

MEXICAN ECONOMIC DEVELOPMENT INC

Form 20-F

April 24, 2019

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As filed with the Securities and Exchange Commission on April 24, 2019

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

**ANNUAL REPORT PURSUANT TO SECTION 13**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

Commission file number 001-35934

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

(Exact name of registrant as specified in its charter)

**Mexican Economic Development, Inc.**

(Translation of registrant's name into English)

**United Mexican States**

(Jurisdiction of incorporation or organization)

**General Anaya No. 601 Pte.**

**Colonia Bella Vista**

**Monterrey, NL 64410 Mexico**

(Address of principal executive offices)

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**Juan F. Fonseca**

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**Monterrey, NL 64410 Mexico**

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

**address of company contact person)**

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

**Title of each class:**  
**American Depositary Shares, each representing 10 BD Units, and**  
**each BD Unit consisting of one Series B Share,**

**Name of each exchange on which registered:**  
**New York Stock Exchange**

**two Series D-B Shares and two Series D-L Shares,**

**without par value**  
**2.875% Senior Notes due 2023**  
**4.375% Senior Notes due 2043**

**New York Stock Exchange**  
**New York Stock Exchange**

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

None

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

None

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

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

1,417,048,500 B Units, each consisting of five Series B Shares without par value. The B Units represent a total of 7,085,242,500 Series B Shares.

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

Yes

No

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

Yes

No

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

Yes

No

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

Yes

No

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

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

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

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

Item 17

Item 18

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

Yes

No



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### **INTRODUCTION**

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

### **References**

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

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

U.S. dollars, US\$, dollars or \$ refer to the lawful currency of the United States of America ( United States ). Mexican pesos, pesos or \$ refer to the lawful currency of Mexico. Euros or € refer to the lawful currency of the European Economic and Monetary Union (the Euro Zone ).

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

### **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. 19.6350 to US\$ 1.00, the noon buying rate for Mexican pesos on December 31, 2018, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. On April 19, 2019, this exchange rate was Ps. 18.7705 to US\$ 1.00.

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

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

### **Forward-Looking Information**

This annual report contains words such as believe, expect, anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including, but not limited to, effects on our company from changes in our relationship with or among our affiliated companies, effects on our company's points of sale



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performances from changes in economic conditions, changes or interruptions in our information technology systems, effects on our company from changes to our various suppliers' business and demands, competition, significant developments in Mexico and the other countries where we operate, our ability to successfully integrate mergers and acquisitions we have completed in recent years, international economic or political conditions or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

### **ITEMS 1-2. NOT APPLICABLE**

### **ITEM 3. KEY INFORMATION**

#### **Selected Consolidated Financial Data**

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018, 2017 and 2016. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Pursuant to IFRS, the information presented in this annual report presents financial information for 2018, 2017, 2016, 2015 and 2014 in nominal terms in Mexican pesos, taking into account local inflation of any hyperinflationary economic environment.

In the case of Venezuela, one of the two countries where we operated with a hyperinflationary economic environment, local inflation was taken into account in preparing the functional currency financial statements before they were 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, 2014, 2015 and 2016 and (ii) an exchange rate of 22,793 bolivars per US\$ 1.00 as of December 31, 2017. In the case of Argentina, on July 1, 2018, the economy was designated as hyperinflationary based on various economic factors, including that Argentina's cumulative inflation over the three-year period prior to such date exceeded 100%, according to the available indexes in the country. As a result, the financial statements of our Argentine operations were remeasured in its functional currency (Argentine peso) but they were not restated in its presentation currency (Mexican pesos) since Mexico is not considered a hyperinflationary economy. In addition, our financial statements for prior periods were not restated for comparative purposes. Effective as of January 1, 2018, we revised the financial information of our Argentine operations to recognize the inflationary effects and the functional currency was converted to Mexican pesos using the official exchange rate published by the local central bank at the end of each period. For further information, see notes 3.3 and 3.4 to our audited consolidated financial statements.

Pursuant to IFRS, as of December 31, 2017, Coca-Cola FEMSA changed the method of accounting for its investment in Coca-Cola FEMSA Venezuela, S.A. (KOF Venezuela) from consolidation to fair value as a result of Venezuela's hyperinflationary economic environment and currency exchange regime. Effective as of January 1, 2018, Coca-Cola FEMSA ceased to include the results of operations of KOF Venezuela in its consolidated financial statements.

For each non-hyperinflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for equity and the average exchange rate for the period for the income statement and comprehensive income. See note 3.3 to our audited consolidated financial statements.

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

On February 1, 2017, Coca-Cola FEMSA began consolidating the financial results of Coca-Cola FEMSA Philippines, Inc. (KOF Philippines) in Coca-Cola FEMSA's financial statements. On August 16, 2018, Coca-Cola

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FEMSA announced the exercise of the put option to sell its 51% stake in KOF Philippines back to The Coca-Cola Company ( TCCC ). The sale was consummated on December 13, 2018 for a purchase price amount of approximately Ps. 14,039 million (US\$ 715 million). As a result, the operations for KOF Philippines for the years ended December 31, 2018 and 2017 were reclassified as discontinued operations in our audited consolidated income statements and in our consolidated cash flow statements. For further information, see note 4.2 to our audited consolidated financial statements.

Except when specifically indicated, information in this annual report is presented as of December 31, 2018 and does not give effect to any transaction, financial or otherwise, subsequent to that date.

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

	December 31,					
	2018 <sup>(1)</sup>	2018 <sup>(3)(6)</sup>	2017 <sup>(2)(3)</sup>	2016 <sup>(2)(4)</sup>	2015 <sup>(5)</sup>	2014
	(in millions of Mexican pesos or millions of U.S. dollars, except percentages and share and per share data)					
Income Statement Data (for the year ended):						
Total revenues	\$ 23,924	Ps.469,744	Ps.439,932	Ps.399,507	Ps.311,589	Ps.263,449
Gross profit	8,922	175,170	162,090	148,204	123,179	110,171
Income before income taxes from continuing operations and share of the profit of equity accounted investees	1,713	33,630	35,771	28,556	25,163	23,744
Income taxes	518	10,169	10,213	7,888	7,932	6,253
Consolidated net income	1,684	33,079	37,206	27,175	23,276	22,630
Controlling interest net income from continuing operations	1,148	22,560	40,863	21,140	17,683	16,701
Non-controlling interest net income (loss) from continuing operations	364	7,153	(7,383)	6,035	5,593	5,929
Basic controlling interest net income from continuing operations:						
Per Series B Share	0.06	1.13	2.04	1.05	0.88	0.83
Per Series D Share	0.07	1.41	2.55	1.32	1.10	1.04
Diluted controlling interest net income from continuing operations:						
Per Series B Share	0.06	1.13	2.04	1.05	0.88	0.83
Per Series D Share	0.07	1.41	2.55	1.32	1.10	1.04
Weighted average number of shares outstanding (in millions):						
Series B Shares	9,246.4	9,246.4	9,246.4	9,246.4	9,246.4	9,246.4
Series D Shares	8,644.7	8,644.7	8,644.7	8,644.7	8,644.7	8,644.7
Allocation of earnings:						
Series B Shares	46.11%	46.11%	46.11%	46.11%	46.11%	46.11%
Series D Shares	53.89%	53.89%	53.89%	53.89%	53.89%	53.89%
Financial Position Data (as of):						
Total assets	Ps.29,355	Ps.576,381	Ps.588,541	Ps.545,623	Ps.409,332	Ps.376,173
Current liabilities	5,167	101,464	105,022	86,289	65,346	49,319
Long-term debt <sup>(7)</sup>	5,856	114,990	117,758	131,967	85,969	82,935
Other non-current liabilities	1,243	24,385	28,849	41,197	16,161	13,797
Capital stock	171	3,348	3,348	3,348	3,348	3,347
Total equity	17,089	335,542	336,912	286,170	241,856	230,122
Controlling interest	13,092	257,053	250,291	211,904	181,524	170,473
Non-controlling interest	3,997	78,489	86,621	74,266	60,332	59,649
Other Information						

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	2018 <sup>(1)</sup>	2018 <sup>(3)(6)</sup>	2017 <sup>(2)(3)</sup>	December 31, 2016 <sup>(2)(4)</sup>	2015 <sup>(5)</sup>	2014
	(in millions of Mexican pesos or millions of U.S. dollars, except percentages and share and per share data)					
Depreciation	Ps.749	Ps.14,698	Ps.13,799	Ps.12,076	Ps.9,761	Ps.9,029
Capital expenditures <sup>(8)</sup>	1,282	24,266	23,486	22,155	18,885	18,163
Gross margin <sup>(9)</sup>	37%	37%	37%	37%	40%	42%

- (1) Translation to U.S. dollar amounts at an exchange rate of Ps. 19.6350 to US\$ 1.00 solely for the convenience of the reader.
- (2) The exchange rate used to translate our operations in Venezuela as of and for the year ended on December 31, 2017 which was the DICOM rate of 22,793 bolivars to US\$ 1.00 and compared to the year ended on December 31, 2016 of 673.76 bolivars to US\$ 1.00. See **Item 3. Key Information Selected Consolidated Financial Data** note 3.3 of our audited consolidated financial statements.
- (3) The consolidated information presented does not include Coca-Cola FEMSA's 51% stake in KOF Philippines, the sale of which was finalized on December 13, 2018. As a result, the operations of KOF Philippines were reclassified as discontinued operations in our audited consolidated income statements for the years ended December 31, 2018 and 2017 (revised). For related information regarding the sale of KOF Philippines, see **Item 4. Information on the Company Company Background** and notes 4.2 and 23 to our audited consolidated financial statements.
- (4) Includes results of Vonpar, S.A. ( Vonpar or Group Vonpar ), from December 2016, and other business acquisitions. See **Item 4. Information on the Company Corporate Background** and note 4 to our audited consolidated financial statements.
- (5) Includes results of Socofar, S.A. ( Socofar or Group Socofar ), from October 2015, the Fuel Division from March 2015 and other business acquisitions. See **Item 4. Information on the Company Corporate Background** and note 4 of our audited consolidated financial statements.
- (6) Includes results of Café del Pacífico, S.A.P.I. de C.V. ( Caffenio ) in which we acquired an additional 10% participation and reached a controlling interest of 50% of ownership, through an agreement with other shareholders assuming control of the subsidiary. See note 4 to our audited consolidated financial statements.
- (7) Includes long-term debt minus the current portion of long-term debt.
- (8) Includes investments in property, plant and equipment, intangible and other assets, net of cost of long-lived assets sold and write-off.
- (9) Gross margin is calculated by dividing gross profit by total revenues.

**Dividends**

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

The following table sets forth for each year the nominal amount of dividends per share that we declared in Mexican peso and U.S. dollar amounts and their respective payment dates for the 2014 to 2018 fiscal years:

Date Dividend Paid	Fiscal Year with Respect to which Dividend was Declared	Aggregate Amount of Dividend Declared	Per Series B Share Dividend	Per Series B Share Dividend <sup>(1)</sup>	Per Series D Share Dividend	Per Series D Share Dividend <sup>(1)</sup>
May 7, 2015 and						
November 5, 2015	2014	Ps.7,350,000,000	Ps.0.3665	\$ 0.0230	Ps.0.4581	\$ 0.0287
May 7, 2015			Ps.0.1833	\$ 0.0120	Ps.0.2291	\$ 0.0149
November 5, 2015			Ps.0.1833	\$ 0.0110	Ps.0.2291	\$ 0.0132
May 5, 2016 and						
November 3, 2016	2015	Ps.8,355,000,000	Ps.0.4167	\$ 0.0225	Ps.0.5208	\$ 0.0282
May 5, 2016			Ps.0.2083	\$ 0.0117	Ps.0.2604	\$ 0.0146
November 3, 2016			Ps.0.2083	\$ 0.0108	Ps.0.2604	\$ 0.0135
May 5, 2017 and						
November 3, 2017	2016	Ps.8,636,000,000	Ps.0.4307	\$ 0.0226	Ps.0.5383	\$ 0.0282

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May 5, 2017			Ps.0.2153	\$	0.0113	Ps.0.2692	\$	0.0142
November 3, 2017			Ps.0.2153	\$	0.0112	Ps.0.2692	\$	0.0140
May 4, 2018 and								
November 6, 2018	2017	Ps.9,220,625,674	Ps.0.4598	\$	0.0236	Ps.0.5748	\$	0.0294
May 4, 2018			Ps.0.2299	\$	0.0120	Ps.0.2874	\$	0.0150
November 6, 2018			Ps.0.2299	\$	0.0116	Ps.0.2874	\$	0.0145
May 7, 2019 and								
November 5, 2019	2018	Ps.9,691,944,126	Ps.0.4833		N/A	Ps.0.6042		N/A
May 7, 2019			Ps.0.2417		N/A	Ps.0.3021		N/A
November 5, 2019			Ps.0.2417		N/A	Ps.0.3021		N/A

(1) Translations to U.S. dollars are based on the exchange rates on the dates the payments were made.

