our company:

|                                   |                                |  |
|-----------------------------------|--------------------------------|--|
| John Anthony Santa                | Born:                          | August 1957  |
|                                   | Joined:                        | 1995   |
| Maria Otazua                      | Appointed to current position: | 2014   |
| <i>Chief Executive Officer</i>    | Business experience with us:   | Has served as our Strategic Planning and Business Development Officer and Chief Operating Officer of our Mexican operations. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of our South America division. He also has experience in several areas of our company, namely development of new products and mergers and acquisitions. |
|                                   | Other business experience:     | Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management.  |
|                                   | Education:                     | Holds a Bachelor's degree in Business Administration and a MBA with a major in Finance from Southern Methodist University.   |
| Héctor Treviño Gutiérrez          | Born:                          | August 1956  |
|                                   | Joined:                        | 1981   |
| <i>Chief Financial Officer</i>    | Appointed to current position: | 1993   |
|                                   | Other business experience:     | At FEMSA, was in charge of the International Financing department, served as Manager of Financial Planning and Manager of International Financing, Chief Officer of Strategic Planning and Chief Officer of Business Development and headed the Corporate Development department.  |
|                                   | Education:                     | Holds a degree in Chemical Engineering from ITESM and a MBA from the Wharton School of Business.   |
| Constantino Spas Montesinos       | Born:                          | May 1970   |
|                                   | Joined:                        | 2018   |
| <i>Strategic Planning Officer</i> | Appointed to current position: | 2018   |
|                                   | Other business experience:     | He has 24 years of experience in the food and beverage sector in companies such as Grupo Mavesa and Empresas Polar in Venezuela, Kraft Foods, SAB Miller in Latin America and Bacardi in Mexico, occupying different positions in marketing, as regional officer and as VP Managing Director.  |
|                                   | Education:                     | Holds a Bachelor's degree in Business Administration from Universidad Metropolitana in Caracas and a MBA from Emory University-Goizueta Business School in Atlanta, Georgia.   |

Tanya Cecilia Avellan  
Pinoargote  
  
*Information Technology  
and Commercial Officer*

Born: May 1966  
Joined: 2002  
Appointed to  
current position: 2014  
Business  
experience with  
us: Served as Strategic Planning Officer at FEMSA, Chief  
Operations Officer at our Central America division and  
Commercial Planning and Strategic Development Officer.  
Other business  
experience: Has undertaken responsibilities in different multinational  
companies with vast experience in mass consumer goods.  
Education: Holds a degree in Communications from Universidad  
Politécnica del Ecuador and a MBA specialized in marketing  
from INCAE Business School.

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| <p>Karina Paola Awad Pérez<br/><i>Human Resources Officer</i></p>               | <p>Born: February 1968<br/>         Joined: 2018<br/>         Appointed to current position: 2018<br/>         Business experience with us: Joined our company in 2018 as Human Resources Officer.<br/>         Other business experience: Has served for more than 20 years in several areas of human resources. In 2010, she occupied the position of Vice President of Human Resources for Wal-Mart Chile and in 2013 she was named Senior Vice President of Human Resources for Wal-Mart Mexico and Central America.<br/>         Education: Holds a degree in psychology from the Pontificia Universidad Católica de Chile and a MBA from the UAI de Chile.</p>   |
| <p>José Ramón de Jesús Martínez Alonso<br/><i>Corporate Affairs Officer</i></p> | <p>Born: July 1961<br/>         Joined: 2012<br/>         Appointed to current position: 2016<br/>         Business experience with us: In 2012, he joined our company as Corporate Affairs Officer for México and Central America division. He further occupied the position as Strategic Planning Officer for South America division and previous to his current position he occupied the position as Chief Operating Officer for Brazil.<br/>         Other business experience: More than 30 years of experience in the Coca-Cola system. He began his career at Panamco where he developed various activities related with the business operation including sugar production and concentrates. In 1994, he occupied the position as Operations Officer of Panamco in Mexico and the following year he occupied the position as Operations Officer of Panamco in Venezuela. From 2005 to 2012, he was Chief Executive Officer of the <i>Asociación Mexicana de Embotelladores de Coca-Cola (ASCOCA)</i>.<br/>         Education: Holds a degree in Chemical Engineering from La Salle University, an MBA from IPADE and postgraduate studies in production administration from the Georgia Institute of Technology; Strategic Direction from Stanford University; and Finance Management from John E. Anderson Graduate School of the University of California, Los Angeles.</p> |
| <p>Rafael Ramos Casas<br/><i>Supply Chain and Engineering Officer</i></p>       | <p>Born: April 1961<br/>         Joined: 1999<br/>         Appointed to current position: 2018<br/>         Business experience with us: Has served as Supply Chain Officer of FEMSA and OXXO. He held several positions in Propimex for our division in Mexico.<br/>         Other business experience: He has experience with a different bottler company in Mexico in positions such as Chief Operating Officer, Manufacturing</p>  |

|                                       |                                |  |
|---------------------------------------|--------------------------------|--|
|                                       |                                | Director and plant manager.  |
|                                       | Education:                     | Holds a degree in Biochemical Engineering with a minor in Administration and a Master's degree in Business Administration of Agricultural Enterprises.   |
| Xiemar Zarazua López                  | Born:                          | June 1963  |
|                                       | Joined:                        | 2017   |
| <i>Chief Operating Officer Mexico</i> | Appointed to current position: | 2017   |
|                                       | Business experience with us:   | Joined our company in January 2017 as Chief Operating Officer of Mexico.   |
|                                       | Other business experience:     | Has served for more than 30 years in The Coca-Cola Company in different positions including Chief Executive Officer of the Brazil Business Unit from 2008 to 2016 and Chief Executive Officer of the Latin America Business Unit from 2006 to 2008. He also served in different areas in Mexico and Central America. |
|                                       | Education:                     | Holds a Bachelor's degree in Economics from Universidad Autónoma de Nuevo León and Finance postgraduate studies from ITESM.  |



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| Eduardo Guillermo Hernández Peña<br><br><i>Chief Operating Officer Latin America</i> | Born:<br>Joined:<br>Appointed to current position:<br>Business experience with us:<br>Other business experience:<br>Education: | October 1965<br>2015<br>2018<br>Has served as New Businesses Officer and Strategic Planning Officer.<br>At Empresas Polar he held several positions in the beer, wine and food business. From 2012 to 2015 he served as Chief Executive Officer of Gloria, S.A.<br>Holds a Bachelor's degree in Business Administration from Universidad Metropolitana of Venezuela, a degree in Marketing from Harvard University and a MBA from Northwestern University.   |
| Ian Marcel Craig García<br><br><i>Chief Operating Officer Brazil</i>                 | Born:<br>Joined:<br>Appointed to current position:<br>Business experience with us:<br>Other business experience:<br>Education: | May 1972<br>1994<br>2016<br>Has served as Chief Operating Officer of Argentina. Has served as Chief Financial Officer of our South America division, and also as Corporate Finance and Treasury Director of Coca-Cola FEMSA.<br>Within the group he has worked in a Corporate Finance position and Beer Division Supply Chain position. Also, he worked in other companies in the area of strategic planning.<br>Holds a Bachelor's degree in Industrial Engineering from ITESM, a MBA from the University of Chicago Booth School of Business and a Master's degree in International Commercial Law from ITESM. |
| Washington Fabricio Ponce García<br><br><i>Chief Operating Officer Asia</i>          | Born:<br>Joined:<br>Appointed to current position:<br>Business experience with us:<br>Other business experience:<br>Education: | April 1968<br>1998<br>2015<br>Has served as head of our Colombian operations prior to his assignment in the Philippines. Has served as Managing Director of Central America, Argentina, Brazil, Colombia and Strategic Planning Director for our operations in Latin America.<br>He worked for three years with Bain & Company.<br>Holds a Master's degree in Business Economics from INCAE, Costa Rica.   |
| Stanislas Pierre Marie Auber<br><br><i>New Businesses Officer</i>                    | Born:<br>Joined:<br>Appointed to current position:   | December 1963<br>2017<br>2017  |

|   |                                |   |
|---|--------------------------------|---|
|   | Other business experience:     | Has served for more than 20 years in the global beverage industry and he has held several managerial positions in Latin America. He also has experience as project consultant in France and the United States of America.   |
|   | Education:                     | Holds a MBA from ESSEC Business School (France).  |
| Rafael Alberto Suárez Olaguibel<br><i>Operational Integration Officer</i> | Born:                          | April 1960  |
|   | Joined:                        | 1986  |
|   | Appointed to current position: | 2017  |
|   | Business experience with us:   | Has served as Chief Operating Officer of Latin America and Latincentro Divisions, Commercial Planning and Strategic Development Officer, Chief Operating Officer of Mexico, Chief Operating Officer of Argentina, Distribution and Sales Director of Valley of Mexico and Marketing Director of Valley of Mexico. |

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|                            |   |
|----------------------------|---|
| Other business experience: | Has worked as Franchises Manager and in other positions at The Coca-Cola Company in Mexico. |
| Education:                 | Holds a degree in Economics and a MBA from ITESM.   |

**Compensation of Directors and Officers**

For the year ended December 31, 2017, the aggregate compensation of all of our executive officers paid or accrued for services in all capacities was approximately Ps.280.6 million. The aggregate compensation amount includes approximately Ps.113.7 million of cash bonus awards and bonuses paid to certain of our executive officers pursuant to our incentive plan for stock purchases. **See Bonus Program.**

The aggregate compensation for directors during 2017 was Ps.17.0 million. For each meeting attended we paid US\$13,000 to each director with foreign residence and US\$9,000 to all other directors with residence in Mexico in 2017.

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

Our executive officers and senior executives participate in our benefit plans in the same terms as our other employees. Members of our board of directors do not participate in our benefit plans. As of December 31, 2017, amounts accrued for all employees under our pension and retirement plans were Ps.4,369 million, of which Ps.1,692 million are already funded.

**Bonus Program**

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

The quantitative objectives represent approximately 50.0% of the bonus and are based on the Economic Value Added, or EVA, methodology. The quantitative objectives established for our executive officers and senior executives are based on a combination of the EVA generated by our company and the EVA generated by our parent company, FEMSA. The quantitative objectives established for managers are based only on the EVA generated by our company. The qualitative goals and special projects represent the remaining 50.0% of the annual bonus and are based on the critical success factors established at the beginning of the year for each eligible participant. The bonus amount is determined based on each eligible participant's level of responsibility. This formula is calculated considering the level of responsibility within the organization, the employees' evaluation and competitive compensation in the market.

The incentive plan target is expressed in months of salary and the final amount payable is computed based on a percentage of compliance with the goals established every year. The bonuses are recorded as a part of the income statement and are paid in cash the following year.

*Share-based payment bonus plan.* We have a stock incentive plan for the benefit of our executive officers and senior executives. This plan uses as its main evaluation metric the EVA methodology. Under the EVA stock incentive plan, eligible executive officers and senior executives are entitled to receive a special annual bonus to purchase FEMSA and Coca-Cola FEMSA shares traded in the Mexican Stock Exchange, based on the executive's responsibility in the organization and their business's EVA result. The special bonus is granted to eligible executive officers and senior executives on an annual basis and after withholding applicable taxes. We contribute the individual executive's special

bonus in cash to the administrative trust (which is controlled and consolidated by FEMSA), which then uses the funds to purchase FEMSA and Coca-Cola FEMSA shares (as instructed by the Corporate Practices Committee). The acquired shares are deposited in a trust, and the executive officers and senior executives accessed them one year after they are vested, at 33.0% per year. The executive officers and senior executives may access their acquired shares ratably over a three-year period. Fifty percent of our annual executive bonus under our stock incentive plan is to be used to purchase FEMSA shares and the remaining 50.0% to purchase our company's shares.

During the years ended December 31, 2017, 2016 and 2015, the cash-based and share-based bonus expense paid to executive officers, senior executives and managers pursuant to our bonus program amounted to Ps.701 million, Ps.706 million and Ps.549 million, respectively.

### **Share Ownership**

As of April 13, 2018, several of our directors and alternate directors were trust participants under the Irrevocable Trust No. 463 established at Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero, as trustee, which is the owner of approximately 74.9% of the voting stock of FEMSA, which in turn owns 47.2% of our outstanding capital stock. As a result of the

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voting trusts internal procedures, the voting trust as a whole is deemed to have beneficial ownership with sole voting power of all the shares deposited in the voting trust, and each of the trust participants are deemed to have beneficial ownership with shared voting power over those same deposited shares. These directors and alternate directors are Alfonso Garza Garza, Paulina Garza Lagüera Gonda, Bárbara Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Eva María Garza Lagüera Gonda, Max Michel González and Francisco José Calderón Rojas. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders.** None of our other directors, alternate directors or executive officers is the beneficial owner of more than 1% of any class of our capital stock. See Note 16 to our consolidated financial statements.

## **Board Practices**

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

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

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

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

*Audit Committee.* The Audit Committee is responsible for reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee; the internal auditing function also reports to the Audit Committee. The Audit Committee has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters. To carry out its duties, the Audit Committee may hire independent counsel and other advisors. As necessary, we compensate the independent auditor and any outside advisor hired by the Audit Committee and provide funding for ordinary administrative expenses incurred by the Audit Committee in the

course of its duties. José Manuel Canal Hernando is the chairman of the Audit Committee and the audit committee financial expert. Pursuant to the Mexican Securities Market Law, the chairman of the Audit Committee is elected at our shareholders meeting. The other members are: Alfonso González Migoya, Charles H. McTier, Victor Alberto Tiburcio Celorio, Francisco Zambrano Rodríguez and Ernesto Cruz Velázquez de León. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Market Law and applicable New York Stock Exchange listing standards. The secretary non-member of the Audit Committee is José González Ornelas, vice-president of FEMSA's internal corporate control department.

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

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

**Table of Contents****Employees**

As of December 31, 2017, our headcount was as follows: 51,857 in Mexico and Central America, 27,779 in South America (excluding Venezuela) and 16,566 in the Philippines. As of such date, the headcount of KOF Venezuela was 5,373. In the headcount we include the employees of third party distributors. The table below sets forth headcount by category for the periods indicated:

|                                       | <b>As of December 31,</b> |               |               |
|---------------------------------------|---------------------------|---------------|---------------|
|                                       | <b>2017<sup>(1)</sup></b> | <b>2016</b>   | <b>2015</b>   |
| Executives                            | 1,216                     | 935           | 1,024         |
| Non-union                             | 29,873                    | 25,916        | 24,479        |
| Union                                 | 57,245                    | 51,134        | 49,855        |
| Employees of third party distributors | 13,241                    | 7,155         | 8,354         |
| <b>Total</b>                          | <b>101,575</b>            | <b>85,140</b> | <b>83,712</b> |

(1) Includes employees of KOF Venezuela.

As of December 31, 2017, and taking into account employees of KOF Venezuela, approximately 56.4% of our employees, most of whom were employed in Mexico, were members of labor unions. We had 298 separate collective bargaining agreements with 164 labor unions. In general, we have a good relationship with the labor unions throughout our operations, even though we operate in complex environments, such as Argentina. **See Item 8. Financial Information Consolidated Statements and Other Financial Information.**

**Insurance Policies**

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

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****MAJOR SHAREHOLDERS**

Our outstanding capital stock consists of three classes of securities: Series A shares held by FEMSA, Series D shares held by The Coca-Cola Company and Series L shares held by the public. The following table sets forth our major shareholders as of April 13, 2018:

| <b>Owner</b>   | <b>Outstanding<br/>Capital Stock</b> | <b>Percentage<br/>Ownership of<br/>Outstanding<br/>Capital Stock</b> | <b>Percentage<br/>of Voting<br/>Rights</b> |
|--|--------------------------------------|--|--|
| FEMSA (Series A shares) <sup>(1)</sup>                 | 992,078,519                          | 47.2%  | 63.0%                                      |
| The Coca-Cola Company (Series D Shares) <sup>(2)</sup> | 583,545,678                          | 27.8%  | 37.0%                                      |
| Public (Series L shares) <sup>(3)</sup>                | 525,208,065                          | 25.0%  |  |
| <b>Total</b>   | <b>2,100,832,262</b>                 | <b>100.0%</b>  | <b>100.0%</b>                              |

- (1) FEMSA owns these shares through its wholly owned subsidiary Compañía Internacional de Bebidas, S.A. de C.V. Approximately 74.9% of the voting stock of FEMSA is owned by the technical committee and trust participants under Irrevocable Trust No. 463 established at Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero, as Trustee. As a consequence of the voting trust's internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power of the shares deposited in the voting trust: BBVA Bancomer, S.A., as Trustee under Trust No. F/25078-7 (controlled by the estate of Max Michel Suberville), J.P. Morgan Trust Company (New Zealand) Limited as Trustee under a trust controlled by Paulina Garza Lagüera Gonda, Max Brittingham, Maia Brittingham, Bárbara Garza Lagüera Gonda, Bárbara Braniff Garza Lagüera, Eugenia Braniff Garza Lagüera, Lorenza Braniff Garza Lagüera, Mariana Garza Lagüera Gonda, Paula Treviño Garza Lagüera, Inés Treviño Garza Lagüera, Eva Maria Garza Lagüera Gonda, Eugenio Fernández Garza Lagüera, Daniela Fernández Garza Lagüera, Eva María Fernández Garza Lagüera, José Antonio Fernández Garza Lagüera, Eva Gonda Rivera, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by the Garza Lagüera family), Consuelo Garza Lagüera de Garza, Alfonso Garza Garza, Juan Pablo Garza García, Alfonso Garza García, María José Garza García, Eugenia Maria Garza García, Patricio Garza Garza, Viviana Garza Zambrano, Patricio Garza Zambrano, Marigel Garza Zambrano, Ana Isabel Garza Zambrano, Juan Carlos Garza Garza, José Miguel Garza Celada, Gabriel Eugenio Garza Celada, Ana Cristina Garza Celada, Juan Carlos Garza Celada, Eduardo Garza Garza, Eduardo Garza Páez, Balbina Consuelo Garza Páez, Eugenio Andrés Garza Páez, Eugenio Garza Garza, Camila Garza Garza, Ana Sofía Garza Garza, Celina Garza Garza, Marcela Garza Garza, Carolina Garza Villarreal, Alepage, S.A. (controlled by Consuelo Garza Lagüera de Garza), Alberto Bailleres González, Maria Teresa Gual de Bailleres, Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), BBVA Bancomer, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres), Magdalena Michel de David, the estate of Max Michel Suberville, Max David Michel, Juan David Michel, Monique David de VanLathem, Renee Michel de Guichard, Magdalena Guichard Michel, Rene Guichard Michel, Miguel Guichard Michel, Graciano Guichard Michel, Juan Guichard Michel, BBVA Bancomer, S.A., as Trustee under Trust No. F/710004 (controlled by Magdalena Michel de David), BBVA Bancomer, S.A., as Trustee under Trust No. F/700005 (controlled by Renee Michel de Guichard), Franca Servicios, S.A. de C.V. (controlled by the Calderón Rojas family), and BBVA Bancomer, S.A. as Trustee under



Trust No. F/29013-0 (controlled by the Calderón Rojas family).

- (2) The Coca-Cola Company indirectly owns these shares through its wholly owned subsidiaries, The Inmex Corporation and Dulux CBAI 2003 B.V.
- (3) Holders of Series L shares are only entitled to vote in limited circumstances. Holders of ADSs are entitled, subject to certain exceptions, to instruct The Bank of New York Mellon, the ADS depository, as to the exercise of the limited voting rights pertaining to the Series L shares underlying their ADSs. See **Item 10. Additional Information Bylaws.**

As of April 13, 2018, the Bill and Melinda Gates Foundation Trust held 62,147,190 of our Series L shares, which represented 11.83% of the total amount of our Series L shares.

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

A portion of the purchase price paid for our acquisition of Vonpar was contributed by the sellers into a Mexican company, which was merged into Coca-Cola FEMSA on May 4, 2017 in exchange for approximately 27.9 million newly issued Series L shares. Another portion of the purchase price was paid through the issuance and delivery of a three-year promissory note to the sellers for a total amount of 1,090 million Brazilian reais (approximately Ps.6,707 million as of December 31, 2017). The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into Coca-Cola FEMSA in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to us having a sufficient number of Series L shares available for issuance. For further information see Notes 4.1.1, 9 and 19.7 to our consolidated financial statements.

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As of December 31, 2017, we had 18,267,110 ADSs outstanding (each ADS represents 10 Series L shares), and 34.8% of our outstanding Series L shares were represented by ADSs. As of March 31, 2018, we had 18,189,959 ADSs outstanding, 34.6% of our outstanding Series L shares were represented by ADSs, held by 319 holders (including The Depository Trust Company) with registered addresses outside of Mexico.

## **The Shareholders Agreement**

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

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

Under our bylaws and shareholders agreement, our Series A shares and Series D shares are the only shares with full voting rights and, therefore, control actions by our shareholders.

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

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

In the event that (1) one of the principal shareholders buys the other's interest in our company in any of the circumstances described above or (2) the ownership of our shares of capital stock other than the Series L shares of the subsidiaries of The Coca-Cola Company or FEMSA is reduced below 20.0% and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement requires that our bylaws be amended to eliminate all share transfer restrictions and all special-majority voting and quorum requirements, after which the shareholders agreement would terminate.

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

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**The Coca-Cola Memorandum**

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

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

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

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

There will be no changes in concentrate pricing or marketing support by The Coca-Cola Company up to May 2004. After such time, The Coca-Cola Company has complete discretion to implement any changes with respect to these matters, but any decision in this regard will be discussed with us and will take our operating condition into consideration.

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

FEMSA, The Coca-Cola Company and we will meet to discuss the optimal Latin American territorial configuration for the Coca-Cola bottler system. During these meetings, we will consider all possible combinations and any asset swap transactions that may arise from these discussions. In addition, we will entertain any potential combination as long as it is strategically sound and done at fair market value.

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

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

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

We entered into a stand-by credit facility in December 2003 with The Coca-Cola Export Corporation, which expired in December 2006 and was never used.

#### **Cooperation Framework with The Coca-Cola Company**

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

***Long-term guidelines in relationship economics:*** Concentrate prices for sparkling beverages in Mexico will gradually increase over a three-year period beginning in July 2017 through July 2020. Based on our internal estimates for revenues and sales volume mix, we currently expect the incremental cost in Mexico to be the Mexican peso equivalent to approximately US\$35 million per year for each year during such period.

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

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

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

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**Table of Contents****RELATED PARTY TRANSACTIONS**

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

**FEMSA**

We regularly engage in transactions with FEMSA and its subsidiaries, including sales of our products. The aggregate amount of these sales was Ps.4,761 million, Ps.4,274 million and Ps.3,803 million in 2017, 2016 and 2015, respectively. Substantially all of these sales consist of sales to FEMSA Comercio, which operates the chain of convenience stores under the name OXXO.

We also purchase products and receive services from FEMSA and its subsidiaries. The aggregate amount of these purchases was Ps.7,773 million, Ps.8,328 million and Ps.7,720 million in 2017, 2016 and 2015, respectively. These amounts principally relate to raw materials, assets and services provided to us by FEMSA. In 2017, we renewed our service agreement with another subsidiary of FEMSA, which provides for the continued provision of administrative services relating to insurance, legal and tax advice, relations with governmental authorities and certain administrative and internal auditing services that it has been providing since June 1993. In November 2000, we entered into a service agreement with a subsidiary of FEMSA for the transportation of finished products from our production facilities to our distribution centers within Mexico. We primarily purchase our glass bottles in Mexico from SIVESA, which until 2015 was a wholly owned subsidiary of Cuauhtémoc Moctezuma Holding, S.A. de C.V., formerly known as FEMSA Cerveza, currently a wholly owned subsidiary of the Heineken Group. The aggregate amount of our purchases from SIVESA amounted to Ps.216 million, Ps.134 million and Ps.216 million in 2017, 2016 and 2015, respectively.

We also purchase products from Heineken and its subsidiaries. The aggregate amount of these purchases was Ps.13,608 million, Ps.8,823 million and Ps.6,944 million in 2017, 2016 and 2015, respectively. These amounts principally relate to beer and other products.

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

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

**The Coca-Cola Company**

We regularly engage in transactions with The Coca-Cola Company and its affiliates. We purchase all of our concentrate requirements for *Coca-Cola* trademark beverages from The Coca-Cola Company. Total expenses charged to us by The Coca-Cola Company for concentrates were approximately Ps.33,898 million, Ps.38,146 million and Ps.27,330 million in 2017, 2016 and 2015, respectively. Our company and The Coca-Cola Company pay and reimburse each other for marketing expenditures. The Coca-Cola Company also contributes to our coolers, bottles and case investment program. We received contributions to our marketing expenses of Ps.4,023 million, Ps.4,518 million and Ps.3,749 million in 2017, 2016 and 2015, respectively.

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

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

In November 2007, we acquired together with The Coca-Cola Company 100.0% of the shares of capital stock of Jugos del Valle. Jugos del Valle sells fruit juice-based beverages and fruit derivatives. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In 2008, we, The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle. As of April 13, 2018, we held an interest of 26.3% in the Mexican joint business. We purchase products from Jugos del Valle. The aggregate amount of these purchases was Ps.2,604 million, Ps.2,428 million and Ps.2,135 million in 2017, 2016 and 2015, respectively, which principally related to certain juice-based beverages that are part of our product portfolio.

In August 2010, we acquired from The Coca-Cola Company, along with other Brazilian Coca-Cola bottlers, Leão Alimentos, manufacturer and distributor of the *Matte Leão* tea brand. In January 2013, our Brazilian joint business of Jugos del Valle merged with Leão Alimentos. As of April 13, 2018, we held a 24.4% indirect interest in the *Matte Leão* business in Brazil. We purchase products from Leão Alimentos. The aggregate amount of these purchases was Ps.4,010 million, Ps.3,448 million and Ps.3,359 million in 2017, 2016 and 2015, respectively, which principally related to certain juice-based beverages and teas that are part of our product portfolio.



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In February 2009, we acquired together with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, S.A. a subsidiary of SABMiller plc. We acquired the production assets and the distribution territory, and The Coca-Cola Company acquired the *Brisa* brand. Following a transition period, in June 2009, we started to sell and distribute the *Brisa* portfolio of products in Colombia.

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

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

In August 2012, we acquired, through Jugos del Valle, an indirect minority participation in Santa Clara, a producer of milk and dairy products in Mexico. As of April 13, 2018, we owned an indirect participation of 26.3% in Santa Clara.

In January 2013, as part of our efforts to expand our geographic reach, we acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. We have an option to acquire the remaining 49.0% stake in KOF Philippines at any time through January 2020. We also have a put option to sell our ownership in KOF Philippines to The Coca-Cola Company during the period from January 2018 through January 2019. Since January 25, 2017, we control KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines' business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) KOF Philippines' chief financial officer. We have the right to appoint (and may remove) the chief executive officer and all other officers of KOF Philippines.

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

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

**Associated Companies**

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

In Mexico, we purchase sparkling beverages in cans from Industria Envasadora de Querétaro, S.A. de C.V., or IEQSA, in which we hold an equity interest of 26.5%. We paid IEQSA Ps.804 million, Ps.798 million and Ps.731 million in 2017, 2016 and 2015, respectively. We also purchase sugar from Beta San Miguel and PIASA, both sugar-cane producers in which, as of April 13, 2018, we held a 2.7% and 36.4% equity interest, respectively. We paid Ps.1,827 million, Ps.1,349 million and Ps.1,264 million to Beta San Miguel in 2017, 2016 and 2015, respectively. We paid Ps.1,885 million, Ps.1,765 million and Ps.1,236 million to PIASA in 2017, 2016 and 2015, respectively. In Mexico, we purchase cans from FAMOSA through PROMESA, a cooperative of Coca-Cola bottlers, in which, as of April 13, 2018, we held a 35.0% interest. In 2014 and part of 2015, FAMOSA was a wholly-owned subsidiary of Cuauhtémoc Moctezuma Holding, S.A. de C.V., a wholly-owned subsidiary of the Heineken Group. We purchased from PROMESA approximately Ps.839 million, Ps.759 million and Ps.587 million in 2017, 2016 and 2015,

respectively.

**Other Related Party Transactions**

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

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

Allen & Company LLC provides investment banking services to us in the ordinary course of its business. Enrique F. Senior Hernández, one of our directors, is a Managing Director of Allen & Company LLC, and Herbert A. Allen III, an alternate director, is the president of Allen & Company LLC.

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We are insured in Mexico primarily under certain of FEMSA's insurance policies, some of which are issued by Grupo Nacional Provincial S.A., of which the son of the chairman of its board of directors, Alejandro Bailleres Gual is one of our alternate members of the board of directors. FEMSA has informed us that the policies were purchased pursuant to a competitive bidding process.

See Notes 6 and 13 to our consolidated financial statements for more information on our related party transactions, including transactions with parties that fall within the related party definition pursuant to IFRS rules.

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### **Item 8. Financial Information**

#### **CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

##### **Consolidated Financial Statements**

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

##### **Dividend Policy**

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

##### **Significant Changes**

Except as disclosed under **Item 5. Operating and Financial Review and Prospects General Exchange Control Regime in Venezuela**, no significant changes have occurred since the date of the annual financial statements included in this annual report.

## **LEGAL PROCEEDINGS**

We are party to various legal proceedings in the ordinary course of business, including with regard to labor, tax and commercial matters. We believe we have appropriate reserves for these litigation proceedings as of December 31, 2017. Other than as disclosed in this annual report, we are not currently involved in any litigation or arbitration proceeding, including any proceeding that is pending or threatened of which we are aware, which we believe will have, or has had, a material adverse effect on our company. Other legal proceedings that are pending against or involve us and our subsidiaries are incidental to the conduct of our and their business. We believe that the ultimate resolution of such other proceedings individually or in an aggregate basis will not have a material adverse effect on our consolidated financial condition or results.

### **Mexico**

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

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

imposed a fine on one of our subsidiaries for approximately Ps.10.5 million. A motion for reconsideration on this matter was filed on September 21, 2005, which was resolved by the COFECE confirming the original resolution on December 1, 2005. A constitutional challenge (*amparo*) was filed against said resolution and a Federal Court issued a favorable resolution in our benefit. Both the COFECE and PepsiCo filed appeals against said resolution and a Circuit Court in Acapulco, Guerrero resolved to request the COFECE to issue a new resolution regarding the Ps.10.5 million fine. COFECE then fined our subsidiary again, for the same amount. A new *amparo* claim was filed against said resolution. On May 17, 2012, such new *amparo* claim was resolved, again in favor of one of our subsidiaries, requesting the COFECE to recalculate the amount of the fine. The COFECE maintained the amount of the fine in a new resolution which we challenged through a new *amparo* claim filed on July 31, 2013 before a District Judge in Acapulco, Guerrero and are still awaiting final resolution.

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

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

**Item 9. The Offer and Listing**

The following table sets forth, for the periods indicated, the reported high and low nominal sale prices for the Series L shares on the Mexican Stock Exchange and the reported high and low nominal sale prices for the ADSs on the NYSE:

|                | Mexican Stock Exchange           |                                  | New York Stock Exchange |                      |
|----------------|----------------------------------|----------------------------------|-------------------------|----------------------|
|                | Mexican pesos per Series L Share | Mexican pesos per Series L Share | U.S. dollars per ADS    | U.S. dollars per ADS |
|                | High <sup>(1)</sup>              | Low <sup>(1)</sup>               | High <sup>(1)</sup>     | Low <sup>(1)</sup>   |
| <b>2013:</b>   |                                  |                                  |                         |                      |
| Full year      | 219.70                           | 146.23                           | 178.66                  | 111.66               |
| <b>2014:</b>   |                                  |                                  |                         |                      |
| Full year      | 155.38                           | 121.59                           | 120.08                  | 84.22                |
| <b>2015:</b>   |                                  |                                  |                         |                      |
| Full year      | 132.03                           | 113.51                           | 89.91                   | 65.90                |
| <b>2016:</b>   |                                  |                                  |                         |                      |
| Full year      | 152.92                           | 116.91                           | 87.29                   | 62.17                |
| First quarter  | 143.56                           | 116.91                           | 83.13                   | 64.48                |
| Second quarter | 152.09                           | 142.89                           | 87.29                   | 76.95                |
| Third quarter  | 152.92                           | 139.13                           | 82.61                   | 71.03                |
| Fourth quarter | 151.68                           | 127.92                           | 81.65                   | 62.17                |
| <b>2017:</b>   |                                  |                                  |                         |                      |
| Full year      | 159.67                           | 127.22                           | 90.90                   | 59.91                |
| First quarter  | 139.84                           | 128.33                           | 73.39                   | 59.91                |
| Second quarter | 154.81                           | 134.53                           | 85.16                   | 71.73                |
| Third quarter  | 159.67                           | 137.88                           | 90.90                   | 75.85                |
| Fourth quarter | 141.07                           | 127.22                           | 77.46                   | 67.05                |
| October        | 141.07                           | 129.51                           | 77.46                   | 68.39                |
| November       | 131.26                           | 127.40                           | 69.60                   | 67.05                |
| December       | 136.95                           | 127.22                           | 71.52                   | 67.85                |
| <b>2018</b>    |                                  |                                  |                         |                      |
| January        | 146.21                           | 134.58                           | 78.97                   | 69.62                |
| February       | 144.67                           | 127.0                            | 78.65                   | 67.42                |
| March          | 131.07                           | 118.92                           | 69.97                   | 64.79                |

(1) High and low closing prices for the periods presented.



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**TRADING ON THE MEXICAN STOCK EXCHANGE**

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

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

The *Bolsa Institucional de Valores* is a new Mexican stock exchange scheduled to launch operations in 2018.



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### Item 10. Additional Information

#### BYLAWS

The following is a summary of the material provisions of our bylaws and applicable Mexican law. The last amendment of our bylaws was approved on October 10, 2011. For a description of the provisions of our bylaws relating to our board of directors and executive officers, see **Item 6. Directors, Senior Management and Employees.**

The main changes made to our bylaws on October 10, 2011, were to Article 25 which increased the number of our board members from 18 to 21 and the number of directors that each series is entitled to appoint, and Article 26 which provides that the shareholders meeting that approves Series B shares issuance will determine which series of shares is to reduce the number of directors that such series is entitled to appoint. Article 6 of our bylaws was also amended to include the number of shares included in our minimum fixed capital stock without the right to withdraw.

#### Organization and Register

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

#### Purposes

The main corporate purposes of our company include the following:

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

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

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

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

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

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

to subscribe, buy and sell stocks, bonds and securities among other things; and

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

### **Voting Rights, Transfer Restrictions and Certain Minority Rights**

Series A and Series D shares have full voting rights and are subject to transfer restrictions. Although no Series B shares have been issued, our bylaws provide for the issuance of Series B shares with full voting rights that are freely transferable. Series L shares are freely transferable but have limited voting rights. None of our shares are exchangeable for shares of a different series. The rights of all series of our capital stock are substantially identical except for:

restrictions on transfer of the Series A and Series D shares;

limitations on the voting rights of Series L shares;

the respective rights of the Series A, Series D and Series L shares, voting as separate classes in a special meeting, to elect specified numbers of our directors and alternate directors;

the respective rights of Series D shares to participate in the voting of extraordinary matters, as they are defined by our bylaws; and

prohibitions on non-Mexican ownership of Series A shares. **See Item 6. Directors, Senior Management and Employees, and Additional Transfer Restrictions Applicable to Series A and Series D shares.**

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

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

A quorum of 82.0% of our subscribed and paid shares of capital stock (including the Series L shares) and the vote of at least a majority of our capital stock voting (and not abstaining) at such extraordinary meeting is required for:

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

any merger where we are not the surviving entity or any merger with an entity whose principal corporate purposes are different from those of our company or our subsidiaries; and

cancellation of the registration of our Series L shares with the Mexican Registry of Securities, or RNV, maintained by the CNBV or with other foreign stock exchanges on which our shares may be listed.

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

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

Under our bylaws and the Mexican General Corporations Law, holders of shares of any series are entitled to vote as a class in a special meeting governed by the same rules that apply to extraordinary meetings on any action that would have an effect on the rights of holders of shares of such series. There are no procedures for determining whether a particular proposed shareholder action requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

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

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

holders of at least 5.0% of our outstanding capital stock may bring an action for liability against our directors, the secretary of the board of directors or certain key officers;

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

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

for every 10.0% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, held by holders, either individually or as a group, such holders to appoint one member of our board of directors and one alternate member of our board of directors up to the maximum number of directors that each series is entitled to appoint under our bylaws.

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### **Shareholders Meetings**

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary meetings are those called to consider certain matters specified in Article 182 of the Mexican General Corporations Law, Article 53 of the Mexican Securities Market Law and in our bylaws. These matters include, among others: amendments to the bylaws, liquidation, dissolution, merger and transformation from one form of company to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. In addition, our bylaws require an extraordinary meeting to consider the cancellation of the registration of our shares with the RNV or with other foreign stock exchanges on which our shares may be listed, the amortization of distributable earnings into capital stock, and an increase in our capital stock. All other matters, including increases or decreases affecting the variable portion of our capital stock, are considered at an ordinary meeting.

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

Mexican law provides for a special meeting of shareholders to allow holders of shares of a specific series to vote as a class on any action that would prejudice exclusively the rights of holders of such series. Holders of Series A, Series D and Series L shares at their respective special meetings or at an annual ordinary meeting, must appoint, remove or ratify directors, as well as determine their compensation.

The quorum for ordinary and extraordinary meetings at which holders of Series L shares are not entitled to vote is 76.0% of the holders of subscribed and paid Series A and Series D shares, and the quorum for an extraordinary meeting at which holders of Series L shares are entitled to vote is 82.0% of the subscribed and paid shares of capital stock.

The quorum for special meetings of any series of shares is 75.0% of the holders of the subscribed and paid capital stock of such shares, and action may be taken by holders of a majority of such series of shares.