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

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

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

## **Risk Factors**

### **Risks Related to Our Company**

#### **Coca-Cola FEMSA**

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

Substantially all of Coca-Cola FEMSA's sales are derived from sales of *Coca-Cola* trademark beverages. Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages through standard bottler agreements in the territories where it operates, which we refer to as

Coca-Cola FEMSA territories. Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages from affiliates of TCCC, which price may be unilaterally determined from time to time by TCCC in all such territories. Coca-Cola FEMSA is also required to purchase sweeteners and other raw materials only from companies authorized by TCCC. See **Item 4. Information on the Company Our Territories.**

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

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

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

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

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

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

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

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

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

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damage caused by a security breach or to repair or replace networks and information systems. Any severe damage, disruption or shutdown in Coca-Cola FEMSA's information systems could have a material adverse effect on its business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Coca-Cola FEMSA is subject to several laws and regulations in each of the territories where it operates. The principal areas in which Coca-Cola FEMSA is subject to laws and regulations are anti-corruption, anti-bribery, anti-money laundering, water, environment, labor, taxation, health, antitrust and price controls. **See Item 4. Information on the Company Regulatory Matters.** Changes in existing laws and regulations, the adoption of new laws or regulations, or a stricter interpretation or enforcement thereof in the countries where Coca-Cola FEMSA operates may increase Coca-Cola FEMSA's operating and compliance costs or impose restrictions on its operations which, in turn, may adversely affect its financial condition, business, results of operations and prospects.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where Coca-Cola FEMSA operates. **See Item 4. Information on the Company Regulatory Matters Price Controls.** We cannot assure you that existing or future laws and regulations in the countries where Coca-Cola FEMSA operates relating to goods and services (in particular, laws and regulations imposing statutory price controls) will not affect Coca-Cola FEMSA's products, Coca-Cola FEMSA's ability to set prices for



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its products, or that Coca-Cola FEMSA will not need to implement price restraints, which could have a negative effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

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

Coca-Cola FEMSA has and may continue to acquire bottling operations and other businesses. Key elements to achieving the benefits and expected synergies of Coca-Cola FEMSA's acquisitions and mergers are the integration of acquired or merged businesses' operations into Coca-Cola FEMSA's operations in a timely and effective manner and the retention of qualified and experienced key personnel. Coca-Cola FEMSA may incur unforeseen liabilities in connection with acquiring, taking control of, or managing bottling operations and other businesses and may encounter difficulties and unforeseen or additional costs in restructuring and integrating them.

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into Coca-Cola FEMSA's operating structure. We cannot assure you that these efforts will be successful or completed as expected, and Coca-Cola FEMSA's business, financial condition, results of operations and prospects could be adversely affected if Coca-Cola FEMSA is unable to do so.

***An impairment in the carrying value of distribution rights under Coca-Cola FEMSA's bottler agreements and goodwill of acquired businesses could negatively affect its financial condition and results of operations.***

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

## **FEMSA Comercio**

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

The retail sector is highly competitive in the markets where FEMSA Comercio operates. The Proximity Division participates in the retail sector primarily through its OXXO stores, which face competition from small-format stores (such as 7-Eleven, Circle K, Tambo Mas and OK Market), other numerous chains of grocery retailers across the countries where it operates, other regional small-format retailers and small neighborhood stores. In particular, small neighborhood stores in Mexico can sometimes avoid regulatory oversight and taxation, enabling them to sell certain products at prices below average market prices. These small neighborhood stores may also improve their technological capabilities to enable credit card processing or online bill payments, which would diminish one of the Proximity Division's competitive advantages.

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

For the Fuel Division, the opening of the Mexican fuel distribution market is expected to alter the competitive dynamics of the industry. The consolidation process, expected to continue as more large companies and international competitors continue to enter and expand through the market, may occur rapidly and materially alter the market dynamics in Mexico. Currently, the Fuel Division faces competition from small independently owned and operated service stations, regional chains such as Corpogas, Hidrosina, G500 and Petro-7 and international players such as British Petroleum, Mobil, Respol and Shell.

FEMSA Comercio may face additional competition from new market participants. The increase in competition may limit the number of new locations available and could require FEMSA Comercio to modify its value proposition. Consequently, future competition may affect the financial situation, operation results and prospects of FEMSA Comercio. The shift in the retail sector from brick and mortar retailers to online and mobile platforms could also adversely affect FEMSA Comercio's business, financial condition, results of operations and prospects.

We expect the competitive landscape to continue to evolve as new technologies are developed based on changing consumer behavior. The continuing migration and evolution of retailing and financial services to on-line and mobile-based platforms for consumers may present increased competition that could adversely affect FEMSA Comercio.

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

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

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

FEMSA Comercio has recently entered into new markets through an organic expansion and the acquisition of other small-format retail businesses and continues to seek investment opportunities through this strategy. These new businesses are currently less profitable than our more established ones and as a result may marginally dilute FEMSA Comercio's margins in the short to medium term.

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

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

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

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

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

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

The performance of FEMSA Comercio's points of sale would be adversely affected by increases in the price of utilities on which the stores and stations depend, such as electricity. Electricity prices could potentially increase further as a result of inflation, shortages, interruptions in supply or other reasons, and such an increase could adversely affect the financial situation, operation results and prospects of FEMSA Comercio's business.

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### ***Negative or inaccurate information on social media could adversely affect FEMSA Comercio's reputation.***

In recent years, there has been a marked increase in the use of social media and similar platforms, including weblogs (blogs), social media websites, and other forms of Internet-based communications that allow individual access to a broad audience of consumers and other interested persons. Consumers value readily available information concerning retailers, manufacturers and their goods and services and often act on such information without further investigation, authentication and without regard to its accuracy. The availability of information on social media platforms and devices is virtually immediate as is its impact. Social media platforms and devices immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. The opportunity for dissemination of information, including inaccurate information, is virtually limitless.

Negative or inaccurate information concerning or affecting FEMSA Comercio's trademarks may be posted on such platforms at any time. This information may harm FEMSA Comercio's reputation or brand image without affording the corporation an opportunity for redress or correction. Further, the disclosure of non-public company-sensitive information by FEMSA Comercio's workforce or others through external social media channels may have adverse legal implications. The risks associated with any such negative publicity could in turn have a material adverse effect on its business, financial condition, results of operations and prospects.

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

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

### ***The Proximity Division may not be able to maintain its historic growth rate.***

The Proximity Division increased the number of OXXO stores at a compound annual growth rate of 8.8% from 2014 to 2018. The growth in the number of OXXO stores has driven growth in total revenue and results of operations at the Proximity Division over the same period. As the overall number of stores increases, percentage growth in the number of OXXO stores is likely to slow. In addition, as small-format store penetration in Mexico grows, the number of viable new store locations may decrease, and new store locations may be less favorable in terms of same-store sales, average ticket and store traffic. As a result, our future results and financial situation may not be consistent with prior periods and may be characterized by lower growth rates in terms of total revenue and results of operations. We cannot assure that the revenues and cash flows of the Proximity Division that come from future retail stores will be comparable with those generated by existing retail stores. **See Item 4. Information on the Company FEMSA Comercio Proximity Division Store Locations.**

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

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

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

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

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

The Fuel Division mainly sells gasoline and diesel through owned or leased retail service stations. Previously, the prices of these products were regulated in Mexico by the Energy Regulatory Commission (*Comisión*

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*Reguladora de Energía, or CRE ). During 2017 and 2018, fuel prices gradually began to follow the dynamics of the international fuel market, and in 2019 we expect them to continue to do so in accordance with the regulatory framework, which may also adversely affect the financial situation, operation results and prospects of the Fuel Division's business.*

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

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

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

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

### **Risks Related to Mexico and the Other Countries Where We Operate**

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

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. For the year ended December 31, 2018, 75% of our consolidated total revenues were attributable to Mexico. During 2017 and 2018, the Mexican gross domestic product (GDP) increased by approximately 2.3% and 2.0%, respectively, on an annualized basis compared to the previous year. We cannot assure that such conditions will not slow down in the future or will not have a material adverse effect on our business, financial condition, results of operations and prospects going forward. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our results.

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

In addition, an increase in interest rates in Mexico would increase the cost of our debt and would cause an adverse effect on our financial position and results. Mexican peso-denominated debt (including currency hedges) constituted 41.2% of our total debt as of December 31, 2018.

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

Depreciation of the Mexican peso and of our other local currencies relative to the U.S. dollar increases the cost of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars, and thereby negatively affects our financial position

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and results. A severe devaluation or depreciation of the Mexican peso, which is our main operating currency, may result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated debt or obligations in other currencies. The Mexican peso is a free-floating currency and, as such, it experiences exchange rate fluctuations relative to the U.S. dollar over time. During 2018, the Mexican peso slightly appreciated relative to the U.S. dollar by approximately 0.02% compared to 2017. During 2017 and 2016, the Mexican peso experienced fluctuations relative to the U.S. dollar consisting of 4.8% of recovery and 16.6% of depreciation respectively, compared to the years of 2016, 2015. Through April 19, 2019, the Mexican peso has appreciated 4% since December 31, 2018.

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

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

### ***Political events in Mexico could adversely affect our operations.***

Mexican political events may significantly affect our operations. The most recent presidential and federal congressional elections were held on July 1, 2018. Mr. Andrés Manuel López Obrador, a member of the National Regeneration Movement (*Movimiento Regeneración Nacional*), was elected President of Mexico and took office on December 1, 2018. The new President's term will expire on September 30, 2024. We cannot predict whether potential changes in Mexican governmental and economic policy could adversely affect economic conditions in Mexico or the sector in which we operate. The Mexican president and Congress has a strong influence over new policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law, policy and regulations in Mexico, including reforms to the Constitution, which could negatively affect our business, financial condition, results of operations and prospects. In response to these actions, opponents of the administration could react with, among other things, riots, protests and looting that could negatively affect our operations.

Furthermore, the National Regeneration Movement indirectly holds an absolute majority in the Chamber of Deputies and a strong influence in the Senate and various local legislatures. The newly-elected members of the Mexican Congress took office on September 1, 2018. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition, results of operations and prospects.

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

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

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The Mexican economy and the market value of securities issued by Mexican issuers may be, to varying degrees, affected by economic and market conditions in other emerging market countries and in the United States. Furthermore, economic conditions in Mexico are highly correlated with economic conditions in the United States as a result of the North American Free Trade Agreement ( NAFTA ), and increased economic activity between the two countries. In November 2018, the United States, Mexico and Canada signed the United States-Mexico-Canada Agreement ( USMCA ), which is designed to overhaul and update NAFTA. The USMCA still requires ratification by legislative bodies in all three countries before it can take effect. It remains unclear what actions, if any, President Donald Trump will take with respect to NAFTA, other international trade agreements to which the United States is a party and the World Trade Organization ( WTO ). If the USMCA is not ratified and the United States were to withdraw from NAFTA, or if the United States were to withdraw from or materially modify other international trade agreements to which it is a party, or if the United States were to withdraw from the WTO, certain foreign-sourced goods that we sell may no longer be available at a commercially attractive price or at all, which in turn could have a material adverse effect on our business, financial condition and results of operations. However, there can be no assurance as to what the U.S. administration will do, and the impact of these measures or any others adopted by the new U.S. administration cannot be predicted.

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

### ***Natural disasters could adversely affect our business.***

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

### ***Technology and cyber-security risks.***

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

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

In recent years, Mexico has experienced a period of increasing criminal activity, primarily due to organized crime. The presence of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, pose a risk to our business. Historically, these incidents have been relatively concentrated along the northern Mexican border, and during 2018 in certain other Mexican states such as Colima, Morelos, Guerrero,

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Zacatecas and Veracruz. The north of Mexico is an important region for some of our FEMSA Comercio operations, and an increase in crime rates could negatively affect our sales and customer traffic, increase our security expenses, and result in higher turnover of personnel or damage to the perception of our brands. This situation could worsen and adversely impact our business and financial results because consumer habits and patterns adjust to the increased perceived and real security risks, as people refrain from going out as much and gradually shift some on-premise consumption to off-premise consumption of food and beverages on certain social occasions.

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

The devaluation of the local currencies against the U.S. dollar in our non-Mexican territories can increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso can negatively affect the translation of our results for these countries. Future currency devaluation or the imposition of exchange controls in any of these countries, or in Mexico, would have an adverse effect on our financial position and results.

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

## **Risks Related to the Heineken Investment**

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

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

### ***Heineken operates in a large number of countries.***

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

### ***The Mexican peso may strengthen compared to the Euro.***

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



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

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

### **Risks Related to Our Principal Shareholders and Capital Structure**

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

As of March 22, 2019, the voting trust owned 38.69% of our capital stock and 74.86% of our capital stock with full voting rights, consisting of Series B Shares. Consequently, the voting trust has the power to elect a majority of the members of our board of directors and to play a significant or controlling role in the outcome of substantially all matters to be decided by our board of directors or our shareholders. The interests of the voting trust may differ from those of our other shareholders. See **Item 7. Major Shareholders and Related-Party Transactions** and **Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights**.

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

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

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

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

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

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

We may decide not to file a registration statement with the SEC to allow holders of our shares or ADSs who are located in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, the sale by the ADS depositary of preemptive rights and the distribution of the proceeds from such

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sales to the holders of our shares in the form of ADSs is not possible. As a result, the equity interest of holders of our shares in the form of ADSs would be diluted proportionately. See **Item 10. Additional Information** **Bylaws** **Preemptive Rights**.

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

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

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

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

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

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

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

We are a holding company. Accordingly, our cash flows are principally derived from dividends, interest and other distributions made to us by our subsidiaries. Currently, our subsidiaries do not have contractual obligations that require them to pay dividends to us. In addition, debt and other contractual obligations of our subsidiaries may in the future impose restrictions on our subsidiaries' ability to make dividend or other payments to us, which in turn may adversely affect our ability to pay dividends to shareholders and meet our debt and other obligations. As of March 31, 2019, we had no restrictions on our ability to pay dividends. Further, our non-controlling shareholder position in Heineken means that we will be unable to require payment of dividends with respect to the Heineken Investment.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **Overview**

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

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filings we make electronically are available to the public over the internet at the SEC's web site at [www.sec.gov](http://www.sec.gov) and at our website at [www.femsa.com](http://www.femsa.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.) See Item 10. Additional Information Documents on Display.

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

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

In the retail industry, through FEMSA Comercio, comprising of (1) the Proximity Division, operating the OXXO small-format store chain, (2) the Fuel Division, operating the OXXO GAS chain of retail service stations and (3) the Health Division, which includes drugstores and related operations;

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

In other ancillary businesses, through our Other Businesses (as defined below), including logistics services, point-of-sale refrigeration, food processing equipment and plastics solutions.

### **Corporate Background**

FEMSA traces its origins to the establishment of Mexico's first brewery, Cervecería Cuauhtémoc, S.A. (Cervecería Cuauhtémoc), which was established in 1890. Descendants of certain of the founders of Cervecería Cuauhtémoc are participants of the voting trust that controls the management of our company.

In the 1990s, we began a series of strategic transactions to strengthen the competitive positions of our operating subsidiaries. These transactions included the sale of a 30% strategic interest in Coca-Cola FEMSA to a wholly-owned subsidiary of TCCC and a subsequent public offering of Coca-Cola FEMSA shares, both of which occurred in 1993. Coca-Cola FEMSA listed its L shares on the Bolsa Mexicana de Valores, S.A.B. (the Mexican Stock Exchange) and, in the form of ADSs on the NYSE. In April 2019, Coca-Cola FEMSA consummated a stock split of each of its series of shares, which diluted our voting right percentage in Coca-Cola FEMSA. See **Item 4. Information on the Company Capital Stock.**

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

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

In 2008, our shareholders approved a proposal to maintain our then existing share structure. As a result, absent shareholder action, our share structure continues to be composed of Series B Shares, which must represent not less than 51% of our outstanding capital stock, and Series D-B and Series D-L Shares, which together may represent up to 49% of our outstanding capital stock. Our Unit structure, absent shareholder action, continues to consist of B Units, which bundle five Series B Shares, and BD Units, which bundle one Series B Share, two Series D-B Shares and two Series D-L Shares. See **Item 9. The Offer and Listing Description of Securities.**

In 2010, we exchanged our brewery business named FEMSA Cerveza for a 20% economic interest in the Heineken Group, one of the world's leading brewers. Under the terms of the Heineken Transaction, FEMSA received 43,018,320 shares of Heineken Holding N.V. and 43,009,699 shares of Heineken N.V., with an additional 29,172,504 shares of Heineken N.V. (Allotted Shares) delivered pursuant to an allotted share delivery instrument,



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or the ASDI, with the final installment delivered in October 2011. In 2017, FEMSA completed the sale of Heineken N.V. shares representing 3.90% of issued share capital of Heineken N.V. and the sale of Heineken Holding N.V. shares representing 2.67% of the issued share capital of Heineken Holding N.V., reducing our aggregate economic interest in the Heineken Group from 20% to 14.76%.

In 2013, Coca-Cola FEMSA acquired, through its subsidiary Controladora de Inversiones en Bebidas Refrescantes, S.L. ( CIBR ), a 51.0% stake in KOF Philippines from TCCC. In December 2018, CIBR completed the sale of its stake in KOF Philippines back to the TCCC through exercise of CIBR's option to sell.

In 2013, FEMSA Comercio, through one of its subsidiaries, Cadena Comercial de Farmacias, S.A.P.I. de C.V. ( CCF ), entered the drugstore business following the acquisition of Farmacias YZA, a leading drugstore operator in Southeast Mexico. In a separate transaction, also in 2013, CCF acquired Farmacias FM Moderna, a leading drugstore operator in the western state of Sinaloa. In 2015, CCF acquired 100% of Farmacias Farmacon, a regional pharmacy chain in the northwestern Mexican states of Sinaloa, Sonora, Baja California and Baja California Sur.

In 2013, FEMSA Comercio, through one of its subsidiaries, purchased the operating assets and trademarks of Doña Tota, a leading quick service restaurant in Mexico. The founding shareholders of Doña Tota initially retained a 20% stake in the FEMSA Comercio subsidiary that operates the Doña Tota business as part of the transaction. In 2018, FEMSA Comercio acquired such stake from the original shareholders.

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

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

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

In 2016, FEMSA Comercio, through its subsidiary Cadena Comercial Andina, SpA, entered the proximity store market in Chile following the acquisition of Comercial Big John Limitada. Currently, all stores in this country operate under the trade name OXXO. In October 2018, FEMSA Comercio also entered the market in Peru with the opening of its first OXXO store.

In September 2018, FEMSA Comercio announced that through its majority-owned subsidiary Socofar, it had reached an agreement to acquire Corporación FYBECA GPF ( GPF ), a leading drugstore operator based in Quito, Ecuador, that at the date of the announcement operated more than 620 points of sale nationwide under the Fybeca and SanaSana trademarks. The acquisition is expected to close during the first half of 2019.

In October 2018, FEMSA Comercio renamed its businesses formerly known as the Retail Division to the Proximity Division and transferred those operations that are not directly related to its proximity store business, such as its restaurant and discount retail formats, into Other Businesses. The Proximity Division now only includes the operations from its small-format chain stores mainly under the OXXO brand. **For more information, see Item 4. Information on the Company Coca-Cola FEMSA and Other Businesses.**

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

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### Ownership Structure

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

#### Ownership Structure as of March 31, 2019

- (1) Compañía Internacional de Bebidas, S.A. de C.V., which we refer to as CIBSA.
  - (2) Percentage of issued and outstanding capital stock owned by CIBSA (56% of Coca-Cola FEMSA's capital stock with full voting rights). See **Item 4. Information on the Company Coca-Cola FEMSA Capital Stock.**
  - (3) Our Heineken Investment is held indirectly by subsidiaries of FEMSA, including CB Equity. See note 4.2 to our audited consolidated financial statements. See **Item 4. Information on the Company Corporate Background.**
  - (4) Includes the Proximity Division, the Health Division and the Fuel Division. See **Item 4. Information on the Company FEMSA Comercio.**
- Significant Subsidiaries**

The following table sets forth our significant subsidiaries as of December 31, 2018:

Name of Company	Jurisdiction of Establishment	Percentage Owned
<b>CIBSA:</b>	Mexico	100.0%
Coca-Cola FEMSA	Mexico	47.2% <sup>(1)</sup>
<b>Emprex:</b>	Mexico	100.0%
FEMSA Comercio	Mexico	100.0%
<b>CB Equity</b>	United Kingdom	100.0%

- (1) Percentage of capital stock. FEMSA, through CIBSA, owns 56% of the ordinary voting shares of Coca-Cola FEMSA after giving effect to the KOF Stock Split (as defined herein) consummated on April 11, 2019. See **Item 4. Information on the Company Capital Stock.**

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

### Operations by Segment Overview

Year Ended December 31, 2018 and % of growth (decrease) vs. previous year

		FEMSA Comercio								
	Coca-Cola FEMSA <sup>(1)</sup>		Proximity Division <sup>(4)</sup>		Fuel Division		Health Division		Heineken Investment	
(in millions of Mexican pesos, except for employees and percentages)										
Total revenues	Ps.182,342		Ps.167,458	12%	Ps.46,936	22%	Ps.51,739	9%	Ps.	
Gross Profit	83,938	1%	65,529	17%	4,231	53%	15,865	12%		
Share of the profit of equity accounted investees, net of taxes	(226)	(477)% <sup>(2)</sup>	(17)	440% <sup>(3)</sup>					6,478	(17)%
Total assets	263,787	(8)%	75,146	16%	7,015	50%	35,881	(7)%	86,340	13%
Employees	87,983	(13)%	142,428	10%	7,163	23%	21,974	2%		

(1) For 2018, consolidated total revenues exclude the financial information of KOF Philippines due to its discontinued operation classification.

(2) Reflects the percentage decrease between the loss of Ps. 226 million recorded in 2018 and the gain of Ps. 60 million recorded in 2017.

(3) Reflects the percentage decrease between the loss of Ps. 17 million recorded in 2018 and the gain of Ps. 5 million recorded in 2017.

(4) In 2018, FEMSA Comercio's Retail Division removed operations that are not directly related to proximity store business, including restaurant and discount retail units. The removed operations are included in Other Businesses. The business segment is now named the Proximity Division. See note 26 to our audited consolidated financial statements.

### Total Revenues Summary by Segment<sup>(1)(2)</sup>

	Year Ended December 31		
	2018	2017	2016
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	Ps.182,342	Ps.183,256	Ps.177,718
FEMSA Comercio			
Proximity Division	167,458	149,833	133,228
Health Division	51,739	47,421	43,411
Fuel Division	46,936	38,388	28,616
Other Businesses	42,293	39,732	33,406
Consolidated total revenues	Ps.469,744	Ps.439,932	Ps.399,507

(1) The sum of the financial data for each of our segments differs from our consolidated total revenues due to intercompany transactions, which are eliminated in consolidation, and certain assets and activities of FEMSA. For 2018 and 2017, consolidated total revenues exclude the financial information of KOF Philippines due to its discontinued operation classification.

(2) In 2018, FEMSA Comercio's Retail Division removed operations that are not directly related to proximity store business, including restaurant and discount retail units. The removed operations are included in Other Business. The business segment is now named the Proximity Division. See note 26 to our audited consolidated financial statements.

### Business Strategy

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

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Our objective is to generate economic and social value through our companies and institutions.

We believe that the competencies that our businesses have developed can be replicated in other geographic regions. This underlying principle guides our consolidation and growth efforts, which have led to our current continental footprint. We operate in Mexico, Central and South America, including some of the most populous metropolitan areas in Latin America which provides us with opportunities to create value through both an



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improved ability to execute our strategies in complex markets and the use of superior commercial tools. We have also increased our capabilities to operate and succeed in other geographic regions by improving management skills in order to obtain a precise understanding of local consumer needs. Going forward, we intend to use those capabilities to continue our international expansion of both Coca-Cola FEMSA and FEMSA Comercio, expanding both our geographic footprint and our presence in the non-alcoholic beverage industry and in small box retail formats, as well as taking advantage of potential opportunities across markets to leverage our capability set.

In our drugstore business in Mexico and South America, and our fuel service station business in Mexico, we are applying our retail and operational capabilities to develop attractive value propositions for consumers in these formats.

### **Coca-Cola FEMSA**

#### **Overview**

Coca-Cola FEMSA is the largest franchise bottler of *Coca-Cola* trademark beverages in the world in terms of volume.

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

Coca-Cola FEMSA operates in territories in the following countries:

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

Guatemala

Nicaragua

Costa Rica

Panama

Colombia most of the country.

Brazil a major part of the states of Sao Paulo and Minas Gerais, the states of Parana, Santa Catarina and Mato Grosso do Sul and part of the states of Rio de Janeiro, Rio Grande do Sul and Goias.

Argentina Buenos Aires and surrounding areas.

Uruguay

Coca-Cola FEMSA also operates in Venezuela through Coca-Cola FEMSA's investment in KOF Venezuela.

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

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The following is an overview of Coca-Cola FEMSA's operations by consolidated reporting segment in 2018.

**Operations by Consolidated Reporting Segment Overview**

**Year Ended December 31, 2018**

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

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

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

**Capital Stock**

As of the date of this report, (1) we indirectly own Series A shares equal to 47.2% of Coca-Cola FEMSA's capital stock (56.0% of Coca-Cola FEMSA's capital stock with full voting rights), and (2) TCCC indirectly owns Series D shares equal to 27.8% of Coca-Cola FEMSA's capital stock (or 32.9% of Coca-Cola FEMSA's capital stock with full voting rights). Series L shares with limited voting rights constituted 15.6% of Coca-Cola FEMSA's capital stock, and Series B shares constituted the remaining 9.4% of Coca-Cola FEMSA's capital stock (or the remaining 11.1% of Coca-Cola FEMSA's capital stock with full voting rights).

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

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### **Business Strategy**

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

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

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

Coca-Cola FEMSA seeks to accelerate its revenue growth through the introduction of new categories, products and presentations that better meet its consumers' needs and preferences, while maintaining Coca-Cola FEMSA's core products and improving its profitability. To address Coca-Cola FEMSA consumers' diverse lifestyles, Coca-Cola FEMSA has developed new products through innovation and has expanded the availability of low- and non-caloric beverages by reformulating existing products to reduce added sugar and offering smaller presentations of its products. As of December 31, 2018, approximately 34.6% of Coca-Cola FEMSA's brands were low- or non-caloric beverages, and Coca-Cola FEMSA continues to expand its product portfolio to offer more options to its consumers so they can satisfy their hydration and nutrition needs.

**See Item 4. Information on the Company Coca-Cola FEMSA Products and Item 4. Information on the Company Coca-Cola FEMSA Packaging.** In addition, Coca-Cola FEMSA informs its consumers through front labeling on the nutrient composition and caloric content of Coca-Cola FEMSA's beverages. Coca-Cola FEMSA has been pioneers in the introduction of the Guideline Daily Amounts (GDA), and Coca-Cola FEMSA performs responsible advertising

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practices and marketing. Coca-Cola FEMSA voluntarily adheres to national and international codes of conduct in advertising and marketing, including communications targeted to minors who are developed based on the Responsible Marketing policies and Global School Beverage Guidelines of TCCC, achieving full compliance with all such codes and guidelines in all of the countries where we operate.