Resolutions adopted at an ordinary or extraordinary shareholders meeting are valid when adopted by holders of at least a majority of the subscribed and paid in capital stock voting (and not abstaining) at the meeting, unless in the event of any decisions defined as extraordinary matters by the bylaws or any payment of dividends above 20.0% of the preceding years retained earnings, which shall require the approval of a majority of shareholders of each of Series A and Series D shares voting together as a single class. Resolutions adopted at a special shareholders meeting are valid when adopted by the holders of at least a majority of the subscribed and paid shares of the series of shares entitled to attend the special meeting.

Shareholders meetings may be called by the board of directors, the Audit Committee or the Corporate Practices Committee and, under certain circumstances, a Mexican court. For every 10.0% or more of our capital stock held by holders, either individually or as a group, such holders may require the chairman of the board of directors, or the chairmen of the Audit Committee or Corporate Practices Committee to call a shareholders meeting. A notice of meeting and an agenda must be published in a newspaper of general circulation in Mexico City at least 15 days prior

to the meeting. Notices must set forth the place, date and time of the meeting and the matters to be addressed and must be signed by whoever convened the meeting. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice. To attend a meeting, shareholders must deposit their shares with us or with Indeval or an institution for the deposit of securities prior to the meeting as indicated in the notice. If entitled to attend the meeting, a shareholder may be represented by an attorney-in-fact.

#### **Additional Transfer Restrictions Applicable to Series A and Series D Shares**

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

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### **Dividend Rights**

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

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

### **Change in Capital**

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

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

### **Preemptive Rights**

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

## **Limitations on Share Ownership**

Ownership of shares of Mexican companies by non-Mexican residents is regulated by the 1993 Foreign Investment Law and its regulations, as amended. The Mexican Foreign Investment Commission is responsible for enforcing and supervising compliance with the Mexican Foreign Investment Law and its regulations.

As a general rule, the Mexican Foreign Investment Law allows foreign holdings of up to 100.0% of the capital stock of Mexican companies, except for those companies engaged in certain specified restricted industries. The Mexican Foreign Investment Law and its regulations require that Mexican shareholders retain the power to determine the administrative control and the management of corporations in industries in which special restrictions on foreign holdings are applicable. Foreign investment in our shares is not limited under either the Mexican Foreign Investment Law or its regulations.

Although the Mexican Foreign Investment Law grants broad authority to the Mexican Foreign Investment Commission to allow foreign investors to own more than 49.0% of the capital of Mexican enterprises after taking into consideration public policy and economic concerns, our bylaws provide that Series A shares must at all times constitute no less than 51.0% of all outstanding common shares with full voting rights (excluding Series L shares) and may only be held by Mexican investors. Under our bylaws, in the event Series A shares are subscribed or acquired by any other shareholders holding shares of any other series, and the shareholder is of a citizenship other than Mexican, these Series A shares are automatically converted into shares of the same series of stock that this shareholder owns, and this conversion will be considered perfected at the same time as the subscription or acquisition.



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**Other Provisions**

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

any related party transactions outside the ordinary course of our business;

significant asset transfers or acquisitions;

guarantees or collateral that represent 30.0% of our consolidated assets;

appointment of officers and managers deemed necessary, as well as the creation of the necessary committees;

the annual business plan and the five-year business plan; internal policies; and

other transactions that represent 1% of our consolidated assets.

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

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

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

***Repurchase of Shares.*** According to our bylaws, and subject to the provisions of the Mexican Securities Market Law and under rules promulgated by the CNBV, we may repurchase our shares.

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

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

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

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

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

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

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

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

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

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

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

vote at a board of directors meeting or take any action on a matter involving our assets where there is a conflict of interest;

fail to disclose a conflict of interest during a board of directors meeting;

enter into a voting arrangement to support a particular shareholder or group of shareholders against the other shareholders;

approve transactions without complying with the requirements of the Mexican Securities Market Law;

use company property in violation of the policies approved by the board of directors;

unlawfully use material non-public information; and

usurp a corporate opportunity for their own benefit or the benefit of a third party, without the prior approval of the board of directors.

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

Series L shares in fewer cases than to holders of other series of our capital stock.

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

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

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

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

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

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**MATERIAL AGREEMENTS**

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

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

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

In July 2015, after a bidding process, we executed new agreements with Hewlett Packard for the outsourcing of technology services in all of our territories. These agreements are valid until July 2020, unless terminated by us through previous notice to Hewlett Packard.

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

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

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

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**Table of Contents****TAXATION**

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

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

**Mexican Taxation**

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

**Tax Considerations Relating to the Series L shares and the ADSs**

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

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

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

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### **Other Mexican Taxes**

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

### **United States Taxation**

#### **Tax Considerations Relating to the Series L shares and the ADSs**

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

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

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

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

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



audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2017 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2018 taxable year.

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

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

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

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

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

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

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

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

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**DOCUMENTS ON DISPLAY**

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its public reference room in Washington, D.C., at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Filings we make electronically with the SEC are also available to the public on the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov) and at our website at [www.coca-colafemsa.com](http://www.coca-colafemsa.com). (This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL, is not and shall not be deemed to be incorporated into this annual report.)

**Table of Contents****Item 11. Quantitative and Qualitative Disclosures about Market Risk**

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

**Interest Rate Risk**

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. As of December 31, 2017, we had total indebtedness of Ps.83,360 million, of which 89.9% bore interest at fixed interest rates and 10.1% bore interest at variable interest rates. After giving effect to our swap contracts, as of December 31, 2017, 24.1% (or 9.3% calculated based on the weighted average life of our outstanding debt), was variable-rate. The interest rate on our variable rate debt denominated in U.S. dollars is generally determined by reference to the London Interbank Offer Rate, or LIBOR; the interest rate on our variable rate debt denominated in Mexican pesos has historically been determined by reference to the TIIE; the interest rate on our variable rate debt denominated in Colombian pesos is generally determined by reference to the Banking Reference Index, or IBR; the interest rate on our variable rate debt denominated in Argentine pesos is generally determined by reference to the Buenos Aires Deposits of Large Amounts Rate, or BADLAR; and the interest rate on our variable rate debt denominated in Brazilian reais is generally determined by reference to the Brazilian Interbank Deposit Rate (*Cetip Depósitos Interfinanceiros*). If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our financial instruments that are sensitive to changes in interest rates, without giving effect to interest rate swaps. The table presents weighted average interest rates by expected contractual maturity dates. Weighted average variable rates are based on the reference rates on December 31, 2017, plus spreads, contracted by us. The instruments' actual payments are denominated in U.S. dollars, Mexican pesos, Brazilian reais, Colombian pesos and Argentine pesos. All of the payments in the table are presented in Mexican pesos, our reporting currency, converted at an exchange rate of Ps.19.74 Mexican pesos per U.S. dollar reported by *Banco de México* quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2017.

The table below also includes the fair value of long-term debt based on the discounted value of contractual cash flows. The discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities. Furthermore, the fair value of long-term notes payable is based on quoted market prices on December 31, 2017. As of December 31, 2017, the fair value represents a loss amount of Ps.2,507 million.

**Principal by Year of Maturity**

|  | As of December 31, 2017                            |      |      |      |      |                     | As of December 31, 2016 |                  |
|--|--|------|------|------|------|---------------------|-------------------------|------------------|
|  | 2018   | 2019 | 2020 | 2021 | 2022 | 2023 and thereafter | Total Carrying Value    | Total Fair Value |
|  | (in millions of Mexican pesos, except percentages) |      |      |      |      |                     |                         |                  |

**Short and Long-Term Debt and Notes:**

**Fixed Rate Debt  
and Notes**

|                              |       |       |       |       |       |        |        |        |        |
|------------------------------|-------|-------|-------|-------|-------|--------|--------|--------|--------|
| U.S. dollars                 |       |       |       |       |       |        |        |        |        |
| (Notes)                      | 8,774 |       | 9,844 |       |       | 29,425 | 48,043 | 51,938 | 61,703 |
| Interest Rate(1)             | 2.38% |       | 4.63% |       |       | 4.43%  | 4.09%  |        | 3.78%  |
| U.S. dollars                 |       |       |       |       |       |        |        |        |        |
| (Bank Loans)                 |       |       |       |       |       |        |        |        | 206    |
| Interest Rate(1)             |       |       |       |       |       |        |        |        | 3.40%  |
| Mexican pesos                |       |       |       |       |       |        |        |        |        |
| (Certificados<br>Bursátiles) |       |       | 2,498 |       |       | 15,981 | 18,479 | 17,035 | 9,991  |
| Interest Rate(1)             |       |       | 8.27% |       |       | 6.74%  | 6.95%  |        | 6.16%  |
| Brazilian reais              |       |       |       |       |       |        |        |        |        |
| (Bank Loans)                 | 319   | 220   | 152   | 92    | 78    | 73     | 934    | 957    | 508    |
| Interest Rate(1)             | 5.78% | 5.78% | 5.78% | 5.78% | 5.78% | 5.78%  | 5.87%  |        | 5.06%  |
| Brazilian reais              |       |       |       |       |       |        |        |        |        |
| (Financial<br>Leasing)       |       |       |       |       |       |        |        |        |        |
| Interest Rate(1)             |       |       |       |       |       |        |        |        |        |
| Brazilian reais              |       |       |       |       |       |        |        |        |        |
| (Notes<br>Payable)(2)        |       | 6,707 |       |       |       |        | 6,707  | 6,430  | 7,022  |
| Interest Rate                |       | 0.38% |       |       |       |        | 0.38%  |        | 0.38%  |
| Colombian pesos              |       |       |       |       |       |        |        |        |        |
| (Bank Loans)                 | 728   |       |       |       |       |        | 728    | 741    | 758    |
| Interest Rate(1)             | 9.63% |       |       |       |       |        | 9.63%  |        | 9.63%  |
| Argentine pesos              |       |       |       |       |       |        |        |        |        |
| (Bank<br>Loans)              | 106   |       |       |       |       |        | 106    | 107    | 644    |

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|  | As of December 31, 2017 |       |        |       |       |                     | As of December 31, 2016 |                  |                      |
|--|-------------------------|-------|--------|-------|-------|---------------------|-------------------------|------------------|----------------------|
|  | 2018                    | 2019  | 2020   | 2021  | 2022  | 2023 and thereafter | Total Carrying Value    | Total Fair Value | Total Carrying Value |
| Interest Rate <sup>(1)</sup>             | 22.40%                  |       |        |       |       |                     | 22.40%                  |                  | 31.98%               |
| Total Fixed Rate                         | 9,927                   | 6,927 | 9,996  | 2,590 | 78    | 45,479              | 74,997                  | 77,208           | 80,832               |
| <b>Variable Rate Debt</b>                |                         |       |        |       |       |                     |                         |                  |                      |
| U.S. dollars (Bank Loans)                |                         |       |        | 4,032 |       |                     | 4,032                   | 4,313            | 4,218                |
| Interest Rate <sup>(1)</sup>             |                         |       |        | 2.12% |       |                     | 2.12%                   |                  | 1.60%                |
| Mexican pesos (Certificados Bursátiles)  |                         |       |        |       | 1,496 |                     | 1,496                   | 1,500            |                      |
| Interest Rate <sup>(1)</sup>             |                         |       |        |       | 7.70% |                     | 7.70%                   |                  |                      |
| Brazilian reais (Bank Loans)             | 283                     | 284   | 229    | 66    | 7     |                     | 869                     | 883              | 1,864                |
| Interest Rate <sup>(1)</sup>             | 8.50%                   | 8.50% | 8.50%  | 8.50% | 8.50% |                     | 8.50%                   |                  | 5.49%                |
| Brazilian reais (Notes Payable)          | 10                      | 5     |        |       |       |                     | 15                      | 14               | 26                   |
| Interest Rate <sup>(1)</sup>             | 0.44%                   | 0.44% |        |       |       |                     | 0.44%                   |                  | 0.44%                |
| Colombian pesos (Bank Loans)             | 1,951                   |       |        |       |       |                     | 1,951                   | 1,949            | 1,929                |
| Interest Rate <sup>(1)</sup>             | 7.28%                   |       |        |       |       |                     | 7.28%                   |                  | 9.42%                |
| Argentine pesos (Bank Loans)             |                         |       |        |       |       |                     |                         |                  | 40                   |
| Interest Rate <sup>(1)</sup>             |                         |       |        |       |       |                     |                         |                  | 27.84%               |
| Total Variable Rate                      | 2,244                   | 289   | 229    | 4,098 | 1,503 |                     | 8,363                   | 8,659            | 8,077                |
| Total Debt                               | 12,171                  | 7,216 | 10,225 | 6,688 | 1,582 | 45,479              | 83,360                  | 85,867           | 88,909               |
| <b>Derivative Financial Instruments:</b> |                         |       |        |       |       |                     |                         |                  |                      |
| Cross-Currency Swaps (Mexican pesos)     |                         |       |        |       |       |                     |                         | 757              |                      |
| Notional to pay                          |                         |       |        | 9,769 |       | 8,764               | 18,533                  |                  | 23,154               |
| Notional to receive                      |                         |       |        | 9,868 |       | 8,684               | 18,552                  |                  | 27,276               |

|  |        |       |       |       |       |         |        |
|--|--------|-------|-------|-------|-------|---------|--------|
| Interest pay rate                      |        | 9.12% |       | 9.55% | 9.32% |         | 8.27%  |
| Interest receive rate                  |        | 4.63% |       | 3.97% | 4.32% |         | 3.55%  |
| Cross-Currency Swaps (Brazilian reais) |        |       |       |       |       | (4,168) |        |
| Notional to pay                        | 28,202 | 6,367 | 4,711 | 4,103 |       | 43,383  | 49,462 |
| Notional to receive                    | 24,353 | 6,263 | 4,571 | 4,046 |       | 39,233  | 44,044 |
| Interest pay rate                      |        | 6.56% | 5.20% | 6.70% | 6.11% | 6.33%   | 12.20% |
| Interest receive rate                  |        | 2.65% | 0.37% | 2.90% | 1.97% | 2.25%   | 1.98%  |
| Interest Rate Swaps (Brazilian rates)  |        |       | 4,137 | 3,786 | 3,103 | 11,026  | (82)   |
| Interest pay rate                      |        |       | 6.29% | 8.51% | 8.16% |         |        |
| Interest receive rate                  |        |       | 5.20% | 6.72% | 6.11% |         |        |

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

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

A hypothetical, instantaneous and unfavorable change of 100 basis points in the average interest rate applicable to our variable-rate financial instruments held during 2017 would have increased our interest expense by approximately Ps.251 million, or 2.94% over our interest expense of 2017, assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest rate swap and cross-currency swap agreements.

**Table of Contents****Foreign Currency Exchange Rate Risk**

Our principal exchange rate risk involves changes in the value of the local currencies of each country where we operate, relative to the U.S. dollar. In 2017, the percentage of our consolidated total revenues was denominated as follows:

**Total Revenues by Currency in 2017**

| <b>Currency</b>                | <b>%</b> |
|--------------------------------|----------|
| Mexican peso                   | 39.2     |
| Colombian peso                 | 7.0      |
| Venezuelan bolivar             | 2.0      |
| Argentine peso                 | 6.8      |
| Brazilian real                 | 28.7     |
| Central America <sup>(1)</sup> | 6.3      |
| Philippine peso                | 10.1     |

(1) Includes Guatemalan Quetzales, Nicaraguan Córdobas, Costa Rican Colones and Panamanian Balboas. We estimate that approximately 21.8% of our consolidated costs of goods sold are denominated in U.S. dollars for Mexican subsidiaries and in the aforementioned currencies for our non-Mexican subsidiaries. Substantially all of our costs denominated in a foreign currency, other than the functional currency of each country where we operate, are denominated in U.S. dollars. During 2017, we entered into forward derivative instruments and options to hedge part of our Mexican peso, Brazilian real, Colombian peso and Argentine peso fluctuation risk relative to our raw material costs denominated in U.S. dollars. These instruments are considered hedges for accounting purposes. As of December 31, 2017, 1.39% of our indebtedness was denominated in U.S. dollars, 43.92% in Mexican pesos, 51.52% in Brazilian reais, 3.05% in Colombian pesos and 0.12% in Argentine pesos (including the effects of our derivative contracts as of December 31, 2017, including cross currency swaps from U.S. dollars to Mexican pesos and U.S. dollars to Brazilian reais). Decreases in the value of the different currencies relative to the U.S. dollar will increase the cost of our foreign currency-denominated operating costs and expenses and of the debt service obligations with respect to our foreign currency-denominated debt. A depreciation of the Mexican peso relative to the U.S. dollar will also result in foreign exchange losses, as the Mexican peso value of our foreign currency denominated-indebtedness is increased. **See also Item 3. Key Information Risk Factors Depreciation of the local currencies of the countries where we operate relative to the U.S. dollar could adversely affect our financial condition and results.**

A hypothetical, instantaneous and unfavorable 10.0% devaluation in the value of each local currency in the countries where we operate relative to the U.S. dollar occurring on December 31, 2017, would have resulted in a foreign exchange gain of approximately Ps.18 million, reflecting higher foreign exchange gain generated by the cash balances held in U.S. dollars as of that date, net of the loss based on our U.S. dollar-denominated indebtedness as of December 31, 2017, after giving effect to all of our interest rate swap and cross-currency swap agreements.

As of April 13, 2018, the exchange rates relative to the U.S. dollar of all the countries where we operate have appreciated or depreciated compared to December 31, 2017 as follows:



|             | <b>Exchange Rate<br/>As of April 13,<br/>2018</b> | <b>(Depreciation) or Appreciation</b> |
|-------------|---|---------------------------------------|
| Mexico      | 18.08   | 12.5%                                 |
| Guatemala   | 7.40  | 1.6%                                  |
| Nicaragua   | 31.22   | (6.5)%                                |
| Costa Rica  | 562.07  | (0.2)%                                |
| Panama      | 1.00  | 0.0%                                  |
| Colombia    | 2,710.03  | 9.7%                                  |
| Brazil      | 3.41  | (4.7)%                                |
| Argentina   | 20.21   | (27.2)%                               |
| Philippines | 52.02   | (4.4)%                                |

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A hypothetical, instantaneous and unfavorable 10.0% devaluation in the value of the currencies of each of the countries where we operate relative to the U.S. dollar as of December 31, 2017, would produce a reduction in equity of approximately the following amounts:

|                                | <b>Reduction in<br/>Equity<br/>(in millions of Mexican pesos)</b> |
|--------------------------------|---|
| Mexico                         | 336   |
| Colombia                       | 1,019   |
| Brazil                         | 2,615   |
| Argentina                      | 103   |
| Central America <sup>(1)</sup> | 946   |
| Philippines                    | 2,019   |

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

**Equity Risk**

As of December 31, 2017, we did not have any equity risk.

**Commodity Price Risk**

In 2017, we entered into futures and forwards contracts to hedge the cost of sugar in Brazil and Colombia. The notional value of the sugar hedges was Ps.1,136 million as of December 31, 2017, with a negative fair value of Ps.4 million with maturities in 2018. See Note 19 to our consolidated financial statements.

**Item 12. Description of Securities Other than Equity Securities****Item 12.A. Debt Securities**

Not applicable.

**Item 12.B. Warrants and Rights**

Not applicable.

**Item 12.C. Other Securities**

Not applicable.

**Item 12.D. American Depositary Shares**

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

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

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

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

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

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**Direct and indirect reimbursements by the depositary**

The depositary may reimburse us for certain expenses we incur in connection with the ADS program, subject to a ceiling agreed between us and the depositary. These reimbursable expenses may include listing fees and fees payable to service providers for the distribution of material to ADR holders.

**Item 13. Defaults, Dividend Arrearages and Delinquencies.**

Not applicable.

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

Not applicable.

**Item 15. Controls and Procedures**

**(a) Disclosure Controls and Procedures**

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

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

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

detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the framework in Internal Controls Integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

Our management assessment and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2017 excludes, in accordance with applicable guidance provided by the SEC, an assessment of the internal control over financial reporting of KOF Philippines consolidated since January 27, 2017. KOF Philippines represented 11.0% and 10.0% of our total and net assets, respectively, as of December 31, 2017, and 10.0% of our revenues, for the year ended December 31, 2017.

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**(c) Attestation Report of the Registered Public Accounting Firm**

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

To the Shareholders and the Board of Directors of

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

We have audited Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the 2013 Framework) (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Coca-Cola FEMSA Philippines, Inc. and subsidiaries (collectively CCFPI, a Philippine subsidiary), which is included in the 2017 consolidated financial statements of the Company and constituted 11.0% and 10.0% of total and net assets, respectively, as of December 31, 2017 and 10.0% of revenues, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of CCFPI.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statement of financial position of the Company as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes, and our report dated April 18, 2018, expressed an unqualified opinion thereon.

**Basis for Opinion**

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

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

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

our audit provides a reasonable basis for our opinion.

#### Definition and Limitations of Internal Control over Financial Reporting

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

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

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

/s/ MANCERA, S.C.

Mexico City, Mexico

April 18, 2018

### **(d) Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting during 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Item 16.A. Audit Committee Financial Expert**

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

### **Item 16.B. Code of Ethics**

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

### **Item 16.C. Principal Accountant Fees and Services Audit and Non-Audit Fees**



The following table summarizes the aggregate fees billed to us by Mancera, S.C. and other Ernst & Young practices (collectively, Ernst & Young) during the fiscal years ended December 31, 2017, December 31, 2016 and December 31, 2015:

|                    | <b>Year Ended December 31,</b>    |             |             |
|--------------------|-----------------------------------|-------------|-------------|
|                    | <b>2017</b>                       | <b>2016</b> | <b>2015</b> |
|                    | <b>(in</b>                        |             |             |
|                    | <b>millions of Mexican pesos)</b> |             |             |
| Audit fees         | 77                                | 72          | 67          |
| Audit-related fees | 10                                | 15          |             |
| Tax fees           | 7                                 | 8           | 1           |
| Total fees         | 94                                | 95          | 68          |

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

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

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

*All Other Fees.* For the years ended December 31, 2017, 2016 and 2015, there were no other fees.

### **Audit Committee Pre-Approval Policies and Procedures**

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

**Table of Contents****Item 16.D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

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

We did not directly purchase any of our equity securities in 2017. The following table presents purchases by trusts that FEMSA administers in connection with our bonus incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. See **Item 6. Directors, Senior Management and Employees Bonus Program.**

**Purchases of Equity Securities**

| <b>Period</b>             | <b>Total Number of Series L shares Purchased by trusts that FEMSA administers in connection with our bonus incentive plans</b> | <b>Average Price Paid per Series L Share</b> | <b>Total Number of Shares Purchased as part of Publicly Announced Plans or Programs</b> | <b>Maximum Number (or Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b> |
|---------------------------|--|--|---|--|
| May 2017 to February 2018 | 215,574  | 139.54                                       |   |  |
| Total                     | 215,574  | 139.54                                       |   |  |

**Item 16.F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16.G. Corporate Governance**

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

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

### **NYSE Standards**

**Directors Independence:** A majority of the board of directors must be independent. There is an exemption for controlled companies (companies in which more than 50.0% of the voting power is held by an individual, group or another company rather than the public), which would include our company if we were a U.S. issuer.

**Executive sessions:** Non-management directors must meet at regularly scheduled executive sessions without management.

### **Our Corporate Governance Practices**

**Directors Independence:** Pursuant to the Mexican Securities Market Law, we are required to have a board of directors with a maximum of 21 members, 25.0% of whom must be independent.

The Mexican Securities Market Law sets forth, in Article 26, the definition of independence, which differs from the one set forth in Section 303A.02 of the Listed Company Manual of the NYSE. Generally, under the Mexican Securities Market Law, a director is not independent if such director: (i) is an employee or a relevant officer of the company or its subsidiaries; (ii) is an individual with significant influence over the company or its subsidiaries; (iii) is a shareholder or participant of the controlling group of the company; (iv) is a client, supplier, debtor, creditor, partner or employee of an important client, supplier, debtor or creditor of the company; or (v) is a family member of any of the aforementioned persons.

In accordance with the Mexican Securities Market Law, our shareholders are required to make a determination as to the independence of our directors at an ordinary meeting of our shareholders, though the CNBV may challenge that determination. Our board of directors is not required to make a determination as to the independence of our directors.

**Executive sessions:** Under our bylaws and applicable Mexican law, our non-management and independent directors are not required to meet in executive sessions.

Our bylaws state that the board of directors will meet at least four times a year, following the end of each quarter, to discuss our operating results and progress in achieving strategic objectives. Our board of directors

can also hold extraordinary meetings.

**Nominating/Corporate Governance Committee:** A nominating/corporate governance committee composed entirely of independent directors is required. As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.

**Nominating/Corporate Governance Committee:** We are not required to have a nominating committee, and the Mexican Code of Best Corporate Practices does not provide for a nominating committee.

However, Mexican law requires us to have a Corporate Practices Committee with at least 3 members. Our Corporate Practices Committee is comprised of four members, and as required by the Mexican Securities Market Law and our bylaws, the four members are independent and the chairman of this committee is elected by our shareholders meeting.

**Compensation committee:** A compensation committee composed entirely of independent directors is required. As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.

**Compensation committee:** We do not have a committee that exclusively oversees compensation issues. Our Corporate Practices Committee, composed entirely of independent directors, reviews and recommends management compensation programs in order to ensure that they are aligned with shareholders interests and corporate performance.

**Audit committee:** Listed companies must have an audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the NYSE independence standards.

**Audit committee:** Mexican law requires us to have an Audit Committee with at least 3 members. We have an Audit Committee of six members. As required by the Mexican Securities Market Law, each member of the Audit Committee is an independent director, and its chairman is elected by our shareholders meeting.

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**Equity compensation plan:** Equity compensation plans require shareholder approval, subject to limited exemptions.

**Code of business conduct and ethics:** Corporate governance guidelines and a code of conduct and ethics are required, with disclosure of any waiver for directors or executive officers.

**Equity compensation plan:** Shareholder approval is not required under Mexican law or our bylaws for the adoption and amendment of an equity compensation plan. Such plans should provide for general application to all executives.

**Code of business conduct and ethics:** We have adopted a code of ethics, within the meaning of Item 16.B of SEC Form 20-F. Our code of ethics applies to our chief executive officer, chief financial officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at [www.coca-colafemsa.com](http://www.coca-colafemsa.com). If we amend the provisions of our code of ethics that apply to our chief executive officer, chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**Table of Contents****Item 16.H. Mine Safety Disclosure**

Not applicable.

**Item 17. Financial Statements**

Not applicable.

**Item 18. Financial Statements**

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

**Item 19. Exhibits**(a) List of Financial Statements

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| <u>Consolidated Income Statements for the Years Ended December 31, 2017, 2016 and 2015</u>                  | F-3         |
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\* All supplementary schedules relating to the registrant are omitted because they are not required or because the required information, where material, is contained in the Financial Statements or Notes thereto.

(b) List of Exhibits

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| Exhibit 1.1        | <u>Amended and restated bylaws (<i>Estatutos Sociales</i>) of Coca-Cola FEMSA, S.A.B. de C.V., approved February 16, 2012 (English translation) (incorporated by reference to Exhibit 1.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 26, 2012 (File No. 1-2260)).</u>   |
| Exhibit 2.1        | Deposit Agreement, dated as of September 1, 1993, among Coca-Cola FEMSA, S.A.B. de C.V., The Bank of New York (currently The Bank of New York Mellon), as Depositary, and Holders and Beneficial Owners of American Depository Receipts (incorporated by reference to Exhibit 3.5 to the Registration Statement of FEMSA on Form F-4 filed on April 9, 1998 (File No. 333-8618)). |

- Exhibit 2.2 Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon (incorporated by reference to Exhibit 2.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- Exhibit 2.3 First Supplemental Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A. (incorporated by reference to Exhibit 2.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- Exhibit 2.4 Second Supplemental Indenture dated as of April 1, 2011 among Coca-Cola FEMSA, S.A.B. de C.V., Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V., as Guarantor, and The Bank of New York Mellon (incorporated by reference to Exhibit 2.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 17, 2011 (File No. 1-12260)).
- Exhibit 2.5 Third Supplemental Indenture dated as of September 6, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), as existing guarantor, Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S. de R.L. de C.V., as additional guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 (File No.333-187275)).

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| Exhibit 2.6        | <u>Fourth Supplemental Indenture dated as of October 18, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S. de R.L. de C.V., as existing guarantors, Controladora Interamericana de Bebidas, S. de R.L. de C.V., as additional guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 (File No.333-187275)).</u>          |
| Exhibit 2.7        | <u>Fifth Supplemental Indenture dated as of November 26, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish paying agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on December 5, 2013 (File No.1-12260)).</u> |
| Exhibit 2.8        | <u>Sixth Supplemental Indenture dated as of January 21, 2014 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish paying agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on January 27, 2014 (File No.1-12260)).</u>  |
| Exhibit 2.9        | <u>Seventh Supplemental Indenture dated as of November 23, 2015 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V., as successor guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 2.9 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 15, 2016 (File No. 1-12260)).</u>                     |
| Exhibit 4.1        | <u>Amended and Restated Shareholders Agreement dated as of July 6, 2002, by and among Compañía Internacional de Bebidas, S.A. de C.V., Grupo Industrial Emprex, S.A. de C.V., The Coca-Cola Company and The Inmex Corporation, (incorporated by reference to Exhibit 4.13 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).</u>  |
| Exhibit 4.2        | <u>First Amendment, dated May 6, 2003, to the Amended and Restated Shareholders Agreement, dated as of July 6, 2002, among Compañía Internacional de Bebidas, S.A. de C.V., Grupo Industrial Emprex, S.A. de C.V., The Coca-Cola Company, The Inmex Corporation, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. (incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).</u>   |
| Exhibit 4.3        | <u>Second Amendment, dated as of February 1, 2010, to the to the Amended and Restated Shareholders Agreement, dated as of July 6, 2002, by and among Compañía Internacional de Bebidas, S.A. de</u>  |



C.V., Grupo Industrial Emprex, S.A. de C.V., The Coca-Cola Company, The Inmex Corporation and Dulux CBAI 2003 B.V. (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).

- Exhibit 4.4 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the valley of Mexico (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- Exhibit 4.5 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the valley of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 33-67380)).
- Exhibit 4.6 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Exhibit 4.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- Exhibit 4.7 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 33-67380)).

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| Exhibit 4.8        | <u>Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico (English translation) (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).</u>  |
| Exhibit 4.9        | <u>Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Bajio, S.A. de C.V., and The Coca-Cola Company with respect to operations in Bajio, Mexico (English translation) (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).</u>   |
| Exhibit 4.10       | Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).  |
| Exhibit 4.11       | Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).   |
| Exhibit 4.12       | Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)). |
| Exhibit 4.13       | Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).   |
| Exhibit 4.14       | Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).  |
| Exhibit 4.15       | Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).                            |
| Exhibit 4.16       | Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).  |
| Exhibit 4.17       | Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.40 to FEMSA's Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).   |
| Exhibit 4.18       | <u>Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administración de Marcas S.A. de C.V., as proprietor, and The Coca-Cola Export Corporation Mexico branch, as licensee (incorporated by reference to Exhibit 10.3 of Propimex's (formerly</u>   |

Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).

- Exhibit 4.19 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Exhibit 10.6 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- Exhibit 4.20 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajio S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Exhibit 10.7 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- Exhibit 4.21 Supply Agreement dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and FEMSA Empaques, (incorporated by reference to Exhibit 10.7 to Coca-Cola FEMSA s Registration Statement on Form F-1 filed on August 13, 1993 (File No. 33-67380)).
- Exhibit 4.22 Supply Agreement dated April 3, 1998, between Alpla Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).\*
- Exhibit 4.23 Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA, S.A.B. de C.V. and FEMSA Logística (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- Exhibit 4.24 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajio S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 10.8 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).

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| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| Exhibit 4.25       | <u>Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 10.9 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).</u>       |
| Exhibit 4.26       | <u>Memorandum of Understanding, dated as of March 11, 2003, by and among Panamerican Beverages, S.A. de C.V., as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Exhibit 10.14 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).</u>                                     |
| Exhibit 4.27       | <u>Shareholders Agreement dated as of January 25, 2013, by and among Coca-Cola FEMSA Philippines, Inc., Coca-Cola South Asia Holdings, Inc., Coca-Cola Holdings (Overseas) Limited and Controladora de Inversiones en Bebidas Refrescantes, S.L. (incorporated by reference to Exhibit 4.27 of Coca-Cola FEMSA s Annual Report on Form 20-F filed on March 15, 2013 (File No. 1-12260))</u> |
| Exhibit 7.1        | <u>The Coca-Cola Company memorandum, to Steve Heyer from José Antonio Fernández, dated December 22, 2002 (incorporated by reference to Exhibit 10.1 to FEMSA s Registration Statement on Amendment No. 1 to the Form F-3 filed on September 20, 2004 (File No. 333-117795)).</u>  |
| Exhibit 7.2        | <u>Calculation of Ratio of Earnings to Fixed Charges.</u>   |
| Exhibit 8.1        | <u>Significant Subsidiaries.</u>  |
| Exhibit 12.1       | <u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 18, 2018.</u>   |
| Exhibit 12.2       | <u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 18, 2018.</u>   |
| Exhibit 13.1       | <u>Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 18, 2018.</u>   |

\* Portions of Exhibit 4.22 were omitted pursuant to a request for confidential treatment. Such omitted portions were filed separately with the Securities and Exchange Commission.

This was a paper filing, and is not available on the SEC website.

Omitted from the exhibits filed with this annual report are certain instruments and agreements with respect to long-term debt of Coca-Cola FEMSA, none of which authorizes securities in a total amount that exceeds 10.0% of the total assets of Coca-Cola FEMSA. We hereby agree to furnish to the SEC copies of any such omitted instruments or agreements upon request by the SEC.

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**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

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

By: /s/ Héctor Treviño Gutiérrez  
Héctor Treviño Gutiérrez

Chief Financial Officer

Date: April 18, 2018

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of

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

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial position of Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated April 18, 2018 expressed an unqualified opinion thereon.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according to the Código de Ética Profesional del Instituto Mexicano de Contadores Públicos (IMCP Code), and the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

/s/ MANCERA, S.C.