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

### **Coca-Cola FEMSA's Territories**

The following map shows Coca-Cola FEMSA's territories, the population to which Coca-Cola FEMSA offers products and the number of retailers carrying its beverages as of December 31, 2018:

### **Coca-Cola FEMSA's Products**

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

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

The following table sets forth the trademarks of Coca-Cola FEMSA's main products distributed in 2018:

**Colas:***Coca-Cola**Coca-Cola Sin Azúcar**Coca-Cola Light***Flavored Sparkling Beverages:**

<i>Crush</i>	Kuat	Quatro
<i>Fanta</i>	Lift	Schweppes
<i>Fresca</i>	Mundet	Sprite

**Still Beverages:**

<i>Cepita</i>	Hi-C	Leão	ValleFrut
<i>Estrella Azul</i>	Santa Clara	Powerade	Monster
<i>FUZE Tea</i>	Del Valle	Valle Fresh	AdeS

**Water:**

<i>Alpina</i>	Brisa	Dasani	Kin
<i>Aquarius</i>	Ciel	Manantial	
<i>Bonaqua</i>	Crystal	Nevada	

**Packaging**

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

**Sales Volume and Transactions Overview**

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

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

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

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

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

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

	Sparkling	Year Ended December 31, 2018			Total
		Stills	Water	Bulk	
<b>Sales Volume Growth<sup>(1)</sup></b>					
Mexico	0.2%	7.3%	4.7%	(3.6)%	0.3%
Central America <sup>(2)</sup>	27.8%	7.8%	5.8%	1.5%	24.2%
Mexico and Central America	2.9%	7.4%	4.8%	(3.5)%	2.3%
Colombia	4.0%	(21.4)%	9.0%	5.6%	2.4%
Brazil <sup>(5)</sup>	1.2%	18.2%	15.0%	16.1%	2.9%
Argentina	(15.2)%	(20.5)%	(14.9)%	25.6%	(14.9)%
South America <sup>(4)(5)</sup>	1.1%	(1.1)%	8.0%	10.5%	1.7%
Total	0.0%	3.1%	1.9%	(2.0)%	0.1%





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### Number of Transactions Growth<sup>(1)</sup>

Mexico	(1.3)%	4.8%	3.8%	(0.4)%
Central America <sup>(2)</sup>	26.7%	0.0%	4.5%	21.3%
Mexico and Central America	2.2%	3.8%	3.8%	2.5%
Colombia	(0.4)%	(13.0)%	15.6%	0.7%
Brazil <sup>(5)</sup>	3.9%	15.1%	13.1%	5.5%
Argentina	(9.3)%	(16.0)%	(7.4)%	(9.8)%
South America <sup>(4)(5)</sup>	2.8%	2.6%	12.3%	3.7%
Total	0.1%	2.2%	3.9%	0.7%

The following table illustrates Coca-Cola FEMSA's unit case mix by category for each of its operations and its consolidated reporting segments for 2018:

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

(1) Coca-Cola FEMSA's sales volume and number of transactions for 2018 exclude the sales volume and transactions of KOF Philippines and KOF Venezuela, and Coca-Cola FEMSA's sales volume and number of transactions for 2017 exclude the sales volume and transactions of KOF Philippines.

(2) Includes sales volume and transactions from Guatemala (including the operations of ABASA and Los Volcanes from May 2018), Nicaragua, Costa Rica and Panama.

(3) Coca-Cola FEMSA stopped consolidating its Venezuelan operations commencing on January 1, 2018.

(4) Includes sales volume and transactions of Monresa from July 2018.

(5) Excludes beer sales volume and transactions.

(6) Includes bulk water volume and transactions.

### Seasonality

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

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### Marketing

Coca-Cola FEMSA, in conjunction with TCCC, has developed a marketing strategy to promote the sale and consumption of Coca-Cola FEMSA's products. Coca-Cola FEMSA relies extensively on advertising, sales promotions and retailer support programs to target the particular preferences of Coca-Cola FEMSA's consumers. Coca-Cola FEMSA's consolidated marketing expenses in 2018, were Ps. 5,813 million, net of Ps. 3,542 million contributed by TCCC.

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

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

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

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

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

### Product Sales and Distribution

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

	As of December 31, 2018	
	Mexico and Central America <sup>(1)</sup>	South America <sup>(2)</sup>
Distribution centers	201	74
Retailers <sup>(3)</sup>	1,045,780	852,091

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

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

(3) Estimated.

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



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

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

In 2018, no single customer accounted for more than 10% of Coca-Cola FEMSA's consolidated total sales.

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

**Mexico.** Coca-Cola FEMSA contracts with a subsidiary of FEMSA, Solistica, S.A. de C.V. transportation services of finished products from Coca-Cola FEMSA's production facilities to its distribution centers within Mexico. **See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.** From the distribution centers, Coca-Cola FEMSA distributes its finished products to retailers through its fleet of trucks.

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

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

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

## **Principal Competitors**

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

The characteristics of Coca-Cola FEMSA 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

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compared to Mexico. Uruguay has a high per capita consumption and low population density. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with low population density, low per capita income and low consumption of beverages.

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

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

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

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

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

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

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

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

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### **Raw Materials**

Pursuant to Coca-Cola FEMSA's bottler agreements, Coca-Cola FEMSA is authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages in all of Coca-Cola FEMSA's territories from affiliates of TCCC and sweeteners and other raw materials from companies authorized by TCCC. 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 TCCC has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with TCCC. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Bottler Agreements.**

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

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

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

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

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

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

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

Coca-Cola FEMSA purchases sugar from, among other suppliers, PIASA, Beta San Miguel, S.A. de C.V. or Beta San Miguel, Ingenio La Gloria, S.A. and Impulsora Azucarera del Trópico, S.A. de C.V., all of them sugar cane producers. As of April 8, 2019, Coca-Cola FEMSA held a 36.4% and 2.7% equity interest in PIASA and Beta San Miguel, respectively. Coca-Cola FEMSA purchases HFCS from Ingredion México, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

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

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

**South America.** In Colombia, Coca-Cola FEMSA uses sugar as a sweetener in all of Coca-Cola FEMSA's caloric beverages, which Coca-Cola FEMSA buys from several domestic sources. Sugar prices in Colombia decreased approximately 19.0% in U.S. dollars and 19.0% in local currency, as compared to 2017. Coca-Cola FEMSA purchases non-returnable plastic bottles from Amcor Rigid Plastics de Colombia, S.A. and Envases de Tocancipa S.A.S. (affiliate of Envases Universales de México, S.A.P.I. de C.V.). Coca-Cola FEMSA has historically purchased all of its non-returnable glass bottles from O-I Peldar and other global suppliers in the Middle East. Coca-Cola FEMSA purchases all of its cans from Crown Colombiana, S.A. Grupo Ardila Lulle (owners of Coca-Cola FEMSA's competitor Postobón) owns a minority equity interest in certain of its suppliers, including O-I Peldar and Crown Colombiana, S.A.

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

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

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

## FEMSA Comercio

### Overview

FEMSA Comercio operates through the following divisions:

**Proximity Division**, which operates the largest chain of small-format stores in the Americas, measured in terms of number of stores as of December 31, 2018, under the trade name OXXO.

**Health Division**, which operates drugstores and related operations with 2,361 points of sale in Mexico, Chile and Colombia as of December 31, 2018.

**Fuel Division**, which operates retail service stations for fuels, motor oils and other car care products. As of December 31, 2018, the Fuel Division operated 539 service stations, concentrated mainly in the northern region of Mexico with a presence in 17 states throughout the country.

### Operations by Division Overview

#### Year Ended December 31, 2018

	(in millions of Mexican pesos, except percentages)			
	Total Revenues		Gross Profit	
	2018	2018 vs. 2017	2018	2018 vs. 2017
Proximity Division	Ps.167,458	12%	Ps.65,529	17%
Health Division	51,739	9%	15,865	12%
Fuel Division	46,936	22%	4,231	53%

## Proximity Division

### Business Strategy

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



traffic and average ticket sales at our existing stores and facilitating entry into new small-format retail industries.

The Proximity Division has developed proprietary models to assist in identifying appropriate store locations, store formats and product categories. These models utilize location-specific demographic data and the

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Proximity Division's experience in similar locations to fine-tune the store formats, product price ranges and product offerings to the target market. Market segmentation is becoming an important strategic tool that is expected to allow the Proximity Division to improve the operating efficiency of each location, cover a wider array of consumption occasions and increase its overall profitability.

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

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

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

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

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

### ***Store Locations***

The Proximity Division operates the largest small-format store chain in the Americas, measured by number of stores. As of December 31, 2018, there are 17,839 OXXO stores in Mexico, 75 OXXO stores in Colombia, 73 stores in Chile and 12 stores in Peru. The Proximity Division has expanded its operations by opening 1,422 new OXXO stores in Mexico, Colombia, Chile and Peru during 2018.

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**OXXO Stores**

**Regional Allocation in Mexico<sup>(\*)</sup>**

**as of December 31, 2018**

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

**OXXO Stores**

**Total Growth**

	<b>Year Ended December 31,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total OXXO stores	17,999	16,577	15,274	14,061	12,853
Store growth (% change over previous year)	8.9%	8.5%	8.6%	9.4%	9.7%

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

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

Both the identification of locations and the pre-opening planning to optimize the results of new OXXO stores are important elements in the Proximity Division's growth plan. The Proximity Division continuously reviews store performance against certain operating and financial benchmarks to optimize the overall performance of the chain. Stores of the Proximity Division that are unable to maintain benchmark standards are generally closed. Between December 31, 2014 and 2018, the total number of OXXO stores increased by 5,146, which resulted from the opening of 5,398 new stores and the closing of 252 stores.

***Competition***

The Proximity Division, mainly through OXXO stores, competes in the retail market, which we believe is highly competitive. OXXO stores face competition from small-format stores such as 7-Eleven, Circle K in Mexico, OK Market in Chile, and Tambo Mas in Peru, as well as from other numerous retail chains and from other regional small-format retailers to small informal neighborhood stores across the markets where they operate. OXXO stores

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compete not only for consumers and new store locations but also for human resources to operate those stores. The Proximity Division has more presence in Mexico than any of its competitors, with operations in every state, while in Colombia it has operations in Bogotá and Bucaramanga, and in Chile and Peru, it has operations in each country's capital.

**Market and Store Characteristics***Market Characteristics*

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

In Mexico, approximately 60% of OXXO stores' customers are between the ages of 15 and 35. The Proximity Division also segments the market according to demographic criteria, including income level.

*OXXO Store Characteristics*

The average size of an OXXO store is approximately 103 square meters of selling space, excluding space dedicated to refrigeration, storage or parking. The average constructed area of a store is approximately 189 square meters and, when parking areas are included, the average store size is approximately 407 square meters. In 2018, a typical OXXO store carried an average of 3,237 different stock keeping units (SKUs) in 31 main product categories.

**Proximity Division Operating Indicators**

	Year Ended December 31, (percentage increase compared to previous year)				
	2018 <sup>(4)</sup>	2017 <sup>(4)</sup>	2016 <sup>(4)</sup>	2015	2014
Total revenues	11.8%	12.5%	14.4% <sup>(1)</sup>	21.2% <sup>(3)</sup>	12.4%
OXXO same-store sales <sup>(2)</sup>	5.2%	6.4%	7.0%	6.9%	2.7%

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

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

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

(4) In 2018, FEMSA Comercio's Retail Division removed operations that are not directly related to proximity store business, including restaurant and discount retail units. The removed operations are included in Other Businesses. The business segment is now named the Proximity Division. See note 26 of our audited consolidated financial statements.

Beer, cigarettes, soft drinks and other beverages and snacks represent the main product categories for OXXO stores. Until March 2019, the Proximity Division had an exclusive distribution agreement with Heineken Mexico, under which OXXO stores in Mexico only carried beer brands produced and distributed by Heineken Mexico. In February 2019, we extended our existing commercial relationship with Heineken Mexico with certain modifications to the terms and entered into a new commercial relationship with Grupo Modelo. In accordance with both agreements, beginning April 2019, the Proximity Division will start selling the beer brands of Grupo Modelo in certain regions of Mexico, gradually covering the entire country by the end of 2022.

Approximately 46% of OXXO stores in Mexico are operated by independent managers responsible for all aspects of store operations. The store managers are commission agents and are not employees of the Proximity Division. Each store manager is the legal employer of the store's staff, which typically numbers six people per store. The Proximity Division continually invests in on-site operating personnel, with the objective of promoting loyalty, customer service and reducing personnel turnover in the stores.



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### *Advertising and Promotion*

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

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

### *Inventory and Purchasing*

The Proximity Division has placed considerable emphasis on improving operating performance. As part of these efforts, the Proximity Division continues to invest in extensive information management systems to improve inventory management.

Management believes that the OXXO store chain's scale of operations provides the Proximity Division with a competitive advantage in its ability to realize strategic alliances with suppliers. General category offerings are determined on a national level, although purchasing decisions are implemented on a local, regional or national level, depending on the nature of the product category. In Mexico, given the fragmented nature of the retail industry in general, Mexican producers of beer, soft drinks, bread, dairy products, snacks and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 60% of the OXXO store chain's total sales in Mexico consist of products that are delivered directly to the stores by suppliers. Other products with longer shelf lives are distributed to stores by the Proximity Division's Mexican distribution system, which includes 19 regional warehouses located in Monterrey, Guadalajara, Mexicali, Merida, Leon, Obregon, Puebla, Queretaro, Chihuahua, Reynosa, Saltillo, Tampico, Tijuana, Toluca, Veracruz, Villahermosa, Culiacan and two in Mexico City. Our logistics services subsidiary operates a fleet of approximately 1,079 trucks in Mexico that make deliveries from the distribution centers to each store approximately twice per week.

### *Seasonality*

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

### **Health Division**

#### *Business Strategy*

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

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

### ***Store Locations***

As of December 31, 2018, the Health Division operates 2,361 points of sale, including 1,176 in Mexico, 911 in Chile and 274 in Colombia.

During 2018, the Health Division expanded its operations by opening 136 additional stores on top of the 2,225 stores operating in 2017. The average investment required to open a new store varies, depending on location and whether the store is opened in an existing store location or requires construction of a new store. The Health Division currently expects to continue implementing its expansion strategy by emphasizing growth in markets where it currently operates and by expanding in underserved and unexploited markets. Most of the drugstore-related real estate is operated under lease agreements.

### ***Competition***

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

### ***Market and Store Characteristics***

#### ***Market Characteristics***

The drugstore market in Mexico is highly fragmented among national and regional chains as well as independent drugstores, supermarkets and other informal neighborhood drugstores. There are more than 31,000 drugstores; however, the Health Division only has 4.0% of the total number of pharmacies in Mexico with a presence in 15 of 32 states in the country.

The market in Colombia is similar but slightly less fragmented and in general includes national and regional chains. The national healthcare system in Colombia covers a large amount of the country's population and works through Health Promoting Entities (*Entidades Promotoras de Salud*) in the private and public sectors to provide healthcare services to the Colombian population. Growth opportunities in Colombia exist both in the areas of dispensing medicine to such Health Promoting Entities' clients as well as in the consumer retail market for medicines and health or personal care products.

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

The Health Division is placing increased emphasis on market segmentation and differentiation of store formats to more appropriately serve the needs of customers on a location-by-location basis, selecting sites with the greatest proximity to the customers. Complementing the physical stores is the digital strategy that is being developed across all countries.