We have served as the Company's auditor since 2008

Mexico City, Mexico

April 18, 2018

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**Table of Contents****COCA-COLA FEMSA, S.A.B. DE C.V. AND SUBSIDIARIES****Consolidated Statements of Financial Position***At December 31, 2017 and 2016**Amounts expressed in millions of U.S. dollars ( \$ ) and in millions of mexican pesos ( Ps.)*

|                                     | Note | December<br>2017 (*) | December<br>2017   | December<br>2016   |
|-------------------------------------|------|----------------------|--------------------|--------------------|
| <b>ASSETS</b>                       |      |                      |                    |                    |
| <b>Current assets:</b>              |      |                      |                    |                    |
| Cash and cash equivalents           | 5    | \$ 956               | Ps. 18,767         | Ps. 10,476         |
| Accounts receivable, net            | 6    | 895                  | 17,576             | 15,005             |
| Inventories                         | 7    | 579                  | 11,364             | 10,744             |
| Recoverable taxes                   | 23   | 263                  | 5,172              | 4,373              |
| Other current financial assets      | 8    | 38                   | 737                | 1,511              |
| Other current assets                | 8    | 103                  | 2,041              | 3,344              |
| <b>Total current assets</b>         |      | <b>2,834</b>         | <b>55,657</b>      | <b>45,453</b>      |
| <b>Non-current assets:</b>          |      |                      |                    |                    |
| Investments in other entities       | 9    | 639                  | 12,540             | 22,357             |
| Property, plant and equipment, net  | 10   | 3,861                | 75,827             | 65,288             |
| Intangible assets, net              | 11   | 6,326                | 124,243            | 123,964            |
| Deferred tax assets                 | 23   | 408                  | 8,012              | 5,981              |
| Other non-current financial assets  | 12   | 65                   | 1,277              | 4,733              |
| Other non-current assets            | 12   | 413                  | 8,121              | 11,480             |
| <b>Total non-current assets</b>     |      | <b>11,712</b>        | <b>230,020</b>     | <b>233,803</b>     |
| <b>TOTAL ASSETS</b>                 |      | <b>\$ 14,546</b>     | <b>Ps. 285,677</b> | <b>Ps. 279,256</b> |
| <b>LIABILITIES AND EQUITY</b>       |      |                      |                    |                    |
| <b>Current liabilities:</b>         |      |                      |                    |                    |
| Bank loans and notes payable        | 17   | \$ 105               | Ps. 2,057          | Ps. 1,573          |
| Current portion of non-current debt | 17   | 515                  | 10,114             | 1,479              |
| Interest payable                    |      | 25                   | 487                | 520                |
| Suppliers                           |      | 1,016                | 19,956             | 21,489             |
| Accounts payable                    |      | 580                  | 11,397             | 6,355              |
| Taxes payable                       |      | 360                  | 7,074              | 7,560              |
| Other current financial liabilities | 24   | 230                  | 4,509              | 892                |
| <b>Total current liabilities</b>    |      | <b>2,831</b>         | <b>55,594</b>      | <b>39,868</b>      |
| <b>Non-current liabilities:</b>     |      |                      |                    |                    |



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|  |    |                  |                    |                    |
|--|----|------------------|--------------------|--------------------|
| Bank loans and notes payable                               | 17 | 3,625            | <b>71,189</b>      | 85,857             |
| Post-employment and other non-current employee benefits    | 15 | 154              | <b>3,029</b>       | 2,319              |
| Deferred tax liabilities                                   | 23 | 87               | <b>1,714</b>       | 1,205              |
| Other non-current financial liabilities                    | 24 | 60               | <b>1,169</b>       | 5,745              |
| Provisions and other non-current liabilities               | 24 | 624              | <b>12,272</b>      | 15,029             |
| <b>Total non-current liabilities</b>                       |    | <b>4,550</b>     | <b>89,373</b>      | <b>110,155</b>     |
| <b>Total liabilities</b>                                   |    | <b>7,381</b>     | <b>144,967</b>     | <b>150,023</b>     |
| <b>Equity:</b>   |    |                  |                    |                    |
| Capital stock  | 21 | 105              | <b>2,060</b>       | 2,048              |
| Additional paid-in capital                                 |    | 2,320            | <b>45,560</b>      | 41,490             |
| Retained earnings  |    | 3,146            | <b>61,786</b>      | 81,579             |
| Other equity instruments                                   |    | (25)             | <b>(485)</b>       | (485)              |
| Cumulative other comprehensive income (loss)               |    | 695              | <b>13,648</b>      | (2,495)            |
| <b>Equity attributable to equity holders of the parent</b> |    | <b>6,241</b>     | <b>122,569</b>     | <b>122,137</b>     |
| Non-controlling interest in consolidated subsidiaries      | 20 | 924              | <b>18,141</b>      | 7,096              |
| <b>Total equity</b>  |    | <b>7,165</b>     | <b>140,710</b>     | <b>129,233</b>     |
| <b>TOTAL LIABILITIES AND EQUITY</b>                        |    | <b>\$ 14,546</b> | <b>Ps. 285,677</b> | <b>Ps. 279,256</b> |

(\*) Convenience translation to U.S. dollars (\$) See Note 2.2.3

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

**Table of Contents****Consolidated Income Statements**

For the years ended December 31, 2017, 2016 and 2015

Amounts expressed in millions of U.S. dollars ( \$ ) and in millions of mexican pesos ( Ps.) except per share amounts

|  | Note | 2017 (*)         | 2017                | 2016           | 2015           |
|--|------|------------------|---------------------|----------------|----------------|
| Net sales  |      | \$ 10,355        | <b>Ps. 203,374</b>  | Ps. 177,082    | Ps. 151,914    |
| Other operating revenues   |      | 21               | <b>406</b>          | 636            | 446            |
| <b>Total revenues</b>  |      | <b>10,376</b>    | <b>203,780</b>      | <b>177,718</b> | <b>152,360</b> |
| Cost of goods sold   |      | 5,708            | <b>112,094</b>      | 98,056         | 80,330         |
| <b>Gross profit</b>  |      | <b>4,668</b>     | <b>91,686</b>       | <b>79,662</b>  | <b>72,030</b>  |
| Administrative expenses  |      | 457              | <b>8,983</b>        | 7,423          | 6,405          |
| Selling expenses   |      | 2,848            | <b>55,927</b>       | 48,039         | 41,879         |
| Other income   | 18   | 223              | <b>4,371</b>        | 1,281          | 620            |
| Other expenses   | 18   | 1,682            | <b>33,032</b>       | 5,093          | 2,368          |
| Interest expense   | 17   | 449              | <b>8,809</b>        | 7,471          | 6,337          |
| Interest income  |      | 45               | <b>887</b>          | 715            | 414            |
| Foreign exchange gain (loss), net  |      | 41               | <b>810</b>          | (1,792)        | (1,459)        |
| Gain (loss) on monetary position for subsidiaries in hyperinflationary economies   |      | 81               | <b>1,591</b>        | 2,417          | (33)           |
| Market value gain on financial instruments   | 19   | 13               | <b>246</b>          | 51             | 142            |
| (Loss) income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method |      | (365)            | <b>(7,160)</b>      | 14,308         | 14,725         |
| Income taxes   | 23   | 232              | <b>4,554</b>        | 3,928          | 4,551          |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes                         | 9    | 3                | <b>60</b>           | 147            | 155            |
| <b>Net (loss) income</b>   |      | <b>\$ (594)</b>  | <b>Ps. (11,654)</b> | Ps. 10,527     | Ps. 10,329     |
| Attributable to:   |      |                  |                     |                |                |
| Equity holders of the parent   |      | \$ (652)         | <b>Ps. (12,802)</b> | Ps. 10,070     | Ps. 10,235     |
| Non-controlling interest   |      | 58               | <b>1,148</b>        | 457            | 94             |
| <b>Net (loss) income</b>   |      | <b>\$ (594)</b>  | <b>Ps. (11,654)</b> | Ps. 10,527     | Ps. 10,329     |
| Equity holders of the parent (U.S. dollars and mexican pesos):   |      |                  |                     |                |                |
| <b>Earnings per share</b>  |      |                  |                     |                |                |
| <b>Basic net controlling interest (loss) income</b>  | 22   | <b>\$ (0.31)</b> | <b>Ps. (6.12)</b>   | Ps. 4.86       | Ps. 4.94       |
|  | 22   | <b>(0.31)</b>    | <b>(6.12)</b>       | 4.85           | 4.94           |

**Diluted net controlling interest (loss)  
income**

(\* ) Convenience translation to U.S. dollars (\$) See Note 2.2.3

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

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**Table of Contents****Consolidated Statements of Comprehensive Income**

For the years ended December 31, 2017, 2016 and 2015

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

|  | Note | 2017 (*)      | 2017             | 2016       | 2015       |
|--|------|---------------|------------------|------------|------------|
| Consolidated net (loss) income   |      | \$ (594)      | Ps. (11,654)     | Ps. 10,527 | Ps. 10,329 |
| Other comprehensive income, net of taxes:  |      |               |                  |            |            |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods:               |      |               |                  |            |            |
| Valuation of the effective portion of derivative financial instruments, net of taxes                 | 19   | (14)          | (266)            | 715        | (27)       |
| Exchange differences on the translation of foreign operations and associates                         |      | 776           | 15,207           | 16,052     | (5,407)    |
| Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods     |      | 762           | 14,941           | 16,767     | (5,434)    |
| Items that will not be reclassified to profit or loss in subsequent periods:                         |      |               |                  |            |            |
| Remeasurements of the net defined benefit liability, net of taxes                                    | 15   | 1             | 28               | (123)      | 138        |
| Net other comprehensive income (loss) not being reclassified to profit or loss in subsequent periods |      | 1             | 28               | (123)      | 138        |
| Total other comprehensive income (loss), net of tax  |      | 763           | 14,969           | 16,644     | (5,296)    |
| <b>Consolidated comprehensive income for the year, net of tax</b>                                    |      | <b>\$ 169</b> | <b>Ps. 3,315</b> | Ps. 27,171 | Ps. 5,033  |
| Attributable to:   |      |               |                  |            |            |
| Equity holders of the parent   |      | \$ 170        | Ps. 3,341        | Ps. 24,818 | Ps. 5,437  |
| Non-controlling interest   |      | (1)           | (26)             | 2,353      | (404)      |
| <b>Consolidated comprehensive income for the year, net of tax</b>                                    |      | <b>\$ 169</b> | <b>Ps. 3,315</b> | Ps. 27,171 | Ps. 5,033  |

(\*) Convenience translation to U.S. dollars (\$) See Note 2.2.3

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



**Table of Contents****Consolidated Statements of Changes in Equity***For the years ended December 31, 2017, 2016 and 2015**Amounts expressed in millions of U.S. dollars ( \$ ) and in millions of mexican pesos ( Ps.)*

|  | Additional |            | Retained   | Other       | Derivative  | Exchange                  | of the    | Equity      | Non-        | Total       |
|--|------------|------------|------------|-------------|-------------|---------------------------|-----------|-------------|-------------|-------------|
| Contributable                          | Capital    | Paid-in    | Earnings   | Equity      | Financial   | Valuation Differences on  | Net       | To Equity   | Controlling | Equity      |
|  | Stock      | Capital    |            | Instruments | Instruments | the Effective Translation | Benefit   | Holder's of | Interest    |             |
|  | Capital    |            |            |             |             | Measurements              | Liability | the Parent  |             |             |
|  |            |            |            |             |             |                           |           |             |             |             |
| Balances at                            |            |            |            |             |             |                           |           |             |             |             |
| January 1, 2015                        | Ps. 2,048  | Ps. 41,490 | Ps. 74,624 | Ps.         | Ps. (148)   | Ps. (11,731)              | Ps. (566) | Ps. 105,717 | Ps. 4,401   | Ps. 110,111 |
| Net income                             |            |            | 10,235     |             |             |                           |           | 10,235      | 94          | 10,329      |
| Other comprehensive income, net of tax |            |            |            |             | (77)        | (4,853)                   | 132       | (4,798)     | (498)       | (5,296)     |
| Total comprehensive income             |            |            | 10,235     |             | (77)        | (4,853)                   | 132       | 5,437       | (404)       | 5,033       |
| Dividends declared                     |            |            | (6,405)    |             |             |                           |           | (6,405)     | (11)        | (6,416)     |
| Balances at                            |            |            |            |             |             |                           |           |             |             |             |
| December 31, 2015                      | 2,048      | 41,490     | 78,454     |             | (225)       | (16,584)                  | (434)     | 104,749     | 3,986       | 108,733     |
| Net income                             |            |            | 10,070     |             |             |                           |           | 10,070      | 457         | 10,527      |
| Other comprehensive income, net of tax |            |            |            |             | 664         | 14,207                    | (123)     | 14,748      | 1,896       | 16,642      |
| Total comprehensive income             |            |            | 10,070     |             | 664         | 14,207                    | (123)     | 24,818      | 2,353       | 27,172      |
| Dividends declared                     |            |            | (6,945)    |             |             |                           |           | (6,945)     | (69)        | (7,014)     |
| Increase in non-controlling interest   |            |            |            |             |             |                           |           |             | 826         | 826         |
|  |            |            |            | (485)       |             |                           |           | (485)       |             | (485)       |

|  |                  |                   |                   |                  |                |                   |                  |                    |                   |                    |
|--|------------------|-------------------|-------------------|------------------|----------------|-------------------|------------------|--------------------|-------------------|--------------------|
| Acquisition of<br>Company (Note              |                  |                   |                   |                  |                |                   |                  |                    |                   |                    |
| Balances at<br>December 31,<br>2016          | 2,048            | 41,490            | 81,579            | (485)            | 439            | (2,377)           | (557)            | 122,137            | 7,096             | 129,233            |
| Net (loss)<br>Income                         |                  |                   | (12,802)          |                  |                |                   |                  | (12,802)           | 1,148             | (11,654)           |
| Other<br>Comprehensive<br>Income, net of tax |                  |                   |                   |                  | (192)          | (9,778)           | (10)             | (9,980)            | (1,174)           | (11,154)           |
| Consolidation<br>Venezuela<br>(Note 3.3)     |                  |                   |                   |                  |                | 26,123            |                  | 26,123             |                   | 26,123             |
| Total<br>Comprehensive<br>Income             |                  |                   | (12,802)          |                  | (192)          | 16,345            | (10)             | 3,341              | (26)              | 3,315              |
| Acquisition of<br>Company (Note              |                  |                   |                   |                  |                |                   |                  |                    |                   |                    |
| Dividends<br>Declared                        | 12               | 4,070             |                   |                  |                |                   |                  | 4,082              |                   | 4,082              |
| Consolidation<br>Philippines                 |                  |                   | (6,991)           |                  |                |                   |                  | (6,991)            | (1)               | (6,992)            |
| Balances at<br>December 31,<br>2017          | <b>Ps. 2,060</b> | <b>Ps. 45,560</b> | <b>Ps. 61,786</b> | <b>Ps. (485)</b> | <b>Ps. 247</b> | <b>Ps. 13,968</b> | <b>Ps. (567)</b> | <b>Ps. 122,569</b> | <b>Ps. 18,141</b> | <b>Ps. 140,710</b> |

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

**Table of Contents****Consolidated Statements of Cash Flows**

For the years ended December 31, 2017, 2016 and 2015

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

|  | 2017 (*) | 2017        | 2016       | 2015       |
|--|----------|-------------|------------|------------|
| <b>Cash flows from operating activities:</b>   |          |             |            |            |
| Income before income taxes   | \$ (362) | Ps. (7,100) | Ps. 14,455 | Ps. 14,880 |
| <b>Adjustments for:</b>  |          |             |            |            |
| Non-cash operating expenses  | 235      | 4,611       | 2,329      | 1,435      |
| Depreciation   | 521      | 10,216      | 7,579      | 6,310      |
| Amortization   | 73       | 1,441       | 1,087      | 834        |
| (Loss) on disposal of long-lived assets  | (7)      | (128)       | (22)       | (217)      |
| Write-off of long-lived assets   | 9        | 174         | 40         | 332        |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes | (3)      | (60)        | (147)      | (155)      |
| Interest income  | (45)     | (887)       | (715)      | (414)      |
| Interest expense   | 237      | 4,649       | 4,388      | 3,718      |
| Foreign exchange (gain) loss, net  | (41)     | (810)       | 1,792      | 1,459      |
| Non-cash movements in post-employment and other non-current employee benefits obligations                | 25       | 500         | 580        | 68         |
| Impairment of Venezuela  | 94       | 1,843       |            |            |
| Deconsolidation of Venezuela   | 1,342    | 26,333      |            |            |
| Consolidation of Philippines   | (153)    | (2,996)     |            |            |
| Monetary position (gain) loss, net   | (81)     | (1,591)     | (2,417)    | 33         |
| Market value loss on financial instruments   | 207      | 4,073       | 2,817      | 3,096      |
| <b>(Increase) decrease:</b>  |          |             |            |            |
| Accounts receivable and other current assets   | (180)    | (3,530)     | (2,727)    | (1,010)    |
| Other current financial assets   | (97)     | (1,903)     | (3,552)    | (2,849)    |
| Inventories  | (25)     | (482)       | (2,142)    | (1,784)    |
| <b>Increase (decrease):</b>  |          |             |            |            |
| Suppliers and other accounts payable   | 189      | 3,718       | 11,199     | 3,329      |
| Other liabilities  | 48       | 934         | 931        | 249        |
| Employee benefits paid   | (20)     | (384)       | (258)      | (193)      |
| Income taxes paid  | (274)    | (5,385)     | (2,771)    | (5,919)    |
| Net cash flows from operating activities   | 1,692    | 33,236      | 32,446     | 23,202     |
| <b>Investing activities:</b>   |          |             |            |            |
| Acquisition and mergers, net of cash acquired (see Note 4)   | 206      | 4,038       | (13,198)   |            |
| Deconsolidation of Venezuela (see Note 3.3)  | (9)      | (170)       |            |            |
| Interest received  | 45       | 887         | 715        | 414        |
| Acquisitions of long-lived assets  | (564)    | (11,069)    | (10,308)   | (10,545)   |
| Proceeds from the sale of long-lived assets  | 16       | 322         | 324        | 233        |



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|  |              |                   |                 |                 |
|--|--------------|-------------------|-----------------|-----------------|
| Acquisition of intangible assets   | (191)        | <b>(3,753)</b>    | (2,385)         | (956)           |
| Other non-current assets   | (13)         | <b>(258)</b>      |                 | (72)            |
| Dividends received from investments in associates and joint ventures (Note 9)                                  | 2            | <b>33</b>         | 5               | 13              |
| Investment in shares   | (47)         | <b>(920)</b>      | (2,068)         | (32)            |
| <b>Net cash flows used in investing activities</b>   | <b>(555)</b> | <b>(10,890)</b>   | <b>(26,915)</b> | <b>(10,945)</b> |
| <b>Financing activities:</b>   |              |                   |                 |                 |
| Proceeds from borrowings   | 636          | 12,488            | 8,040           | 1,907           |
| Repayment of borrowings  | (668)        | (13,109)          | (4,948)         | (9,076)         |
| Interest paid  | (234)        | <b>(4,589)</b>    | (4,122)         | (3,568)         |
| Dividends paid   | (356)        | <b>(6,992)</b>    | (7,013)         | (6,416)         |
| Other financing activities   | (135)        | <b>(2,655)</b>    | (2,517)         | 8,586           |
| Proceeds from issuing shares (see Note 4)  | 208          | <b>4,082</b>      |                 |                 |
| Increase in non-controlling interest   |              |                   | 826             |                 |
| <b>Net cash flows (used in) financing activities</b>   | <b>(549)</b> | <b>(10,775)</b>   | <b>(9,734)</b>  | <b>(8,567)</b>  |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | <b>588</b>   | <b>11,571</b>     | <b>(4,203)</b>  | <b>3,690</b>    |
| Initial balance of cash and cash equivalents   | 534          | <b>10,476</b>     | 15,989          | 12,958          |
| Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies | (166)        | <b>(3,280)</b>    | (1,310)         | (659)           |
| Ending balance of cash and cash equivalents  | \$ 956       | <b>Ps. 18,767</b> | Ps. 10,476      | Ps. 15,989      |

(\*) Convenience translation to U.S. dollars (\$) See Note 2.2.3

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

**Table of Contents****Notes to the Consolidated Statements**

*For the years ended December 31, 2017, 2016 and 2015*

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

**Note 1. Activities of the Company**

Coca-Cola FEMSA, S.A.B. de C.V. (Coca-Cola FEMSA) is a Mexican corporation, mainly engaged in acquiring, holding and transferring all types of bonds, shares and marketable securities.

Coca-Cola FEMSA is indirectly owned by Fomento Economico Mexicano, S.A.B. de C.V. (FEMSA), which holds 47.2% of its capital stock and 63% of its voting shares and The Coca-Cola Company (TCCC), which indirectly owns 27.8% of its capital stock and 37% of its voting shares. The remaining 25% of Coca-Cola FEMSA's shares trade on the Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV: KOF) and its American Depositary Shares (ADS) (equivalent to ten series L shares) trade on the New York Stock Exchange, Inc. The address of its registered office and principal place of business is Mario Pani No. 100 Col. Santa Fe Cuajimalpa, Delegacion Cuajimalpa de Morelos, Mexico City, 05348, Mexico.

Coca-Cola FEMSA and its subsidiaries (the Company), as an economic unit, are engaged in the production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela, Brazil, Argentina and Philippines.

As of December 31, 2017 and 2016 the most significant subsidiaries which the Company controls are:

| Company   | Activity                       | Country | Ownership percentage | Ownership percentage |
|---|--------------------------------|---------|----------------------|----------------------|
|   |                                |         | 2017                 | 2016                 |
| Propimex, S. de R.L. de C.V.  | Manufacturing and distribution | Mexico  | 100.00%              | 100.00%              |
| Controladora Interamericana de Bebidas, S. de R.L. de C.V.            | Holding                        | Mexico  | 100.00%              | 100.00%              |
| Spal Industria Brasileira de Bebidas, S.A.                            | Manufacturing and distribution | Brazil  | 96.06%               | 96.06%               |
| Distribuidora y Manufacturera del Valle de México, S. de R.L. de C.V. | Manufacturing and distribution | Mexico  | 100.00%              | 100.00%              |
| Servicios Refresqueros del Golfo, S. de R.L. de C.V.                  | Manufacturing and distribution | Mexico  | 100.00%              | 100.00%              |

**Note 2. Basis of Preparation****2.1 Statement of compliance**

The consolidated financial statements of Coca-Cola FEMSA S.A.B. de C.V. and its subsidiaries for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Company's consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer John Santa Maria Otazua and Chief Financial and Administrative Officer Héctor Treviño Gutiérrez on February 21, 2018. Those consolidated financial statements and notes were then approved by the Company's Board of Directors meeting on February 21, 2018 and by the Shareholders on March 9, 2018. The accompanying consolidated financial statements were approved for issuance in the Company's annual report on Form 20-F by the Company's Chief Executive Officer and Chief Financial Officer on April 13, 2017 and subsequent events have been considered through that date (See Note 28).

## ***2.2 Basis of measurement and presentation***

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

Derivative financial instruments

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

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

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

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### ***2.2.1 Presentation of consolidated income statement***

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

### ***2.2.2 Presentation of consolidated statements of cash flows.***

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

### ***2.2.3 Convenience translation to U.S. dollars (\$)***

The consolidated financial statements are stated in millions of Mexican pesos ( Ps. ) and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position as of December 31, 2017, the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2017 were converted into U.S. dollars at the exchange rate of Ps 19.64 per U.S. dollar as published by the Federal Reserve Bank of New York on December 29, 2017, the last date in 2017 for which information is available. This arithmetic conversion should not be construed as representations that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate. As of March 05, 2018 (the issuance date of these financial statements) such exchange rate was Ps. 18.89 per U.S. dollar, an appreciation of 3.81% since December 31, 2017.

### ***2.3 Critical accounting judgments and estimates***

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### ***Judgements***

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

#### ***2.3.1 Key sources of estimation uncertainty***

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

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

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

The Company assesses at each reporting date whether there is an indication that a long-lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples or other available fair value indicators. The key assumptions used to determine the recoverable amount for the Company's CGUs, including a sensitivity analysis, are further explained in Notes 3.16 and 11.

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

Property, plant and equipment, including returnable bottles which expected to provide benefits over a period of more than one year, as well as intangible assets with definite useful lives are depreciated/ amortized over their estimated useful lives. The Company bases its estimates on the experience of its technical personnel as well as its experience in the industry for similar assets; see Notes 3.12, 10 and 11.

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### ***2.3.1.3 Post-employment and other non-current employee benefits***

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

### ***2.3.1.4 Income taxes***

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

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

The Company is subject to various claims and contingencies related to tax, labor and legal proceedings as described in Note 24. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a provision and/ or discloses the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a provision for the estimated loss. Management's judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

### ***2.3.1.6 Valuation of financial instruments***

The Company is required to measure all derivative financial instruments at fair value.

The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient, reliable and verifiable data, recognized in the financial sector. The Company bases its forward price curves upon market price quotations. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 19.

### ***2.3.1.7 Business combinations***

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

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

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

liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, Share- Based Payment at the acquisition date, see Note 3.24;

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

indemnifiable assets are recognized at the acquisition date on the same basis as the indemnifiable liability subject to any contractual limitations.

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

#### ***2.3.1.8 Investments in associates***

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

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exercise significant influence. Management considers the existence of the following circumstances, which may indicate that the Company is in a position to exercise significant influence over a less than 20 per cent-owned corporate investee:

representation on the board of directors or equivalent governing body of the investee;

participation in policy-making processes, including participation in decisions about dividends or other distributions;

material transactions between the Company and the investee;

interchange of managerial personnel; or

provision of essential technical information.

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

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

the Company's extent of ownership is significant relative to other shareholdings (i.e. a lack of concentration of other shareholders);

the Company's significant shareholders, its parent, fellow subsidiaries, or officers of the Company, hold additional investment in the investee; and

the Company is a part of significant investee committees, such as the executive committee or the finance committee.

### ***2.3.1.9 Joint Arrangements***

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



a) If all the parties, or a group of the parties, control the arrangement, considering definition of joint control, as described in Note 3.1; and

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

As mentioned in Note 4 and 9, until January 2017, the Company accounted for its 51% investment in Coca-Cola FEMSA Philippines, Inc. (CCFPI) as a joint venture, based on the facts that until such date the Company and TCCC: (i) make all operating decisions jointly during the initial four-year period and (ii) potential voting rights to acquire the remaining 49% of CCFPI were not probable to be exercised in the foreseeable future because the related call option remains out of the money .

#### ***2.3.1.10 Venezuela Exchange Rates and Consolidation***

As further explained in Note 3.3 below, as of December 31, 2017, the exchange rate used to translate the financial statements of the Company's Venezuelan operations for reporting purposes into the consolidated financial statements, was 22,793 bolivars per US dollar.

As also explained in Note 3.3 below, effective December 31, 2017 the Company deconsolidated its operations in Venezuela due to the to the political and economic conditions in that country and began accounting for the operations under the fair value method. Consequently beginning January 1, 2018, all changes in the fair value of the investment, including foreign currency translations differences will be recognized for Venezuela's operations in other comprehensive income.

#### ***2.4 Changes in accounting policies***

The Company has applied the following amendments to the standards, which are effective for annual periods beginning on or after January 2017, their application has no significant effects:

##### **Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative**

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

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. (See Note 17.1).

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### **Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments clarify that the Company needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

### **Note 3. Significant Accounting Policies**

#### ***3.1 Basis of consolidation***

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2017. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

Exposure, or rights, to variable returns from its involvement with the investee, and

The ability to use its power over the investee to affect its returns

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

The contractual arrangement with the other vote holders of the investee

Rights arising from other contractual arrangements

The Company's voting rights and potential voting rights

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

statements of income and comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

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

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

Derecognizes the assets (including goodwill) and liabilities of the subsidiary

Derecognizes the carrying amount of any non-controlling interests

Derecognizes the cumulative translation differences recorded in equity

Recognizes the fair value of the consideration received

Recognizes the fair value of any investment retained

Recognizes any surplus or deficit in profit or loss

Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities

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**Table of Contents*****3.1.1 Acquisitions of non-controlling interests***

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

***3.2 Business combinations***

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

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

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

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

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

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

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

- i. The acquiree repurchases a sufficient number of its own shares for the Company to obtain control.
- ii. Minority veto rights lapse that previously kept the Company from controlling an acquiree in which it held the majority voting rights.
- iii. The Company and the acquiree agree to combine their businesses by contract alone in which it transfers no consideration in exchange for control and no equity interest is held in the acquiree, either on the acquisition date or previously.

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

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

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

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

Intercompany financing balances with foreign subsidiaries that are considered as non-current investments, since there is no plan to pay such financing in the foreseeable future. Monetary position and exchange rate fluctuation regarding this financing is included in the cumulative translation adjustment, which is recorded in equity as part of the cumulative translation adjustment within the cumulative other comprehensive income.

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Exchange differences on transactions entered into in order to hedge certain foreign currency risks. Foreign exchange differences on monetary items are recognized in profit or loss. Their classification in the income statement depends on their nature. Differences arising from fluctuations related to operating activities are presented in the other expenses line (see Note 18) while fluctuations related to non-operating activities such as financing activities are presented as part of foreign exchange gain (loss) line in the income statement.

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

For hyperinflationary economic environments, the inflation effects of the origin country are recognized pursuant to IAS 29 Financial Reporting in Hyperinflationary Economies, and subsequently translated into Mexican pesos using the year-end exchange rate for the consolidated statements of financial position and consolidated income statement and comprehensive income; and

For non-inflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month only if the exchange rate does not fluctuate significantly. In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint ventures that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

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

**Exchange Rates of Local Currencies Translated to Mexican pesos<sup>(1)</sup>**

| Country or Zone | Moneda Funcional | Average Exchange Rate for |          |          | Exchange Rate as of |                   |
|-----------------|------------------|---------------------------|----------|----------|---------------------|-------------------|
|                 |                  | 2017                      | 2016     | 2015     | December 31, 2017   | December 31, 2016 |
| Mexico          | Mexican peso     | Ps. 1.00                  | Ps. 1.00 | Ps. 1.00 | Ps. 1.00            | Ps. 1.00          |
| Guatemala       | Quetzal          | 2. 57                     | 2. 46    | 2. 07    | 2. 69               | 2. 75             |
| Costa Rica      | Colon            | 0. 03                     | 0. 03    | 0. 03    | 0. 03               | 0. 04             |

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|               |                  |            |            |     |     |     |     |            |            |     |     |
|---------------|------------------|------------|------------|-----|-----|-----|-----|------------|------------|-----|-----|
| Panama        | U.S Dollar       | <b>18.</b> | <b>93</b>  | 18. | 66  | 15. | 85  | <b>19.</b> | <b>74</b>  | 20. | 66  |
| Colombia      | Colombian peso   | <b>0.</b>  | <b>01</b>  | 0.  | 01  | 0.  | 01  | <b>0.</b>  | <b>01</b>  | 0.  | 01  |
| Nicaragua     | Cordoba          | <b>0.</b>  | <b>63</b>  | 0.  | 65  | 0.  | 58  | <b>0.</b>  | <b>64</b>  | 0.  | 70  |
| Argentina     | Argentine peso   | <b>1.</b>  | <b>15</b>  | 1.  | 26  | 1.  | 71  | <b>1.</b>  | <b>06</b>  | 1.  | 30  |
| Venezuela (a) | Bolivar          |            | <b>(a)</b> |     | (a) |     | (a) |            | <b>(a)</b> |     | (a) |
| Brazil        | Reais            | <b>5.</b>  | <b>94</b>  | 5.  | 39  | 4.  | 81  | <b>5.</b>  | <b>97</b>  | 6.  | 34  |
| Philippines   | Philippines peso | <b>0.</b>  | <b>38</b>  | 0.  | 39  | 0.  | 35  | <b>0.</b>  | <b>40</b>  | 0.  | 41  |

(1) Exchange rates published by the central bank of each country

(a) Venezuela

Effective December 31, 2017, the Company determined that deteriorating conditions in Venezuela had led the Company to no longer meet the accounting criteria to consolidate its Venezuelan operations. Such deteriorating conditions had significantly impacted the Company's ability to manage its capital structure its capacity to import and purchase raw materials and had imposed limitations on the portfolio dynamics. In addition, government controls over pricing of certain products, labor law restrictions and an inability to obtain US Dollars and imports affected the normal course of our business. Therefore, and due to the fact that Company will continue to operate in Venezuela, as of December 31, 2017, the Company changed the method of accounting for its investment in Venezuela from consolidation to fair value method measured using a Level 3 concept and recognized at December 31, 2017.

As a result of the deconsolidation, the Company recorded an extraordinary loss in other expenses line of Ps. 28,177 at December 31, 2017. This amount includes the reclassification of Ps. 26,123 (see Note 20) previously recorded in accumulated foreign currency translation losses in equity, to the income statement and impairment charges of Ps. 2,053. The impairment charges include the following: Ps. 745 of distribution rights, Ps. 1,098 of property plan and equipment and Ps 210 of remeasurement at fair-value of the Venezuelan's investment. Prior to deconsolidation, during 2017, the Company's Venezuela operations contributed Ps. 4,005 to net sales and losses of Ps. (2,223) to net income. See also Note 25 for additional information about the Venezuelan operations.

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Beginning in January 1, 2018, the Company will recognized its investment in Venezuela under the fair value method upon pursuant to the new IFRS 9 Financial Instrument, standard. As a result of this change, beginning on January 1, 2018, the Company will no longer include the results of the Venezuelan operations in its future Consolidated Financial Statements.

*Exchange rate*

Until December 31, 2017, the Company's recognition of its Venezuelan operations involved a two-step accounting process in order to translate into bolivars all transactions in a different currency than bolivars and then to translate the bolivar amounts to mexican pesos.

Step-one: Transactions were first recorded in the stand-alone accounts of the Venezuelan subsidiary in its functional currency, which are bolivars. Any non-bolivar denominated monetary assets or liabilities were translated into bolivars at each balance sheet date using the exchange rate at which the Company expects them to be settled, with the corresponding effect of such translation being recorded in the income statement.

As of December 31, 2016 the Company had US\$629 million in monetary liabilities recorded using the DIPRO (Divisa Protegida) exchange rate at 10 bolivars per US dollar, mainly because at that date the Company believes it continued to qualify at that rate to pay for the import of various products into Venezuela and its ability to renegotiate with their main vendors, if necessary, the settlement of such liabilities in bolivars, and US\$104 million recorded at DICOM (Divisas Complementarias) exchange rate at 673.76 bolivars per US dollar.

Step-two: In order to integrate the results of the Venezuelan operations into the consolidated figures of the Company, such Venezuelan results were translated from venezuelan bolivars into mexican pesos.

On December 2017, the Company translated the Venezuela entity figures using an exchange rate of bolivars. 22,793 per USD, as such exchange rate better represents the economic conditions in Venezuela. The Company considers that this exchange rate provides more useful and relevant information with respect to Venezuela's financial position, financial performance and cash flows. On January 30, 2018, a new auction of the DICOM conducted by the Venezuela government resulted in an estimated exchange rate of Bolivars. 30,987 per Eu (equivalent to 25,000 per USD).

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

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

Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, intangible assets, including related costs and expenses when such assets are consumed or depreciated.

Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, net income, retained earnings and items of other comprehensive income by the necessary amount to maintain the purchasing power equivalent in the currency of the corresponding hyperinflationary country on the dates such capital was contributed or income was generated up to the date those consolidated financial statements are presented; and



Including the monetary position gain or loss in consolidated net income.

The Company restates the financial information of subsidiaries that operate in hyperinflationary economic environment using the consumer price index (CPI) of each country. As disclosed in Note 3.3 the Company deconsolidated the operations in Venezuela. Consequently, the Company will no longer include the results of the Venezuelan operations in its future Consolidated Financial Statements. However, the Venezuela entity will continue operating.

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

| <b>Country</b> | <b>Cumulative Inflation 2015- 2017</b> | <b>Type of Economy</b> | <b>Cumulative Inflation 2014- 2016</b> | <b>Type of Economy</b> | <b>Cumulative Inflation 2013- 2015</b> | <b>Type of Economy</b> |
|----------------|--|------------------------|--|------------------------|--|------------------------|
| Mexico         | 12.7%                                  | Non-hyperinflationary  | 9.9%                                   | Non-hyperinflationary  | 10.5%                                  | Non-hyperinflationary  |
| Guatemala      | 13.5%                                  | Non-hyperinflationary  | 10.6%                                  | Non-hyperinflationary  | 10.8%                                  | Non-hyperinflationary  |
| Costa Rica     | 2.5%                                   | Non-hyperinflationary  | 5.1%                                   | Non-hyperinflationary  | 8.1%                                   | Non-hyperinflationary  |
| Panama         | 2.3%                                   | Non-hyperinflationary  | 2.8%                                   | Non-hyperinflationary  | 5.1%                                   | Non-hyperinflationary  |
| Colombia       | 17.5%                                  | Non-hyperinflationary  | 17.0%                                  | Non-hyperinflationary  | 12.8%                                  | Non-hyperinflationary  |
| Nicaragua      | 12.3%                                  | Non-hyperinflationary  | 13.1%                                  | Non-hyperinflationary  | 15.8%                                  | Non-hyperinflationary  |
| Argentina      |  |                        |  |                        |  |                        |
| (a)            | 101.5%                                 | Non-hyperinflationary  | 99.7%                                  | Non-hyperinflationary  | 59.2%                                  | Non-hyperinflationary  |
| Venezuela      | 30,690%                                | Hyperinflationary      | 2,263.0%                               | Hyperinflationary      | 562.9%                                 | Hyperinflationary      |
| Brazil         | 21.1%                                  | Non-hyperinflationary  | 25.2%                                  | Non-hyperinflationary  | 24.7%                                  | Non-hyperinflationary  |
| Philippines    | 7.5%                                   | Non-hyperinflationary  | 5.7%                                   | Non-hyperinflationary  | 8.3%                                   | Non-hyperinflationary  |

(a) Argentina

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As of December 2017 and 2016 there are multiple inflation indices (including combination of indices in the case of CPI or certain months without official available information in the case of National Wholesale Price Index (WPI)), as follows:

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

(ii) Coeficiente de Estabilización de Referencia (CER or Reference Stabilization Ratio) to calculate the three-year cumulative inflation rate in Argentina, the CER is used by the government of Argentina to adjust the rate they pay on certain adjustable rate bonds they issue. At April 31, 2017, the three-year cumulative inflation rate based on CER data is estimated to be approximately 95.5%.

(iii) National Wholesale Price Index (WPI) with a cumulative inflation for three years of 92.2% at November 2016 but not including information for November and December 2015 since it was not published by the National Bureau of Statistics of Argentina (INDEC). The WPI has historically been viewed as the most relevant inflation measure for companies by practitioners in Argentina. As a result of the existence of multiple inflation indices, the Company believes it necessitates an increased level of judgment in determining whether the economy of Argentina should be considered highly inflationary.

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

### ***3.5 Cash and cash equivalents***

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

The Company also maintains restricted cash held as collateral to meet certain contractual obligations (see Note 8). Restricted cash is presented within other current financial assets given that the restrictions are short-term in nature.

### ***3.6 Financial assets***

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

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

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

The Company's financial assets include cash and cash equivalents, loans and receivables, derivative financial instruments and other financial assets (Current and non-current).

***3.6.1 Effective interest rate method (EIR)***

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

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**Table of Contents*****3.6.2. Financial assets at fair value through profit or loss (FVTPL)***

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

***3.6.3 Loans and receivables***

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

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. For the years ended December 31, 2017, 2016 and 2015 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 4, Ps. 3 and Ps. -, respectively.

***3.6.4 Other financial assets***

Other financial assets are non-current accounts receivable and derivative financial instruments. Other financial assets with a relevant period are measured at amortized cost using the effective interest method, less any impairment.

***3.6.5 Impairment of financial assets***

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

Evidence of impairment may include indicators as follows:

Significant financial difficulty of the issuer or counterparty; or

Default or delinquent in interest or principal payments; or

It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

The disappearance of an active market for that financial asset because of financial difficulties.

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

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

### ***3.6.6 Derecognition***

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

The rights to receive cash flows from the financial asset have expired, or

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

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### ***3.6.7 Offsetting of financial instruments***

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

Currently has an enforceable legal right to offset the recognized amounts, and

Intends to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### ***3.7 Derivative financial instruments***

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

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

#### ***3.7.1 Hedge accounting***

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

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

#### ***3.7.2 Cash flow hedges***

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

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

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

### ***3.7.3 Fair value hedges***

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

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

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

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### *3.8 Fair value measurement*

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

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

In the principal market for the asset or liability, or

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

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

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

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3:** are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

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



For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### ***3.9 Inventories and cost of goods sold***

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Inventories represent the acquisition or production cost which is incurred when purchasing or producing a product, and are based on the weighted average cost formula.

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

### ***3.10 Other current assets***

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

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

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

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

### ***3.11 Investments in other entities***

#### ***3.11.1 Investments in associates***

Associates are those entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. Upon loss of significant influence over the associate, the Company measures and recognises any retained investment at its fair value.

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

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

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

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

#### ***3.11.2 Joint arrangements***

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

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

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. As of December 31, 2017 and 2016 the Company does not have an interest in joint operations.

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

### ***3.11.3 Investment in Venezuela***

As disclosed in Note 3.3 on December 31, 2017 the Company changed the method of accounting for its investment in Venezuela from consolidation to fair value method using a Level 3 concept and recognized at December 31, 2017 an impairment on its investment of Ps. 210.

### ***3.12 Property, plant and equipment***

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

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

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

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Depreciation is computed using the straight-line method over acquisition cost. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted and depreciated for as separate items (major components) of property, plant and equipment. The Company estimates depreciation rates, considering the estimated useful lives of the assets.

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

|                         | <b>Years</b> |
|-------------------------|--------------|
| Buildings               | 40 50        |
| Machinery and equipment | 10 20        |
| Distribution equipment  | 7 15         |
| Refrigeration equipment | 5 7          |
| Returnable bottles      | 1.5 4        |
| Other equipment         | 3 10         |

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

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

Returnable and non-returnable bottles:

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

Non-returnable: Are recorded in consolidated income statement at the time of the sale of the product.