The Health Division's customers are aged 18 and above. In Mexico, 60% of the Health Division's customers are between the ages of 18 and 35, 55% of which are female. In Chile, 63% of the customers are between the ages of 25 and 54, 58% of which are female. The Health Division also segments the market according to demographic criteria, including income level and purchase frequency.

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### *Store Characteristics*

The Health Division's stores are operated under the following trade names: Farmacias YZA, Farmacias Moderna and Farmacias Farmacon in Mexico; Farmacias Cruz Verde in Chile and Colombia and beauty stores under the trade name Maicao in Chile. The average size of the Health Division's stores is 88 square meters in Mexico, 188 square meters in Chile and 85 square meters in Colombia, including selling space and storage area. On average, each store has between 5 and 11 employees depending on the size of and traffic into the store. Patented and generic pharmaceutical drugs, beauty products, medical supplies, wellness and personal care products are the main products sold at the Health Division's stores.

The Health Division's stores also offer different value-added services, product delivery services and medical examinations.

### *Advertising and Promotion*

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

### *Inventory and Purchasing*

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

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

### *Seasonality*

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

## **Fuel Division**

### *Business Strategy*

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

The Fuel Division also aims to strengthen its services in its retail gas stations in Mexico to fulfill consumers' needs and increase traffic in those service stations while developing and maintaining an attractive value proposition to draw potential customers and face the entry of new competitors in the industry. Furthermore, the Fuel Division's service stations often have an OXXO store on the premises, strengthening the OXXO brand and complementing the value proposition. Despite market volatility, we remain focused on improving our customer value proposition and enhancing underlying profitability by fine-tuning our business model and revenue management capabilities and adjusting our pricing strategies in an increasingly competitive market.





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

### ***Service Station Locations***

As of December 31, 2018, the Fuel Division operated 539 service stations, concentrated mainly in the northern region of the country but with a presence in 17 states throughout Mexico.

In 2018, the Fuel Division leased 80 additional service stations and built nine new service stations.

### ***Competition***

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

### ***Market and Store Characteristics***

#### ***Market Characteristics***

The retail service station market in Mexico has approximately 12,000 service stations and is highly fragmented. However, the Fuel Division, with approximately 4.4% of the total number of stations, is the largest participant in this market. The majority of the retail service stations in the country are owned by small regional family businesses.

#### ***Service Station Characteristics***

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

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

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

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

#### ***Advertising and Promotion***

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

### ***Inventory and Purchasing***

The distribution, mainly from gasoline and diesel, for the supply of our operations in the Fuel Division is carried out directly between the supplier and our service stations. Since we do not have storage facilities, the product delivery is made daily according to a supply and logistics plan, which considers the capacity and inventory levels as well as the behavior of the demand of each one of our service stations; ensuring a continuous and sufficient supply to serve the markets where we operate.

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### ***Seasonality***

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

### **Heineken Investment**

FEMSA owns a non-controlling interest in the Heineken Group, one of the world's leading brewers. As of December 31, 2018, our 14.76% economic interest in the Heineken Group comprised 35,318,320 shares of Heineken Holding N.V. and 49,697,203 shares of Heineken N.V. For 2018, FEMSA recognized equity income of Ps. 6,478 million regarding its economic interest in the Heineken Group, which was 14.76% during the year; see note 10 to our audited consolidated financial statements.

As described above, the Proximity Division had a distribution agreement with subsidiaries of Heineken Mexico, now part of the Heineken Group, pursuant to which OXXO stores in Mexico only carried beer brands produced and distributed by Heineken Mexico. In February 2019, the Proximity Division agreed to an extension of its existing commercial relationship with Heineken Mexico with certain important changes and agreed to a new commercial relationship with Grupo Modelo. Under the terms of both agreements, beginning April 2019, the Proximity Division will start selling the beer brands of Grupo Modelo in certain regions of Mexico, gradually covering the entire country by the end of 2022. Our logistic services subsidiary also provides certain services to Cuauhtémoc Moctezuma and its subsidiaries. Coca-Cola FEMSA also continues to distribute and sell *Heineken* beer products in Coca-Cola FEMSA's Brazilian territories pursuant to Coca-Cola FEMSA's agreement with Heineken Brazil. See **Item 4. Information on the Company** **Coca-Cola FEMSA Sales Volume and Transactions Overview** **South America (Excluding Venezuela)** and **Item 8. Financial Information** **Legal Proceedings**.

### **Other Businesses**

Our other businesses ( **Other Businesses** ) consist of the following smaller operations that support our core operations:

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

Quick-service restaurants and cafes under the Doña Tota and Specialty's brand name, as well as other small format stores, which include soft discount stores with a focus on perishables and liquor stores.

Our refrigeration business manufactures vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 827,121 units at December 31, 2018. In 2018, this business sold 526,957 refrigeration units, 30% of which were sold to Coca-Cola FEMSA, and the remainder of which were sold to other clients. Also, this business includes manufacturing operations for food processing, storage and weighing equipment.

### **Description of Property, Plant and Equipment**

As of December 31, 2018, Coca-Cola FEMSA owned all of its manufacturing facilities and more than 78% of its distribution centers, consisting primarily of production and distribution facilities for its soft drink operations and office space. In addition, the Proximity Division owns approximately 13% of OXXO stores, while the remaining stores are located on leased properties and substantially almost all of its distribution centers are under long-term lease arrangements with third parties. The Health Division leases six distribution centers, three of which are in Chile, two in Mexico and one in Colombia, and it also has one manufacturing facility for generic pharmaceuticals in Chile. Most of the Health Division's stores are under lease arrangements with third parties.

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



**Table of Contents****Bottling Facility Summary****As of December 31, 2018**

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

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

(2) Annualized rate.

The table below summarizes by Coca-Cola FEMSA's principal production facilities in terms of installed capacity, including its location and facility area:

**Bottling Facility by Location****As of December 31, 2018**

<b>Country</b>	<b>Plant</b>	<b>Facility Area (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 Pura Altamira, Tamaulipas	300
	San Juan del Rio, Queretaro	84
Guatemala	Guatemala City	46
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San Jose	52
Panama	Panama City	29
Colombia	Barranquilla, Atlántico	37
	Bogota, DC	105
	Tocancipa, Cundinamarca	298
Brazil	Jundiai, Sao Paulo	191

	Marilia, Sao Paulo	159
	Curitiba, Paraná	119
	Itabirito, Minas Gerais	320
	Porto Alegre, Río Grande do Sul	196
Argentina	Alcorta, Buenos Aires	73
Uruguay	Montevideo, Montevideo	119

**Insurance**

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

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for freight transport insurance was issued by AXA Seguros, S.A. de C.V. Our all risk coverage was partially reinsured in the international reinsurance market. We believe that our coverage is consistent with the coverage maintained by similar companies.

**Capital Expenditures and Divestitures**

Our consolidated capital expenditures, net of disposals, for the years ended December 31, 2018, 2017 and 2016 were Ps. 24,266 million, Ps. 23,486 million and Ps. 22,155 million, respectively, which were primarily funded with cash from operations generated by our subsidiaries. These amounts were invested in the following manner:

	Year Ended December 31,		
	2018	2017	2016
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	Ps. 11,069	Ps.12,917	Ps.12,391
FEMSA Comercio			
Proximity Division	9,441	8,396	7,632
Health Division	1,162	774	474
Fuel Division	520	291	299
Other	2,074	1,108	1,359
Total	Ps.24,266	Ps.23,486	Ps.22,155

**Coca-Cola FEMSA**

In 2018, 2017 and 2016, Coca-Cola FEMSA focused its capital expenditures on investments in (i) increasing production capacity; (ii) placing coolers with retailers; (iii) returnable bottles and cases; (iv) improving the efficiency of its distribution infrastructure; (v) information technology; (vi) installing clarification facilities to process different types of sweeteners; (vii) installing plastic bottle-blowing equipment; (viii) modifying equipment to increase flexibility to produce different presentations, including faster sanitation and changeover times on production lines; and (ix) closing obsolete production facilities. Through these measures, Coca-Cola FEMSA continuously seeks to improve its profit margins and overall profitability.

**FEMSA Comercio*****Proximity Division***

The Proximity Division's principal investment activity is the construction and opening of new stores, which are mostly OXXO Stores. During 2018, FEMSA Comercio opened 1,422 net new OXXO stores. The Proximity Division invested Ps. 9,441 million in 2018 in the addition of new stores, warehouses and improvements to leased properties, renewal of equipment and information technology related investments.

***Health Division***

The Health Division's principal investment activity is the construction and opening of new drugstores in the countries where we operate. During 2018, the Health Division opened 53 net new drugstores in Mexico and 83 net new drugstores in Chile and Colombia. The Health Division invested Ps. 1,162 million in 2018 in the addition of new stores, warehouses and improvements to leased properties and information technology investments.

***Fuel Division***

In 2018, the Fuel Division's business addressed its investments on capital expenditure mainly to the addition of 87 new retail service stations. During 2018, the Fuel Division invested Ps. 520 million.

**Regulatory Matters**

We are subject to different regulations in each of the territories where we operate. The adoption of new laws or regulations in the countries where we operate may increase our operating costs, our liabilities or impose restrictions on our operations which, in turn, may adversely affect

our financial condition, business and results.



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Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on our future results or financial condition.

### ***Tax Reforms***

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

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

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

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

On December 31, 2018, a decree of tax incentives for the northern border region of Mexico was published in the Official Gazette of the Federation (*Diario Oficial de la Federación*), which provides a reduction income tax and value added tax (VAT) rates for tax payers that produce income for business activities carried out within that region. These tax incentives have been applicable since January 1, 2019 and will remain in force until December 31, 2020. Coca-Cola FEMSA does not benefit from these incentives based on the current territories where it operates. However, the Proximity Division does qualify for such tax incentives, which will reduce its VAT rates from 16% to 8%.

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

On January 1, 2019, a new tax reform became effective in Colombia. This reform will reduce the current income tax rate of 33.0% for 2019 to 32.0% for 2020, to 31.0% for 2021 and to 30.0% for 2022. The minimum

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assumed income tax (*renta presuntiva sobre el patrimonio*) will also be reduced from 3.5% for 2018 to 1.5% for 2019 and 2020, and to 0.0% for 2021. In addition, the thin capitalization ratio was adjusted from 3:1 to 2:1, and was modified to apply only to transactions among related parties. Commencing on January 1, 2019, value-added tax, which was applied only to the first sale in the supply chain prior to December 31, 2018, began to be applied and transferred throughout the entire supply chain, which in our case results in charging value-added tax on the sales price of our finished goods (applicable to our Colombian subsidiary located in the free trade zone). For companies located in free trade zones, the value-added tax will be charged on the cost of imported raw materials of national and foreign origin which we will be able to credit against the value-added tax on the sales price of our products. The municipality sales tax will be 50.0% deductible against payable income tax in 2019 and 100.0% deductible in 2020. Finally, the value-added tax paid on acquired fixed assets will be credited against income tax or the minimum assumed income tax.

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

### ***Taxation of Beverages***

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

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

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

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

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

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

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

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

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

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

### ***Antitrust Legislation***

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

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

### ***Price Controls***

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where Coca-Cola FEMSA operates. Coca-Cola FEMSA operates, except for those voluntary price restraints in Argentina, where authorities directly supervise certain of Coca-Cola FEMSA's products sold through supermarkets as a measure to control inflation. Currently, there are no price controls on Coca-Cola FEMSA's products in any of the territories where it has operations, except for voluntary price restraints in Argentina, where authorities directly supervise certain of Coca-Cola FEMSA's products sold through supermarkets as a measure to control inflation.

### ***Environmental Matters***

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

During 2018, 50.0% of Coca-Cola FEMSA's total energy requirements were obtained from clean energy sources. Additionally, as part of its waste management strategies, in 2018, 21.0% of its PET resin packaging was comprised of recycled materials and Coca-Cola FEMSA recycled 95% of the total waste generated.

In 2018, 33.5 % of FEMSA Comercio's total energy requirements in Mexico were obtained from renewable energy sources.

In all of the countries where we operate, we are subject to federal and state laws and regulations relating to the protection of the environment. In Mexico, the principal legislation is the Federal General Law for Ecological Equilibrium and Environmental Protection (*Ley General de Equilibrio Ecológico y Protección al Ambiente*, or the Mexican Environmental Law), and the General Law for the Prevention and Integral Management of Waste (*Ley General para la Prevención y Gestión Integral de los Residuos*) which are enforced by the Ministry of the

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Environment and Natural Resources (*Secretaría del Medio Ambiente y Recursos Naturales*, or SEMARNAT). SEMARNAT can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to close non-complying facilities. Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to hazardous wastes and set forth standards for waste water discharge that apply to Coca-Cola FEMSA's operations. Coca-Cola FEMSA has 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 2015, the General Law of Climate Change (*Ley General de Cambio Climático*), its regulation and certain decrees related to such law became effective, imposing upon different industries (including the food and beverage industry) the obligation to report direct or indirect gas emissions exceeding 25,000 tons of carbon dioxide. Currently, we are not required to report these emissions, since they do not exceed this threshold. We cannot assure you that we will not be required to comply with this reporting requirement in the future.

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

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

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

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

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

Coca-Cola FEMSA's production plant located in Jundiaí has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by applicable law. This production plant has been certified for GAO-Q and GAO-E. In 2017, the Itabirito plant was certified for

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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, 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, Porto Alegre, Antonio Carlos and Mogi das Cruzes plants are certified in standard FSSC 22000.

In 2008, a municipal regulation of the City of Sao Paulo, implemented pursuant to Law 13.316/2002, came into effect requiring Coca-Cola FEMSA to collect for recycling a specified annual percentage of plastic bottles made from PET resin sold in the City of Sao Paulo. Beginning in 2011, Coca-Cola FEMSA was required to collect 90.0% of PET bottles sold. Currently, Coca-Cola FEMSA is not able to collect the entire required volume of PET resin bottles it sells in the City of Sao Paulo. Since Coca-Cola FEMSA does 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, Coca-Cola FEMSA could be fined and be subject to other sanctions such as the suspension of operations in any of its plants and/or distribution centers located in the City of Sao Paulo. In 2008, when this law came into effect, Coca-Cola FEMSA and other bottlers in the City of Sao Paulo, through the Brazilian Soft Drink and Non-Alcoholic Beverage Association (*Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas* or ABIR), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In 2009, in response to a request by a municipal authority to provide evidence of the destination of the PET resin bottles sold in Sao Paulo, Coca-Cola FEMSA filed a motion presenting all of its recycling programs and requesting a more practical timeline to comply with the requirements imposed. In 2010, the municipal authority of Sao Paulo levied a fine on Coca-Cola FEMSA's Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps. 1.3 million as of December 31, 2018) on the grounds that the report submitted by Coca-Cola FEMSA's Brazilian operating subsidiary did not comply with the 75.0% proper disposal requirement for the period from 2008 to 2010. Coca-Cola FEMSA filed an appeal against this fine, which was denied by the municipal authority in 2013. This resolution by the municipal authority is final and not subject to appeal. However, in 2012, the State Appellate Court of Sao Paulo rendered a decision on an interlocutory appeal filed on behalf of ABIR staying the requirement to pay the fines and other sanctions imposed on ABIR's associated companies, including Coca-Cola FEMSA's Brazilian subsidiary, pending the final resolution of the appeal. Coca-Cola FEMSA is still awaiting the final resolution of the appeal filed on behalf of ABIR. In 2016, the municipal authority filed a tax enforcement claim against Coca-Cola FEMSA's Brazilian subsidiary in order to try to collect the fine imposed in October 2010. In 2017, Coca-Cola FEMSA filed a motion for a stay of execution against the collection of the fine based on the decision rendered by the State Appellate Court of Sao Paulo in 2012. We cannot assure you that these measures will have the desired effect or that it will prevail in any judicial challenge that Coca-Cola FEMSA's Brazilian subsidiary may pursue.

In 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 2010. In response to the Brazilian National Solid Waste Policy, in 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 TCCC, Coca-Cola FEMSA's Brazilian subsidiary and other bottlers. This agreement proposed the creation of a coalition to implement systems for reverse logistics packaging non-dangerous waste that make up the dry fraction of municipal solid waste or equivalent. The goal of the proposal is to create methodologies for sustainable development, and improve the management of solid waste by increasing recycling rates and decreasing incorrect disposal in order to protect the environment, society and the economy. The Ministry of Environment approved and signed this agreement in 2015. In 2016, the public prosecutor's office of the state of Sao Paulo filed several class actions against the parties that signed this agreement, challenging the validity of certain terms of the agreement and the effectiveness of the mandatory measures to be taken by the companies of the packaging sector, as provided in the agreement. Due to the large number of class actions involving the same parties, same cause of action and same pleas, a motion for resolution of repetitive claims was filed with the purpose of suspending all the class actions until the motion is resolved, and the competent court is appointed. ABIR and other associations are leading the defense.

Coca-Cola FEMSA's Argentine operations are subject to federal and municipal laws and regulations relating to the protection of the environment. The most significant of these are regulations concerning waste water discharge management, which is regulated by federal Law 24.051 and Law 9111/78, and waste water discharge.

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Such regulations are enforced by the Ministry of Natural Resources and Sustainable Development (*Secretaría de Ambiente y Desarrollo Sustentable*) and the Provincial Organization for Sustainable Development (*Organismo Provincial para el Desarrollo Sostenible*) for the province of Buenos Aires. Coca-Cola FEMSA's Alcora plant is in compliance with environmental standards, and Coca-Cola FEMSA has been, and continues to be, certified for ISO 14001:2004 for the plants and operative units in Buenos Aires.

In Uruguay, Coca-Cola FEMSA owns a water treatment plant to reuse water in certain processes. Coca-Cola FEMSA has established a program for recycling solid wastes and is currently certified for ISO 14001:2015 for its plant in Montevideo and for its distribution center in Paysandú.

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

### ***Water Supply***

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

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

In Brazil, Coca-Cola FEMSA obtains water and mineral water from wells pursuant to concessions granted by the Brazilian government for each plant. According to the Brazilian Constitution and the National Water Resources Policy, water is considered an asset of common use and can only be exploited for the national interest by Brazilians or companies formed under Brazilian law. Concessionaires and users have the responsibility for any damage to the environment. The exploitation and use of water is regulated by the Code of Mining, Decree Law No. 227/67 (*Código de Mineração*), the Mineral Water Code, Decree Law No. 7841/45 (*Código de Águas Minerais*), the National Water Resources Policy (Decree No. 24.643/1934 and Law No. 9433/97) and by regulations issued thereunder. The companies that exploit water are supervised by the National Mining Agency (Agência Nacional de Mineração or ANM) and the National Water Agency (Agência Nacional de Águas) in connection

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with federal health agencies, as well as state and municipal authorities. In the Jundiai, Marília, Curitiba, Maringa, Porto Alegre, Antonio Carlos and Itabirito plants, Coca-Cola FEMSA does not exploit spring water. Coca-Cola FEMSA only exploits spring water where it has all the necessary permits.

In Colombia, in addition to natural spring water for *Manantial*, Coca-Cola FEMSA obtains water directly from wells and from utility companies. Coca-Cola FEMSA is required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees No. 2811 of 1974 and No. 3930 of 2010. In addition, Decree No. 303 requires Coca-Cola FEMSA to apply for water concessions and for authorization to discharge its water into public waterways. The Ministry of Environment and Sustainable Development and Regional Autonomous Corporations supervises companies that use water as a raw material for their businesses. Furthermore, in Colombia, Law No. 142 of 1994 provides that public sewer services are charged based on volume (usage). The Water and Sewerage Company of the City of Bogota has interpreted this rule to be the volume of water captured, and not the volume of water discharged by users. Based on Coca-Cola FEMSA's production process, Coca-Cola FEMSA's Colombian subsidiary discharges into the public sewer system significantly less water than the water it captures. As a result, since October 2010, Coca-Cola FEMSA's Colombian subsidiary has filed monthly claims with the Water and Sewerage Company of the City of Bogota challenging these charges. In 2015, the highest court in Colombia issued a final ruling stating that the Water and Sewerage Company of the City of Bogota is not required to measure the volume of water discharged by users in calculating public sewer services charges. Based on this ruling, the Water and Sewerage Company of the City of Bogota commenced an administrative proceeding against our Colombian subsidiary requesting payment of approximately Ps. 309 million for the sewer services it claims Coca-Cola FEMSA's subsidiary has not properly paid since 2005. In connection with such proceeding, in 2016, this authority issued an order freezing certain of our bank accounts (see note 8.2 to Coca-Cola FEMSA's consolidated financial statements). In June 2017, Coca-Cola FEMSA's Colombian subsidiary held conciliatory hearings with the Water and Sewerage Company of the City of Bogota and reached an agreement to settle this matter by payment of approximately Ps. 216 million for the sewer services charged from 2005 to 2017, which was submitted before the administrative court seeking its judicial endorsement. In 2018 the settlement agreement was approved. Since then, Coca-Cola FEMSA complied with all of its obligations and commitments under the settlement agreement. As a result, the proceeding with the Water and Sewerage Company of Bogotá was terminated.

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

In Uruguay, Coca-Cola FEMSA acquires water from the local water system, which is managed by the Organism of Sanitary Works (*Obras Sanitarias del Estado*). Additionally, Coca-Cola FEMSA is required by the Uruguayan federal government to discharge all of its water excess to the sanitation system for recollection.

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

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

## ***Energy Regulations***

In 2013, the Mexican government approved a decree containing amendments and additions to the Mexican Constitution in matters of energy (the Mexican Energy Reform). The Mexican Energy Reform opened the



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

### ***Other Regulations***

In 2014, the Brazilian government enacted Law No. 12,997 (Law of Motorcycle Drivers), which requires employers to pay a risk premium of 30% of the base salary to all employees that are required to drive a motorcycle to perform their job duties. This premium became enforceable in October 2014, when the related rules and regulations were issued by the Ministry of Labor and Employment. Coca-Cola FEMSA believes that these rules and regulations (Decree No. 1.565/2014) were unduly issued because such Ministry did not comply with all the requirements of applicable law (Decree No. 1.127/2003). In 2014, Coca-Cola FEMSA's Brazilian subsidiary, in conjunction with other bottlers of the Coca-Cola system in Brazil and through the ABIR, filed a claim before the Federal Court to stay the effects of such decree. ABIR's associated companies, including Coca-Cola FEMSA's Brazilian subsidiary, were issued a preliminary injunction staying the effects of the decree and exempting Coca-Cola FEMSA from paying the premium. The Ministry of Labor and Employment filed an interlocutory appeal against the preliminary injunction in order to restore the effects of Decree No. 1.565/2014. This interlocutory appeal was denied. In 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 Coca-Cola FEMSA's business.

In 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. Coca-Cola FEMSA is currently in compliance with these labor regulations.

In 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). Under Law No. 75, the sale of all sparkling beverages and certain still beverages that contain high amounts of sugar or calories in schools are prohibited. 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 Coca-Cola FEMSA's results of operations.

In 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 to be found liable for any of these practices, this law may have an adverse effect on our business.

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

In all of the countries where the Proximity Division, Health Division and Fuel Division operate, we are subject to local laws, regulations and administrative practices concerning retail operations, including operation permits, zoning requirements, and product and establishment registration, as well as other laws and regulations applicable to the retail industry.

### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

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

#### **Overview of Events, Trends and Uncertainties**

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

Coca-Cola FEMSA has continued to grow at a moderate pace. However, in the short-term Coca-Cola FEMSA faces some pressures from macroeconomic uncertainty in Mexico, Brazil and other South American markets, including currency volatility and the implementation of new excise taxes in some of the countries where Coca-Cola FEMSA operates.

The Proximity Division has maintained high rates of store openings across formats and continues to grow at solid rates in terms of total revenues. At the same time, it continued to increase its international presence by growing its store count in Colombia and Chile and by expanding into Peru. The Proximity Division has lower operating margins than our beverage business, and given its fixed cost structure, it is more sensitive to changes in sales which could negatively affect operating margins.

The Health Division has continued its moderate rate of revenue growth, highlighting the strong growth trends delivered by Socofar's operations in Chile and Colombia, both of which partially benefited from a positive foreign exchange translation effect. Meanwhile, in Mexico, we have continued our expansion into new geographic regions, while the benefits of having an integrated business platform are beginning to materialize. Recently, the Health Division also announced its expansion into Ecuador by reaching an agreement to acquire GPF, which is expected to close during the first half of 2019. Additionally, currency volatility between the Chilean and Colombian peso, compared with the Mexican peso, could further affect the Health Division's results.

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

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Our consolidated results are also significantly affected by the performance of the Heineken Group, as a result of our 14.76% economic interest. Our consolidated net income for 2018 included Ps. 6,478 million related to our non-controlling interest in the Heineken Group, as compared to Ps. 7,847 million for 2017.

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

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### **Recent Developments**

#### ***Coca-Cola FEMSA Stock Split***

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

Following the KOF Stock Split, (1) FEMSA indirectly owns Coca-Cola FEMSA's Series A shares equal to 47.2% of Coca-Cola FEMSA's capital stock (or 56.0% of Coca-Cola FEMSA's capital stock with full voting rights), and (2) TCCC indirectly owns Series D shares equal to 27.8% of Coca-Cola FEMSA's capital stock (or 32.9% of Coca-Cola FEMSA's capital stock with full voting rights). Series L shares with limited voting rights constitute 15.6% of Coca-Cola FEMSA's capital stock, and Series B shares constitute the remaining 9.4% of Coca-Cola FEMSA's capital stock (or 11.1% of Coca-Cola FEMSA's capital stock with full voting rights). The percentage of ownership held by FEMSA's shareholders did not change and the percentage of ordinary shares with full voting rights has been adjusted proportionally due to the issuance of the Series B shares. **See Item 4 Information on the Company Coca-Cola FEMSA Capital Stock.**

#### ***Heineken-OXXO Agreement***

In February 2019, the Proximity Division extended its existing commercial relationship with the Heineken Group for its OXXO stores in Mexico with certain modifications to the terms and entered into a new commercial relationship with Grupo Modelo. In accordance with both agreements, beginning April 2019, the Proximity Division will start selling the beer brands of Grupo Modelo in certain regions of Mexico, gradually covering the entire country by the end of 2022. **See Item 4 Information on the Company Heineken Investment.**

### **Effects of Changes in Economic Conditions**

Our results are affected by changes in economic conditions in Mexico, Brazil and the other countries where we operate. For the years ended December 31, 2018, 2017 and 2016, 68%, 63% and 64% respectively, of our total sales were attributable to Mexico. Other than Venezuela and Chile, the participation of these other countries as a percentage of our total sales has not changed significantly during the last five years.

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

Beginning in the fourth quarter of 2017 and through 2018, the exchange rate between the Mexican peso and the U.S. dollar fluctuated from a low of Ps. 17.97 per US\$ 1.00, to a high of Ps. 20.67 per US\$ 1.00. At December 31, 2018, the exchange rate (noon buying rate) was Ps. 19.6350 per US\$ 1.00. On April 19, 2019, this exchange rate was Ps. 18.7705 per US\$ 1.00. A depreciation of the Mexican peso or local currencies in the countries where we operate relative to the U.S. dollar increases our cost of raw materials priced in U.S. dollars, including raw materials whose prices are set with reference to the U.S. dollar. In addition, a depreciation of the Mexican peso or local currencies in the countries where we operate relative to the U.S. dollar will increase our U.S. dollar-denominated debt obligations, which could negatively affect our financial position and results. However, this effect could be offset by a corresponding appreciation of our U.S. dollar-denominated cash position.