Returnable: Are classified as long-lived assets as a component of property, plant and equipment. Returnable bottles are recorded at acquisition cost and for countries with hyperinflationary economies, restated according to IAS 29. Depreciation of returnable bottles is computed using the straight-line method considering their estimated useful lives.

There are two types of returnable bottles:

Those that are in the Company's control within its facilities, plants and distribution centers; and

Those that have been placed in the hands of customers and still belong to the Company.

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

such agreements are expensed when placed in the hands of retailers.

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

### ***3.13 Borrowing costs***

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

interest expense; and

exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

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

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

### ***3.14 Intangible assets***

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

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

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

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

The Company's intangible assets with an indefinite life mainly consist of rights to produce and distribute Coca-Cola trademark products in the Company's territories. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers.

As of December 31, 2017, the Company had nine bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in May 2018 and June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) three agreements for the Central territory, which are up for renewal in May 2018 (two agreements), and May 2025, (iv) the agreement for the Northeast territory, which is up for renewal in May 2018, and (v) two agreements for the Bajio territory, which are up for renewal in May 2018 and May 2025. As of December 31, 2017, the Company had nine bottler agreements in Brazil, which are up for renewal in May 2018 (seven agreements) and April 2024 (two agreements); and one bottler agreement in each of Argentina, which is up for renewal in September 2024; Colombia, which is up for renewal in June 2024; Venezuela, which is up for renewal in August 2026; Guatemala, which is up for renewal in March 2025; Costa Rica, which is up for renewal in September 2027; Nicaragua, which is up for renewal in May 2026 Panama, which is up for renewal in November 2024; and the Philippines, which is up for renewal in December 2022. The bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent the Company from selling Coca-Cola trademark beverages in the affected territory and would have an adverse effect on the Company's business, financial conditions, results from operations and prospects.

***3.15 Non-current assets held for sale***

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

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

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

### ***3.16 Impairment of long-lived assets***

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

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

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

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

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

As of December, 31 2017 the Company recognized an impairment loss in long-lived assets used in the operation in Venezuela relating to property, plant and equipment for Ps.1,098 and distribution rights for Ps.745. See Note 10 and 11, respectively.

***3.17 Leases***

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

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

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

***3.18 Financial liabilities and equity instruments******3.18.1 Classification as debt or equity***

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

***3.18.2 Equity instruments***

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

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

***3.18.3 Financial liabilities******Initial recognition and measurement***



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

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

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

#### ***Subsequent measurement***

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

#### ***3.18.4 Loans and borrowings***

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

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

#### ***Derecognition***

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

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

***3.19 Provisions***

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

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

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

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

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

***3.20 Post-employment and other non-current employee benefits***

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

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

For defined benefit retirement plans and other non-current employee benefits, such as the Company's sponsored pension and retirement plans and seniority premiums, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. All remeasurements effects of the Company's defined benefit obligation such as actuarial gains and losses and return on plan assets are

recognized directly in other comprehensive income ( OCI ). The Company presents service costs within cost of goods sold, administrative and selling expenses in the consolidated statements of income. The Company presents net interest cost within interest expense in the consolidated statements of income. The projected benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as of the end of each reporting period. Certain subsidiaries of the Company have established plan assets for the payment of pension benefits and seniority premiums through irrevocable trusts of which the employees are named as beneficiaries, which serve to decrease the funded status of such plans related obligations.

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

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

- a. When it can no longer withdraw the offer of those benefits; and
- b. When it recognizes costs for a restructuring that is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits.

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

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

***.3.21 Revenue recognition***

Sales of products are recognized as revenue upon delivery to the customer, and once all the following conditions are satisfied:

The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

The amount of revenue can be measured reliably;

It is probable that the economic benefits associated with the transaction will flow to the Company; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

***Rendering of services and other***

Revenue arising from services relating to sales of waste material and packing of raw materials are recognized in the other operating income caption in the consolidated income statement.

The Company recognized these transactions as revenues in accordance with the requirements established in the IAS 18, delivery of goods and rendering of services, which are:

- a) The amount of revenue can be measured reliably;
- b) It is probable that the economic benefits associated with the transaction will flow to the entity;
- c) The stage of completion of the transaction at the end of the reporting period can be measured reliably; and

d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Interest income revenue arising from the use by others of entity's assets yielding interest is recognized once all the following conditions are satisfied:

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

The amount of the revenue can be measured reliably.

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

### ***3.22 Administrative and selling expenses***

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

Selling expenses include:

Distribution: labor costs (salaries and other related benefits), outbound freight costs, warehousing costs of finished products, depreciation of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2017, 2016 and 2015, these distribution costs amounted to Ps. 25,041, Ps. 20,250 and Ps. 20,205, respectively;

Sales: labor costs (salaries and other benefits including PTU) and sales commissions paid to sales personnel;

Marketing: promotional expenses and advertising costs.

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

### ***3.23 Income taxes***

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

#### ***3.23.1 Current income taxes***

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

### ***3.23.2 Deferred income taxes***

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

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Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

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

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

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

In Mexico, the income tax rate is 30% for 2017, 2016 and 2015. As a result of the Mexican Tax Reform discussed below, it will also be 30% for 2018

***3.24 Share-based payments transactions***

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

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

***3.25 Earnings per share***

The Company presents basic and diluted earnings per share (EPS) data for its shares. As described in Note 22, the Company has potentially dilutive shares and therefore presents its basic and diluted earnings per share. Basic EPS is

calculated by dividing the net income attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

### ***3.26 Issuance of stock***

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

## **Note 4. Mergers and Acquisitions**

### ***4.1 Mergers and Acquisitions***

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

While all of the acquired companies disclosed below are bottlers of Coca-Cola trademarked beverages, such acquired entities were not under common ownership or control prior to the acquisition.



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On December 6, 2016, the Company through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Vonpar S.A. (herein Vonpar) for a consideration transferred of Ps. 20,992. Vonpar was a bottler of Coca-Cola trademark products which operated mainly in Rio Grande do Sul and Santa Catarina, Brazil. This acquisition was made to reinforce the Company's leadership position in Brazil.

Of the purchase price of approximately Ps. 20,992 (R\$3,508); Spal paid an amount of approximately Ps. 10,370 (R\$1,730) in cash on December 6, 2016.

On the same date Spal additionally paid Ps. 4,124 (R\$688) in cash, of which in a subsequent and separate transaction the sellers committed to capitalize for an amount of Ps. 4,082 into Coca-Cola FEMSA in exchange for approximately 27.9 million KOF series L shares at an implicit value of Ps. 146.27. In May 4, 2017, the Company merger with POA Eagle, S.A. de C.V., a Mexican company 100% owned by the sellers of Vonpar in Brazil, as per the announcement made on September 23, 2016. As a result of this merger, POA Eagle, S.A. de C.V. shareholders received 27.9 million newly issued KOF series L shares in exchange for cash accounts of POA Eagle, S.A. de C.V. for an amount of \$4,082 million Mexican pesos.

At Closing, Spal issued and delivered a three-year promissory note to the sellers, for the remaining balance of 1,090 million Brazilian reais (approximately Ps.6,534 million as of December 6, 2016). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into the Company in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to the Company having a sufficient number of Series L shares available for issuance.

As of December 6, 2016, the fair value of KOF series L (KL) shares was Ps. 128.88 per share, in addition the KL shares have not been issued, consequently as a result of this subsequent transaction an embedded financial instrument was originated and recorded into equity for an amount of Ps. 485. In accordance with IAS 32, in the consolidated financial statements the purchase price was also adjusted to recognize the fair value of the embedded derivative arising from the difference between the implicit value of KL shares and the fair value at acquisition date.

Transaction related costs of Ps. 35 were expensed by Spal as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Results of operation of Vonpar have been included in the Company's consolidated operating results from the acquisition date.

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

|  |              |
|--|--------------|
|  | <b>Final</b> |
| Total current assets, including cash acquired of Ps. 1,287 | Ps. 4,390    |
| Total non-current assets                                   | 11,344       |
| Distribution rights  | 14,793       |
| Total assets   | 30,527       |

|  |            |
|--|------------|
| Total liabilities                                  | 11,708     |
| Net assets acquired                                | 18,819     |
| Goodwill   | 2,173      |
| Total consideration transferred                    | Ps. 20,992 |
| Amount to be paid through Promissory Notes         | (6,992)    |
| Cash acquired of Vonpar                            | (1,287)    |
| Amount recognized as embedded financial instrument | 485        |
| Net cash paid                                      | 13,198     |

- (1) As a result of the purchase price allocation which was finalized in 2017, additional fair value adjustments from those recognized in 2016 have been recognized as follow: Total non-current assets amounted of Ps. 490, distribution rights of Ps. 5,192 and goodwill of Ps. (6,168).

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The Company expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to the Company's cash generating unit in Brazil. The goodwill recognized and expected to be deductible for income tax purposes according to Brazil tax law, is Ps. 1,667.

Selected income statement information of Vonpar for the period from the acquisition date through to December 31, 2016 is as follows:

| <b>Income statement</b> | <b>2016</b>      |
|-------------------------|------------------|
| Total revenues          | <b>Ps. 1,628</b> |
| Income before taxes     | <b>380</b>       |
| Net income              | <b>252</b>       |

**Unaudited Pro Forma Financial Data.**

The following unaudited 2016 consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Vonpar, as if the acquisition had occurred on January 1, 2016; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired group of companies.

|                     | <b>Unaudited Pro<br/>Forma Financial<br/>Information<br/>for<br/>the year ended<br/>December 31,<br/>2016</b> |
|---------------------|---|
| Total revenues      | Ps. 187,139   |
| Income before taxes | 15,819  |
| Net income          | 11,539  |
| Earnings per share  | 4.86  |

**4.1.2 Acquisition of Philippines**

In January 2013, the Company acquired a 51.0% non-controlling majority stake in CCFPI from The Coca-Cola Company. The Company has a Call Option to acquire the remaining 49.0% stake in CCFPI at any time during the seven years following the closing date. The Company also has a Put Option to sell its ownership in CCFPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Pursuant to the Company's shareholders' agreement with The Coca-Cola Company, during a four-year period that ended on January 25, 2017, all decisions relating to CCFPI were approved jointly with The Coca-Cola Company. Since January 25, 2017, the Company controls CCFPI's as all decisions relating to the day-to-day operation and management of CCFPI's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) CCFPI's chief financial officer. The Company has the right to appoint (and may remove) the chief executive officer and all other officers of CCFPI. Commencing on February 1, 2017, the Company started consolidating CCFPI's financial results in its financial statements.

The Company fair value of CCFPI net assets acquired to the date of acquisition (February 2017) is as follows:

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|  |                  |
|--|------------------|
| Total current assets, including cash acquired of Ps. 4,038             | <b>Ps. 9,645</b> |
| Total non-current assets   | <b>18,909</b>    |
| Distribution rights  | <b>4,144</b>     |
| <br>   |                  |
| Total assets   | <b>32,698</b>    |
| Total liabilities  | <b>(10,101)</b>  |
| <br>   |                  |
| Net assets acquired  | <b>22,597</b>    |
| Net assets acquired attributable to the parent company<br>(51%)        | <b>11,524</b>    |
| Non-controlling interest (49%)   | <b>(11,073)</b>  |
| <br>   |                  |
| Fair value of the equity of CCFPI at the acquisition date              | <b>22,110</b>    |
| <br>   |                  |
| Carrying value of CCFPI investment derecognized                        | <b>11,690</b>    |
| <br>   |                  |
| Loss as a result of remeasuring to fair value the equity<br>interest   | <b>(166)</b>     |
| Gain on recycling of other comprehensive income<br>translation effects | <b>2,996</b>     |
| <br>   |                  |
| Total net effect in P&L  | <b>Ps. 2,830</b> |

As a result of taking control over CCFPI, during 2017, the accumulated effect corresponding to translation adjustments recorded in the other comprehensive income for an amount of Ps. 2,996 were recognized in the income statement.

**Unaudited Pro Forma Financial Data.**

The following unaudited 2017 consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the consolidation of Philippines, as if the consolidation had occurred on January 1, 2017; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired group of companies.

|                   |   |
|-------------------|---|
|                   | <b>Unaudited Pro<br/>Forma Financial<br/>Information<br/>for<br/>the year ended<br/>December 31,<br/>2017</b> |
| Total revenues    | Ps. 205,436   |
| Loss before taxes | (7,109)   |
| Net loss          | (11,559)  |

Selected income statement information of Philippines for the period from the acquisition date through to December 31, 2017 is as follows:

| <b>Income statement</b> | <b>2017</b>       |
|-------------------------|-------------------|
| Total revenues          | <b>Ps. 20,524</b> |
| Income before taxes     | <b>1,265</b>      |
| Net income              | <b>896</b>        |

**Note 5. Cash and Cash Equivalents**

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

|                                 | <b>2017</b>       | <b>2016</b> |
|---------------------------------|-------------------|-------------|
| Cash and bank balances          | <b>Ps. 9,497</b>  | Ps. 5,429   |
| Cash equivalents (see Note 3.5) | <b>9,270</b>      | 5,047       |
|                                 | <b>Ps. 18,767</b> | Ps. 10,476  |

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

**Note 6. Accounts Receivable**

|  | <b>2017</b>       | <b>2016</b> |
|--|-------------------|-------------|
| Trade receivables                                    | <b>Ps. 13,131</b> | Ps. 11,769  |
| The Coca-Cola Company (related party) (Note 13)      | <b>2,054</b>      | 1,857       |
| Loans to employees                                   | <b>96</b>         | 145         |
| FEMSA and subsidiaries (related parties) (Note 13)   | <b>402</b>        | 549         |
| Other related parties (Note 13)                      | <b>317</b>        | 368         |
| Shareholders Vonpar (Note 13)                        | <b>1,219</b>      |             |
| Other  | <b>825</b>        | 768         |
| Allowance for doubtful accounts on trade receivables | <b>(468)</b>      | (451)       |
|  | <b>Ps. 17,576</b> | Ps. 15,005  |

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

During 2017, the Company took advantage of a Brazilian tax amnesty program. The settlement of certain outstanding matters under that amnesty program generated a benefit of Ps. 1,874 such benefit has been offset against the corresponding indemnifiable assets.

**6.1 Trade receivables**

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

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

| <b>Aging for trade receivables past due but not impaired</b> | <b>2017</b>    | <b>2016</b> |
|--|----------------|-------------|
| 60-90 days   | <b>Ps. 89</b>  | Ps. 142     |
| 90-120 days  | <b>40</b>      | 5           |
| 120 + days   | <b>5</b>       | 25          |
| Total  | <b>Ps. 134</b> | Ps. 172     |

**6.2 Changes in the allowance for doubtful accounts**

| <b>2017</b> | <b>2016</b> | <b>2015</b> |
|-------------|-------------|-------------|
|-------------|-------------|-------------|

|  |                |         |         |
|--|----------------|---------|---------|
| Balance at beginning of the year                 | <b>Ps. 451</b> | Ps. 283 | Ps. 367 |
| Allowance for the year                           | <b>40</b>      | 6       | 52      |
| Charges and write-offs of uncollectible accounts | <b>(62)</b>    | ( 3)    | (62)    |
| Added in business combinations                   | <b>86</b>      | 94      |         |
| Effects of changes in foreign exchange rates     | <b>(45)</b>    | 71      | (74)    |
| Effect Venezuela (Note 3.3)                      | <b>(2)</b>     |         |         |
| <b>Balance at end of the year</b>                | <b>Ps. 468</b> | Ps. 451 | Ps. 283 |

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

| <b>Aging of impaired trade receivables</b> | <b>2017</b>    | <b>2016</b> |
|--|----------------|-------------|
| 60-90 days                                 | <b>Ps. 5</b>   | Ps. 6       |
| 90-120 days                                | <b>14</b>      | 13          |
| 120+ days                                  | <b>451</b>     | 432         |
| Effect of Venezuela (Note 3.3)             | <b>(2)</b>     |             |
| <b>Total</b>                               | <b>Ps. 468</b> | Ps. 451     |

### ***6.3 Payments from The Coca-Cola Company:***

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



**Table of Contents****Note 7. Inventories**

|                           | <b>2017</b>       | <b>2016</b> |
|---------------------------|-------------------|-------------|
| Finished products         | <b>Ps. 3,691</b>  | Ps. 3,209   |
| Raw materials             | <b>4,092</b>      | 3,974       |
| Non strategic spare parts | <b>1,838</b>      | 2,113       |
| Inventories in transit    | <b>1,208</b>      | 1,207       |
| Packing materials         | <b>490</b>        | 171         |
| Other                     | <b>45</b>         | 70          |
|                           | <b>Ps. 11,364</b> | Ps. 10,744  |

For the years ended at 2017, 2016 and 2015, the Company recognized write-downs of its inventories for Ps. 185, Ps. 301 and Ps. 199, respectively to net realizable value.

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

|   | <b>2017</b>        | <b>2016</b> | <b>2015</b> |
|---|--------------------|-------------|-------------|
| Changes in inventories of finished goods and work in progress | <b>Ps. 21,412</b>  | Ps. 18,154  | Ps. 20,053  |
| Raw materials and consumables used                            | <b>80,318</b>      | 62,534      | 51,904      |
| Total   | <b>Ps. 101,730</b> | Ps. 80,688  | Ps. 71,957  |

**Note 8. Other Current Assets and Other Current Financial Assets****8.1 Other Current Assets:**

|                           | <b>2017</b>      | <b>2016</b> |
|---------------------------|------------------|-------------|
| Prepaid expenses          | <b>Ps. 1,849</b> | Ps. 3,144   |
| Agreements with customers | <b>192</b>       | 179         |
| Other                     |                  | 21          |
|                           | <b>Ps. 2,041</b> | Ps. 3,344   |

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

|                          | <b>2017</b>      | <b>2016</b> |
|--------------------------|------------------|-------------|
| Advances for inventories | <b>Ps. 1,243</b> | Ps. 2,704   |

|  |                  |           |
|--|------------------|-----------|
| Advertising and promotional expenses paid in advance | <b>367</b>       | 141       |
| Advances to service suppliers                        | <b>142</b>       | 227       |
| Prepaid insurance                                    | <b>39</b>        | 49        |
| Others   | <b>58</b>        | 23        |
|  | <b>Ps. 1,849</b> | Ps. 3,144 |

Advertising and promotional expenses was recorded in the consolidated income statements for the years ended December 31, 2017, 2016 and 2015 amounted to Ps. 4,504, Ps. 5,030 and Ps. 3,447, respectively.

### **8.2 Other Current Financial Assets:**

|  |                |             |
|--|----------------|-------------|
|  | <b>2017</b>    | <b>2016</b> |
| Restricted cash                                | <b>Ps. 504</b> | Ps. 774     |
| Derivative financial instruments (See Note 19) | <b>233</b>     | 737         |
|  | <b>Ps. 737</b> | Ps. 1,511   |

As of December 31, 2017 and 2016, restricted cash were in the following currencies:

|                       |                |             |
|-----------------------|----------------|-------------|
|                       | <b>2017</b>    | <b>2016</b> |
| Venezuelan bolivars   | <b>Ps.</b>     | Ps. 183     |
| Brazilian reais       | <b>65</b>      | 73          |
| Colombian pesos       | <b>439</b>     | 518         |
| Total restricted cash | <b>Ps. 504</b> | Ps. 774     |

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Restricted cash in Brazil relates to short term deposits in order to fulfill the collateral requirements for accounts payable.

During 2016 due to a jurisdictional order with the municipal sewage system services, the Colombian authorities withheld all the cash that Company has in some specific bank account, such amount was reclassified as a restricted cash according with Company's accounting policy pending resolution of the order.

**Note 9. Investments in Other Entities**

As of December 31, 2017 and 2016 the investment in other entities is integrated as follows:

|   | <b>2017</b>       | <b>2016</b> |
|---|-------------------|-------------|
| Investment in Associates and Joint Ventures | <b>Ps. 11,501</b> | Ps. 22,357  |
| Venezuela Investment                        | <b>1,039</b>      |             |
|   | <b>Ps. 12,540</b> | Ps. 22,357  |

Effective December 31, 2017, the Company determined that deteriorating conditions in Venezuela had led the Company to not longer meet the accounting criteria to consolidate its Venezuelan operation, the impacts of such deconsolidation are discussed on Note 3.3 above.

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

| <b>Investee</b>   | <b>Principal Activity</b> | <b>Place of Incorporation</b> | <b>Ownership Percentage</b> |             | <b>Carrying Amount</b> |             |
|---|---------------------------|-------------------------------|-----------------------------|-------------|------------------------|-------------|
|   |                           |                               | <b>2017</b>                 | <b>2016</b> | <b>2017</b>            | <b>2016</b> |
| <b>Joint ventures:</b>  |                           |                               |                             |             |                        |             |
| Compañía Panameña de Bebidas, S.A.P.I. de C.V.                        | Beverages                 | Mexico                        | <b>50.0%</b>                | 50.0%       | <b>Ps.2,036</b>        | Ps.1,911    |
| Dispensadoras de Café, S.A.P.I. de C.V.                               | Services                  | Mexico                        | <b>50.0%</b>                | 50.0%       | <b>153</b>             | 145         |
|   | Bottling and              |                               |                             |             |                        |             |
| Estancia Hidromineral Itabirito, LTDA                                 | Distribution              | Brazil                        | <b>50.0%</b>                | 50.0%       |                        | 96          |
| Fountain Agua Mineral, LTDA   | Beverages                 | Brazil                        | <b>50.0%</b>                | 50.0%       | <b>784</b>             | 765         |
| Coca-Cola FEMSA Philippines, Inc.                                     | Bottling                  | Philippines                   |                             | 51.0%       |                        | 11,460      |
| <b>Associates:</b>  |                           |                               |                             |             |                        |             |
| Promotora Industrial Azucarera, S.A. de C.V. ( PIASA <sup>(1)</sup> ) | Sugar production          | Mexico                        | <b>36.4%</b>                | 36.4%       | <b>2,933</b>           | 2,657       |
|   | Beverages                 | Mexico                        | <b>26.3%</b>                | 26.3%       | <b>1,560</b>           | 1,574       |

|  |                |         |                |         |                  |           |
|--|----------------|---------|----------------|---------|------------------|-----------|
| Jugos del Valle, S.A.P.I. de C.V. <sup>(1)</sup>                         |                |         |                |         |                  |           |
| Leao Alimentos e Bebidas, LTDA <sup>(1)</sup>                            | Beverages      | Brazil  | <b>24.4%</b>   | 27.7%   | <b>3,001</b>     | 3,282     |
| UBI 3 Participacoes, LTDA <sup>(1)</sup>                                 | Beverages      | Brazil  | <b>26%</b>     |         | <b>391</b>       |           |
| Industria Envasadora de Querétaro, S.A. de C.V. ( IEQSA <sup>(1)</sup> ) | Caned bottling | Mexico  | <b>26.5%</b>   | 26.5%   | <b>177</b>       | 177       |
| Industria Mexicana de Reciclaje, S.A. de C.V. ( IMER <sup>(1)</sup> )    | Recycling      | Mexico  | <b>35.0%</b>   | 35.0%   | <b>121</b>       | 100       |
| KSP Participacoes, LTDA <sup>(1)</sup>                                   | Beverages      | Brazil  | <b>38.7%</b>   | 38.7%   | <b>117</b>       | 126       |
| Other  | Various        | Various | <b>Various</b> | Various | <b>228</b>       | 64        |
|  |                |         |                |         | <b>Ps.11,501</b> | Ps.22,357 |

Accounting method:

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

During 2017 the Company received dividends from Industria Envasadora de Querétaro, S.A. de C.V. ( IEQSA ) and Promotora Mexicana de Embotelladores, S.A. de C.V. in the amount of Ps. 16 and Ps. 17.

During 2017 the Company made capital contributions to Compañía Panameña de Bebidas, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 349 and Ps. 182, respectively, there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders. On June 25, 2017, the Company through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. sold 3.05% of their participation in Leao Alimentos e Bebidas, LTDA for an amount of Ps. 198.

On March 28, 2017 as part of AdeS acquisition the Company acquired an indirect participacion in equity method investees in Brazil and Argentina for an aggregate amount of Ps.587. During 2017, Itabirito merged with Spal this transaction did not generated any cash flow.

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

During 2016 the Company made capital contributions to Leao Alimentos e Bebidas, LTDA, Compañía Panameña de Bebidas, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 1,273, Ps. 419 and Ps. 376, respectively, there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders.

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

As disclosed in Note 4.1.2, commencing on February 1, 2017, the Company started consolidating CCFPI s financial results in its financial statements.



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For the years ended December 31, 2017, 2016 and 2015 the equity method recognized for associates was Ps. 235, Ps. 31 and Ps. 185, respectively.

For the years ended December 31, 2017, 2016 and 2015 the equity method recognized for joint ventures was Ps. (175), Ps. 116 and Ps. (30), respectively.

**Note 10. Property, Plant and Equipment, net**

| Cost   | Land            | Buildings        | Machinery<br>and<br>Equipment | Refrigeration<br>Equipment | Returnable<br>Bottles | Investments<br>in Fixed<br>Assets in Leasehold |               |               | Total            |
|--|-----------------|------------------|-------------------------------|----------------------------|-----------------------|--|---------------|---------------|------------------|
|  |                 |                  |                               |                            |                       | Progress                                       | Improvements  | Other         |                  |
| Cost as of January 1, 2015                               | Ps.4,694        | Ps.12,550        | Ps.30,827                     | Ps.14,127                  | Ps. 9,402             | Ps.6,485                                       | Ps.607        | Ps.1,062      | Ps.79,754,       |
| Additions  | 358             | 1,201            | 1,121                         | 1,175                      | 1,655                 | 4,524  |               | 511           | 10,545           |
| Transfer of completed projects in progress               | 59              | 1,289            | 3,111                         | 1,168                      | 662                   | (6,338)  | 49            |               |                  |
| Disposals  | (54)            | (46)             | (1,284)                       | (972)                      | (103)                 |  | (47)          | (39)          | (2,545)          |
| Effects of changes in foreign exchange rates             | (595)           | (1,352)          | (4,051)                       | (1,217)                    | (266)                 | (1,007)  | (13)          | (848)         | (9,349)          |
| Changes in value on the recognition of inflation effects | 245             | 503              | 964                           | 295                        | 301                   | 91   |               | 229           | 2,628            |
| Capitalization of borrowing costs                        |                 |                  |                               |                            |                       | 57   |               |               | 57               |
| <b>Cost as of December 31, 2015</b>                      | <b>Ps.4,707</b> | <b>Ps.14,145</b> | <b>Ps.30,688</b>              | <b>Ps.14,576</b>           | <b>Ps.11,651</b>      | <b>Ps.3,812</b>                                | <b>Ps.596</b> | <b>Ps.915</b> | <b>Ps.81,090</b> |

| Cost                  | Land      | Buildings  | Machinery<br>and<br>Equipment | Refrigeration<br>Equipment | Returnable<br>Bottles | Investments<br>in Fixed<br>Assets in Leasehold |              |         | Total      |
|-----------------------|-----------|------------|-------------------------------|----------------------------|-----------------------|--|--------------|---------|------------|
|                       |           |            |                               |                            |                       | Progress                                       | Improvements | Other   |            |
| Cost as of January 1, | Ps. 4,707 | Ps. 14,145 | Ps. 30,688                    | Ps. 14,576                 | Ps. 11,651            | Ps. 3,812                                      | Ps. 596      | Ps. 915 | Ps. 81,090 |

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|  |                  |                   |                   |                   |                   |                  |                |                  |                    |
|--|------------------|-------------------|-------------------|-------------------|-------------------|------------------|----------------|------------------|--------------------|
| 2016   |                  |                   |                   |                   |                   |                  |                |                  |                    |
| Additions  | 7                | 204               | 1,415             | 337               | 2,236             | 5,737            | 4              | 367              | 10,307             |
| Additions from business combinations                     |                  | 517               | 864               | 105               | 23                |                  | 4              |                  | 1,513              |
| Transfer of completed projects in progress               | 46               | 1,031             | 2,403             | 1,978             | 779               | (6,265)          | 28             |                  |                    |
| Disposals  | (43)             | (17)              | (1,647)           | (574)             | (139)             |                  | (43)           | (18)             | (2,481)            |
| Effects of changes in foreign exchange rates             | 252              | 2,575             | 4,719             | 1,953             | 1,271             | 546              | 56             | (132)            | 11,240             |
| Changes in value on the recognition of inflation effects | 853              | 1,470             | 2,710             | 851               | 122               | 415              |                | 942              | 7,363              |
| Capitalization of borrowing costs                        |                  |                   | 61                |                   |                   | (37)             |                |                  | 24                 |
| <b>Cost as of December 31, 2016</b>                      | <b>Ps. 5,822</b> | <b>Ps. 19,925</b> | <b>Ps. 41,213</b> | <b>Ps. 19,226</b> | <b>Ps. 15,943</b> | <b>Ps. 4,208</b> | <b>Ps. 645</b> | <b>Ps. 2,074</b> | <b>Ps. 109,056</b> |

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| Cost   | Land             | Buildings         | Machinery         |                         | Returnable        | Investments        |                                 |                | Total              |
|--|------------------|-------------------|-------------------|-------------------------|-------------------|--------------------|---------------------------------|----------------|--------------------|
|  |                  |                   | and Equipment     | Refrigeration Equipment |                   | Assets in Progress | in Fixed Leasehold Improvements | Other          |                    |
| Cost as of January 1, 2017                               | Ps. 5,822        | Ps. 19,925        | Ps. 41,213        | Ps. 19,226              | Ps. 15,943        | Ps. 4,208          | Ps. 645                         | Ps. 2,074      | Ps. 109,056        |
| Additions  | 110              | 775               | 275               | 758                     | 3,202             | 5,762              | 11                              | 176            | 11,069             |
| Additions from business combinations                     | 5,115            | 1,691             | 5,905             | 482                     | 3,323             | 820                | 146                             |                | 17,482             |
| Transfer of completed projects in progress               | 5                | 653               | 2,964             | 1,968                   | 558               | (6,174)            | 28                              | (2)            |                    |
| Disposals  | (115)            | (527)             | (1,227)           | (800)                   | (193)             |                    | (3)                             | (11)           | (2,876)            |
| Effects of changes in foreign exchange rates             | (1,046)          | (1,993)           | (2,740)           | (1,523)                 | (1,216)           | (747)              | (52)                            | (1,233)        | (10,550)           |
| Changes in value on the recognition of inflation effects | 518              | 1,022             | 2,056             | 689                     | (2)               | 226                |                                 | 638            | 5,147              |
| Effects Venezuela (Note 3.3)                             | (544)            | (817)             | (1,300)           | (717)                   | (83)              | (221)              |                                 | (646)          | (4,328)            |
| <b>Cost as of December 31, 2017</b>                      | <b>Ps. 9,865</b> | <b>Ps. 20,729</b> | <b>Ps. 47,146</b> | <b>Ps. 20,083</b>       | <b>Ps. 21,532</b> | <b>Ps. 3,874</b>   | <b>Ps. 775</b>                  | <b>Ps. 996</b> | <b>Ps. 125,000</b> |

| Accumulated Depreciation                       | Land | Buildings   | Machinery     |                         | Returnable  | Investments        |                                 |           | Total        |
|--|------|-------------|---------------|-------------------------|-------------|--------------------|---------------------------------|-----------|--------------|
|  |      |             | and Equipment | Refrigeration Equipment |             | Assets in Progress | in Fixed Leasehold Improvements | Other     |              |
| Accumulated depreciation as of January 1, 2015 | Ps.  | Ps. (2,744) | Ps. (13,229)  | Ps. (7,541)             | Ps. (5,205) | Ps.                | Ps. (122)                       | Ps. (386) | Ps. (29,227) |
| Depreciation for the year                      |      | (341)       | (2,369)       | (1,432)                 | (1,984)     |                    | (41)                            | (143)     | (6,310)      |
| Disposals                                      |      | 70          | 1,093         | 946                     | 80          |                    | 7                               | 2         | 2,198        |
| Effects of changes in foreign                  |      | 498         | 2,142         | 1,041                   | 167         |                    | 21                              | 212       | 4,081        |



|  |  |       |       |       |       |  |  |      |         |
|--|--|-------|-------|-------|-------|--|--|------|---------|
| exchange rates   |  |       |       |       |       |  |  |      |         |
| Changes in value on the recognition of inflation effects |  | (187) | (425) | (166) | (436) |  |  | (86) | (1,300) |

|   |     |             |              |             |             |     |           |           |              |
|---|-----|-------------|--------------|-------------|-------------|-----|-----------|-----------|--------------|
| <b>Accumulated depreciation as of December 31, 2015</b> | Ps. | Ps. (2,704) | Ps. (12,788) | Ps. (7,152) | Ps. (7,378) | Ps. | Ps. (135) | Ps. (401) | Ps. (30,558) |
|---|-----|-------------|--------------|-------------|-------------|-----|-----------|-----------|--------------|

| Accumulated Depreciation                                 | Land | Buildings   | Investments in Fixed Assets           |                    |              |                        | Other     | Total     |              |
|--|------|-------------|---------------------------------------|--------------------|--------------|------------------------|-----------|-----------|--------------|
|  |      |             | Machinery and Refrigeration Equipment | Returnable Bottles | Programs     | Leasehold Improvements |           |           |              |
| Accumulated depreciation as of January 1, 2016           | Ps.  | Ps. (2,704) | Ps. (12,788)                          | Ps. (7,152)        | Ps. (7,378)  | Ps.                    | Ps. (135) | Ps. (401) | Ps. (30,558) |
| Depreciation for the year                                |      | (455)       | (2,638)                               | (2,008)            | (2,235)      |                        | (43)      | (200)     | (7,579)      |
| Disposals  |      | 11          | 1,210                                 | 672                | 227          |                        | 8         | 9         | 2,137        |
| Effects of changes in foreign exchange rates             |      | (595)       | (2,615)                               | (1,148)            | (845)        |                        | (65)      | 39        | (5,229)      |
| Changes in value on the recognition of inflation effects |      | (592)       | (1,087)                               | (521)              | (33)         |                        |           | (306)     | (2,539)      |
| <b>Accumulated depreciation as of December 31, 2016</b>  | Ps.  | Ps. (4,335) | Ps. (17,918)                          | Ps. (10,157)       | Ps. (10,264) | Ps.                    | Ps. (235) | Ps. (859) | Ps. (43,768) |

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| Accumulated<br>Depreciation                              | Investments<br>in<br>Fixed<br>Assets |            |                               |                            |                       |                             |                    |           | Total        |
|--|--------------------------------------|------------|-------------------------------|----------------------------|-----------------------|-----------------------------|--------------------|-----------|--------------|
|  | Land                                 | Buildings  | Machinery<br>and<br>Equipment | Refrigeration<br>Equipment | Returnable<br>Bottles | Progressive<br>Improvements | Leasehold<br>Other |           |              |
| Accumulated depreciation as of January 1, 2017           | Ps.                                  | Ps.(4,335) | Ps. (17,918)                  | Ps. (10,157)               | Ps. (10,264)          | Ps.                         | Ps. (235)          | Ps. (859) | Ps. (43,768) |
| Depreciation for the year                                |                                      | (626)      | (3,007)                       | (2,490)                    | (3,365)               |                             | (43)               | (685)     | (10,216)     |
| Disposals  |                                      | 12         | 1,555                         | 729                        | 103                   |                             | 2                  | 5         | 2,406        |
| Effects of changes in foreign exchange rates             |                                      | 548        | 447                           | 1,157                      | 94                    |                             | (54)               | 940       | 3,132        |
| Changes in value on the recognition of inflation effects |                                      | (439)      | (1,042)                       | (553)                      | (46)                  |                             |                    | (233)     | (2,313)      |
| Effect Venezuela   |                                      | 481        | 1,186                         | 626                        | 56                    |                             |                    | 335       | 2,684        |
| Impairment Venezuela                                     |                                      | (257)      | (841)                         |                            |                       |                             |                    |           | (1,098)      |

|  |     |             |              |              |              |     |           |           |              |
|--|-----|-------------|--------------|--------------|--------------|-----|-----------|-----------|--------------|
| Accumulated depreciation as of December 31, 2017 | Ps. | Ps. (4,616) | Ps. (19,620) | Ps. (10,688) | Ps. (13,422) | Ps. | Ps. (330) | Ps. (497) | Ps. (49,173) |
|--|-----|-------------|--------------|--------------|--------------|-----|-----------|-----------|--------------|

| Carrying Amount         | Investments<br>in Fixed<br>Assets |            |                               |                            |                       |                             |                    |           | Total      |
|-------------------------|-----------------------------------|------------|-------------------------------|----------------------------|-----------------------|-----------------------------|--------------------|-----------|------------|
|                         | Land                              | Buildings  | Machinery<br>and<br>Equipment | Refrigeration<br>Equipment | Returnable<br>Bottles | Progressive<br>Improvements | Leasehold<br>Other |           |            |
| As of December 31, 2015 | Ps. 4,707                         | Ps. 11,441 | Ps. 17,900                    | Ps. 7,424                  | Ps. 4,273             | Ps. 3,812                   | Ps. 461            | Ps. 514   | Ps. 50,532 |
| As of December 31, 2016 | Ps. 5,822                         | Ps. 15,590 | Ps. 23,295                    | Ps. 9,069                  | Ps. 5,679             | Ps. 4,208                   | Ps. 410            | Ps. 1,215 | Ps. 65,288 |

As of

**December 31,**

2017 Ps. 9,865 Ps. 16,113 Ps. 27,526 Ps. 9,395 Ps. 8,110 Ps. 3,874 Ps. 445 Ps. 499 Ps. 75,827

During the years ended December 31, 2017, 2016 and 2015 the Company capitalized Ps. , Ps. 61 and Ps. 57, respectively of borrowing costs in relation to Ps. , Ps. 99 and Ps. 993 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were %, 4.5% and 4.1% respectively.

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

|   | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|---|-------------|-------------|-------------|
| Interest expense and foreign exchange, net          | <b>Ps.</b>  | Ps. 6,149   | Ps. 7,358   |
| Amount capitalized <sup>(1)</sup>                   |             | 69          | 85          |
| <b>Net amount in consolidated income statements</b> | <b>Ps.</b>  | Ps. 6,080   | Ps. 7,273   |

- <sup>(1)</sup> Amount of interest capitalized in property, plant and equipment and amortized intangible assets. Commitments related to acquisitions of property, plant and equipment are disclosed in Note 24.

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During the year ended December 31, 2017 and due to the economic and operational conditions worsened in Venezuela, the Company has recognized an impairment in the property plan and equipment for an amount of Ps 1,098, such charge has been recorded in other expenses line in the consolidated income statement

**Note 11. Intangible Assets**

|  | <b>Rights to<br/>Produce and<br/>Distribute<br/>Coca-Cola<br/>trademark<br/>Products</b> | <b>Goodwill</b>   | <b>Other<br/>indefinite<br/>lived<br/>intangible<br/>assets</b> | <b>Technology<br/>Costs and<br/>management<br/>Development<br/>systems</b> | <b>Development<br/>systems</b> | <b>Other<br/>amortizables</b> | <b>Total</b>       |
|--|--|-------------------|---|--|--------------------------------|-------------------------------|--------------------|
| Balance as of January 1, 2015                            | Ps. 70,263   | Ps. 23,593        | Ps. 139   | Ps. 2,882  | Ps. 1,312                      | Ps. 345                       | Ps. 98,534         |
| Purchases  |  |                   |   | 73   | 458                            | 29                            | 560                |
| Transfer of completed development systems                |  |                   |   | 1,085  | (1,085)                        |                               |                    |
| Effect of movements in exchange rates                    | (4,992)  | (2,556)           | (19)  | (218)  | (2)                            | (44)                          | (7,831)            |
| Changes in value on the recognition of inflation effects | 1,121  |                   |   |  |                                |                               | 1,121              |
| Capitalization of borrowing cost                         |  |                   |   | 28   |                                |                               | 28                 |
| <b>Cost as of December 31, 2015</b>                      | <b>Ps. 66,392</b>  | <b>Ps. 21,037</b> | <b>Ps. 120</b>  | <b>Ps. 3,850</b>   | <b>Ps. 683</b>                 | <b>Ps. 330</b>                | <b>Ps. 92,412</b>  |
| Balance as of January 1, 2016                            | Ps. 66,392   | Ps. 21,037        | Ps. 120   | Ps. 3,850  | Ps. 683                        | Ps. 330                       | Ps. 92,412         |
| Purchases  |  |                   |   | 127  | 609                            | 2                             | 738                |
| Acquisition from business combinations                   | 9,602  | 7,856             | 1,067   | 247  | 3                              | 109                           | 18,884             |
| Transfer of completed development systems                |  |                   |   | 304  | (304)                          |                               |                    |
| Disposals  |  |                   |   | (323)  |                                | (2)                           | (325)              |
| Effect of movements in exchange rates                    | 8,124  | 4,689             | 61  | 363  | (193)                          | 36                            | 13,080             |
| Changes in value on the recognition of inflation effects | 1,220  |                   |   |  |                                |                               | 1,220              |
| Capitalization of borrowing cost                         |  |                   |   | 11   |                                |                               | 11                 |
| <b>Cost as of December 31, 2016</b>                      | <b>Ps. 85,338</b>  | <b>Ps. 33,582</b> | <b>Ps. 1,248</b>  | <b>Ps. 4,579</b>   | <b>Ps. 798</b>                 | <b>Ps. 475</b>                | <b>Ps. 126,020</b> |

|  |                   |                   |                  |                  |                  |                |                    |
|--|-------------------|-------------------|------------------|------------------|------------------|----------------|--------------------|
| Balance as of January 1, 2017                            | Ps. 85,338        | Ps. 33,582        | Ps. 1,248        | Ps. 4,579        | Ps. 798          | Ps. 475        | Ps. 126,020        |
| Purchases  | 1,288             |                   | 7                | 179              | 920              | 446            | 2,840              |
| Acquisition from business combinations                   | 3,874             |                   |                  | 6                |                  | 64             | 3,944              |
|  | 5,192             | (6,168)           |                  |                  |                  |                |                    |
| Transfer of completed development systems                |                   |                   |                  | 412              | (412)            |                |                    |
| Disposals  |                   |                   |                  |                  |                  |                |                    |
| Effect of movements in exchange rates                    | (2,318)           | (1,186)           | 101              | (86)             | (15)             | (52)           | (3,556)            |
| Changes in value on the recognition of inflation effects | (727)             |                   |                  |                  |                  | 175            | (552)              |
| Effect Venezuela (Note 3.3)                              |                   |                   |                  |                  |                  | (139)          | (139)              |
| <b>Cost as of December 31, 2017</b>                      | <b>Ps. 92,647</b> | <b>Ps. 26,228</b> | <b>Ps. 1,356</b> | <b>Ps. 5,090</b> | <b>Ps. 1,291</b> | <b>Ps. 969</b> | <b>Ps. 127,581</b> |
| <b>Accumulated amortization</b>                          |                   |                   |                  |                  |                  |                |                    |
| Balances as of January 1, 2015                           | Ps.               | Ps.               | Ps.              | Ps. (1,273)      | Ps.              | Ps. (237)      | Ps. (1,510)        |
| Amortization expense                                     |                   |                   |                  | (339)            |                  | (35)           | (374)              |
| Effect of movements in exchange rate                     |                   |                   |                  | 174              |                  | 52             | 226                |
| Balances as of December 31, 2015                         |                   |                   |                  | (1,438)          |                  | (220)          | (1,658)            |
| Amortization expense                                     |                   |                   |                  | (427)            |                  | (35)           | (462)              |
| Disposals  |                   |                   |                  | 249              |                  |                | 249                |
| Effect of movements in exchange rate                     |                   |                   |                  | (148)            |                  | (37)           | (185)              |
| Balances as of December 31, 2016                         |                   |                   |                  | (1,764)          |                  | (292)          | (2,056)            |
| Amortization expense                                     |                   |                   |                  | (605)            |                  | (42)           | (647)              |
| Disposals  |                   |                   |                  |                  |                  |                |                    |
| Effect of movements in exchange rate                     |                   |                   |                  | 46               |                  | 184            | 230                |
| Effect Venezuela (Note 3.3)                              |                   |                   |                  |                  |                  | (120)          | (120)              |
| Impairment Venezuela                                     | (745)             |                   |                  |                  |                  |                | (745)              |
| Balances as of December 31, 2017                         | Ps. (745)         | Ps.               | Ps.              | Ps. (2,323)      | Ps.              | Ps. (270)      | Ps. (3,338)        |
| Balance as of December 31, 2015                          | Ps. 66,392        | Ps. 21,037        | Ps. 120          | Ps. 2,412        | Ps. 683          | Ps. 110        | Ps. 90,754         |

|                                    |            |            |           |           |           |         |             |
|------------------------------------|------------|------------|-----------|-----------|-----------|---------|-------------|
| Balance as of<br>December 31, 2016 | Ps. 85,338 | Ps. 33,582 | Ps. 1,248 | Ps. 2,815 | Ps. 798   | Ps. 183 | Ps. 123,964 |
| Balance as of<br>December 31, 2017 | Ps. 91,902 | Ps. 26,228 | Ps. 1,356 | Ps. 2,767 | Ps. 1,291 | Ps. 699 | Ps. 124,243 |

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During the years ended December 31, 2017, 2016 and 2015 the Company capitalized Ps. , Ps. 8 and Ps. 28, respectively of borrowing costs in relation to Ps. , Ps. 28 and Ps. 410 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were %, 4.1% and 4.1%.

On March 28, 2017 the Company acquired distribution rights and other intangibles of AdeS soy-based beverages in its territories in Mexico and Colombia for an aggregate amount of Ps. 1,664. This acquisition was made to reinforce the Company's leadership position

For the year ended December 31, 2017, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 22, Ps. 83 and Ps. 544, respectively.

For the year ended December 31, 2016, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 8, Ps. 106 and Ps. 358, respectively.

For the year ended December 31, 2015, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 5, Ps. 60 and Ps. 309, respectively.

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

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

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

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

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

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

The foregoing forecasts could differ from the results obtained over time; however, the Company prepares its estimates based on the current situation of each of the CGUs.

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

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

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

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



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

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

Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. The Company believes that this forecasted period is justified due to the non-current nature of the business and past experiences.

Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.

A per CGU-specific Weighted Average Cost of Capital ( WACC ) was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjustment.

The key assumptions by CGU for impairment test as of December 31, 2017 were as follows:

| CGU         | Pre-tax WACC | Post tax WACC | Expected Annual Long-Term Inflation 2018-2027 | Expected Volume Growth Rates 2018-2027 |
|-------------|--------------|---------------|---|--|
| Mexico      | 7.3%         | 5.3%          | 3.7%  | 2.2%                                   |
| Guatemala   | 13.9%        | 10.7%         | 4.7%  | 7.1%                                   |
| Nicaragua   | 16.6%        | 10.6%         | 5.0%  | 4.9%                                   |
| Costa Rica  | 11.5%        | 7.8%          | 3.3%  | 2.7%                                   |
| Panama      | 8.3%         | 6.5%          | 2.3%  | 3.4%                                   |
| Colombia    | 9.1%         | 6.6%          | 3.1%  | 3.2%                                   |
| Brazil      | 9.7%         | 6.2%          | 4.1%  | 1.3%                                   |
| Argentina   | 11.0%        | 7.3%          | 10.7%   | 3.1%                                   |
| Philippines | 9.7%         | 5.9%          | 3.6%  | 3.4%                                   |

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

| CGU       | Pre-tax WACC | Post tax WACC | Expected Annual Long-Term Inflation 2017-2026 | Expected Volume Growth Rates 2017-2026 |
|-----------|--------------|---------------|---|--|
| Mexico    | 6.8%         | 6.3%          | 3.7%  | 1.2%                                   |
| Guatemala | 9.9%         | 9.5%          | 5.0%  | 13.2%                                  |
| Nicaragua | 10.6%        | 10.1%         | 4.2%  | 5.7%                                   |

|            |       |       |        |      |
|------------|-------|-------|--------|------|
| Costa Rica | 8.4%  | 8.3%  | 4.4%   | 4.7% |
| Panama     | 7.8%  | 7.4%  | 3.0%   | 4.9% |
| Colombia   | 7.9%  | 7.5%  | 3.2%   | 4.0% |
| Venezuela  | 17.5% | 17.0% | 117.3% | 1.0% |
| Brazil     | 8.7%  | 8.1%  | 4.4%   | 2.9% |
| Argentina  | 9.1%  | 8.5%  | 12.2%  | 4.1% |

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

During the year ended December 31, 2017 and due to the economic and operational conditions worsened in Venezuela, the Company has recognized an impairment of the distribution rights in such country for an amount of Ps 745, such charge has been recorded in other expenses line in the consolidated income statement

### **Sensitivity to Changes in Assumptions**

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

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

<sup>(1)</sup> Compound Annual Growth Rate (CAGR)

**Note 12. Other non-current assets and other non-current financial assets****12.1 Other Non-Current Assets:**

|   | 2017             | 2016              |
|---|------------------|-------------------|
| Non-current prepaid advertising expenses                              | Ps. 376          | Ps. 392           |
| Guarantee deposits <sup>(1)</sup>                                     | 1,835            | 1,829             |
| Prepaid bonuses   | 195              | 150               |
| Advances to acquire property, plant and equipment                     | 266              | 173               |
| Shared based payment  | 151              | 168               |
| Indemnifiable contingencies from business combinations <sup>(2)</sup> | 4,510            | 8,081             |
| Recoverable tax added in business combinations                        | 459              | 488               |
| Other   | 329              | 199               |
|   | <b>Ps. 8,121</b> | <b>Ps. 11,480</b> |

<sup>(1)</sup> As it is customary in Brazil, the Company is required to collateralize tax, legal and labor contingencies by guarantee deposits.

<sup>(2)</sup> Corresponds to indemnifiable assets that are warranted by former Vonpar owners as per the share purchase agreement.

**12.2 Other Non-Current Financial Assets:**

|                                    | 2017    | 2016    |
|------------------------------------|---------|---------|
| Other non-current financial assets | Ps. 322 | Ps. 118 |

|  |                  |                  |
|--|------------------|------------------|
| Derivative financial instruments (See Note 19) | 955              | 4,615            |
|  | <b>Ps. 1,277</b> | <b>Ps. 4,733</b> |

As of December 31, 2017 and 2016 there are no significant variances between the fair value and the carrying value of long term receivables. The fair value is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for receivable of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy.

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

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note.

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

|   | 2017             | 2016      |
|---|------------------|-----------|
| <b>Balances:</b>  |                  |           |
| <b>Assets (current included in accounts receivable)</b>                       |                  |           |
| Due from FEMSA and Subsidiaries<br>(see Note 6) <sup>(1)</sup> <sup>(4)</sup> | <b>Ps. 402</b>   | Ps. 549   |
| Due from The Coca-Cola Company<br>(see Note 6) <sup>(1)</sup> <sup>(4)</sup>  | <b>2,054</b>     | 1,857     |
| Due from Heineken Group <sup>(1)</sup>  | <b>290</b>       | 304       |
| Other receivables <sup>(1)</sup>  | <b>27</b>        | 64        |
| Shareholders Vonpar (see Note 6)  | <b>1,219</b>     |           |
|   | <b>Ps. 3,992</b> | Ps. 2,774 |

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|  | 2017      | 2016      |
|--|-----------|-----------|
| <b>Liabilities (current included in suppliers and other liabilities and loans)</b> |           |           |
| Due to FEMSA and Subsidiaries <sup>(3) (4)</sup>                                   | Ps. 1,038 | Ps. 905   |
| Due to The Coca-Cola Company <sup>(2) (3) (4)</sup>                                | 3,731     | 4,454     |
| Due to Heineken Group <sup>(3)</sup>   | 1,348     | 1,414     |
| Other payables <sup>(3)</sup>  | 330       | 654       |
|  | Ps. 6,447 | Ps. 7,427 |

- (1) Presented within accounts receivable.  
(2) Recorded within bank loans.  
(3) Recorded within accounts payable and suppliers.  
(4) Parent

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

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

| Transactions  | 2017       | 2016       | 2015       |
|---|------------|------------|------------|
| <b>Income:</b>  |            |            |            |
| Sales to affiliated parties   | Ps. 4,761  | Ps. 4,274  | Ps. 3,803  |
| Interest income received from Compañía Panameña de Bebidas, S.A.P.I. de C.V.                    |            | 1          |            |
| Interest income received from BBVA Bancomer, S.A. de C.V.                                       | 138        | 17         | 13         |
| <b>Expenses:</b>  |            |            |            |
| Purchases and other expenses of FEMSA   | 7,773      | 8,328      | 7,720      |
| Purchases of concentrate from The Coca-Cola Company   | 33,898     | 38,146     | 27,330     |
| Purchases of raw material, beer and operating expenses from Heineken                            | 13,608     | 8,823      | 6,944      |
| Advertisement expense paid to The Coca-Cola Company   | 1,392      | 2,354      | 1,316      |
| Purchases from Jugos del Valle  | 2,604      | 2,428      | 2,135      |
| Purchase of sugar to Promotora Industrial Azucarera, S.A. de C.V.                               | 1,885      | 1,765      | 1,236      |
| Purchase of sugar from Beta San Miguel  | 1,827      | 1,349      | 1,264      |
| Purchase of sugar, cans and aluminum lids to Promotora Mexicana de Embotelladores, S.A. de C.V. | 839        | 759        | 587        |
|   | <b>804</b> | <b>798</b> | <b>731</b> |

|  |              |       |       |
|--|--------------|-------|-------|
| Purchase of canned products to Industria Envasadora de Queretaro, S.A. de C.V.                               |              |       |       |
| Purchase of inventories to Leao Alimentos e Bebidas, LTDA  | <b>4,010</b> | 3,448 | 3,359 |
| Purchase of resin from Industria Mexicana de Reciclaje, S.A. de C.V.   | <b>267</b>   | 265   | 220   |
| Donations to Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. <sup>(1)</sup> <sup>(2)</sup> | <b>47</b>    | 1     |       |
| Donations to Fundación Femsa, A.C.   | <b>2</b>     | 92    |       |
| Interest expense paid to The Coca-Cola Company   | <b>11</b>    |       | 1     |
| Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. <sup>(1)</sup>                        |              | 1     | 22    |
| Other expenses with related parties  | <b>202</b>   | 185   | 24    |

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

(2) 47 Million MXN of donations to ITESM was made through Fundacion FEMSA as intermediary.

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

|                           | <b>2017</b>    | <b>2016</b> | <b>2015</b> |
|---------------------------|----------------|-------------|-------------|
| Current employee benefits | <b>Ps. 621</b> | Ps. 652     | Ps. 552     |
| Termination benefits      | <b>27</b>      | 154         | 32          |
| Shared based payments     | <b>316</b>     | 258         | 138         |

**Note 14. Balances and Transactions in Foreign Currencies**

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different from the functional currency of the Company. As of December 31, 2017 and 2016, assets and liabilities denominated in foreign currencies, expressed in mexican pesos (contractual amounts) are as follows:

| <b>Balances</b>                | <b>Assets</b>  |                    | <b>Liabilities</b> |                    |
|--------------------------------|----------------|--------------------|--------------------|--------------------|
|                                | <b>Current</b> | <b>Non-current</b> | <b>Current</b>     | <b>Non-current</b> |
| <b>As of December 31, 2017</b> |                |                    |                    |                    |
| U.S. dollars                   | 5,852          |                    | 2,783              | 53,093             |
| Euros                          |                |                    | 1,547              |                    |
| <b>As of December 31, 2016</b> |                |                    |                    |                    |
| U.S. dollars                   | 2,097          | 686                | 3,544              | 66,995             |
| Euros                          |                |                    | 19                 |                    |

As of year ended December 31, 2017, 2016 and 2015 transactions denominated in foreign currencies, expressed in mexican pesos (contractual amounts) are as follows:

| <b>Transactions</b>                       | <b>Revenues</b> | <b>Purchases of</b>  | <b>Interest</b> | <b>Other</b> |
|---|-----------------|----------------------|-----------------|--------------|
|   |                 | <b>Raw Materials</b> | <b>Expense</b>  |              |
| Year ended December 31, 2017 U.S. dollars | 653             | 13,381               | 2,454           | 1,544        |
| Year ended December 31, 2017 Euros        |                 | 18                   |                 |              |
| Year ended December 31, 2016 U.S. dollars | 736             | 13,242               | 2,235           | 1,796        |
| Year ended December 31, 2015 U.S. dollars | 569             | 11,458               | 1,965           | 1,301        |

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

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

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

**15.1 Assumptions**

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

| <b>Mexico</b>  | <b>2017</b>                     | <b>2016</b>               | <b>2015</b>               |
|--|---------------------------------|---------------------------|---------------------------|
| <b>Financial:</b>  |                                 |                           |                           |
| Discount rate used to calculate the defined benefit obligation | <b>7.60%</b>                    | 7.60%                     | 7.00%                     |
| Salary increase  | <b>4.60%</b>                    | 4.50%                     | 4.50%                     |
| Future pension increases                                       | <b>3.50%</b>                    | 3.50%                     | 3.50%                     |
| <b>Biometric:</b>  |                                 |                           |                           |
| Mortality  | <b>EMSSA 2009<sup>(1)</sup></b> | EMSSA 2009 <sup>(1)</sup> | EMSSA 2009 <sup>(1)</sup> |
| Disability   | <b>IMSS-97<sup>(2)</sup></b>    | IMSS-97 <sup>(2)</sup>    | IMSS-97 <sup>(2)</sup>    |
| Normal retirement age  | <b>60 years</b>                 | 60 years                  | 60 years                  |
| Rest of employee turnover                                      | <b>BMAR2007<sup>(3)</sup></b>   | BMAR2007 <sup>(3)</sup>   | BMAR2007 <sup>(3)</sup>   |

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

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

(3) BMAR. Actuary experience



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

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

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

|              | <b>Pension and<br/>Retirement<br/>Plans</b> | <b>Seniority<br/>Premiums</b> |
|--------------|---|-------------------------------|
| 2018         | 324   | 22                            |
| 2019         | 160   | 21                            |
| 2020         | 243   | 21                            |
| 2021         | 169   | 21                            |
| 2022         | 170   | 23                            |
| 2023 to 2027 | 1,639                                       | 139                           |

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

|  | <b>2017</b>      | <b>2016</b> |
|--|------------------|-------------|
| <b>Pension and Retirement Plans:</b>   |                  |             |
| Vested benefit obligation  | <b>Ps. 389</b>   | Ps. 656     |
| Non-vested benefit obligation  | <b>1,398</b>     | 1,318       |
| Accumulated benefit obligation   | <b>1,787</b>     | 1,974       |
| Excess of projected defined benefit obligation over accumulated benefit obligation | <b>2,582</b>     | 941         |
| Defined benefit obligation   | <b>4,369</b>     | 2,915       |
| Pension plan funds at fair value   | <b>(1,692)</b>   | (910)       |
| Net defined benefit liability  | <b>Ps. 2,677</b> | Ps. 2,005   |
| <b>Seniority Premiums:</b>   |                  |             |
| Vested benefit obligation  | <b>Ps. 36</b>    | Ps. 18      |
| Non-vested benefit obligation  | <b>267</b>       | 175         |
| Accumulated benefit obligation   | <b>303</b>       | 193         |
| Excess of projected defined benefit obligation over accumulated benefit obligation | <b>158</b>       | 223         |
| Defined benefit obligation   | <b>461</b>       | 416         |

|  |                  |                  |
|--|------------------|------------------|
| Seniority premium plan funds at fair value                           | (109)            | (102)            |
| Net defined benefit liability  | Ps. 352          | Ps. 314          |
| <b>Total post-employment and other non-current employee benefits</b> | <b>Ps. 3,029</b> | <b>Ps. 2,319</b> |

### 15.3 Trust assets

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

| Type of instrument             | 2017 | 2016 |
|--------------------------------|------|------|
| <b>Fixed return:</b>           |      |      |
| Traded securities              | 14%  | 24%  |
| Life annuities                 | 12%  | 18%  |
| Bank instruments               | 6%   | 1%   |
| Federal government instruments | 50%  | 39%  |
| <b>Variable return:</b>        |      |      |
| Publicly traded shares         | 18%  | 18%  |
|                                | 100% | 100% |

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

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

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

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

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

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

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

|   | <b>2017</b>   | <b>2016</b> |
|---|---------------|-------------|
| <b>Mexico</b>                             |               |             |
| <b>Portfolio:</b>                         |               |             |
| <b>Debt:</b>                              |               |             |
| Grupo Televisa, S.A.B. de C.V.            | <b>Ps. 17</b> | Ps. 17      |
| Grupo Financiero Banorte, S.A.B. de C.V.  | <b>7</b>      | 7           |
| Grupo Industrial Bimbo, S.A.B. de C. V.   | <b>24</b>     | 14          |
| Genera, S.A.B. de C.V.                    | <b>8</b>      | 8           |
| El Puerto de Liverpool, S.A.B. de C.V.    |               | 5           |
| <b>Capital:</b>                           |               |             |
| Fomento Económico Mexicano, S.A.B de C.V. | <b>8</b>      | 7           |
| Gruma, S.A.B. de C.V.                     | <b>3</b>      |             |
| Grupo Industrial Bimbo, S.A.B. de C.V.    |               | 6           |
| Genera, S.A.B. de C.V.                    | <b>4</b>      |             |
| El Puerto de Liverpool, S.A.B. de C.V.    | <b>5</b>      |             |

During the years ended December 31, 2017, 2016 and 2015, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during the following fiscal year.

**15.4 Amounts recognized in the consolidated income statements and the consolidated statements of comprehensive income**

|                              | Income statement     |                   |   | Acumulated OCI Remeasurements of the Net Defined Benefit Liability net of taxes |                |
|------------------------------|----------------------|-------------------|---|---|----------------|
|                              | Current Service Cost | Past Service Cost | Gain or Loss on Settlement or curtailment | Net Interest on the Net Defined Benefit Liability                               |                |
| <b>2017</b>                  |                      |                   |   |   |                |
| Pension and retirement plans | Ps. 241              | Ps. 10            | Ps.                                       | Ps. 159   | Ps. 539        |
| Seniority premiums           | 44                   |                   |   | 23  | 28             |
| <b>Total</b>                 | <b>Ps. 285</b>       | <b>Ps. 10</b>     | <b>Ps.</b>                                | <b>Ps. 182</b>  | <b>Ps. 567</b> |

|                              | Income statement     |                   |   | Acumulated OCI Remeasurements of the Net Defined Benefit Liability net of taxes |                |
|------------------------------|----------------------|-------------------|---|---|----------------|
|                              | Current Service Cost | Past Service Cost | Gain or Loss on Settlement or curtailment | Net Interest on the Net Defined Benefit Liability                               |                |
| <b>2016</b>                  |                      |                   |   |   |                |
| Pension and retirement plans | Ps. 145              | Ps. 43            | Ps. (61)                                  | Ps. 134   | Ps. 558        |
| Seniority premiums           | 45                   |                   |   | 20  | 27             |
| <b>Total</b>                 | <b>Ps. 190</b>       | <b>Ps. 43</b>     | <b>Ps. (61)</b>                           | <b>Ps. 154</b>  | <b>Ps. 585</b> |

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|                              | Income statement     |                   |                            | Acumulated OCI Remeasurements of the Net Defined Benefit Liability net of taxes |   |
|------------------------------|----------------------|-------------------|----------------------------|---|---|
|                              | Current Service Cost | Past Service Cost | Gain or Loss on Settlement | Net Interest on the Net Defined Benefit Liability                               | Net Interest on the Net Defined Benefit Liability |
| <b>2015</b>                  |                      |                   |                            |   |   |
| Pension and retirement plans | Ps. 142              | Ps.               | Ps. (120)                  | Ps. 124   | Ps. 429   |
| Seniority premiums           | 45                   |                   | (9)                        | 20  | 33  |
| Post-employment              | 5                    |                   |                            | 9   |   |
| Total                        | Ps. 192              | Ps.               | Ps. (129)                  | Ps. 153   | Ps. 462   |

For the years ended December 31, 2017, 2016 and 2015, service costs of Ps. 285, Ps. 190 and Ps. 192 have been included in the consolidated statements of income as cost of goods sold, administration and selling expenses.

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

|  | 2017    | 2016    | 2015    |
|--|---------|---------|---------|
| Amount accumulated in other comprehensive income as of the beginning of the periods      | Ps. 585 | Ps. 462 | Ps. 600 |
| Recognized during the year (obligation liability and plan assets)                        | (169)   | 75      | (49)    |
| Actuarial gains and losses arising from changes in financial assumptions                 | 165     | (29)    | (77)    |
| Foreign exchange rate valuation (gain)   | (14)    | 77      | (12)    |
| Amount accumulated in other comprehensive income as of the end of the period, net of tax | Ps. 567 | Ps. 585 | Ps. 462 |

Remeasurements of the net defined benefit liability include the following:

The return on plan assets, excluding amounts included in net interest expense.

Actuarial gains and losses arising from changes in demographic assumptions.

Actuarial gains and losses arising from changes in financial assumptions.

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

|  | 2017             | 2016      | 2015      |
|--|------------------|-----------|-----------|
| <b>Pension and Retirement Plans:</b>       |                  |           |           |
| Initial balance                            | Ps. 2,915        | Ps. 2,687 | Ps. 2,701 |
| Current service cost                       | 241              | 145       | 142       |
| Effect on curtailment                      |                  | (61)      | (120)     |
| Interest expense                           | 258              | 194       | 185       |
| Actuarial gains or losses                  | 190              | (7)       | (58)      |
| Foreign exchange loss                      | (69)             | 141       | 39        |
| Benefits paid                              | (385)            | (192)     | (202)     |
| Acquisitions                               | 1,209            |           |           |
| Past service cost                          | 10               | 8         |           |
|  | <b>Ps. 4,369</b> | Ps. 2,915 | Ps. 2,687 |
| <b>Seniority Premiums:</b>                 |                  |           |           |
| Initial balance                            | Ps. 416          | Ps. 404   | Ps. 393   |
| Current service cost                       | 44               | 45        | 45        |
| Effect on curtailment                      |                  |           | (9)       |
| Interest expense                           | 29               | 27        | 26        |
| Actuarial losses                           | 12               | (22)      | (21)      |
| Benefits paid                              | (40)             | (38)      | (30)      |
|  | <b>Ps. 461</b>   | Ps. 416   | Ps. 404   |
| <b>Post-employment:</b>                    |                  |           |           |
| Initial balance                            | Ps.              | Ps. 135   | Ps. 194   |
| Current service cost                       |                  |           | 5         |
| Certain liability cost                     |                  |           | 73        |
| Interest expense                           |                  |           |           |
| Reclassification to certain liability cost |                  | (135)     |           |
| Actuarial losses                           |                  |           |           |
| Foreign exchange gain                      |                  |           | (137)     |
| Benefits paid                              |                  |           |           |
|  | <b>Ps.</b>       | Ps.       | Ps. 135   |

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|                                      | <b>2017</b>     | <b>2016</b> | <b>2015</b> |
|--------------------------------------|-----------------|-------------|-------------|
| <b>Pension and retirement plans:</b> |                 |             |             |
| Balance at beginning of year         | <b>Ps.910</b>   | Ps.864      | Ps.872      |
| Actual return on trust assets        | <b>113</b>      | 15          | 26          |
| Foreign exchange gain                | <b>86</b>       | 4           | 2           |
| Life annuities                       | <b>21</b>       | 28          | 27          |
| Benefits paid                        | <b>(136)</b>    | (1)         | (63)        |
| Acquisitions                         | <b>698</b>      |             |             |
| Balance at end of year               | <b>Ps.1,692</b> | Ps.910      | Ps. 864     |
| <b>Seniority premiums</b>            |                 |             |             |
| Balance at beginning of year         | <b>Ps.102</b>   | Ps.101      | Ps.92       |
| Actual return on trust assets        | <b>7</b>        | 1           | 9           |
| Balance at end of year               | <b>Ps.109</b>   | Ps.102      | Ps.101      |

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

**15.7 Variation in assumptions**

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

Discount rate: The rate that determines the value of the obligations over time.

Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable. The following table presents the impact in absolute terms of a variation of 0.5% in the assumptions on the net defined benefit liability associated with the Company's defined benefit plans. The sensibility of this 0.5% on the significant actuarial assumptions is based on a projected long-term discount rates to Mexico and a yield curve projections of long-term sovereign bonds:

| <b>+0.5%:</b>  |                             |                          | <b>Income Statement</b>              |  | <b>Acummulated OCI</b>                                     |
|--|-----------------------------|--------------------------|--------------------------------------|--|--|
| <b>Discount rate used to calculate the defined benefit obligation and the netinterest on the net defined</b> | <b>Current Service Cost</b> | <b>Past Service Cost</b> | <b>Gain or Loss on Settlement or</b> | <b>Net Interest on the Net Defined Benefit Liability</b> | <b>Remeasurements of the Net Defined Benefit Liability</b> |
|  |                             |                          |                                      |  |  |

| <b>benefit liability (asset)</b> | <b>curtailment</b> |            |            |           |            |            |            |            |            |
|----------------------------------|--------------------|------------|------------|-----------|------------|------------|------------|------------|------------|
| Pension and retirement plans     | Ps.                | 228        | Ps.        | 10        | Ps.        | Ps.        | 157        | Ps.        | 535        |
| Seniority premiums               |                    | 42         |            |           |            |            | 23         |            | 36         |
| <b>Total</b>                     | <b>Ps.</b>         | <b>270</b> | <b>Ps.</b> | <b>10</b> | <b>Ps.</b> | <b>Ps.</b> | <b>180</b> | <b>Ps.</b> | <b>571</b> |

|                                 | <b>Current</b>      | <b>Past Service</b> | <b>Gain or</b>     | <b>Net Interest on</b>   | <b>Remeasurements</b>  |             |            |            |            |            |
|---------------------------------|---------------------|---------------------|--------------------|--------------------------|------------------------|-------------|------------|------------|------------|------------|
| <b>Expected salary increase</b> | <b>Service Cost</b> | <b>Cost</b>         | <b>Loss on</b>     | <b>the Net Defined</b>   | <b>of the Net</b>      |             |            |            |            |            |
|                                 |                     |                     | <b>Settlement</b>  | <b>Benefit Liability</b> | <b>Defined Benefit</b> |             |            |            |            |            |
|                                 |                     |                     | <b>or</b>          |                          | <b>Liability</b>       |             |            |            |            |            |
|                                 |                     |                     | <b>curtailment</b> |                          |                        |             |            |            |            |            |
| Pension and retirement plans    | Ps.                 | 255                 | Ps.                | 45                       | Ps.                    | (66)        | Ps.        | 275        | Ps.        | 711        |
| Seniority premiums              |                     | 46                  |                    |                          |                        |             |            | 32         |            | 38         |
| <b>Total</b>                    | <b>Ps.</b>          | <b>301</b>          | <b>Ps.</b>         | <b>45</b>                | <b>Ps.</b>             | <b>(66)</b> | <b>Ps.</b> | <b>307</b> | <b>Ps.</b> | <b>749</b> |

**-0.5%:**

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| <b>Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability (asset)</b> | <b>Current Service Cost</b> | <b>Past Service Cost</b> | <b>Gain or Loss on Settlement or curtailment</b> | <b>Net Interest on the Net Defined Benefit Liability</b> | <b>Remeasurements of the Net Defined Benefit Liability</b> |
|---|-----------------------------|--------------------------|--|--|--|
| Pension and retirement plans  | Ps. 254                     | Ps. 11                   | Ps.  | Ps. 162  | Ps. 569  |
| Seniority premiums  | 46                          |                          |  | 23   | 40   |
| <b>Total</b>  | <b>Ps. 300</b>              | <b>Ps. 11</b>            | <b>Ps.</b>                                       | <b>Ps. 185</b>   | <b>Ps. 609</b>   |

| <b>Expected salary increase</b> | <b>Current Service Cost</b> | <b>Past Service Cost</b> | <b>Gain or Loss on Settlement or curtailment</b> | <b>Net Interest on the Net Defined Benefit Liability</b> | <b>Remeasurements of the Net Defined Benefit Liability</b> |
|---------------------------------|-----------------------------|--------------------------|--|--|--|
| Pension and retirement plans    | Ps. 227                     | Ps. 11                   | Ps.  | Ps. 249  | Ps. 692  |
| Seniority premiums              | 41                          |                          |  | 29   | 44   |
| <b>Total</b>                    | <b>Ps. 268</b>              | <b>Ps. 11</b>            | <b>Ps.</b>                                       | <b>Ps. 278</b>   | <b>Ps. 736</b>   |

**15.8 Employee benefits expense**

For the years ended December 31, 2017, 2016 and 2015, employee benefits expenses recognized in the consolidated income statements are as follows:

|   | <b>2017</b>      | <b>2016</b> | <b>2015</b> |
|---|------------------|-------------|-------------|
| <b>Included in cost of goods sold:</b>                |                  |             |             |
| Wages and salaries                                    | <b>Ps. 4,639</b> | Ps. 4,827   | Ps. 4,106   |
| Social security costs                                 | <b>1,467</b>     | 1,234       | 799         |
| Employee profit sharing                               | <b>75</b>        | 142         | 125         |
| Pension and seniority premium costs (Note 15.4)       | <b>53</b>        | 57          | 56          |
| Share-based payment expense (Note 16.2)               | <b>6</b>         | 11          | 4           |
| <b>Included in selling and distribution expenses:</b> |                  |             |             |
| Wages and salaries                                    | <b>12,695</b>    | 13,526      | 11,513      |
| Social security costs                                 | <b>4,456</b>     | 4,571       | 2,911       |
| Employee profit sharing                               | <b>484</b>       | 485         | 453         |
| Pension and seniority premium costs (Note 15.4)       | <b>183</b>       | 65          | 65          |
| Share-based payment expense (Note 16.2)               | <b>7</b>         | 18          | 6           |
| <b>Included in administrative expenses:</b>           |                  |             |             |
| Wages and salaries                                    | <b>2,625</b>     | 2,839       | 2,551       |
| Social security costs                                 | <b>588</b>       | 472         | 337         |
| Employee profit sharing                               | <b>31</b>        | 56          | 30          |
| Pension and seniority premium costs (Note 15.4)       | <b>56</b>        | 66          | 66          |
| Post-employment benefits other (Note 15.4)            | <b>312</b>       | 5           | 5           |

|   |                   |            |            |
|---|-------------------|------------|------------|
| Share-based payment expense (Note 16.2) | <b>161</b>        | 177        | 254        |
| Total employee benefits expense         | <b>Ps. 27,838</b> | Ps. 28,551 | Ps. 23,281 |

## Note 16. Bonus Programs

### *16.1 Quantitative and qualitative objectives*

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

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

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

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of achievement of the goals established every year. The bonuses are recorded as a part of the income statement and are paid in cash the following year. During the years ended December 31, 2017, 2016 and 2015 the bonus expense recorded amounted to Ps. 701, Ps. 706 and Ps. 549, respectively.

**Table of Contents****16.2 Share-based payment bonus plan**

The Company has a stock incentive plan for the benefit of its senior executives. This plan uses as its main evaluation metric the EVA. Under the EVA stock incentive plan, eligible employees are entitled to receive a special annual bonus (fixed amount), to purchase FEMSA and Coca-Cola FEMSA shares or options, based on the executive's responsibility in the organization, their business EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 33% per year. The 50% of Coca-Cola FEMSA's annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options. For the years ended December 31, 2017, 2016 and 2015, no stock options have been granted to employees. Until 2015 the shares were vested ratably over a five year period. Beginning with January 1, 2016 onwards they will ratably vest over a three year period.

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

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

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

| <b>Incentive Plan</b> | <b>Number of shares</b> |            | <b>Vesting period</b> |
|-----------------------|-------------------------|------------|-----------------------|
|                       | <b>FEMSA</b>            | <b>KOF</b> |                       |
| 2013                  | 539,020                 | 370,200    | 2014-2016             |
| 2014                  | 489,345                 | 331,165    | 2015-2017             |
| 2015                  | 457,925                 | 415,375    | 2016-2018             |
| 2016                  | 567,671                 | 719,132    | 2017-2019             |
| 2017                  | 326,561                 | 369,791    | 2018-2020             |
| Total                 | 2,380,522               | 2,205,663  |                       |

For the years ended December 31, 2017, 2016 and 2015, the total expense recognized for the period arising from share-based payment transactions, using the grant date model, was of Ps. 174, Ps. 206 and Ps. 264, respectively.