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### **Operating Leverage**

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

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

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

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

### **Critical Accounting Judgments and Estimates**

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

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

#### *Judgments*

In the process of applying our accounting policies, we have made the following judgments which have the most significant effects on the amounts recognized in the consolidated financial statements.

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

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

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We assess 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, we estimate the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are expected to be generated from the use of the asset or CGU discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The key assumptions used to determine the recoverable amount for our CGUs, including a sensitivity analysis, are further explained in notes 3.19 and 12 to our audited consolidated financial statements.

### *Useful lives of property, plant and equipment and intangible assets with defined useful lives*

Property, plant and equipment, including returnable bottles which are expected to provide benefits over a period of more than one year, as well as intangible assets with defined useful lives, are depreciated/amortized over their estimated useful lives. We base our estimates on the experience of our technical personnel as well as based on our experience in the industry for similar assets; see notes 3.15, 3.17, 11 and 12 to our audited consolidated financial statements.

### *Employee benefits*

We regularly evaluate the reasonableness of the assumptions used in our post-employment and other long-term employee benefit computations. Information about such assumptions is described in note 16 to our audited consolidated financial statements.

### *Income taxes*

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We recognize deferred tax assets for unused tax losses and other credits and regularly review them for recoverability based on our judgment regarding the probability of the timing and level of future taxable income, the expected timing of the reversals of existing taxable temporary differences and future tax planning strategies; see note 24 to our audited consolidated financial statements.

### *Tax, labor and legal contingencies and provisions*

We are subject to various claims and contingencies, related to tax, labor and legal proceedings as described in note 25 to our audited consolidated financial statements. 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 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. Our 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.

### *Valuation of financial instruments*

We are 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. We base our forward price curves upon market price quotations. We believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments; see note 20 to our audited consolidated financial statements.

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### *Business combinations*

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

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized 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 to our share-based payment arrangements 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 3.27 to our audited consolidated financial statements;

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 indemnifiable liabilities, subject to any contractual limitations.

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

### *Equity accounted investees*

If we hold, directly or indirectly, 20 percent or more of the voting power of the investee, it is presumed that we have significant influence, unless it can be clearly demonstrated that this is not the case. If we hold, directly or indirectly, less than 20 percent of the voting power of the investee, it is presumed that we do 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 percent-owned corporate investee require a careful evaluation of voting rights and their impact on our ability to exercise significant influence. We consider the existence of the following circumstances, which may indicate that we are in a position to exercise significant influence over a less than 20 percent-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 us and the investee;

Interchange of managerial personnel; or

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Provision of essential technical information.

We also consider the existence and effect of potential voting rights that are currently exercisable or currently convertible when assessing whether we have significant influence.

In addition, we evaluate certain indicators that provide evidence of significant influence, such as:

Whether the extent of our ownership is significant relative to other shareholders (i.e. a lack of concentration of other shareholders);



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Whether our significant shareholders, fellow subsidiaries or officers hold additional investment in the investee; and

Whether we are part of significant investee committees, such as the executive committee or the finance committee.

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When we are a party to an arrangement, we 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. We need 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, we consider the following facts and circumstances, such as:

Whether all the parties, or a group of the parties, control the arrangement, considering the definition of joint control, as described in note 3.14 to our audited consolidated financial statements; and

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

As mentioned in note 4 to our audited consolidated financial statements, until January 2017, Coca-Cola FEMSA accounted for its 51% investment in CCFPI as a joint venture. This was based on the following: (i) Coca-Cola FEMSA and TCCC 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 likely to be exercised in the foreseeable future due to the fact the call option remains out of the money as of December 31, 2017. In January 2017, the arrangement between Coca-Cola FEMSA and TCCC for joint control of CCFPI expired and in February 2017, Coca-Cola FEMSA began consolidating the operations of CCFPI. On August 16, 2018, Coca-Cola FEMSA announced the exercise of the put option to sell its 51% stake in KOF Philippines back to TCCC. The sale was finalized on December 13, 2018 for the purchase price amount of approximately Ps. 14,039 million (US\$ 715 million). As a result, the operations for KOF Philippines for the years ended December 31, 2018 and 2017 were reclassified as discontinued operations in our audited consolidated income statements.

### *Venezuela exchange rates and deconsolidation*

As is further explained in note 3.3 to our audited consolidated financial statements, as of December 31, 2017, the exchange rate used to translate the financial statements of our Venezuelan subsidiary for reporting purposes into the consolidated financial statements was 22,793 bolivars per U.S. dollar. This rate reflects management's judgment about the effects of the economic environment in Venezuela on the variability in the exchange rate.

As is also explained in note 3.3 to our audited consolidated financial statements, effective as of December 31, 2017 Coca-Cola FEMSA determined that deteriorating conditions in Venezuela had led Coca-Cola FEMSA to no longer meet the accounting criteria to consolidate the results of operations of KOF Venezuela. Such deteriorating conditions had significantly impacted Coca-Cola FEMSA's ability to manage its capital structure and its capacity to import and purchase raw materials and had imposed limitations on its 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 Coca-Cola FEMSA's business. Therefore, as of December 31, 2017, Coca-Cola FEMSA changed the method of accounting for its investment in KOF Venezuela from consolidation to fair value method.

As a result of the deconsolidation, Coca-Cola FEMSA recorded a 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, Coca-Cola FEMSA's operations in Venezuela contributed Ps. 4,005 million to net sales and losses of Ps. 2,223 million to net income.

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Beginning on January 1, 2018, Coca-Cola FEMSA recognized the operations of KOF Venezuela as an investment under the fair value method, measured using Level 3 inputs (see note 20 of audited consolidated financial statements), pursuant to IFRS 9, *Financial Instruments*. While Coca-Cola FEMSA will 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, Coca-Cola FEMSA no longer includes the results of operations of KOF Venezuela in its consolidated financial statements beginning on January 1, 2018.

### **Future Impact of Recently Issued Accounting Standards not yet in Effect**

We have not applied the following standards and interpretations that were issued but were not yet effective as of the date of issuance of our consolidated financial statements. We intend to adopt these standards, if applicable, when they become effective:

#### **IFRS 16 Leases**

In January 2016, the IASB issued IFRS 16 Leases, with which it introduces a unique accounting lease model for lessees. The lessee recognizes an asset for the right of use that represents the right to use the underlying asset and a lease liability that represents the obligation to make lease payments.

The transition considerations required to be taken into account by us is the modified retrospective approach that we will use to adopt the new IFRS 16 involve recognizing the cumulative effect of the adoption of the new standard as from January 1, 2019. For this reason, the financial information will not be restated for the period by the exercises to be presented (fiscal years completed as of December 31, 2017 and 2018). Likewise, as of the transition date of IFRS 16 (January 1, 2019), we may elect to apply the new definition of *leasing* to all contracts or to apply the practical file of *Grandfather* and continue to consider as contracts for leasing those that qualified as such under the previous accounting rules *IAS 17 Leases* and *IFRIC 4 Determination of whether a contract contains a lease*. In addition, our company elects to not recognize assets and liabilities for short-term leases (i.e., leases of 12 months or less) and leases of low-value assets (i.e., based on the value of the asset when it is new, regardless of the age of the asset being leased). We have decided to apply the standard to the remaining terms for lease asset and liability balance at the adoption date.

We have performed a qualitative and quantitative assessment of the impacts that the adoption of IFRS 16 will have on our consolidated financial statements. The evaluation includes, among others, the following activities:

Detailed analysis of the leasing contracts and their characteristics 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 us;

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 re-evaluations required by IFRS 16 and the impacts of the same in our 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.

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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 our analysis, the adoption of IFRS 16 by the Proximity Division, Health Division and Fuel Division is impacted the most and is likely to generate a significant effect on our consolidated financial statements due to the number of leases as of the date of adoption and the significant length of time period at which the lease contracts are settled.

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As of the adoption date of IFRS 16, we estimate to recognize a right-of-use asset in the range of 8.5% and 9.5% of total assets as of December 31, 2018 and the same corresponding amount as lease liability for all lease arrangements in our audited consolidated financial statement. The adoption effect will be reported when we issue our first financial statements after the adoption date.

As of December 31, 2018, the consolidated and business accounting policies regarding lease recognition under IFRS 16 have been modified and submitted for approval to the Board of Directors and has been fully implemented as of January 1, 2019. IFRS 16 establishes a new basis of accounting for leases. We have analyzed and evaluated the effects of these changes to our internal control, ensuring that the internal control environment is appropriate for financial reporting purposes once the standard have been adopted. Also, the presentation requirements represent a significant change from current practice and a significant increase of disclosures required in the consolidated financial statements and its notes. In 2018, we developed and tested appropriate systems, internal controls, policies and procedures necessary to collect and disclose the information required.

As of December 31, 2018, the consolidated accounting policies regarding lease recognition have been modified and approved by our Board of Directors, with the objective that these are fully effective as of January 1, 2019, which will establish the new basis of accounting for leases under IFRS 16. Similarly, we have analyzed and evaluated effects to internal control derived from IFRS 16 adoption, with the objective of ensuring that our internal control environment is appropriate for financial reporting purposes once the standard is adopted.

### ***IFRIC 23 Uncertainty over Income Tax Treatment***

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

Whether an entity considers uncertain tax treatments separately

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

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

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 January 1, 2019. As of the issuance date of this report, we do not expect a material effect due to the adoption of this amendment on our consolidated financial statements.

### ***Amendments to IFRS 9 Prepayment Features with Negative Compensation***

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective for periods beginning on January 1, 2019, with earlier application permitted. These amendments have no impact on our consolidated financial statements.

### ***Amendments to IAS 19 Plan Amendment, Curtailment or Settlement***



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The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- (i) Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- (ii) Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income. The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan s amendments, curtailments, or settlements.

### ***Amendments to IAS 28 Long-term interests in equity accounted investees***

The amendments clarify that an entity applies IFRS 9 to long-term interests in an equity accounted investee to which the equity method is not applied but that, in substance, form part of the net investment in the equity accounted investee (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the in equity accounted investee, or any impairment losses on the net investment, recognized as adjustments to the net investment in equity accounted investee. The amendments should be applied retrospectively and are effective from period beginning on January 1, 2019, with early application permitted. We do not expect the amendments to have a significant impact on its consolidated financial statements.

### **Annual Improvements 2015-2017 Cycle (issued in December 2017)**

These improvements include:

#### ***IFRS 3 Business Combinations***

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments will apply on future business combinations.

#### ***IFRS 11 Joint Arrangements***

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting

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period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to us but may apply to future transactions.

**IAS 12 Income Taxes**

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since our current practice is in line with these amendments, we do not expect any effect on our audited consolidated financial statements.

**IAS 23 Borrowing Costs**

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Since our current practice is in line with these amendments, it does not expect any effect on its consolidated financial statements.

**Operating Results**

The following table sets forth our consolidated income statement under IFRS for the years ended December 31, 2018, 2017 and 2016:

	2018 <sup>(1)</sup>	2018	Year Ended December 31, 2017	2016
		(in millions of U.S. dollars and Mexican pesos)		
Net sales	\$ 23,881	Ps. 468,894	Ps. 439,239	Ps. 398,622
Other operating revenues	43	850	693	885
Total revenues	23,924	469,744	439,932	399,507
Cost of goods sold	15,002	294,574	277,842	251,303
Gross profit	8,922	175,170	162,090	148,204
Administrative expenses	882	17,313	15,222	14,730
Selling expenses	5,835	114,573	105,880	95,547
Other income <sup>(2)</sup>	34	673	31,951	1,157
Other expenses <sup>(3)</sup>	150	2,947	33,866	5,909
Interest expense	500	9,825	11,092	9,646
Interest income	144	2,832	1,470	1,299
Foreign exchange (loss) gain, net	(13)	(248)	4,934	1,131
Monetary position gain (loss), net	11	216	1,590	2,411
Market value (loss) gain on financial instruments	(18)	(355)	(204)	186
Income before income taxes from continuing operations and share of the profit of equity accounted investees	1,713	33,630	35,771	28,556
Income taxes	518	10,169	10,213	7,888
Share of the profit of equity accounted investees, net of taxes	318	6,252	7,923	6,507

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Consolidated net income	\$ 1,684	Ps. 33,079	Ps. 37,206	Ps. 27,175
Controlling interest from continuing operations	1,148	22,560	40,863	21,140
Controlling interest from discontinued operations	73	1,430	1,545	
Non-controlling interest from continuing operations	364	7,153	(7,383)	6,035
Non-controlling interest from discontinued operations	99	1,936	2,181	
Consolidated net income	\$ 1,684	Ps. 33,079	Ps. 37,206	Ps. 27,175



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- (1) Translation to U.S. dollar amounts at an exchange rate of Ps. 19.6350 to US\$ 1.00, provided solely for the convenience of the reader.  
(2) Reflects the gains on the partial disposal of the Heineken Group shares in 2017. See note 4.2 to our audited consolidated financial statements.  
(3) Mainly deconsolidation effects of Venezuela in 2017. See note 3.3(a) to our audited consolidated financial statements.  
(4) Revised to reflect the discontinued operations of KOF Philippines. See note 4.2 to our audited consolidated financial statements.  
The following table sets forth certain operating results by reportable segment under IFRS for each of our segments for the years ended December 31, 2018, 2017 and 2016.