As of December 31, 2017 and 2016, the asset recorded by Coca-Cola FEMSA in its consolidated statements of financial position amounted to Ps. 151 and Ps. 168, respectively, see Note 12.

**Table of Contents****Note 17. Bank Loans and Notes Payables**

| In millions of<br>mexican pesos | 2018         | 2019  | 2020  | 2021  | 2022  | 2023<br>and<br>Thereafter | Carrying<br>Value<br>December 31,<br>2017 | Fair<br>Value<br>at<br>December 31,<br>2017 | Carrying<br>Value<br>December 31,<br>2016 |
|---------------------------------|--------------|-------|-------|-------|-------|---------------------------|---|---|---|
| <b>Short-term debt:</b>         |              |       |       |       |       |                           |   |   |   |
| <b>Fixed rate debt:</b>         |              |       |       |       |       |                           |   |   |   |
| <b>Argentine pesos</b>          |              |       |       |       |       |                           |   |   |   |
| Bank loans                      | 106          |       |       |       |       |                           | 106                                       | 107   | 644                                       |
| Interest rate                   | 22.40%       |       |       |       |       |                           | 22.40%                                    |   | 31.98%                                    |
| <b>U.S. dollars</b>             |              |       |       |       |       |                           |   |   |   |
| Bank loans                      |              |       |       |       |       |                           |   |   | 206                                       |
| Interest rate                   |              |       |       |       |       |                           |   |   | 3.40%                                     |
| <b>Subtotal</b>                 | <b>106</b>   |       |       |       |       |                           | <b>106</b>                                | <b>107</b>                                  | <b>850</b>                                |
| <b>Variable rate debt:</b>      |              |       |       |       |       |                           |   |   |   |
| <b>Colombian peso</b>           |              |       |       |       |       |                           |   |   |   |
| Bank loans                      | 1,951        |       |       |       |       |                           | 1,951                                     | 1,949                                       | 723                                       |
| Interest rate                   | 7.28%        |       |       |       |       |                           | 7.28%                                     |   | 9.14%                                     |
| <b>Subtotal</b>                 | <b>1,951</b> |       |       |       |       |                           | <b>1,951</b>                              | <b>1,949</b>                                | <b>723</b>                                |
| <b>Short-term debt</b>          | <b>2,057</b> |       |       |       |       |                           | <b>2,057</b>                              | <b>2,056</b>                                | <b>1,573</b>                              |
| <b>Long-term debt:</b>          |              |       |       |       |       |                           |   |   |   |
| <b>Fixed rate debt:</b>         |              |       |       |       |       |                           |   |   |   |
| <b>Brazilian reais</b>          |              |       |       |       |       |                           |   |   |   |
| Bank loans                      | 319          | 220   | 152   | 92    | 78    | 73                        | 934                                       | 957   | 508                                       |
| Interest rate                   | 5.78%        | 5.78% | 5.78% | 5.78% | 5.78% | 5.78%                     | 5.78%                                     |   | 5.06%                                     |
| Notes payable <sup>(2)</sup>    |              | 6,707 |       |       |       |                           | 6,707                                     | 6,430                                       | 7,022                                     |
| Interest rate                   |              | 0.38% |       |       |       |                           | 0.38%                                     |   | 0.38%                                     |
| <b>U.S. dollars</b>             |              |       |       |       |       |                           |   |   |   |
| Yankee Bond                     | 8,774        |       | 9,844 |       |       | 29,425                    | 48,043                                    | 51,938                                      | 61,703                                    |
| Interest rate                   | 2.38%        |       | 4.63% |       |       | 4.43%                     | 4.09%                                     |   | 3.78%                                     |
| Notes payable                   |              |       |       |       |       |                           |   |   |   |

|                            |              |              |              |              |           |               |               |               |               |
|----------------------------|--------------|--------------|--------------|--------------|-----------|---------------|---------------|---------------|---------------|
| <b>Interest rate</b>       |              |              |              |              |           |               |               |               |               |
| <b>Colombian peso</b>      |              |              |              |              |           |               |               |               |               |
| Bank loans                 | 728          |              |              |              |           | 728           | 741           | 758           |               |
| Interest rate              | 9.63%        |              |              |              |           | 9.63%         |               | 9.63%         |               |
| <b>Mexican pesos</b>       |              |              |              |              |           |               |               |               |               |
| Senior notes               |              | 2,498        |              | 15,981       | 18,479    |               | 17,035        | 9,991         |               |
| Interest rate              |              | 8.27%        |              | 6.74%        | 6.95%     |               |               | 6.16%         |               |
| Subtotal                   | <b>9,821</b> | <b>6,927</b> | <b>9,996</b> | <b>2,590</b> | <b>78</b> | <b>45,479</b> | <b>74,891</b> | <b>77,101</b> | <b>79,982</b> |
| <b>Variable rate debt:</b> |              |              |              |              |           |               |               |               |               |
| <b>U.S. dollars</b>        |              |              |              |              |           |               |               |               |               |
| Bank loans                 |              |              | 4,032        |              |           | 4,032         | 4,313         | 4,218         |               |
| Interest rate              |              |              | 2.12%        |              |           | 2.12%         |               | 1.60%         |               |

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| In millions of<br>mexican pesos          | 2018          | 2019         | 2020          | 2021         | 2022         | 2023<br>and<br>Thereafter | Carrying<br>Value<br>at<br>December 31,<br>2017 | Fair<br>Value<br>at<br>December 31,<br>2017 | Carrying<br>Value<br>at<br>December 31,<br>2016 |
|--|---------------|--------------|---------------|--------------|--------------|---------------------------|---|---|---|
| <b>Mexican pesos</b>                     |               |              |               |              |              |                           |   |   |   |
| Senior notes                             |               |              |               |              | 1,496        |                           | 1,496   | 1,500                                       |   |
| Interest rate                            |               |              |               |              | 7.70%        |                           | 7.70%   |   |   |
| <b>Argentine pesos</b>                   |               |              |               |              |              |                           |   |   |   |
| Bank Loans                               |               |              |               |              |              |                           |   |   | 40  |
| Interest rate                            |               |              |               |              |              |                           |   |   | 27.84%  |
| <b>Brazilian reais</b>                   |               |              |               |              |              |                           |   |   |   |
| Bank Loans                               | 283           | 284          | 229           | 66           | 7            |                           | 869   | 883   | 1,864   |
| Interest rate                            | 8.50%         | 8.50%        | 8.50%         | 8.50%        | 8.50%        |                           | 8.50%   |   | 5.49%   |
| Notes payable                            | 10            | 5            |               |              |              |                           | 15  | 14  | 26  |
| Interest rate                            | 0.44%         | 0.44%        |               |              |              |                           | 0.44%   |   | 0.44%   |
| <b>Colombian pesos</b>                   |               |              |               |              |              |                           |   |   |   |
| Bank Loans <sup>(3)</sup>                |               |              |               |              |              |                           |   |   | 1,206   |
| Interest rate                            |               |              |               |              |              |                           |   |   | 10.47%  |
| Subtotal                                 | 293           | 289          | 229           | 4,098        | 1,503        |                           | 6,412   | 6,710                                       | 7,354   |
| <b>Long-term debt</b>                    | <b>10,114</b> | <b>7,216</b> | <b>10,225</b> | <b>6,688</b> | <b>1,581</b> | <b>45,479</b>             | <b>81,303</b>                                   | <b>83,811</b>                               | <b>87,336</b>                                   |
| <b>Current portion of long term debt</b> | 10,114        |              |               |              |              |                           | 10,114  |   | 1,479   |
| <b>Long-term debt</b>                    |               | <b>7,216</b> | <b>10,225</b> | <b>6,688</b> | <b>1,581</b> | <b>45,479</b>             | <b>71,189</b>                                   | <b>83,811</b>                               | <b>85,857</b>                                   |

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

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

(3) During 2017 a long term variable bank loan was refinanced for a 1-year term, therefore it was reclassified as short term variable bank loan.

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For the years ended December 31, 2017, 2016 and 2015, the interest expense related to the bank loans and notes payable is comprised as follows and included in the consolidated income statement under the interest expense caption:

|                                       | 2017             | 2016      | 2015      |
|---------------------------------------|------------------|-----------|-----------|
| Interest on debts and borrowings      | <b>Ps. 4,369</b> | Ps. 4,099 | Ps. 3,540 |
| Capitalized interest                  |                  | (32)      | (60)      |
| Finance charges for employee benefits | <b>182</b>       | 154       | 155       |
| Derivative instruments                | <b>4,161</b>     | 3,082     | 2,619     |
| Finance operating charges             | <b>97</b>        | 168       | 83        |
|                                       | <b>Ps. 8,809</b> | Ps. 7,471 | Ps. 6,337 |

Coca-Cola FEMSA has the following debt bonds: a) registered with the Mexican stock exchange: i) Ps. 2,500 (nominal amount) with a maturity date in 2021 and fixed interest rate of 8.27% and ii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46% iii) Ps. 1,500 (nominal amount) with a maturity date in 2022 and floating interest rate of TIIE + 0.25% iv) Ps. 8,500 (nominal amount) with a maturity date in 2027 and fixed interest rate of 7.87% and b) registered with the SEC : i) Senior notes of US. \$ 500 with interest at a fixed rate of 4.63% and maturity date on February 15, 2020, ii) Senior notes of US. \$445 with interest at a fixed rate of 2.38% and maturity date on November 26, 2018, iii) Senior notes of US. \$ 900 with interest at a fixed rate of 3.88% and maturity date on November 26, 2023 and iv) Senior notes of US. \$ 600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043 all of which are guaranteed by our subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R.L. de C.V. ( Guarantors ). In Note 27 we present supplemental guarantors consolidating financial information.

In August 18<sup>th</sup>, 2017, Coca-Cola FEMSA, partially prepaid US \$555 of a dollar denominated bond due in 2018, reducing the outstanding Senior note to US \$445 with interest at a fix rate of 2.38%

The Company has financing from different financial institutions under agreements that stipulate different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

**17.1 Reconciliation of liabilities arising from financing activities.**

|                          | Carrying Value at December 31, 2016 | Cash flows  |          | Non-cash flows            |                    | Carrying Value at December 31, 2017 |
|--------------------------|-------------------------------------|-------------|----------|---------------------------|--------------------|-------------------------------------|
|                          |                                     | Repayments  | Proceeds | Foreign Exchange movement | Translation Effect |                                     |
| Short-term bank loans    | Ps. 1,573                           | Ps. (1,013) | Ps. 489  | Ps.                       | Ps. 1,008          | Ps. 2,057                           |
| Short-term notes payable |                                     |             |          |                           |                    |                                     |

|   |            |              |            |           |              |            |
|---|------------|--------------|------------|-----------|--------------|------------|
| <b>Total short-term from financing activities</b>           | Ps. 1,573  | Ps. (1,013)  | Ps. 489    | Ps.       | Ps. 1,008    | Ps. 2,057  |
| Long-term bank loans  | 8,594      | (2,264)      | 1,999      | 190       | (1,956)      | 6,563      |
| Long-term notes payable                                     | 78,742     | (9,832)      | 10,000     | 4,015     | (8,185)      | 74,740     |
| <b>Total long-term from financing activities</b>            | Ps. 87,336 | Ps. (12,096) | Ps. 11,999 | Ps. 4,205 | Ps. (10,141) | Ps. 81,303 |
| <b>Current portion of long-term debt</b> <sup>(1) (2)</sup> | Ps. 1,479  |              |            |           |              | Ps. 10,114 |
| <b>Total from financing activities</b>                      | Ps. 88,909 | Ps. (13,109) | Ps. 12,488 | Ps. 4,205 | Ps. (9,133)  | Ps. 83,360 |

- (1) Current portion of long term debt at December 31, 2016 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 636, b) bank loans denominated in argentine pesos for an equivalent amount in Ps. 40, c) notes payable denominated in brazilian reais for an equivalent amount in Ps. 10 and d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 793.



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- (2) Current portion of long term debt at December 31, 2017 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 602, b) senior notes denominated in US dollars for an equivalent amount in Ps. 8,774, c) notes payable denominated in brazilian reais for an equivalent amount in Ps. 10 and d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 728.

|   | Carrying<br>Value at<br>December<br>31, 2015 | Cash flows  |           | Non-cash flows                  |                       | Carrying<br>Value at<br>December<br>31, 2016 |
|---|--|-------------|-----------|---------------------------------|-----------------------|--|
|   |  | Repayments  | Proceeds  | Foreign<br>Exchange<br>movement | Translation<br>Effect |  |
| Short-term bank loans   | Ps. 384                                      | Ps.         | Ps. 851   | Ps.                             | Ps. 338               | Ps. 1,573                                    |
| Short-term notes payable  |  |             |           |                                 |                       |  |
| <b>Total short-term from<br/>financing activities</b>           | Ps. 384                                      | Ps.         | Ps. 851   | Ps.                             | Ps. 338               | Ps. 1,573                                    |
| Long-term bank loans  | 2,068  | (1,988)     | 141       | (50)                            | 8,423                 | 8,594  |
| Long-term notes payable   | 63,818                                       | (2,500)     | 7,048     | 10,346                          | 30                    | 78,742                                       |
| Long-term lease liabilities                                     | 460  | (460)       |           |                                 |                       |  |
| <b>Total long-term from<br/>financing activities</b>            | Ps. 66,346                                   | Ps. (4,948) | Ps. 7,189 | Ps. 10,296                      | Ps. 8,453             | Ps. 87,336                                   |
| <b>Current portion of long-term<br/>debt</b> <sup>(1) (2)</sup> | Ps. 3,086                                    |             |           |                                 |                       | Ps. 1,479                                    |
| <b>Total from financing activities</b>                          | Ps. 66,730                                   | Ps. (4,948) | Ps. 8,040 | Ps. 10,296                      | Ps. 8,791             | Ps. 88,909                                   |

- (1) Current portion of long term debt at december 31, 2015 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 177, b) bank loans denominated in argentine pesos for an equivalent amount in Ps. 100, c) leases denominated in brazilian reais for an equivalent amount in Ps. 67, d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 246 and e) senior notes denominated in Ps. 2,496.
- (2) Current portion of long term debt at December 31, 2016 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 636, b) bank loans denominated in argentine pesos for an equivalent amount in Ps. 40, c) notes payable denominated in brazilian reais for an equivalent amount in Ps. 10 and d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 793.

**Note 18. Other Income and Expenses**

|                                   | 2017    | 2016    | 2015    |
|-----------------------------------|---------|---------|---------|
| <b>Other income:</b>              |         |         |         |
| Gain on sale of long-lived assets | Ps. 322 | Ps. 324 | Ps. 233 |
| Cancellation of contingencies     | 268     | 329     | 255     |
| Tax Recovery from previous year   | 597     | 603     | 20      |

|   |                  |           |         |
|---|------------------|-----------|---------|
| Philippines consolidation impact (Note 4) | <b>2,996</b>     |           |         |
| Other                                     | <b>188</b>       | 25        | 112     |
|   | <b>Ps. 4,371</b> | Ps. 1,281 | Ps. 620 |

**Other expenses:**

|   |                  |           |           |
|---|------------------|-----------|-----------|
| Provisions for contingencies                            | <b>Ps. 943</b>   | Ps. 819   | Ps. 334   |
| Loss on the retirement of long-lived assets             | <b>174</b>       | 321       | 332       |
| Loss on sale of long-lived assets                       | <b>368</b>       | 358       | 16        |
| Non-income taxes from Colombia                          |                  | 48        | 55        |
| Severance payments                                      | <b>302</b>       | 13        | 285       |
| Donations   | <b>83</b>        | 54        | 221       |
| Foreign exchange losses related to operating activities | <b>2,646</b>     | 2,799     | 871       |
| Venezuela impact (Note 3.3)                             | <b>28,176</b>    |           |           |
| Other   | <b>340</b>       | 681       | 254       |
|   | <b>Ps.33,032</b> | Ps. 5,093 | Ps. 2,368 |

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**Table of Contents****Note 19. Financial Instruments****Fair Value of Financial Instruments**

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

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3:** are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The Company measures the fair value of its financial assets and liabilities classified as level 1 and 2, applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes the Company's financial assets and liabilities measured at fair value, as of December 31, 2017 and 2016:

|  | 2017    |           | 2016    |           |
|--|---------|-----------|---------|-----------|
|  | Level 1 | Level 2   | Level 1 | Level 2   |
| Derivative financial instruments asset     | Ps. 22  | Ps. 1,183 | Ps. 375 | Ps. 4,977 |
| Derivative financial instruments liability | 26      | 4,468     |         | 5,680     |
| Trust assets of labor obligations          | 1,801   |           | 1,012   |           |

**19.1 Total debt**

The fair value of bank loans is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for debt of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy. The fair value of the Company's publicly traded debt is based on quoted market prices as of December 31, 2017 and 2016, which is considered to be level 1 in the fair value hierarchy (See Note 17).

**19.2 Forward agreements to purchase foreign currency**

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

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these forwards are recorded as part of

cumulative other comprehensive income . Net gain/loss on expired contracts is recognized as part of foreign exchange or cost of goods sold, depending on the nature of the hedge in the consolidated income statements.

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

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At December 31, 2017, the Company has the following outstanding forward agreements to purchase foreign currency:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value</b>  |              |
|----------------------|------------------------|--------------------|--------------|
|                      |                        | <b>(Liability)</b> | <b>Asset</b> |
| 2018                 | Ps. 6,882              | Ps. (22)           | Ps. 190      |

At December 31, 2016, the Company had the following outstanding forward agreements to purchase foreign currency:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value</b>  |              |
|----------------------|------------------------|--------------------|--------------|
|                      |                        | <b>(Liability)</b> | <b>Asset</b> |
| 2017                 | Ps. 6,559              | Ps. (194)          | Ps. 362      |

**19.3 Options to purchase foreign currency**

The Company has executed call option and collar strategies to reduce its exposure to the risk of exchange rate fluctuations. A call option is an instrument that limits the loss in case of foreign currency depreciation. A collar is a strategy that combines call and put options, limiting the exposure to the risk of exchange rate fluctuations in a similar way as a forward agreement.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these options, corresponding to the intrinsic value, are initially recorded as part of cumulative other comprehensive income. Changes in the fair value, corresponding to the extrinsic value, are recorded in the consolidated income statements under the caption market value gain on financial instruments, as part of the consolidated net income. Net gain/(loss) on expired contracts including the net premium paid, is recognized as part of cost of goods sold when the hedged item is recorded in the consolidated income statements.

At December 31, 2017, the Company paid a net premium of Ps. 7 millions for the following outstanding collar options to purchase foreign currency:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value</b>  |              |
|----------------------|------------------------|--------------------|--------------|
|                      |                        | <b>(Liability)</b> | <b>Asset</b> |
| 2018                 | Ps. 266                | Ps. (5)            | Ps. 17       |

**19.4 Cross-currency swaps**

The Company has contracted a number of cross-currency swaps to reduce its exposure to risks of exchange rate and interest rate fluctuations associated with its borrowings denominated in U.S. dollars. The fair value is estimated using market prices that would apply to terminate the contracts at the end of the period. For accounting purposes, the cross currency swaps are recorded as both, *Cash Flow Hedges* in regards to the foreign exchange risk, and *Fair Value Hedges* in regards to the interest rate risk and foreign exchange risk. The fair value changes related to exchange rate

fluctuations of the notional of those cross currency swaps and the accrued interest are recorded in the consolidated income statements. The remaining portion of the fair value changes, when designated as *Cash Flow Hedges*, are recorded in the consolidated balance sheet in cumulative other comprehensive income . If they are designated as *Fair Value Hedges* the changes in this remaining portion are recorded in the income statements as market value (gain) loss on financial instruments .

At December 31, 2017, the Company had the following outstanding cross currency swap agreements:

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| <b>Maturity Date</b> | <b>Notional<br/>Amount</b> | <b>Fair Value</b>    |              |
|----------------------|----------------------------|----------------------|--------------|
|                      |                            | <b>(Liability)</b>   | <b>Asset</b> |
|                      |                            | <b>Dec. 31, 2017</b> |              |
| 2018                 | Ps. 24,354                 | Ps. (3,863)          | Ps.          |
| 2019                 | 6,263                      | (205)                |              |
| 2020                 | 14,439                     | (163)                | 605          |
| 2021                 | 4,046                      |                      | 24           |
| 2023                 | 1,776                      |                      | 139          |
| 2027                 | 6,907                      | (129)                | 179          |

At December 31, 2016, the Company had the following outstanding cross currency swap agreements:

| <b>Maturity Date</b> | <b>Notional<br/>Amount</b> | <b>Fair Value</b>    |              |
|----------------------|----------------------------|----------------------|--------------|
|                      |                            | <b>(Liability)</b>   | <b>Asset</b> |
|                      |                            | <b>Dec. 31, 2016</b> |              |
| 2017                 | Ps. 207                    | Ps. (10)             | Ps.          |
| 2018                 | 39,262                     | (4,837)              | 3,688        |
| 2019                 | 7,022                      | (265)                |              |
| 2020                 | 15,118                     | (246)                | 798          |
| 2021                 | 4,236                      | (128)                |              |
| 2027                 | 5,476                      |                      | 125          |

**19.5 Interest Rate swaps**

The Company has contracted a number of interest rate swaps to reduce its exposure to interest rate fluctuations associated with its debt denominated in BRL. These interest rate swaps, for accounting purposes are recorded as *Fair Value Hedges* and the interest rate variation is recorded in the consolidated income statement as market value (gain) loss on financial instruments .

At December 31, 2017, the Company had the following outstanding interest rate swap agreements:

| <b>Maturity Date</b> | <b>Notional<br/>Amount</b> | <b>Fair Value</b>    |              |
|----------------------|----------------------------|----------------------|--------------|
|                      |                            | <b>(Liability)</b>   | <b>Asset</b> |
|                      |                            | <b>Dec. 31, 2017</b> |              |
| 2019                 | Ps. 4,024                  | Ps. (32)             |              |
| 2020                 | 3,669                      | (16)                 |              |
| 2021                 | 3,059                      | (33)                 |              |

**19.6 Commodity price contracts**

The Company has entered into various commodity price contracts to reduce its exposure to the risk of fluctuation in the costs of certain raw material. The fair value is estimated based on the market valuations to terminate the contracts at the end of the period. These instruments are designated as *Cash Flow Hedges* and the changes in their fair value are recorded as part of cumulative other comprehensive income .

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

At December 31, 2017, the Company had the following sugar price contracts:

| <b>Maturity Date</b> | <b>Notional<br/>Amount</b> | <b>Fair Value</b>   |              |
|----------------------|----------------------------|---------------------|--------------|
|                      |                            | <b>(Liability)</b>  | <b>Asset</b> |
|                      |                            | <b>Dec 31, 2017</b> |              |
| 2018                 | Ps. 986                    | Ps. (26)            | Ps. 19       |
| 2019                 | 150                        |                     | 3            |

At December 31, 2016, the Company had the following sugar price contracts:

| <b>Maturity Date</b> | <b>Notional<br/>Amount</b> | <b>Fair Value</b>   |     |
|----------------------|----------------------------|---------------------|-----|
|                      |                            | <b>Asset</b>        |     |
|                      |                            | <b>Dec 31, 2016</b> |     |
| 2017                 | Ps. 572                    | Ps.                 | 370 |



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At December 31, 2016, the Company has the following aluminum price contracts:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Asset Dec 31, 2017</b> |
|----------------------|------------------------|--------------------------------------|
| 2016                 | Ps. 74                 | Ps. 5                                |

**19.7 Option embedded in the Promissory Note to fund the Vonpar's acquisition**

As disclosed in Note 4.1.1, on December 6, 2016, as part of the purchase price paid for the Company's acquisition of Vonpar, Spal issued and delivered a three-year promissory note to the sellers, for a total amount of 1,090 million Brazilian reais (approximately Ps.6,503 and Ps. 7,022 million as of December 31, 2017 and 2016, respectively). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into the Company in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to the Company having a sufficient number of Series L shares available for issuance.

The Company uses Black & Scholes valuation technique to measure call option at fair value. The call option had an estimated fair value of Ps. 343 million at inception of the option and Ps. 242 million and 368 million as of December 31, 2017 and 2016, respectively. The option is as part of the Promisory Note disclosed in Note 17.

The Company estimates that the call option is out of the money as of December 31, 2017 and 2016 by approximately 30.4% and 35.9% or US\$ 82 million and US\$ 93 million, respectively, with respect to the strike price.

**19.7 Net effects of expired contracts that met hedging criteria**

| <b>Impact in Consolidated</b>                      |                         |                  |             |             |
|--|-------------------------|------------------|-------------|-------------|
| <b>Type of Derivatives</b>                         | <b>Income Statement</b> | <b>2017</b>      | <b>2016</b> | <b>2015</b> |
| Cross-currency swaps <sup>(1)</sup> <sup>(2)</sup> | Interest expense        | <b>Ps. 2,102</b> | Ps.         | Ps. 2,595   |
| Cross-currency swaps <sup>(1)</sup> <sup>(2)</sup> | Foreign exchange        |                  |             | (10,911)    |
| Interest rate swaps                                | Interest expense        |                  |             |             |
| Option to purchase foreign currency                | Cost of goods sold      |                  |             | (21)        |
| Forward agreements to purchase foreign currency    | Cost of goods sold      | <b>89</b>        | (45)        | (523)       |
| Commodity price contracts                          | Cost of goods sold      | <b>(6)</b>       | (241)       | 619         |

- (1) The amount corresponds to the settlement of cross currency swaps portfolio in Mexico presented as part of the other financial activities. and
- (2) The amount in 2015 figures corresponds to the settlement of cross currency swaps portfolio in Brazil presented as part of the other financial activities.

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

**Impact in Consolidated**

| <b>Type of Derivatives</b>                      | <b>Income Statement</b>                           | <b>2017</b>   | <b>2016</b> | <b>2015</b> |
|---|---|---------------|-------------|-------------|
| Forward agreements to purchase foreign currency | Market value gain (loss) on financial instruments | <b>Ps. 12</b> | Ps. (56)    | Ps. 52      |
| Cross-currency swaps                            | Market value gain (loss) on financial instruments | <b>337</b>    | 236         | (20)        |

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

**Impact in Consolidated**

| <b>Type of Derivatives</b> | <b>Income Statement</b>                           | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|----------------------------|---|-------------|-------------|-------------|
| Cross-currency swaps       | Market value (loss) gain on financial instruments | (104)       | (129)       | 105         |
| Embedded derivatives       | Market value gain on financial instruments        | Ps. 1       | Ps.         | Ps. 5       |

**Table of Contents****19.11 Market risk**

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

Forward Agreements to Purchase Foreign Currency in order to reduce its exposure to the risk of exchange rate fluctuations.

Options to purchase foreign currency in order to reduce its exposure to the risk of exchange rate fluctuations.

Cross-Currency Swaps in order to reduce its exposure to the risk of exchange rate fluctuations and interest rate changes.

Commodity price contracts in order to reduce its exposure to the risk of fluctuation in the costs of certain raw materials.

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

|   | <b>Change<br/>in<br/>U.S.\$<br/>Rate</b> | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Profit or<br/>Loss</b> |
|---|--|-----------------------------|---|
| <b>Forward Agreements to Purchase USD (MXN/USD)</b> |  |                             |   |
| 2017  | (12%)                                    | Ps. (602)                   | Ps.                                     |
| 2016  | (17%)                                    | (916)                       |   |
| 2015  | (11%)                                    | (197)                       |   |

|   | <b>Change<br/>in<br/>U.S.\$<br/>Rate</b> | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Profit or<br/>Loss</b> |
|---|--|-----------------------------|---|
| <b>Forward Agreements to Purchase USD (BRL/USD)</b> |  |                             |   |
| 2017  | (14%)                                    | Ps. (234)                   | Ps.                                     |
| 2016  | (18%)                                    | (203)                       |   |
| 2015  | (21%)                                    | (387)                       |   |

|   | <b>Change<br/>in<br/>U.S.\$<br/>Rate</b> | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Profit or<br/>Loss</b> |
|---|--|-----------------------------|---|
| <b>Forward Agreements to Purchase USD (COP/USD)</b> |  |                             |   |

|      |       |     |       |     |
|------|-------|-----|-------|-----|
| 2017 | (9%)  | Ps. | (73)  | Ps. |
| 2016 | (18%) |     | (255) |     |
| 2015 | (17%) |     | (113) |     |

|   | <b>Change<br/>in<br/>U.S.\$<br/>Rate</b> |     | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Profit or<br/>Loss</b> |
|---|--|-----|-----------------------------|---|
| <b>Forward Agreements to Purchase USD (ARS/USD)</b> |  |     |                             |   |
| 2017  | (10%)                                    | Ps. | (29)                        | Ps.                                     |
| 2015  | (36%)                                    |     | (231)                       |   |

|  | <b>Change<br/>in<br/>U.S.\$<br/>Rate</b> |     | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Profit or<br/>Loss</b> |
|--|--|-----|-----------------------------|---|
| <b>Cross Currency Swaps (USD into MXN)</b> |  |     |                             |   |
| 2017                                       | (12%)                                    | Ps. | (3,540)                     | Ps.                                     |
| 2016                                       | (17%)                                    |     | (3,687)                     | (1,790)                                 |
| 2015                                       | (11%)                                    |     |                             | (938)                                   |

|  | <b>Change<br/>in<br/>U.S.\$<br/>Rate</b> |     | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Profit or<br/>Loss</b> |
|--|--|-----|-----------------------------|---|
| <b>Cross Currency Swaps (USD into BRL)</b> |  |     |                             |   |
| 2017                                       | (14%)                                    | Ps. | (7,483)                     | Ps.                                     |
| 2016                                       | (18%)                                    |     | (9,559)                     |   |
| 2015                                       | (21%)                                    |     | (4,517)                     | (1,086)                                 |

|   | <b>Change<br/>in<br/>BRL<br/>Rates</b> |     | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Profit or<br/>Loss</b> |
|---|--|-----|-----------------------------|---|
| <b>Interest Rate Swaps (Float into Fix Rates)</b> |  |     |                             |   |
| 2017  | (100 bps)                              | Ps. | (234)                       | Ps.                                     |

|                              | <b>Change<br/>in<br/>Sugar price</b> |     | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Profit or<br/>Loss</b> |
|------------------------------|--------------------------------------|-----|-----------------------------|---|
| <b>Sugar Price Contracts</b> |                                      |     |                             |   |
| 2017                         | (30%)                                | Ps. | (32)                        | Ps.                                     |
| 2016                         | (33%)                                |     | (310)                       |   |
| 2015                         | (31%)                                |     | (406)                       |   |

|                                 | <b>Change<br/>in<br/>Aluminum price</b> |     | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Profit or<br/>Loss</b> |
|---------------------------------|---|-----|-----------------------------|---|
| <b>Aluminum Price Contracts</b> |   |     |                             |   |
| 2016                            | (16%)                                   | Ps. | (13)                        | Ps.                                     |
| 2015                            | (18%)                                   |     | (58)                        |   |

|   | <b>Change<br/>in<br/>U.S.<br/>\$ Rate</b> |  | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Profit or<br/>Loss</b> |
|---|---|--|-----------------------------|---|
| <b>Options to Purchase Foreign Currency (MXN/USD)</b> |   |  |                             |   |

2017

(12%) Ps. (24) Ps.

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**Table of Contents*****19.12 Interest rate risk***

The Company is exposed to interest rate risk because it and its subsidiaries borrow funds at both fixed and variable interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and variable rate borrowings, and by the use of the different derivative financial instruments. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The following disclosures provide a sensitivity analysis of the interest rate risks, management considered to be reasonably possible at the end of the reporting period, which the Company is exposed to as it relates to its fixed and floating rate borrowings, which considers its existing hedging strategy:

| <b>Interest Rate Risk</b> | <b>Change in<br/>U.S.\$ Rate</b> | <b>Effect on<br/>(Profit) or<br/>Loss</b> |
|---------------------------|----------------------------------|---|
| 2017                      | +100 bps                         | Ps. (251)                                 |
| 2016                      | +100 bps                         | Ps. (211)                                 |
| 2015                      | +100 bps                         | (175)                                     |

***19.13 Liquidity risk***

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

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

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

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

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

See Note 17 for a disclosure of the Company's maturity dates associated with its non-current financial liabilities as of December 31, 2017.

The following table reflects all contractually fixed and variable pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected gross cash outflows from derivative financial liabilities that are in place as of December 31, 2017.

Such expected net cash outflows are determined based on each particular settlement date of an instrument. The amounts disclosed are undiscounted net cash outflows for the respective upcoming fiscal years, based on the earliest date on which the Company could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on economic conditions (like interest rates and foreign exchange rates) existing at December 31, 2017.

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| (In millions of Ps)                          | 2018      | 2019      | 2020      | 2021      | 2022      | 2023 and thereafter |
|--|-----------|-----------|-----------|-----------|-----------|---------------------|
| <b>Non-derivative financial liabilities:</b> |           |           |           |           |           |                     |
| Notes and bonds                              | Ps. 8,784 | Ps. 6,712 | Ps. 9,844 | Ps. 2,498 | Ps. 1,496 | Ps. 45,406          |
| Loans from banks                             | 3,387     | 504       | 381       | 4,190     | 85        | 73                  |
| Derivatives financial liabilities            | (3,687)   | (237)     | 425       | (9)       |           | 190                 |

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

**19.14 Credit risk**

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

The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in cash.

The Company manages the credit risk related to its derivative portfolio by only entering into transactions with reputable and credit-worthy counterparties as well as by maintaining a Credit Support Annex (CSA) that establishes margin requirements. As of December 31, 2017 the Company concluded that the maximum exposure to credit risk related with derivative financial instruments is not significant given the high credit rating of its counterparties.

**Note 20. Non-Controlling Interest in Consolidated Subsidiaries**

An analysis of Coca-Cola FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2017, 2016 and 2015 is as follows:

|             | 2017              | 2016      | 2015      |
|-------------|-------------------|-----------|-----------|
| Mexico      | Ps. 5,994         | Ps. 5,879 | Ps. 3,342 |
| Colombia    | 23                | 22        | 12        |
| Brazil      | 1,224             | 1,195     | 632       |
| Philippines | 10,900            |           |           |
|             | <b>Ps. 18,141</b> | Ps. 7,096 | Ps. 3,986 |

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

As disclosed in Note 4.1.2, commencing on February 1, 2017, the Company started consolidating CCFPI's financial results in its financial statements. Summarised financial information of CCFPI is disclosed in Note 26 of the consolidated financial statements as part of the Asia Segment.



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

|  | <b>2017</b>      | <b>2016</b> | <b>2015</b> |
|--|------------------|-------------|-------------|
| Balance at beginning of the year   | <b>Ps.7,096</b>  | Ps.3,986    | Ps. 4,401   |
| Effects of business combination  | <b>11,072</b>    |             |             |
| Net income of non controlling interest   | <b>1,148</b>     | 457         | 94          |
| Exchange differences on translation of foreign operations                            | <b>(1,138)</b>   | 1,845       | (554)       |
| Remeasurements of the net defined employee benefit liability                         | <b>38</b>        |             | 6           |
| Valuation of the effective portion of derivative financial instruments, net of taxes | <b>(74)</b>      | 51          | 50          |
| Increase in shares of non-controlling interest                                       |                  | 826         |             |
| Dividends paid   | <b>(1)</b>       | (69)        | (11)        |
| <b>Balance at end of the year</b>  | <b>Ps.18,141</b> | Ps.7,096    | Ps.3,986    |

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**Table of Contents****Note 21. Equity****21.1 Equity accounts**

As of December 31, 2017, the capital stock of Coca-Cola FEMSA is represented by 2,100,832,262 common shares, with no par value. Fixed capital stock is Ps. 934 (nominal value) and variable capital is unlimited.

The characteristics of the common shares are as follows:

Series A and series D shares are ordinary, have all voting rights and are subject to transfer restrictions;

Series A shares may only be acquired by Mexican individuals and may not represent less than 51% of the ordinary shares.

Series D shares have no foreign ownership restrictions and may not represent more than 49% of the ordinary shares.

Series L shares have no foreign ownership restrictions and have limited voting rights.

As of December 31, 2017, 2016 and 2015, the number of each share series representing Coca-Cola FEMSA's capital stock is comprised as follows:

| Series of shares | Thousands of Shares |           |           |
|------------------|---------------------|-----------|-----------|
|                  | 2017                | 2016      | 2015      |
| A                | 992,078             | 992,078   | 992,078   |
| D                | 583,546             | 583,546   | 583,546   |
| L                | 525,208             | 497,298   | 497,298   |
|                  | <b>2,100,832</b>    | 2,072,922 | 2,072,922 |

The changes in the share are as follows:

| Series of shares             | Thousands of Shares |           |           |
|------------------------------|---------------------|-----------|-----------|
|                              | 2017                | 2016      | 2015      |
| Initial shares               | 2,072,922           | 2,072,922 | 2,072,922 |
| Shares issuance (Note 4.1.1) | 27,910              |           |           |
| Final shares                 | <b>2,100,832</b>    | 2,072,922 | 2,072,922 |

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve amounts to 20% of capital stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company. As of December 31, 2017, 2016 and 2015, this reserve was Ps. 164.

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect at the date of distribution, except for restated shareholder contributions and distributions made from net consolidated taxable income, denominated Cuenta de Utilidad Fiscal Neta ( CUFIN ).

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. The Company's balances of CUFIN amounted to Ps. 7,506, not subjected withholding tax.

For the years ended December 31, 2017, 2016 and 2015 the dividends declared and paid per share by the Company are as follows:

| Series of shares | 2017 <sup>(1)</sup> | 2016      | 2015      |
|------------------|---------------------|-----------|-----------|
| A                | <b>Ps. 3,323</b>    | Ps. 3,323 | Ps. 3,065 |
| D                | <b>1,955</b>        | 1,955     | 1,803     |
| L                | <b>1,713</b>        | 1,667     | 1,537     |
|                  | <b>Ps. 6,991</b>    | Ps. 6,945 | Ps. 6,405 |

- <sup>(1)</sup> At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 14, 2017, the shareholders declared a dividend of Ps. 6,991 that was paid in May 3, 2017 and November 1, 2017. Represents a dividend of Ps. 3.35 per each ordinary share.

**Table of Contents****21.2 Capital management**

The Company manages its capital to ensure that its subsidiaries will be able to continue as going concerns while maximizing the return to shareholders through the optimization of its debt and equity balance in order to obtain the lowest cost of capital available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2017 and 2016.

The Company is not subject to any externally imposed capital requirements, other than the legal reserve and debt covenants (see Note 17 and Note 21.1).

The Company's finance committee reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In conjunction with this objective, the Company seeks to maintain the highest credit rating both national and international, currently rated AAA and A-/A2/A- respectively, which requires us to comply, among others, to the financial metrics that each rating agency considers. For example, some rating agencies maintain a debt to earnings before interest, taxes, depreciation and amortization ( EBITDA ) ratio lower than 2.0x. As a result, prior to entering into new business ventures, acquisitions or divestures, management evaluates the impact that these transactions can have in its credit rating.

**Note 22. Earnings per Share**

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

Diluted earnings per share amounts are calculated by dividing consolidated net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the period plus the weighted average number of shares for the effects of dilutive potential shares (originated by the Company's commitment to capitalize 27.9 million KOF series L shares described in Note 4.1.1). During the years ended December 31, 2017 and 2015, the Company had no dilutive securities.

Basic and diluted earnings per share amounts are as follows:

|   | <b>2017</b>                    |                                |                                |
|---|--------------------------------|--------------------------------|--------------------------------|
|   | <b>Per Series<br/>A Shares</b> | <b>Per Series<br/>D Shares</b> | <b>Per Series<br/>L Shares</b> |
| Consolidated net income   | Ps. (5,503)                    | Ps. (3,237)                    | Ps. (2,914)                    |
| Consolidated net income attributable to equity holders of the parent                | (6,046)                        | (3,556)                        | (3,200)                        |
| Weighted average number of shares for basic earnings per share (millions of shares) | 992                            | 584                            | 515                            |

**2016**

|  | <b>Per<br/>Series<br/>A Shares</b> | <b>Per<br/>Series<br/>D Shares</b> | <b>Per<br/>Series<br/>L Shares</b> |
|--|------------------------------------|------------------------------------|------------------------------------|
| Consolidated net income  | Ps. 5,038                          | Ps. 2,963                          | Ps. 2,526                          |
| Consolidated net income attributable to equity holders of the parent                       | 4,819                              | 2,835                              | 2,416                              |
| Weighted average number of shares for basic earnings per share (millions of shares)        | 992                                | 584                                | 497                                |
| Effect of dilution associated with commitment to deliver 27.9 million KOF L shares         |                                    |                                    | 2                                  |
| Weighted average number of shares adjusted for the effect of dilution (Shares outstanding) | 992                                | 584                                | 499                                |

|   | <b>Per<br/>Series<br/>A Shares</b> | <b>2015<br/>Per<br/>Series<br/>D Shares</b> | <b>Per<br/>Series<br/>L Shares</b> |
|---|------------------------------------|---|------------------------------------|
| Consolidated net income   | Ps. 4,943                          | Ps. 2,908                                   | Ps. 2,478                          |
| Consolidated net income attributable to equity holders of the parent                | 5,045                              | 2,968                                       | 2,529                              |
| Weighted average number of shares for basic earnings per share (millions of shares) | 992                                | 584   | 497                                |

**Table of Contents****Note 23. Income Taxes****23.1 Income Tax**

The major components of income tax expense for the years ended December 31, 2017, 2016 and 2015 are:

|   | <b>2017</b>      | <b>2016</b> | <b>2015</b> |
|---|------------------|-------------|-------------|
| Current tax expense:                                |                  |             |             |
| Current year  | <b>Ps. 6,317</b> | Ps. 8,574   | Ps. 6,060   |
| Deferred tax expense:                               |                  |             |             |
| Origination and reversal of temporary differences   | <b>(1,698)</b>   | (2,812)     | 721         |
| (Benefit) utilization of tax losses recognized      | <b>(65)</b>      | (1,834)     | (2,230)     |
| Total deferred tax expense                          | <b>(1,763)</b>   | (4,646)     | (1,509)     |
| Total income tax expense in consolidated net income | <b>Ps. 4,554</b> | Ps. 3,928   | Ps. 4,551   |

| <b>2017</b>   | <b>Mexico</b>    | <b>Foreign</b> | <b>Total</b> |
|---|------------------|----------------|--------------|
| Current tax expense:                                |                  |                |              |
| Current year  | <b>Ps. 3,874</b> | Ps. 2,443      | Ps. 6,317    |
| Deferred tax expense:                               |                  |                |              |
| Origination and reversal of temporary differences   | <b>(1,798)</b>   | 100            | (1,698)      |
| Benefit (utilization) of tax losses recognized      | <b>179</b>       | (244)          | (65)         |
| Total deferred tax (benefit)                        | <b>(1,619)</b>   | (144)          | (1,763)      |
| Total income tax expense in consolidated net income | <b>Ps. 2,255</b> | Ps. 2,299      | Ps. 4,554    |

| <b>2016</b>   | <b>Mexico</b>    | <b>Foreign</b> | <b>Total</b> |
|---|------------------|----------------|--------------|
| Current tax expense:                                |                  |                |              |
| Current year  | <b>Ps. 4,035</b> | Ps. 4,539      | Ps. 8,574    |
| Deferred tax expense:                               |                  |                |              |
| Origination and reversal of temporary differences   | <b>(1,117)</b>   | (1,695)        | (2,812)      |
| Benefit of tax losses recognized                    | <b>(1,285)</b>   | (549)          | (1,834)      |
| Total deferred tax (benefit)                        | <b>(2,402)</b>   | (2,244)        | (4,646)      |
| Total income tax expense in consolidated net income | <b>Ps. 1,633</b> | Ps. 2,295      | Ps. 3,928    |

| <b>2015</b>   | <b>Mexico</b>    | <b>Foreign</b> | <b>Total</b> |
|---|------------------|----------------|--------------|
| <b>Current tax expense:</b>                         |                  |                |              |
| Current year  | <b>Ps. 3,887</b> | Ps. 2,173      | Ps. 6,060    |
| <b>Deferred tax expense:</b>                        |                  |                |              |
| Origination and reversal of temporary differences   | <b>427</b>       | 294            | 721          |
| Benefit of tax losses recognized                    | <b>(997)</b>     | (1,233)        | (2,230)      |
| Total deferred tax expense (benefit)                | <b>(570)</b>     | (939)          | (1,509)      |
| Total income tax expense in consolidated net income | <b>Ps. 3,317</b> | Ps. 1,234      | Ps. 4,551    |

### Recognized in Consolidated Statement of Other Comprehensive Income (OCI)

| <b>Income tax related to items charged or recognized directly in OCI during the year:</b> | <b>2017</b>      | <b>2016</b> | <b>2015</b> |
|---|------------------|-------------|-------------|
| Unrealized (gain) loss on cash flow hedges  | <b>Ps. (160)</b> | Ps. 324     | Ps. (19)    |
| Remeasurements of the net defined benefit liability                                       | <b>(61)</b>      | 12          | 32          |
| Total income tax recognized in OCI  | <b>Ps. (221)</b> | Ps. 336     | Ps. 13      |

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

| <b>Income tax related to items charged or recognized directly in OCI as of year end:</b> | <b>2017</b>      | <b>2016</b> | <b>2015</b> |
|--|------------------|-------------|-------------|
| Unrealized loss (gain) on derivative financial instruments                               | <b>Ps. 59</b>    | Ps. 227     | Ps. (91)    |
| Comprehensive income to be reclassified to profit or loss in subsequent periods          | <b>59</b>        | 227         | (91)        |
| Re-measurements of the net defined benefit liability                                     | <b>(199)</b>     | (143)       | (112)       |
| Balance of income tax in OCI   | <b>Ps. (140)</b> | Ps. 84      | Ps. (203)   |

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A reconciliation between tax expense and income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method multiplied by the Mexican domestic tax rate for the years ended December 31, 2017, 2016 and 2015 is as follows:

|  | 2017     | 2016   | 2015   |
|--|----------|--------|--------|
| Mexican statutory income tax rate  | 30%      | 30%    | 30%    |
| Income tax from prior years  | 4.98     | 1.33   | 0.50   |
| Income (loss) on monetary position for subsidiaries in hyperinflationary economies | 6.72     | (2.20) | 0.07   |
| Annual inflation tax adjustment  | (5.75)   | 0.15   | (2.22) |
| Non-deductible expenses  | (8.84)   | 2.38   | 2.92   |
| Non-taxable income   | 1.87     | (0.90) | (0.41) |
| Income taxed at a rate other than the Mexican statutory rate                       | (3.5)    | 2.06   | 0.75   |
| Effect of restatement of tax values  | 8.72     | (2.29) | (1.16) |
| Effect of change in statutory rate   | 0.31     |        | 0.11   |
| Effect of changes in Venezuela Tax Law   |          | 7.74   |        |
| Income tax credits   | 12.7     | (7.84) |        |
| Effect Venezuela (Note 3.3)  | (119.13) |        |        |
| Consolidation Profit Philippines   | 11.95    |        |        |
| Tax Loss   | (9.45)   |        |        |
| Other  | 5.28     | (2.98) | 0.35   |
|  | (64.14)% | 27.45% | 30.91% |

In 2017, the Venezuela's deconsolidation and Philippines consolidation impacted significantly the effective tax rate. Had those two effects would not occur effective tax rate would have been 28.12%

**Deferred income tax**

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

| Consolidated Statement of Financial Position      | Consolidated Statement of Financial Position as of |           | Consolidated Income Statement |         |       |
|---|--|-----------|-------------------------------|---------|-------|
|   | 2017   | 2016      | 2017                          | 2016    | 2015  |
| Allowance for doubtful accounts                   | Ps. (119)  | Ps. (148) | Ps. 16                        | Ps. (8) | Ps. 2 |
| Inventories                                       | (4)  | (14)      | 10                            | (163)   | (15)  |
| Prepaid expenses                                  | 17   | 13        | 5                             | (71)    | 7     |
| Property, plant and equipment, net <sup>(1)</sup> | (244)  | 1,599     | (2,071)                       | 1,439   | (96)  |
| Other assets                                      | (569)  | (403)     | (166)                         | 167     | 41    |
| Finite useful lived intangible assets             | 820  | 56        | 761                           | (289)   | 112   |
| Indefinite lived intangible assets                | 2,143  | 1,458     | 743                           | 5,280   | (26)  |
|   | (474)  | (229)     | (196)                         | (1)     | 115   |



Post-employment and other non-current  
employee benefits

|   |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|
| Derivative financial instruments                                | 42          | 86          | (44)        | 62          | 22          |
| Contingencies   | (2,629)     | (1,822)     | (807)       | (96)        | (7)         |
| Employee profit sharing payable                                 | (159)       | (166)       | 6           | (14)        | (3)         |
| Tax loss carryforwards  | (8,088)     | (8,101)     | (13)        | (1,834)     | (2,230)     |
| Tax credits to recover <sup>(2)</sup>                           | (2,308)     | (1,150)     | (705)       | (1,150)     |             |
| Cumulative other comprehensive income                           | (141)       | 84          | (224)       |             |             |
| Deductible tax goodwill of business acquisition                 |             | 160         | (160)       | (1,921)     | 1,378       |
| Liabilities of amortization of goodwill of business acquisition | 5,527       | 5,921       | (394)       | 45          | (32)        |
| Other liabilities   | (112)       | (2,120)     | 1,476       | (6,092)     | (777)       |
| Deferred tax (income)   |             |             | Ps. (1,763) | Ps. (4,646) | Ps. (1,509) |
| Deferred tax, asset   | Ps. (8,012) | Ps. (5,981) |             |             |             |
| Deferred tax, liability   | 1,714       | 1,205       |             |             |             |
| Deferred income taxes, net                                      | Ps. (6,298) | Ps. (4,776) |             |             |             |

- (1) As a result of the change of Venezuelan tax regulations, on December 31, 2016 the Company recognized a deferred tax liability for an amount of Ps. 1,107 with their corresponding impact on the income tax of the year. Such amount was derecognized during 2017 as a result of the deconsolidation of Venezuela.
- (2) Correspond to income tax credits arising from dividends received from foreign subsidiaries to be recovered within the next ten years accordingly to the Mexican Income Tax law as well as effects of the exchange of foreign currencies with Related and Non-Related Parties.

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

|  | <b>2017</b>        | <b>2016</b> | <b>2015</b> |
|--|--------------------|-------------|-------------|
| Balance at beginning of the year                           | <b>Ps. (4,776)</b> | Ps. (2,975) | Ps. (1,871) |
| Deferred tax provision for the year                        | <b>(1,763)</b>     | (4,381)     | (1,526)     |
| Change in the statutory rate                               |                    |             | 16          |
| Acquisition of subsidiaries, see Note 4                    | <b>(563)</b>       | 150         |             |
| Venezuela effect   | <b>261</b>         |             |             |
| Effects in equity:   |                    |             |             |
| Unrealized loss (gain) on derivative financial instruments | <b>(160)</b>       | 324         | (19)        |
| Unrealized gain on available for sale securities           |                    |             |             |
| Cumulative translation adjustment                          | <b>221</b>         | 1,766       | 350         |
| Remeasurements of the net defined benefit liability        | <b>(61)</b>        | 12          | 32          |
| Inflation adjustment                                       | <b>543</b>         | 328         | 43          |
| Balance at end of the year                                 | <b>Ps. (6,298)</b> | Ps. (4,776) | Ps. (2,975) |

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

The Company has determined that undistributed profits of its subsidiaries, will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which deferred tax liabilities that have not been recognized, aggregate to December 31, 2017: Ps. 5,847 December 31, 2016: Ps. 5,136 and, December 31, 2015: Ps. 8,014.

**Tax Loss Carryforwards**

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

|   | <b>Tax Loss<br/>Carryforwards</b> |        |
|---|-----------------------------------|--------|
| 2021  | Ps.                               | 15     |
| 2022  |                                   |        |
| 2023  |                                   |        |
| 2024  |                                   | 2      |
| 2025  |                                   | 4      |
| 2026 and thereafter                             |                                   | 8,732  |
| No expiration (Brazil and Colombia until 2016)) |                                   | 16,064 |
|   | Ps.                               | 24,817 |

During 2013, the Company completed certain acquisitions in Brazil. In connection with the acquisitions in Brazil the Company recorded certain goodwill balances that are deductible for Brazilian income tax reporting purposes. The deduction of such goodwill amortization has resulted in the creation of Net Operating Losses (NOLs) in Brazil. NOLs in Brazil have no expiration, but their usage is limited to 30% of Brazilian taxable income in any given year. As of December 31, 2017 and 2016 the Company believes that it is more likely than not that it will ultimately recover such NOLs through the reversal of temporary differences and future taxable income. Accordingly, the related deferred tax assets have been fully recognized.

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

|   | <b>2017</b>       | <b>2016</b> | <b>2015</b> |
|---|-------------------|-------------|-------------|
| Balance at beginning of the year          | <b>Ps. 24,791</b> | Ps. 14,900  | Ps. 9,400   |
| Increase (see sources above)              | <b>3,334</b>      | 5,616       | 7,001       |
| Usage of tax losses                       | <b>(2,723)</b>    | (4)         | (37)        |
| Effect of foreign currency exchange rates | <b>(585)</b>      | 4,279       | (1,464)     |
| <b>Balance at end of the year</b>         | <b>Ps. 24,817</b> | Ps. 24,791  | Ps. 14,900  |

There were no withholding taxes associated with the payment of dividends in 2017, 2016 or 2015 by the Company to its shareholders.

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**Table of Contents****23.2 Recoverable taxes**

Recoverable taxes are mainly integrated by higher provisional payments of income tax during 2017 in comparison to prior year, which will be compensated in future years.

The operations in Guatemala, Panama, Philippines and Colombia are subject to a minimum tax, which is based primary on a percentage of assets and gross margin, except in the case of Panama. Any payments are recoverable in future years, under certain conditions.

**23.3 Tax Reform**

On January 1, 2015, a general tax reform became effective in Colombia. This reform included the imposition of a new temporary tax on net equity through 2017 to Colombian residents and non-residents who own property in Colombia directly or indirectly through branches or permanent establishments. The relevant taxable base will be determined annually based on a formula. For net equity that exceeds 5.0 billion Colombian pesos (approximately US\$2.1 million) the rate will be 1.15% in 2015, 1.00% in 2016 and 0.40% in 2017. In addition, the tax reform in Colombia imposed that the supplementary income tax at a rate of 9.0% as contributions to social programs, which was previously scheduled to decrease to 8.0% by 2015, will remain indefinitely. Additionally, this tax reform included the imposition of a temporary contribution to social programs at a rate of 5.0%, 6.0%, 8.0% and 9.0% for the years 2015, 2016, 2017 and 2018, respectively. Finally, this reform established an income tax deduction of 2.0% of value-added tax paid in the acquisition or import of hard assets, such as tangible and amortizable assets that are not sold or transferred in the ordinary course of business and that are used for the production of goods or services.

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. Nevertheless, the Supreme Court is still reviewing the appeal of the tax authorities. 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 the 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. Banks operating in Venezuela are required to withhold this new tax on financial transactions. Given the inherent uncertainty as to how the Venezuelan government will require that the inflationary adjustments for the calculation of income tax be applied, starting 2016 our Venezuelan subsidiary decided to recognize the effects of the elimination of such inflationary adjustments, at December 31, 2017 this balance was derecognized as a result of the deconsolidation of Venezuela.

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

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 amounts 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 high fructose corn syrup (HFCS), and 12.00 Philippine pesos per liter for sweetened beverages using HFCS, (iv) imposed the obligation to issue electronic invoices and electronic sales reports, and (v) reduced the time period for keeping books and accounting records from 10 years to three years.

**Table of Contents****Note 24. Other Liabilities, Provisions and Commitments*****24.1 Other current financial liabilities***

|                                  | <b>2017</b>      | <b>2016</b> |
|----------------------------------|------------------|-------------|
| Sundry creditors                 | <b>Ps. 593</b>   | Ps. 688     |
| Derivative financial instruments | <b>3,916</b>     | 204         |
| <b>Total</b>                     | <b>Ps. 4,509</b> | Ps. 892     |

***24.2 Provisions and other non-current liabilities***

|               | <b>2017</b>       | <b>2016</b> |
|---------------|-------------------|-------------|
| Provisions    | <b>Ps. 11,067</b> | Ps. 13,628  |
| Taxes payable | <b>355</b>        | 337         |
| Other         | <b>850</b>        | 1,064       |
| <b>Total</b>  | <b>Ps. 12,272</b> | Ps. 15,029  |

***24.3 Other non-current financial liabilities***

|                                  | <b>2017</b>      | <b>2016</b> |
|----------------------------------|------------------|-------------|
| Derivative financial instruments | <b>Ps. 578</b>   | Ps. 5,476   |
| Security deposits                | <b>591</b>       | 269         |
| <b>Total</b>                     | <b>Ps. 1,169</b> | Ps. 5,745   |

***24.4 Provisions recorded in the consolidated statement of financial position***

The Company has various loss contingencies, and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2017 and 2016:

|              | <b>2017</b>       | <b>2016</b> |
|--------------|-------------------|-------------|
| Taxes        | <b>Ps. 6,717</b>  | Ps. 10,223  |
| Labor        | <b>2,365</b>      | 2,356       |
| Legal        | <b>1,985</b>      | 1,049       |
| <b>Total</b> | <b>Ps. 11,067</b> | Ps. 13,628  |

**24.5. Changes in the balance of provisions recorded****24.5.1 Taxes**

|   | <b>2017</b>       | <b>2016</b> | <b>2015</b> |
|---|-------------------|-------------|-------------|
| Balance at beginning of the year                            | <b>Ps. 10,223</b> | Ps. 1,658   | Ps. 2,198   |
| Penalties and other charges                                 | <b>148</b>        | 173         | 21          |
| New contingencies   | <b>4</b>          | 3           | 84          |
| Cancellation and expiration                                 | <b>(98)</b>       | (106)       | (205)       |
| Contingencies added in business combinations <sup>(1)</sup> | <b>861</b>        | 7,840       |             |
| Payments  | <b>(944)</b>      | (6)         | (214)       |
| Brazil tax amnesty  | <b>(3,069)</b>    |             |             |
| Effect of foreign currency exchange rates                   | <b>(408)</b>      | 661         | (226)       |
| <b>Balance at end of the year</b>                           | <b>Ps. 6,717</b>  | Ps. 10,223  | Ps. 1,658   |

**24.5.2 Labor**

|  | <b>2017</b>      | <b>2016</b> | <b>2015</b> |
|--|------------------|-------------|-------------|
| Balance at beginning of the year             | <b>Ps. 2,356</b> | Ps. 1,340   | Ps. 1,543   |
| Penalties and other charges                  | <b>56</b>        | 203         | 209         |
| New contingencies                            | <b>115</b>       | 211         | 44          |
| Cancellation and expiration                  | <b>(33)</b>      | (177)       | (102)       |
| Contingencies added in business combinations |                  | 500         |             |
| Payments                                     | <b>(76)</b>      | (336)       | (111)       |
| Effects of foreign currency exchange rates   | <b>(52)</b>      | 615         | (243)       |
| Effect Venezuela (Note 3.3)                  | <b>(1)</b>       |             |             |
| <b>Balance at end of the year</b>            | <b>Ps. 2,365</b> | Ps. 2,356   | Ps. 1,340   |

**Table of Contents****24.5.3 Legal**

|  | <b>2017</b>      | <b>2016</b> | <b>2015</b> |
|--|------------------|-------------|-------------|
| Balance at beginning of the year             | <b>Ps. 1,049</b> | Ps. 319     | Ps. 427     |
| Penalties and other charges                  | <b>121</b>       | 33          |             |
| New contingencies                            | <b>170</b>       | 196         |             |
| Cancellation and expiration                  | <b>(16)</b>      | (46)        | (33)        |
| Contingencies added in business combinations | <b>783</b>       | 496         |             |
| Payments                                     | <b>(80)</b>      | (81)        |             |
| Brazil tax amnesty                           | <b>7</b>         |             |             |
| Effects of foreign currency exchange rates   | <b>(47)</b>      | 132         | (75)        |
| Effects Venezuela                            | <b>(2)</b>       |             |             |
| Balance at end of the year                   | <b>Ps. 1,985</b> | Ps. 1,049   | Ps. 319     |

- (1) At December 31, 2016, an amount of Ps. 7,840 correspond to tax claims with local Brazil IRS (including a contingency of Ps. 5,321 related to the deductibility of a tax goodwill balance). The remaining contingencies relates to multiple claims with loss expectations assessed by management and supported by the analysis of legal counsels as possible, the total amount of contingencies guaranteed agreements amounts to Ps. 8,081. During 2017, the Company took advantage of a Brazilian tax amnesty program. The settlement of certain outstanding matters under that amnesty program generated a benefit of Ps. 1,874 such benefit has been offset against the corresponding indemnifiable assets.

While provision for all claims has already been made, the actual outcome of the disputes and the timing of the resolution cannot be estimated by the Company at this time.

**24.6 Unsettled lawsuits**

The Company has entered into several proceedings with its labor unions, tax authorities and other parties that primarily involve Coca-Cola FEMSA and its subsidiaries. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. Such contingencies were classified by the Company as less than probable but not remote, the estimated amount as of December 31, 2017 of these lawsuits is Ps. 64,558, however, the Company believes that the ultimate resolution of such proceedings will not have a material effect on its consolidated financial position or result of operations.

The Company has tax contingencies, most of which are related to its Brazilian operations, amounting to approximately Ps. 51,014 with loss expectations assessed by management and supported by the analysis of legal counsel consider as possible. Among these possible contingencies, are Ps. 12,346 in various tax disputes related primarily to credits for ICMS (VAT) and Ps. 33,217 related to tax credits of IPI over raw materials acquired from Free Trade Zone Manaus. Possible claims also include Ps. 4,787 related to compensation of federal taxes not approved by the IRS (Tax authorities), and Ps. 664 related to the requirement by the Tax Authorities of State of São Paulo for ICMS (VAT), interest and penalty due to the alleged underpayment of tax arrears for the period 1994-1996. The Company is defending its position in these matters and final decision is pending in court.



In recent years in its Mexican and Brazilian territories, Coca-Cola FEMSA has been requested to present certain information regarding possible monopolistic practices. These requests are commonly generated in the ordinary course of business in the soft drink industry where this subsidiary operates. The Company does not expect any material liability to arise from these contingencies.

***24.7 Collateralized contingencies***

As is customary in Brazil, the Company has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 9,433, Ps. 8,093 and Ps. 3,569 as of December 31, 2017, 2016 and 2015, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies.

***24.8 Commitments***

As of December 31, 2017, the Company has contractual commitments for operating leases for the rental of production machinery and equipment, distribution and computer equipment.

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The contractual maturities of the operating leases commitments by currency, expressed in mexican pesos as of December 31, 2017, are as follows:

|  | <b>Mexican pesos</b> | <b>U.S. dollars</b> | <b>Other</b> |
|--|----------------------|---------------------|--------------|
| Not later than 1 year                        | Ps. 106              | Ps. 103             | Ps. 1        |
| Later than 1 year and not later than 5 years | 423                  | 682                 |              |
| Later than 5 years                           | 211                  | 205                 |              |
| Total  | Ps. 740              | Ps. 990             | Ps. 1        |

Rental expense charged to consolidated net income was Ps. 1,420, Ps. 1,232 and Ps. 1,044 for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company has firm commitments for the purchase of property, plant and equipment of Ps. 933 as December 31, 2017.

**Note 25. Information by segment**

The Company's chief operating decision maker ( CODM ) is the Chief Executive Officer, who periodically reviews financial information at the country level. Thus, each of the separate countries in which the Company operates is considered and operating segments, with the exception of the countries in Central America which represent a single operating segment.

The Company has aggregated operating segments into the following reporting segments for the purposes of its consolidated financial statements: (i) Mexico and Central America division (comprising the following countries: Mexico (including corporate operations), Guatemala, Nicaragua, Costa Rica and Panama), (ii) the South America division (comprising the following countries: Brazil, Argentina, Colombia and Venezuela); Venezuela operates in an economy with exchange control and hyper-inflation; and as a result, IAS 29, Financial Reporting in Hyperinflationary Economies does not allow its aggregation into the South America segment and (iii) the Asian division comprised of Philippines commencing on February 1, 2017, started to be consolidated in the Company's financial statements. The Company's results for 2017 reflect a reduction in the share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, as a result of this consolidation (see note 4.1.2). As disclosed in Note 3.3 the Company deconsolidated their operations in Venezuela, consequently there will not be financial information for this segment in future financial statements.

The Company is of the view that the quantitative and qualitative aspects of the aggregated operating segments are similar in nature for all periods presented. In evaluating the appropriateness of aggregating operating segments, the key indicators considered included but were not limited to: (i) similarities of customer base, products, production processes and distribution processes, (ii) similarities of governments, (iii) inflation trends, since hyper-inflationary economy has different characteristics that carry out to making decision on how to deal with the cost of the production and distribution, Venezuela has been separated as a separate segment, (iv) currency trends and (v) historical and projected financial and operating statistics, historically and according to our estimates the financial trends of the countries aggregated into an operating segment have behaved in similar ways and are expected to continue to do so.

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

| <b>2017</b>   | <b>Mexico and<br/>Central<br/>America<sup>(1)</sup></b> | <b>South<br/>America<sup>(2)</sup></b> | <b>Venezuela</b> | <b>Asia</b> | <b>Consolidated</b> |
|---|---|--|------------------|-------------|---------------------|
| Total revenues  | Ps. 92,643  | Ps. 86,608                             | Ps. 4,005        | Ps. 20,524  | Ps. 203,780         |
| Intercompany revenue  | 4,661   | 18                                     |                  |             | 4,679               |
| Gross profit  | 45,106  | 37,756                                 | 646              | 8,178       | 91,686              |
| Income before income taxes and<br>share of the profit or loss of<br>associates and joint ventures<br>accounted for using the equity<br>method | (15,431)  | 8,792                                  | (1,786)          | 1,265       | (7,160)             |
| Depreciation and amortization   | 4,801   | 3,442                                  | 807              | 1,814       | 10,864              |
| Non cash items other than<br>depreciation and amortization <sup>(3)</sup>   | 1,011   | 213                                    | 1,021            | 262         | 2,507               |
| Equity in earnings (loss) of associated<br>companies and joint ventures   | (63)  | 123                                    |                  |             | 60                  |
| Total assets  | 135,363   | 122,042                                |                  | 28,272      | 285,677             |
| Investments in associate companies<br>and joint ventures  | 7,046   | 4,455                                  |                  |             | 11,501              |
| Total liabilities   | 91,385  | 43,637                                 |                  | 9,945       | 144,967             |
| Capital expenditures, net <sup>(4)</sup>  | 8,231   | 4,686                                  |                  | 1,695       | 14,612              |

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| <b>2016</b>   | <b>Mexico and<br/>Central<br/>America<sup>(1)</sup></b> | <b>South<br/>America<sup>(2)</sup></b> | <b>Venezuela</b> | <b>Consolidated</b> |
|---|---|--|------------------|---------------------|
| Total revenues  | Ps. 87,557  | Ps. 71,293                             | Ps. 18,868       | Ps. 177,718         |
| Intercompany revenue  | 4,266   | 3                                      |                  | 4,269               |
| Gross profit  | 43,569  | 29,263                                 | 6,830            | 79,662              |
| Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method | 8,642   | 4,784                                  | 882              | 14,308              |
| Depreciation and amortization   | 4,750   | 3,078                                  | 838              | 8,666               |
| Non cash items other than depreciation and amortization <sup>(3)</sup>  | 424   | 61                                     | 2,423            | 2,908               |
| Equity in earnings (loss) of associated companies and joint ventures  | 149   | (2)                                    |                  | 147                 |
| Total assets  | 136,252   | 130,019                                | 12,985           | 279,256             |
| Investments in associate companies and joint ventures   | 18,088  | 4,269                                  |                  | 22,357              |
| Total liabilities   | 95,342  | 48,391                                 | 6,290            | 150,023             |
| Capital expenditures, net <sup>(4)</sup>  | 6,597   | 4,240                                  | 1,554            | 12,391              |

| <b>2015</b>   | <b>Mexico and<br/>Central<br/>America<sup>(1)</sup></b> | <b>South<br/>America<sup>(2)</sup></b> | <b>Venezuela</b> | <b>Consolidated</b> |
|---|---|--|------------------|---------------------|
| Total revenues  | Ps. 78,709  | Ps. 64,752                             | Ps. 8,899        | Ps. 152,360         |
| Intercompany revenue  | 3,791   | 3                                      |                  | 3,794               |
| Gross profit  | 40,130  | 27,532                                 | 4,368            | 72,030              |
| Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method | 10,614  | 3,220                                  | 891              | 14,725              |
| Depreciation and amortization   | 4,404   | 2,489                                  | 251              | 7,144               |
| Non-cash items other than depreciation and amortization <sup>(3)</sup>  | 685   | 130                                    | 1,352            | 2,167               |
| Equity in earnings of associated companies and joint ventures   | 97  | 58                                     |                  | 155                 |
| Total assets  | 133,941   | 69,281                                 | 7,027            | 210,249             |
| Investments in associate companies and joint ventures   | 15,779  | 2,094                                  |                  | 17,873              |
| Total liabilities   | 80,963  | 17,528                                 | 3,023            | 101,514             |
| Capital expenditures, net <sup>(4)</sup>  | 4,672   | 5,686                                  | 1,126            | 11,484              |

(1) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 79,836, Ps. 74,413 and Ps. 67,772 during the years ended December 31, 2017, 2016 and 2015, respectively. Domestic (Mexico only) total assets were Ps. 133,315, Ps. 122,552 and Ps. 123,585 as of December 31, 2017, 2016 and 2015, respectively. Domestic (Mexico only) total liabilities were Ps. 88,283 Ps. 92,303 and Ps. 78,834 as of December 31, 2017, 2016 and 2015, respectively.

(2) South America includes Brazil, Argentina, Colombia and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 58,518, Ps. 43,900 and Ps. 37,825 during the

years ended December 31, 2017, 2016 and 2015, respectively. Brazilian total assets were Ps. 95,713, Ps. 104,092 and Ps. 49,448 as of December 31, 2017, 2016 and 2015, respectively. Brazilian total liabilities Ps. 31,580, Ps. 39,600 and Ps. 10,753 as of December 31, 2017, 2016 and 2015, respectively. South America revenues also include Colombian revenues of Ps. 14,222, Ps. 15,120 and Ps. 12,984 during the years ended December 31, 2017, 2016 and 2015, respectively. Colombian total assets were Ps. 14,180, Ps. 20,581 and Ps. 15,182 as of December 31, 2017, 2016 and 2015, respectively. Colombian total liabilities were Ps. 7,993, Ps. 5,547 and Ps. 3,977 as of December 31, 2017, 2016 and 2015, respectively. South America revenues also include Argentine revenues of Ps. 13,869, Ps. 12,273 and Ps. 13,943 during the years ended December 31, 2017, 2016 and 2015, respectively. Argentine total assets were Ps. 5,301, Ps. 5,346 and Ps. 4,651 as of December 31, 2017, 2016 and 2015, respectively. Argentine total liabilities were Ps. 3,660, Ps. 3,244 and Ps. 2,798 as of December 31, 2017, 2016 and 2015, respectively.

- (3) Includes foreign exchange loss, net; gain on monetary position, net; and market value (gain) loss on financial instruments.
- (4) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.
- (5) The Asian division includes CCFPI (Philippines) which investment was acquired in 2013, and the Company started consolidating in February 1, 2017, see Note 9. The equity in earnings of the Asian division were , Ps. 93 and Ps. 86 in 2016 and 2015, respectively and are presented as part of the Company s corporate operations in 2016 and 2015 and thus disclosed net in the table above as part of the equity in earnings of associated companies in the Mexico & Central America division, as is the equity method investment in CCFPI of Ps. 11,460 and 9,996, respectively. However, the Asian division represents a separate reporting segment under IFRS 8 and is represented by the following investee level amounts, prior to consolidation as of and for the years ended December 2016 and 2015, respectively: revenues Ps. 22,768 and Ps. 19,576, gross profit Ps. 7,678 and Ps. 5,325, income before income taxes Ps. 486 and Ps. 334, depreciation and amortization Ps. 2,163 and Ps. 2,369, total assets Ps. 28,066 and Ps. 22,002, total liabilities Ps. 9,634 and Ps. 6,493, capital expenditures Ps. 3,342 and Ps. 1,778.

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

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

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

In May 2014, the IASB issued the IFRS 15 Revenue from Contracts with Customers, which establishes a 5-step model to determine the timing and amount to be applied accounted for as in the revenue recognition. The new standard replaces existing revenue recognition guidelines, including the IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

The standard is effective for annual periods beginning on January 1, 2018 and its early adoption is permitted. The standard permits to elect between the retrospective method and modified retrospective approach. The Company plans to adopt the IFRS 15 in its consolidated financial statements on January 1, 2018 using modified retrospective approach (prospective method).

The transition considerations that the company take into account by applying the modified retrospective approach (prospective method) in the adoption of the IFRS 15 involve the recognition of the cumulative effect of the adoption of the IFRS 15 as of January 1, 2018; consequently, there is no obligation under this method to restate the comparative financial information for the years ended December 31, 2016 and 2017, nor to adjust the amounts that arise as a result of the accounting differences between the current accounting standard IAS 18 and the new standard, IFRS 15.

The Company has conducted a qualitative and quantitative evaluation of the impacts that the adoption of the IFRS 15 will have in its consolidated financial statements. The evaluation includes, among others, the following activities:

Analysis of contracts with customers and their main characteristics;

Identification of the performance obligations included in such contracts;

Determination of the transaction price and the effects derived from by the variable consideration;

Allocation of the transaction price to each performance obligation;

Analysis of the timing when the revenue should be recognized, either at a point in time or over time, as appropriate;

Analysis of the disclosures required by the IFRS 15 and their impacts on internal processes and controls; and

Analysis of the potential costs of obtaining and fulfilling contracts with customers that should be capitalized in accordance with the requirements of the new IFRS 15.

As of today, the Company has completed the analysis of the new standard. The Company has concluded that there will be no significant impacts on the consolidated financial statements derived from the adoption of the IFRS 15. However, IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the consolidated financial statements. In 2017 the Company developed and started testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

As of December 31<sup>th</sup>, 2017, the consolidated and business unit level accounting policies in regards to the income revenue recognition have been modified and submitted for approval of the Company's Audit Committee of the Company, with the objective that these are fully implemented as of January 1, 2018, which will establish the new bases of accounting for revenues from contracts with customers under the IFRS 15. Similarly, the Company has analyzed and evaluated the aspects related to internal control derived from IFRS 15 adoption, with the objective of ensuring that the Company's internal control environment is appropriate for the effects of the process of financial reporting.

### **IFRS 16, Leases**

In January 2016, the IASB issued IFRS 16 Leases, with which it introduces a unique accounting lease model for tenants. The tenant recognizes an asset by right of use that represents the right to use the underlying asset and a lease liability that represents the obligation to make lease payments.

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The standard is effective for the annual periods started on January 1st, 2019. Early adoption is permitted for entities applying IFRS 15 on the initial application date. The Company plans to adopt the new IFRS 16 in its consolidated financial statements on January 1st, 2019, using the modified retrospective approach.

The transition considerations required to be taken into account by the Company by the modified retrospective approach that it will use to adopt the new IFRS 16 involve recognizing the cumulative effect of the adoption of the new standard as from January 1st, 2019. For this reason, the financial information will not be reestablished by the exercises to be presented (exercises completed as of December 31, 2017 and 2018). Likewise, as of the transition date to IFRS 16 (January 1st 2019), the Company may elect to apply the new definition of leasing to all contracts, or to apply the practical dossier of Grandfather and continue to consider as contracts for Leasing those who qualified as such under the previous accounting rules IAS 17 Leases and IFRIC 4 Determination of whether a contract contains a lease .

Currently, the Company is conducting a qualitative and quantitative assessment of the impacts that the adoption of IFRS 16 will originate in its consolidated financial statements. The evaluation includes, among others, the following activities:

Detailed analysis of the leasing contracts and the characteristics of the same that would cause an impact in the determination of the right of use and the financial liabilities.

Identification of the exceptions provided by IFRS 16 that may apply to the Company;

Identification and determination of costs associated with leasing contracts;

Identification of currencies in which lease contracts are denominated;

Analysis of renewal options and improvements to leased assets, as well as amortization periods;

Analysis of the revelations required by the IFRS 16 and the impacts of the same in internal processes and controls; and

Analysis of the interest rate used in determining the present value of the lease payments of the different assets for which a right of use must be recognized.

The main impacts at a consolidated level, as well as the business unit level are derived from the recognition of leased assets as rights of use and liabilities for the obligation to make such payments. In addition, the linear operating lease expense is replaced by a depreciation expense for the right to use the assets and the interest expense of the lease liabilities that will be recognized at present value.

Based on the analysis carried out by the Company, the operations of Mexico, Brazil and Colombia are those that would particularly be significantly affected on the consolidated financial statements of the Company due to the



number of leases that will be in force at the date of adoption of the IFRS 16, as well as the natural growth of the business.

At the date of issuance of these consolidated financial statements, Coca-Cola FEMSA still has not decided whether or not to use the optional exemptions or practical dossiers that the new standard allows, so it is still in the process of quantifying the impact of the adoption of IFRS 16 on consolidated financial statements of the Company.

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

IFRS 9 Financial Instruments sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets and cash flow are managed. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost fair value through OCI (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost and FVOCI, except for investments in equity instruments, and to contract assets.

Furthermore, IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

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This standard is effective for annual periods beginning on or after 1 January 2018 and the Company plans to adopt IFRS 9 in its consolidated financial statements on January 1, 2018. For Hedge Accounting, IFRS 9 was adopted prospectively. Regarding Classification and Measurement, the Company will not reestablish financial information for the comparative year given that the business models of financial assets will not originate any accounting difference between the adoption and comparative year. Therefore the comparative figures under IFRS 9 and IAS 39 will be consistent. In relation to Impairment, the adoption approach will be prospective; however, financial information will not be reestablished for comparative periods (year ended December 31, 2017 and 2016).

The Company performed a qualitative and quantitative assessment of the impacts of IFRS 9. The activities that have been carried out are:

Review and documentation of the business models for financial assets, accounting policies, processes and internal controls related to financial instruments.

Analysis of financial assets and their impact in the expected loss model required under IFRS 9.

Update of documentation of the hedging relationships, as well as the policies for hedge accounting, and internal controls.

Determination of the model to compute the loss allowances based on the Expected Loss model.

Analysis of the new disclosures required by IFRS 9 and its impacts on internal processes and controls for the Company.

The Company has carried out an analysis for the business models that best suit the current management of its financial assets.

For classification and measurement and hedge accounting there were no significant changes identified, except those related to the documentation of the business model and their cash flow characteristics. There was also a need to update the hedge relationships documentation. Therefore, no significant impacts are expected in the financial information that requires adjustments for the adoption of IFRS 9 in the consolidated financial statements in relation to the Classification, Measurement and Hedge Accounting.

An analysis was carried out to determine of the impact of the new Expected Loss model of financial assets to calculate the provisions that should be recorded. An increase is not expected for the provisions of financial assets under the new standard because the accounts receivable are characterized by recovering in the short term, which results in estimates of expected loss that converge to the provisions under IAS 39.

As of December 31, 2017, the Company has defined policies and procedures to the adoption of the new standard, strengthening the control information, and has prepared Manuals and Processes for Operation, Management and Risk Management.

## **IFRS 2 Classification and Measurement of Share-based Payment Transactions    Amendments to IFRS 2**

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company does not expect the effect of the amendments to be significant to its consolidated financial statements.

#### **Annual Improvements 2014-2016 Cycle (issued in December 2016)**

These improvements include:

#### **IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration***

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

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Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- i) The beginning of the reporting period in which the entity first applies the interpretation. Or
- ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

## **IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

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

- i) Whether an entity considers uncertain tax treatments separately
- ii) The assumptions an entity makes about the examination of tax treatments by taxation authorities
- iii) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- iv) How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company is still in the process of quantifying the impact of the adoption of the IFRIC 23 in the consolidated financial statements.

## **Note 27. Supplemental Guarantor Information**

### **Condensed Consolidating Financial Information**

The following consolidating information presents condensed consolidating statements of financial position as of December 31, 2017 and 2016 and condensed consolidating statements of income, other comprehensive income and cash flows for each of the three years in the period ended December 31, 2017, 2016 and 2015 of the Company and Propimex, S. de R.L. de C.V., Comercializadora la Pureza de Bebidas, S. de R.L. de C.V., Controladora

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Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador CIMSA, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V. (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R. L. de C.V. (the Guarantors).

These statements are prepared in accordance with IFRS, as issued by the IASB, with the exception that the subsidiaries are accounted for as investments under the equity method rather than being consolidated. The guarantees of the Guarantors are full and unconditional.

The accounting policies applied in the preparation of the condensed financial statements are the same as those used in the preparation of the consolidated financial statements (see Note 3).

The Company's consolidating condensed financial information for the (i) Company; (ii) its 100% owned guarantors subsidiaries (on standalone basis), which are wholly and unconditional guarantors under both prior years debt and current year debt referred to as "Senior Notes" in Note 17; (iii) the combined non-guarantor subsidiaries; iv) eliminations and v) the Company's consolidated financial statements are as follows:

|   | Wholly-owned |              | Combined      |               |              |
|---|--------------|--------------|---------------|---------------|--------------|
|   | Guarantors   |              | non-guarantor |               | Consolidated |
|   | Parent       | Subsidiaries | Subsidiaries  | Eliminations  | Total        |
| <i>Consolidated Statement of<br/>Financial Position</i> |              |              |               |               |              |
| <i>As of December 31, 2017</i>                          |              |              |               |               |              |
| <b>Assets:</b>  |              |              |               |               |              |
| Current assets:   |              |              |               |               |              |
| Cash and cash equivalents                               | Ps. 7,017    | Ps. 926      | Ps. 10,824    | Ps.           | Ps. 18,767   |
| Accounts receivable, net                                | 27,420       | 7,417        | 56,643        | (73,904)      | 17,576       |
| Inventories   |              | 2,529        | 8,835         |               | 11,364       |
| Recoverable taxes                                       | 54           | 427          | 4,691         |               | 5,172        |
| Other current assets and financial assets               | 1            | 299          | 2,478         |               | 2,778        |
| Total current assets                                    | 34,492       | 11,598       | 83,471        | (73,904)      | 55,657       |
| Non-current assets:                                     |              |              |               |               |              |
| Investments in other entities                           | 140,799      | 92,691       | 5,527         | (226,477)     | 12,540       |
| Property, plant and equipment, net                      |              | 17,819       | 58,008        |               | 75,827       |
| Intangible assets, net                                  | 28,863       | 37,366       | 58,014        |               | 124,243      |
| Deferred tax assets                                     | 2,277        | 1,649        | 4,086         |               | 8,012        |
| Other non-current assets and financial assets           | 929          | 8,653        | 9,411         | (9,595)       | 9,398        |
| Total non-current assets                                | 172,868      | 158,178      | 135,046       | (236,072)     | 230,020      |
| Total assets  | Ps. 207,360  | Ps. 169,776  | Ps. 218,517   | Ps. (309,976) | Ps. 285,677  |

**Liabilities:**

## Current liabilities:

|   |               |               |               |                 |               |
|---|---------------|---------------|---------------|-----------------|---------------|
| Short-term bank loans and notes payable and current portion of non-current debt | Ps. 8,774     | Ps.           | Ps. 3,397     | Ps.             | Ps. 12,171    |
| Interest Payable  | 434           |               | 53            |                 | 487           |
| Suppliers   | 11            | 2,847         | 17,098        |                 | 19,956        |
| Other current financial liabilities   | 12,090        | 55,860        | 28,934        | (73,904)        | 22,980        |
| <b>Total current liabilities</b>  | <b>21,309</b> | <b>58,707</b> | <b>49,482</b> | <b>(73,904)</b> | <b>55,594</b> |

## Non-current liabilities:

|   |               |               |               |                 |                |
|---|---------------|---------------|---------------|-----------------|----------------|
| Bank loans and notes payable            | 63,277        |               | 7,912         |                 | 71,189         |
| Other non-current financial liabilities | 205           | 594           | 26,980        | (9,595)         | 18,184         |
| <b>Total non-current liabilities</b>    | <b>63,482</b> | <b>594</b>    | <b>34,892</b> | <b>(9,595)</b>  | <b>89,373</b>  |
| <b>Total liabilities</b>                | <b>84,791</b> | <b>59,301</b> | <b>84,374</b> | <b>(83,499)</b> | <b>144,967</b> |

**Equity:**

|   |                    |                    |                    |                      |                    |
|---|--------------------|--------------------|--------------------|----------------------|--------------------|
| Equity attributable to equity holders of the parent   | 122,569            | 110,475            | 116,002            | (226,477)            | 122,569            |
| Non-controlling interest in consolidated subsidiaries |                    |                    | 18,141             |                      | 18,141             |
| <b>Total equity</b>                                   | <b>122,569</b>     | <b>110,475</b>     | <b>134,143</b>     | <b>(226,477)</b>     | <b>140,710</b>     |
| <b>Total liabilities and equity</b>                   | <b>Ps. 207,360</b> | <b>Ps. 169,776</b> | <b>Ps. 218,517</b> | <b>Ps. (309,976)</b> | <b>Ps. 285,677</b> |

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|   | Parent      | Wholly-owned<br>Guarantors<br>Subsidiaries | Combined<br>non-guarantor<br>Subsidiaries | Eliminations  | Consolidated<br>Total |
|---|-------------|--|---|---------------|-----------------------|
| <i>Consolidated Statement of<br/>Financial Position<br/>As of December 31, 2016</i>   |             |  |   |               |                       |
| <b>Assets:</b>  |             |  |   |               |                       |
| Current assets:   |             |  |   |               |                       |
| Cash and cash equivalents   | Ps. 1,106   | Ps. 1,119                                  | Ps. 8,251                                 | Ps.           | Ps. 10,476            |
| Accounts receivable, net  | 33,733      | 6,243                                      | 49,535                                    | (74,506)      | 15,005                |
| Inventories   |             | 3,880                                      | 6,864                                     |               | 10,744                |
| Recoverable taxes   | 42          | 654  | 3,677                                     |               | 4,373                 |
| Other current assets and financial<br>assets  | 617         | 1,799                                      | 2,439                                     |               | 4,855                 |
| Total current assets  | 35,498      | 13,695                                     | 70,766                                    | (74,506)      | 45,453                |
| Non-current assets:   |             |  |   |               |                       |
| Investments in associates and joint<br>ventures                                       | 137,304     | 74,332                                     | 15,760                                    | (205,039)     | 22,357                |
| Property, plant and equipment, net  |             | 18,815                                     | 46,473                                    |               | 65,288                |
| Intangible assets, net  | 28,863      | 38,313                                     | 56,788                                    |               | 123,964               |
| Other non-current assets and<br>financial assets                                      | 7,240       | 10,560                                     | 14,905                                    | (10,511)      | 22,194                |
| Total non-current assets  | 173,407     | 142,020                                    | 133,926                                   | (215,550)     | 233,803               |
| Total assets  | Ps. 208,905 | Ps. 155,715                                | Ps. 204,692                               | Ps. (290,056) | Ps. 279,256           |
| <b>Liabilities:</b>   |             |  |   |               |                       |
| Current liabilities:  |             |  |   |               |                       |
| Short-term bank loans and notes<br>payable and current portion of<br>non-current debt | Ps. 468     | Ps.  | Ps. 3,104                                 | Ps.           | Ps. 3,572             |
| Suppliers   | 29          | 4,644                                      | 16,816                                    |               | 21,489                |
| Other current liabilities   | 10,320      | 57,359                                     | 21,634                                    | (74,506)      | 14,807                |
| Total current liabilities   | 10,817      | 62,003                                     | 41,554                                    | (74,506)      | 39,868                |
| Non-current liabilities:  |             |  |   |               |                       |
| Bank loans and notes payable  | 75,913      |  | 9,944                                     |               | 85,857                |
| Other non-current liabilities   | 38          | 633  | 34,138                                    | (10,511)      | 24,298                |
| Total non-current liabilities   | 75,951      | 633  | 44,082                                    | (10,511)      | 110,155               |
| Total liabilities   | 86,768      | 62,636                                     | 85,636                                    | (85,017)      | 150,023               |
| <b>Equity:</b>  |             |  |   |               |                       |
|   | 122,137     | 93,079                                     | 111,960                                   | (205,039)     | 122,137               |

|   |             |             |             |               |             |
|---|-------------|-------------|-------------|---------------|-------------|
| Equity attributable to equity holders of the parent   |             |             |             |               |             |
| Non-controlling interest in consolidated subsidiaries |             |             | 7,096       |               | 7,096       |
| Total equity  | 122,137     | 93,079      | 119,056     | (205,039)     | 129,233     |
| Total liabilities and equity                          | Ps. 208,905 | Ps. 155,715 | Ps. 204,692 | Ps. (290,056) | Ps. 279,256 |

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|   | Parent       | Wholly-owned<br>Guarantors<br>Subsidiaries | Combined<br>non-guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Total |
|---|--------------|--|---|--------------|-----------------------|
| <i>Condensed consolidating income<br/>statements:</i>   |              |  |   |              |                       |
| <i>For the year ended December 31, 2017</i>   |              |  |   |              |                       |
| Total revenues  | Ps. 1        | Ps. 80,179                                 | Ps. 146,555                               | Ps. (22,955) | Ps. 203,780           |
| Cost of goods sold  |              | 40,870                                     | 83,748                                    | (12,524)     | 112,094               |
| Gross profit  | 1            | 39,309                                     | 62,807                                    | (10,431)     | 91,686                |
| Administrative expenses   | 140          | 5,598                                      | 8,293                                     | (5,048)      | 8,983                 |
| Selling expenses  |              | 22,589                                     | 38,722                                    | (5,384)      | 55,927                |
| Other (income) expenses, net  | (314)        | (330)                                      | 29,304                                    | 1            | 28,661                |
| Interest expense, net   | 3,717        | 3,210                                      | 994                                       | 1            | 7,922                 |
| Foreign exchange gain (loss), net   | 846          | 255  | (291)                                     |              | 810                   |
| Other financing (expense) income,<br>net  | (104)        |  | 1,941                                     |              | 1,837                 |
| Income taxes  | 238          | 2,270                                      | 2,046                                     |              | 4,554                 |
| Share of the profit of subsidiaries,<br>associates and joint ventures<br>accounted for using the equity<br>method, net of taxes | (9,765)      | 9,647                                      | 148                                       | 30           | 60                    |
| <b>Consolidated net income</b>  | Ps. (12,803) | Ps. 15,874                                 | Ps. (14,754)                              | Ps. 29       | Ps. (11,654)          |
| <b>Attributable to:</b>   |              |  |   |              |                       |
| Equity holders of the parent  | (12,803)     | 15,874                                     | (15,902)                                  | 29           | (12,802)              |
| Non-controlling interest  |              |  | 1,148                                     |              | 1,148                 |
| <b>Consolidated net income</b>  | Ps. (12,803) | Ps. 15,874                                 | Ps. (14,754)                              | Ps. 29       | Ps. (11,654)          |
| <br>  |              |  |   |              |                       |
|   | Parent       | Wholly-owned<br>Guarantors<br>Subsidiaries | Combined<br>non-guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Total |
| <i>Condensed consolidating income<br/>statements:</i>   |              |  |   |              |                       |
| <i>For the year ended December 31, 2016</i>   |              |  |   |              |                       |
| Total revenues  | Ps. 1        | Ps. 74,718                                 | Ps. 114,767                               | Ps. (11,768) | Ps. 177,718           |
| Cost of goods sold  |              | 36,595                                     | 63,011                                    | (1,550)      | 98,056                |
| Gross profit  | 1            | 38,123                                     | 51,756                                    | (10,218)     | 79,662                |
| Administrative expenses   | 185          | 5,344                                      | 6,741                                     | (4,847)      | 7,423                 |
| Selling expenses  |              | 21,243                                     | 32,167                                    | (5,371)      | 48,039                |
| Other (expenses) income, net  | (27)         | (25)                                       | (3,760)                                   |              | (3,812)               |

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|  |            |            |           |              |            |
|--|------------|------------|-----------|--------------|------------|
| Interest expense, net  | 2,140      | 2,623      | 1,992     | 1            | 6,756      |
| Foreign exchange (loss) gain, net  | (3,112)    | 76         | 1,244     |              | (1,792)    |
| Other financing (expense) income, net  | (129)      | (50)       | 2,647     |              | 2,468      |
| Income taxes   | (1,222)    | 3,010      | 2,140     |              | 3,928      |
| Share of the profit of subsidiaries, associates and joint ventures accounted for using the equity method, net of taxes | 14,440     | 9,547      | 93        | (23,933)     | 147        |
| <b>Net income</b>  | Ps. 10,070 | Ps. 15,451 | Ps. 8,940 | Ps. (23,934) | Ps. 10,527 |
| Attributable to:   |            |            |           |              |            |
| Equity holders of the parent   | Ps. 10,070 | Ps. 15,451 | Ps. 8,483 | Ps. (23,934) | Ps. 10,070 |
| Non-controlling interest   |            |            | 457       |              | 457        |
| <b>Net income</b>  | Ps. 10,070 | Ps. 15,451 | Ps. 8,940 | Ps. (23,934) | Ps. 10,527 |

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|   | Wholly-owned |              | Combined      |              | Eliminations | Consolidated<br>Total |
|---|--------------|--------------|---------------|--------------|--------------|-----------------------|
|   | Parent       | Guarantors   | non-guarantor | Subsidiaries |              |                       |
|   |              | Subsidiaries | Subsidiaries  |              |              |                       |
| <i>Condensed consolidating income statements:</i>   |              |              |               |              |              |                       |
| <i>For the year ended December 31, 2015</i>   |              |              |               |              |              |                       |
| Total revenues  | Ps. 1        | Ps. 66,740   | Ps. 97,855    | Ps. (12,236) | Ps. 152,360  |                       |
| Cost of goods sold  |              | 32,008       | 50,629        | (2,307)      | 80,330       |                       |
| Gross profit  | 1            | 34,732       | 47,226        | (9,929)      | 72,030       |                       |
| Administrative expenses   | 96           | 4,711        | 6,124         | (4,526)      | 6,405        |                       |
| Selling expenses  |              | 19,853       | 27,429        | (5,403)      | 41,879       |                       |
| Other (expenses) income, net  | 12           | (336)        | (1,424)       |              | (1,748)      |                       |
| Interest expense, net   | 1,198        | 2,916        | 1,809         |              | 5,923        |                       |
| Foreign exchange (loss) gain, net   | (2,597)      | (305)        | 1,443         |              | (1,459)      |                       |
| Other financing (expense) income, net   | 105          | 49           | (45)          |              | 109          |                       |
| Income taxes  | (984)        | 2,035        | 3,500         |              | 4,551        |                       |
| Share of the profit of subsidiaries,<br>associates and joint ventures<br>accounted for using the equity<br>method, net of taxes | 13,024       | 3,977        | 150           | (16,996)     | 155          |                       |
| <b>Net income</b>   | Ps. 10,235   | Ps. 8,602    | Ps. 8,488     | Ps. (16,996) | Ps. 10,329   |                       |
| Attributable to:  |              |              |               |              |              |                       |
| Equity holders of the parent  | Ps. 10,235   | Ps. 8,602    | Ps. 8,394     | Ps. (16,996) | Ps. 10,235   |                       |
| Non-controlling interest  |              |              | 94            |              | 94           |                       |
| <b>Net income</b>   | Ps. 10,235   | Ps. 8,602    | Ps. 8,488     | Ps. (16,996) | Ps. 10,329   |                       |

|   | Wholly-owned |              | Combined      |              | Eliminations | Consolidated<br>Total |
|---|--------------|--------------|---------------|--------------|--------------|-----------------------|
|   | Parent       | Guarantors   | non-guarantor | Subsidiaries |              |                       |
|   |              | Subsidiaries | Subsidiaries  |              |              |                       |
| <i>Condensed consolidating statements of comprehensive income</i> |              |              |               |              |              |                       |
| <i>For the year ended December 31, 2017</i>                       |              |              |               |              |              |                       |
| Consolidated net income   | Ps. (12,803) | Ps. 15,874   | Ps. (14,754)  | Ps. 29       | Ps. (11,654) |                       |

Other comprehensive income, net  
of taxes:

Other comprehensive income to be  
reclassified to profit or loss in  
subsequent periods:

|  |           |            |            |              |            |
|--|-----------|------------|------------|--------------|------------|
| Valuation of the effective portion of derivative financial instruments, net of taxes | (192)     | (554)      | (266)      | 746          | (266)      |
| Exchange differences on translation of foreign operations                            | 16,345    | 5,245      | 15,293     | (21,676)     | 15,207     |
| Items not to be reclassified to profit or loss in subsequent periods:                |           |            |            |              |            |
| Remeasurements of the net defined benefit liability, net of taxes                    | (10)      | 171        | 32         | (165)        | 28         |
| Total comprehensive (loss) income, net of tax  | 16,143    | Ps. 4,862  | Ps. 15,059 | Ps. (21,095) | Ps. 14,969 |
| Consolidated comprehensive income for the year, net of tax                           | Ps. 3,340 | Ps. 20,736 | Ps. 305    | Ps. (21,066) | Ps. 3,315  |
| Attributable to:   |           |            |            |              |            |
| Equity holders of the parent   | Ps. 3,340 | Ps. 20,736 | Ps. 331    | Ps. (21,066) | Ps. 3,341  |
| Non-controlling interest   |           |            | (26)       |              | (26)       |
| Consolidated comprehensive income for the year, net of tax                           | Ps. 3,340 | Ps. 20,736 | Ps. 305    | Ps. (21,066) | Ps. 3,315  |

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|  | Parent     | Wholly-owned<br>Guarantors<br>Subsidiaries | Combined<br>non-guarantor<br>Subsidiaries | Eliminations | Consolidated<br>Total |
|--|------------|--|---|--------------|-----------------------|
| <i>Condensed consolidating statements of<br/>comprehensive income<br/>For the year ended December 31, 2016</i> |            |  |   |              |                       |
| Consolidated net income  | Ps. 10,070 | Ps. 15,451                                 | Ps. 8,940                                 | Ps. (23,934) | Ps. 10,527            |
| Other comprehensive income,<br>net of taxes:   |            |  |   |              |                       |
| Other comprehensive income to<br>be reclassified to profit or loss<br>in subsequent periods:                   |            |  |   |              |                       |
| Unrealized gain on available-for<br>sale securities, net of taxes  |            |  |   |              |                       |
| Valuation of the effective<br>portion of derivative financial<br>instruments, net of taxes                     | 664        | 371  | (202)                                     | (118)        | 715                   |
| Exchange differences on<br>translation of foreign operations   | 14,207     | (8,756)                                    | 15,871                                    | (5,270)      | 16,052                |
| Net other comprehensive<br>income to be reclassified to<br>profit or loss in subsequent<br>periods:            | 14,871     | (8,385)                                    | 15,669                                    | (5,388)      | 16,767                |
| Items not to be reclassified to<br>profit or loss in subsequent<br>periods:                                    |            |  |   |              |                       |
| Remeasurements of the net<br>defined benefit liability, net of<br>taxes  | (123)      | (117)                                      | (144)                                     | 261          | (123)                 |
| Net other comprehensive<br>income not being reclassified to<br>profit or loss in subsequent<br>periods:        | (123)      | (117)                                      | (144)                                     | 261          | (123)                 |
| Total comprehensive (loss)<br>income, net of tax   | 14,748     | (8,502)                                    | 15,525                                    | (5,127)      | 16,644                |
| Consolidated comprehensive<br>income for the year, net of tax  | Ps. 24,818 | Ps. 6,949                                  | Ps. 24,465                                | Ps. (29,061) | Ps. 27,171            |
| Attributable to:   |            |  |   |              |                       |
| Equity holders of the parent   | Ps. 24,818 | Ps. 6,949                                  | Ps. 22,112                                | Ps. (29,061) | Ps. 24,818            |
| Non-controlling interest   |            |  | 2,353                                     |              | 2,353                 |

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| Consolidated comprehensive income for the year, net of tax                                     | Ps. 24,818  | Ps. 6,949                            | Ps. 24,465                          | Ps. (29,061) | Ps. 27,171         |
|--|---|--------------------------------------|-------------------------------------|--------------|--------------------|
|  | Parent  | Wholly-owned Guarantors Subsidiaries | Combined non-guarantor Subsidiaries | Eliminations | Consolidated Total |
|  | <i>Condensed consolidating statements of comprehensive income</i> |                                      |                                     |              |                    |
|  | <i>For the year ended December 31, 2015</i>                       |                                      |                                     |              |                    |
| Consolidated net income  | Ps. 10,235  | Ps. 8,602                            | Ps. 8,488                           | Ps. (16,996) | Ps. 10,329         |
| Other comprehensive income, net of taxes:  |   |                                      |                                     |              |                    |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods:         |   |                                      |                                     |              |                    |
| Unrealized gain on available-for sale securities, net of taxes                                 |   |                                      |                                     |              |                    |
| Valuation of the effective portion of derivative financial instruments, net of taxes           | (77)  | 304                                  | 4                                   | (258)        | (27)               |
| Exchange differences on translation of foreign operations                                      | (4,853)   | (4,585)                              | (5,536)                             | 397          | (5,407)            |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods:     | (4,930)   | 4,889                                | (5,532)                             | 139          | (5,434)            |
| Items not to be reclassified to profit or loss in subsequent periods:                          |   |                                      |                                     |              |                    |
| Remeasurements of the net defined benefit liability, net of taxes                              | 132   | 21                                   | 117                                 | (132)        | 138                |
| Net other comprehensive income not being reclassified to profit or loss in subsequent periods: | 132   | 21                                   | 117                                 | (132)        | 138                |
| Total comprehensive (loss) income, net of tax  | (4,798)   | 4,910                                | (5,415)                             | 7            | (5,296)            |
| Consolidated comprehensive income for the year, net of tax                                     | Ps. 5,437   | Ps. 13,512                           | Ps. 3,073                           | Ps. (16,989) | Ps. 5,033          |
| Attributable to:   |   |                                      |                                     |              |                    |
| Equity holders of the parent   | Ps. 5,437   | Ps. 13,512                           | Ps. 3,477                           | Ps. (16,989) | Ps. 5,437          |
| Non-controlling interest   |   |                                      | (404)                               |              | (404)              |

|   |           |            |           |              |           |
|---|-----------|------------|-----------|--------------|-----------|
| Consolidated comprehensive<br>income for the year, net of tax | Ps. 5,437 | Ps. 13,512 | Ps. 3,073 | Ps. (16,989) | Ps. 5,033 |
|---|-----------|------------|-----------|--------------|-----------|

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|   | Parent         | Wholly-owned<br>Guarantors<br>Subsidiaries | Combined<br>non-guarantor<br>Subsidiaries | Eliminations    | Consolidated<br>Total |
|---|----------------|--|---|-----------------|-----------------------|
| <i>Condensed Consolidated Statements of<br/>Cash Flows For the year<br/>ended December 31, 2017</i> |                |  |   |                 |                       |
| <b>Cash flows from operating activities:</b>  |                |  |   |                 |                       |
| Income before income taxes  | Ps. (12,565)   | Ps. 18,144                                 | Ps. (12,708)                              | Ps. 29          | Ps. (7,100)           |
| Non-cash items  | 10,474         | (4,564)                                    | 41,487                                    | (29)            | 47,368                |
| Changes in working capital  | 118            | 1,803                                      | (8,953)                                   |                 | (7,032)               |
| <b>Net cash flows (used in)/from operating activities</b>   | <b>(1,973)</b> | <b>15,383</b>                              | <b>19,826</b>                             |                 | <b>33,236</b>         |
| <b>Investing activities:</b>  |                |  |   |                 |                       |
| Acquisition and mergers, net of cash acquired   |                |  | 4,038                                     |                 | 4,038                 |
| Deconsolidation of Venezuela  |                |  | (170)                                     |                 | (170)                 |
| Interest received   | 4,753          | 1,693                                      | 1,567                                     | (7,126)         | 887                   |
| Acquisition of long-lived assets, net   |                | (2,646)                                    | (8,101)                                   |                 | (10,747)              |
| Acquisition of intangible assets and other investing activities                                     | 4,902          | (996)                                      | (7,917)                                   |                 | (4,011)               |
| Investments in shares   | (118)          | (420)                                      | 861                                       | (1,242)         | (920)                 |
| Dividends received  | 3,204          | 16   |   | (3,187)         | 33                    |
| <b>Net cash flows (used in)/from investing activities</b>   | <b>12,741</b>  | <b>(2,353)</b>                             | <b>(9,723)</b>                            | <b>(11,555)</b> | <b>(10,890)</b>       |
| <b>Financing activities:</b>  |                |  |   |                 |                       |
| Proceeds from borrowings  | 10,200         |  | 2,288                                     |                 | 12,488                |
| Repayment of borrowings   | (9,926)        |  | (3,183)                                   |                 | (13,109)              |
| Interest paid   | (5,169)        | (4,740)                                    | (1,806)                                   | 7,126           | (4,589)               |
| Dividends paid  | (6,991)        | (3,187)                                    | (1)                                       | 3,187           | (6,992)               |
| Proceeds from issuing shares  | 4,082          |  |   |                 | 4,082                 |
| Other financing activities  | 2,730          | (5,293)                                    | (1,334)                                   | 1,242           | (2,655)               |
| <b>Net cash flows (used in)/from financing activities</b>   | <b>(5,074)</b> | <b>(13,220)</b>                            | <b>(4,036)</b>                            | <b>11,555</b>   | <b>(10,775)</b>       |
| Net (decrease) increase in cash and cash equivalents  | 5,694          | (190)                                      | 6,067                                     |                 | 11,571                |
| Initial balance of cash and cash equivalents  | 1,106          | 1,119                                      | 8,251                                     |                 | 10,476                |
| Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign | 217            | (3)  | (3,494)                                   |                 | (3,280)               |



currencies

**Ending balance of cash and cash  
equivalents**

|           |         |            |     |            |
|-----------|---------|------------|-----|------------|
| Ps. 7,017 | Ps. 926 | Ps. 10,824 | Ps. | Ps. 18,767 |
|-----------|---------|------------|-----|------------|

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|  | Parent         | Wholly-owned<br>Guarantors<br>Subsidiaries | Combined<br>non-guarantor<br>Subsidiaries | Eliminations    | Consolidated<br>Total |
|--|----------------|--|---|-----------------|-----------------------|
| <i>Condensed Consolidated Statements of<br/>Cash Flows For the year<br/>ended December 31, 2016</i>            |                |  |   |                 |                       |
| <b>Cash flows from operating activities:</b>   |                |  |   |                 |                       |
| Income before income taxes   | Ps. 8,848      | Ps. 18,461                                 | Ps. 11,080                                | Ps. (23,934)    | Ps. 14,455            |
| Non-cash items   | (11,495)       | (3,557)                                    | 8,429                                     | 23,934          | 17,311                |
| Changes in working capital   | (100)          | (2,279)                                    | 3,059                                     |                 | 680                   |
| <b>Net cash flows (used in)/from operating activities</b>  | <b>(2,747)</b> | <b>12,625</b>                              | <b>22,568</b>                             |                 | <b>32,446</b>         |
| <b>Investing activities:</b>   |                |  |   |                 |                       |
| Payment related to acquisition of Vonpar   |                |  | (13,198)                                  |                 | (13,198)              |
| Interest received  | 1,711          | 671  | 3,504                                     | (5,171)         | 715                   |
| Acquisition of long-lived assets, net  |                | (3,810)                                    | (6,169)                                   |                 | (9,979)               |
| Acquisition of intangible assets and other investing activities  | (12,079)       | (6,577)                                    | 16,271                                    |                 | (2,385)               |
| Investments in shares  | (707)          | (1,021)                                    | 6,829                                     | (7,169)         | (2,068)               |
| Dividends received   | 5,868          | 1  |   | (5,869)         |                       |
| <b>Net cash flows (used in)/from investing activities</b>  | <b>(5,207)</b> | <b>(10,736)</b>                            | <b>7,237</b>                              | <b>(18,209)</b> | <b>(26,915)</b>       |
| <b>Financing activities:</b>   |                |  |   |                 |                       |
| Proceeds from borrowings   | 4,236          |  | 4,026                                     | (222)           | 8,040                 |
| Repayment of borrowings  | (2,625)        |  | (2,545)                                   | 222             | (4,948)               |
| Interest paid  | (1,360)        | (3,727)                                    | (4,206)                                   | 5,171           | (4,122)               |
| Dividends paid   | (6,944)        | (5,868)                                    | (70)                                      | 5,869           | (7,013)               |
| Increase in non-controlling interest   |                |  | 826                                       |                 | 826                   |
| Other financing activities   | 3,024          | 8,005                                      | (20,715)                                  | 7,169           | (2,517)               |
| <b>Net cash flows (used in)/from financing activities</b>  | <b>(3,669)</b> | <b>(1,590)</b>                             | <b>(22,684)</b>                           | <b>18,209</b>   | <b>(9,734)</b>        |
| Net (decrease) increase in cash and cash equivalents   | (11,623)       | 299  | 7,121                                     |                 | (4,203)               |
| Initial balance of cash and cash equivalents   | 10,991         | 810  | 4,188                                     |                 | 15,989                |
| Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign currencies | 1,738          | 9  | (3,057)                                   |                 | (1,310)               |

|  |           |           |           |     |            |
|--|-----------|-----------|-----------|-----|------------|
| <b>Ending balance of cash and cash equivalents</b> | Ps. 1,106 | Ps. 1,118 | Ps. 8,252 | Ps. | Ps. 10,476 |
|--|-----------|-----------|-----------|-----|------------|

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|  | Parent                                      | Wholly-owned<br>Guarantors<br>Subsidiaries | Combined<br>non-guarantor<br>Subsidiaries | Eliminations    | Consolidated<br>Total |
|--|---|--|---|-----------------|-----------------------|
|  | <i>Condensed Consolidated Statements of</i> |  |   |                 |                       |
|  | <i>Cash Flows For</i>                       |  |   |                 |                       |
|  | <i>the year ended December 31, 2015</i>     |  |   |                 |                       |
| <b>Cash flows from operating activities:</b>   |   |  |   |                 |                       |
| Income before income taxes   | Ps. 9,251                                   | Ps. 10,637                                 | Ps. 11,988                                | Ps. (16,996)    | Ps. 14,880            |
| Non-cash items   | (11,920)                                    | 2,308                                      | 9,115                                     | 16,996          | 16,499                |
| Changes in working capital   | 17  | 1,362                                      | (9,556)                                   |                 | (8,177)               |
| <b>Net cash flows (used in)/from operating activities</b>  | <b>(2,652)</b>                              | <b>14,307</b>                              | <b>11,547</b>                             |                 | <b>23,202</b>         |
| <b>Investing activities:</b>   |   |  |   |                 |                       |
| Interest received  | 2,055                                       | 238  | 2,347                                     | (4,226)         | 414                   |
| Acquisition of long-lived assets, net  |   | (2,911)                                    | (7,401)                                   |                 | (10,312)              |
| Acquisition of intangible assets and other investing activities  | 65  | (62)                                       | (1,031)                                   |                 | (1,028)               |
| Investments in shares  | (10,929)                                    | (9,352)                                    | (5,681)                                   | 25,930          | (32)                  |
| Dividends received   |   | 17   | 13  | (17)            | 13                    |
| <b>Net cash flows (used in)/from investing activities</b>  | <b>(8,809)</b>                              | <b>(12,070)</b>                            | <b>(11,753)</b>                           | <b>21,687</b>   | <b>(10,945)</b>       |
| <b>Financing activities:</b>   |   |  |   |                 |                       |
| Proceeds from borrowings   |   |  | 1,907                                     |                 | 1,907                 |
| Repayment of borrowings  | (7,681)                                     |  | (1,250)                                   | (145)           | (9,076)               |
| Interest paid  | (609)                                       | (3,491)                                    | (3,694)                                   | 4,226           | (3,568)               |
| Dividends paid   | (6,405)                                     |  | (28)                                      | 17              | (6,416)               |
| Other financing activities   | 28,770                                      | 1,300                                      | 4,301                                     | (25,785)        | 8,586                 |
| <b>Net cash flows (used in)/from financing activities</b>  | <b>14,075</b>                               | <b>(2,191)</b>                             | <b>1,236</b>                              | <b>(21,687)</b> | <b>(8,567)</b>        |
| Net (decrease) increase in cash and cash equivalents   | 2,614                                       | 46   | 1,030                                     |                 | 3,690                 |
| Initial balance of cash and cash equivalents   | 7,282                                       | 755  | 4,921                                     |                 | 12,958                |
| Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign currencies | 1,095                                       | 9  | (1,763)                                   |                 | (659)                 |
|  | Ps. 10,991                                  | Ps. 810                                    | Ps. 4,188                                 | Ps.             | Ps. 15,989            |

**Ending balance of cash and cash  
equivalents**

**Note 28. Subsequent Events**

On March 9, 2018, the Company's Board of Directors approved the payment of a cash dividend in the equivalent amount of Ps. 3.35 per share, to be paid in two equal installments as of May 3, 2018 and November 1, 2018.

On April 10, 2018 we entered into certain bank loans in Mexican pesos for an aggregate principal amount of Ps.10,100 million

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