	Year Ended December 31,			2018 vs. 2017 2017 vs. 2016	
	2018	2017 <sup>(3)</sup>	2016 <sup>(3)</sup>	Percentage Growth	
	(in millions of Mexican pesos, except			Percentage Growth	
	margins)			(Decrease)	
<b>Net sales</b>					
Coca-Cola FEMSA	Ps.181,823	Ps.182,850	Ps.177,082	(0.6)%	3.3%
FEMSA Comercio					
Proximity Division	171,650	154,007	137,031	11.5%	12.4%
Health Division	51,739	47,421	43,411	9.1%	9.2%
Fuel Division	46,936	38,388	28,616	22.3%	34.1%
<b>Total revenues</b>					
Coca-Cola FEMSA	182,342	183,256	177,718	(0.5)%	3.1%
FEMSA Comercio					
Proximity Division	167,458	149,833	133,228	11.8%	12.5%
Health Division	51,739	47,421	43,411	9.1%	9.2%
Fuel Division	46,936	38,388	28,616	22.3%	34.1%
<b>Cost of goods sold</b>					
Coca-Cola FEMSA	98,404	99,748	98,056	(1.3)%	1.7%
FEMSA Comercio					
Proximity Division	101,929	93,706	84,182	8.8%	11.3%
Health Division	35,874	33,208	30,673	8.0%	8.3%
Fuel Division	42,705	35,621	26,368	19.9%	35.1%
<b>Gross profit</b>					
Coca-Cola FEMSA	83,938	83,508	79,662	0.5%	4.8%
FEMSA Comercio					
Proximity Division	65,529	56,127	49,046	16.8%	14.2%
Health Division	15,865	14,213	12,738	11.6%	11.6%
Fuel Division	4,231	2,767	2,248	52.9%	23.1%
<b>Gross margin<sup>(1)(2)</sup></b>					
Coca-Cola FEMSA	46.0%	45.6%	44.8%	0.5p.p.	0.7p.p.
FEMSA Comercio					
Proximity Division	39.1%	37.8%	37.2%	1.7p.p.	0.6p.p.
Health Division	30.7%	30.0%	29.3%	0.7p.p.	0.6p.p.
Fuel Division	9.0%	7.2%	7.9%	1.8p.p.	(0.6)p.p.
<b>Administrative expenses</b>					
Coca-Cola FEMSA	7,999	7,694	7,423	4.0%	3.7%
FEMSA Comercio					
Proximity Division	3,587	2,983	2,539	20.2%	17.5%
Health Division	2,055	1,643	1,769	25.1%	(7.1)%
Fuel Division	242	154	52	53.9%	196.2%
<b>Selling expenses</b>					
Coca-Cola FEMSA	49,925	50,352	48,039	(0.8)%	4.8%
FEMSA Comercio					
Proximity Division	47,589	40,289	36,341	18.1%	10.9%
Health Division	11,557	10,850	9,365	6.5%	15.9%
Fuel Division	3,526	2,330	1,865	51.3%	24.9%
<b>Share of the profit of equity accounted investees, net of taxes</b>					

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Coca-Cola FEMSA	(226)	60	147	(476.7%)	(59.2%)
FEMSA Comercio					
Proximity Division	(17)	5	22	(440.0%)	(77.3%)
Health Division					
Fuel Division					
Heineken Investment	6,478	7,847	6,342	(17.4%)	23.7%

(1) Gross margin is calculated as gross profit divided by total revenues.

(2) As used herein, p.p. refers to a percentage point increase (or decrease) contrasted with a straight percentage increase (or decrease).

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(3) Revised for the restructuring of the Proximity Division. In 2018, FEMSA Comercio's Retail Division removed operations that are not directly related to proximity store business, including restaurant and discount retail units. The removed operations are included in Other Businesses. The business segment is now named the Proximity Division. See note 26 of our audited consolidated financial statements.

### **Results from our Operations for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017**

#### **FEMSA Consolidated**

FEMSA's consolidated total revenues increased 6.8% to Ps. 469,744 million in 2018 compared to Ps. 439,932 million in 2017. Coca-Cola FEMSA's total revenues decreased 0.5% to Ps. 182,342 million, driven by the depreciation of the Argentine Peso, the Brazilian Real and the Colombian Peso as compared to the Mexican Peso, the deconsolidation of Coca-Cola FEMSA de Venezuela as of December 31, 2017 and the reporting of Argentina as a hyperinflationary subsidiary as of July 1, 2018. This decrease was partially offset by the consolidation of revenues in Guatemala and Uruguay, volume growth in Brazil, Central America and Colombia and price increases above inflation in Argentina and Mexico. Proximity Division's revenues increased 11.8% to Ps. 167,458 million, driven by the opening of 1,422 net new OXXO stores combined with an average increase of 5.2% in same-store sales. Health Division's revenues increased 9.1% to Ps. 51,739 million, driven by the opening of 136 net new stores combined with an average increase of 5.8% in same-store sales. Fuel Division revenues increased 22.3% to Ps. 46,936 million, driven by the addition of 87 total net new stations in the last twelve months, and a 5.6% increase in same-station sales.

Consolidated gross profit increased 8.1% to Ps. 175,170 million in 2018 compared to Ps. 162,090 million in 2017. Gross margin increased 50 basis points to 37.3% of total revenues compared to 2017, reflecting gross margin expansion across all business units.

Consolidated administrative expenses increased 13.7% to Ps. 17,313 million in 2018 compared to Ps. 15,222 million in 2017. As a percentage of total revenues, consolidated administrative expenses increased 20 basis points, from 3.5% in 2017, to 3.7% in 2018.

Consolidated selling expenses increased 8.2% to Ps. 114,573 million in 2018 compared to Ps. 105,880 million in 2017. As a percentage of total revenues, selling expenses increased 40 basis points, from 23.9% in 2017 to 24.3% in 2018.

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

Other income mainly reflects the gains on the sale of assets. During 2018, other income decreased to Ps. 673 million from Ps. 31,951 million in 2017, driven by the partial sale in 2017 of our investment in the Heineken Group.

During 2018, other expenses decreased to Ps. 2,947 million from Ps. 33,866 million in 2017, which mainly reflected the impairment charge recorded in connection with the deconsolidation of results from operations of KOF Venezuela on December 31, 2017. Additionally, other expenses include donations, disposals of long-lived assets and contingencies associated with prior acquisitions.

Comprehensive financing result, which includes interest income and expense, foreign exchange gain (loss), monetary position gain (loss) and market value gain (loss) on financial instruments, increased to Ps. 7,380 million from Ps. 3,302 million in 2017, driven by a foreign exchange gain related to the effect of FEMSA's U.S. dollar-denominated cash position, as impacted by the depreciation of the Mexican peso during 2017, and by other financial income related to Coca-Cola FEMSA's hyperinflationary subsidiaries. This movement was enough to offset an interest expense decrease of 11.4% to Ps. 9,825 million in 2018, compared to Ps. 11,092 million in 2017, reflecting lower interest expense at Coca-Cola FEMSA.

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Our accounting provision for income taxes in 2018 was Ps. 10,169 million compared to Ps. 10,213 million in 2017, resulting in an effective tax rate of 30.2% in 2018, as compared to 28.6% in 2017, in line with our expected medium-term range of 30%.

Share of the profit of equity accounted investees, net of taxes, decreased 18.2% to Ps. 6,252 million in 2018 compared to Ps. 7,923 million in 2017, mainly driven by a decrease in FEMSA's participation in Heineken's results, following the partial sale of our investment in the Heineken Group in September 2017, which reduced our stake to 14.76% from 20% during most of 2017.

Consolidated net income was Ps. 33,079 million in 2018 compared to Ps. 37,206 million in 2017. This decrease was mainly driven by (1) a foreign exchange gain related to FEMSA's U.S. dollar-denominated cash position due to the impact of depreciation of the Mexican peso during 2017, (2) a higher participation in Heineken's results for most of the comparable period and (3) other financial income related to Coca-Cola FEMSA's hyperinflationary operations. This decrease was partially offset by growth in our income from operations and lower financing expenses. Controlling interest amounted to Ps. 23,990 million in 2018 compared to Ps. 42,408 million in 2017. Controlling interest in 2018 net income per FEMSA Unit was Ps. 6.70 (US\$ 3.42 per ADS).

### **Coca-Cola FEMSA**

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

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

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

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

Sales volume of Coca-Cola FEMSA's still beverage portfolio increased by 3.1% as compared to 2017. On a comparable basis, sales volume of Coca-Cola FEMSA's still beverage portfolio would have increased

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by 5.8%, driven by growth in Brazil, Central America and Mexico, which was partially offset by a volume contraction in Colombia.

Sales volume of Coca-Cola FEMSA's bottled water category, excluding bulk water, increased by 1.9% as compared to 2017. On a comparable basis, sales volume of Coca-Cola FEMSA's water portfolio would have increased by 7.2%, driven by growth in Brazil, Colombia and Mexico, which was partially offset by a volume contraction in Central America.

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

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

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

The components of cost of goods sold include raw materials (principally concentrate, sweeteners and packaging materials), depreciation costs attributable to Coca-Cola FEMSA's production facilities, wages and other labor costs associated with labor force employed at Coca-Cola FEMSA's production facilities and certain overhead costs. Concentrate prices are determined as a percentage of the retail price of Coca-Cola FEMSA's 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.** Coca-Cola FEMSA's administrative and selling expenses decreased by 0.2% to Ps.57,924 in 2018 as compared to 2017. Coca-Cola FEMSA's administrative and selling expenses as a percentage of total revenues increased by 10 basis points to 31.8% in 2018 as compared to 2017, mainly as a result of an increase in labor and freight costs, which were partially offset by the effects of favorable foreign exchange translations. In 2018, Coca-Cola FEMSA continued investing across Coca-Cola FEMSA's territories to support marketplace execution, increase Coca-Cola FEMSA's cooler coverage, and bolster Coca-Cola FEMSA's returnable presentation base.

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

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appreciates relative to the local currency between the date the liability is incurred or the beginning of the period, whichever occurs first, and the date it is repaid or the end of the period, whichever occurs first, as the appreciation of the foreign currency results in an increase in the amount of local currency, which must be exchanged to repay the specified amount of the foreign currency liability.

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

**Income Taxes.** In 2018, Coca-Cola FEMSA's effective income tax rate was 31.0%, reaching Ps.5,260 million in 2018, as compared to Ps.4,184 in 2017. This increase was mainly driven by the higher tax rates in Brazil as compared to tax rates in other jurisdictions where Coca-Cola FEMSA operates, considering the relative weight of Brazil's profits in Coca-Cola FEMSA's consolidated results, as well as the deconsolidation of KOF Venezuela, which had deferred taxes in 2017. For more information, see Note 24 to Coca-Cola FEMSA's consolidated financial statements.

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

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

## **FEMSA Comercio**

### **Proximity Division**

Proximity Division total revenues increased 11.8% to Ps. 167,458 million in 2018 compared to Ps. 149,833 million in 2017, primarily as a result of the opening of 1,422 net new OXXO stores during 2018. As of December 31, 2018, there were a total of 17,999 OXXO stores. OXXO same-store sales also increased an average of 5.2% compared to 2017, driven by a 3.6% increase in average customer ticket while store traffic increased 1.6%. On an organic basis, total revenues grew 11.4%.

Cost of goods sold increased 8.8% to Ps. 101,929 million in 2018, compared to Ps. 93,706 million in 2017. Gross margin increased 160 basis points to reach 39.1% of total revenues. This increase reflects; (i) the sustained growth of the services category, including income from financial services; (ii) healthy trends in our commercial income activity; (iii) increased and more efficient promotional programs with our key supplier partners and (iv) the consolidation of Caffenio. As a result, gross profit increased 16.8% to Ps. 65,529 million in 2018 compared with 2017.

Administrative expenses increased 20.2% to Ps. 3,587 million in 2018, compared to Ps. 2,983 million in 2017. As a percentage of sales, they increased slightly to 2.1% in 2018, from 2.0% in 2017. Selling expenses increased 18.1% to Ps. 47,589 million in 2018 compared with Ps. 40,289 million in 2017. As a percentage of sales, they reached 28.4% in 2018. The increase in administrative and selling expenses was driven by: (i) our continuing

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and gradual shift from commission-based store teams to employee based teams; (ii) higher secure cash handling costs driven by increased volume and higher operational costs including fuel prices; (iii) the consolidation of Caffenio; and (iv) organic growth of OXXO's international operations that achieved healthy sales levels per store, but have yet to reach sufficient scale to better absorb overhead.

### **Health Division**

Health Division total revenues increased 9.1% to Ps. 51,739 million compared to Ps. 47,421 million in 2017, primarily as a result of the opening of 136 net new stores during 2018. As of December 31, 2018, there were a total of 2,361 drugstores in Mexico, Chile and Colombia. Same-store sales also increased an average of 5.8%, reflecting strong performance in our South American operations, as well as gradually improving trends in Mexico, coupled with a positive currency translation effect related to the depreciation of the Mexican peso compared to the Chilean and Colombian pesos in our operations in South America.

Cost of goods sold increased 8.0% to Ps. 35,874 million in 2018, compared with Ps. 33,208 million in 2017. Gross margin increased 70 basis points to reach 30.7% of total revenues. This was mainly driven by more efficient and effective commercial activity, particularly in South America, and to benefits that are gradually beginning to materialize in Mexico from our integration into a single operating platform. As a result, gross profit increased 11.6% to Ps. 15,865 million in 2018 compared with 2017.

Administrative expenses increased 25.1% to Ps. 2,055 million in 2018, compared with Ps. 1,643 million in 2017; as a percentage of sales, they reached 4.0% in 2018. Selling expenses increased 6.5% to Ps. 11,557 million in 2018 compared with Ps. 10,850 million in 2017; as a percentage of sales, they reached 22.3% in 2018. The increase in administrative and selling expenses was partially offset by cost efficiencies and tight expense control throughout our territories.

### **Fuel Division**

Fuel Division total revenues increased 22.3% to Ps. 46,936 million in 2018 compared to Ps. 38,388 in 2017, primarily as a result of the opening of 87 net new OXXO GAS service stations during 2018. As of December 31, 2018, there were a total of 539 OXXO GAS service stations. Same-station sales also increased an average of 5.6% compared to 2017, as the average price per liter increased by 15.1%, while the average volume decreased by 8.2% reflecting consumer reaction to the higher prices, and, to a lesser degree, increased competition.

Cost of goods sold increased 19.9% to Ps. 42,705 million in 2018, compared with Ps. 35,621 million in 2017. Gross margin increased 180 basis points to reach 9.0% of total revenues. This increase reflects improved supply terms and a recovery from a low comparable base last year, when gross profit per liter was held flat in peso terms for most of the comparable period in 2017. As a result, gross profit increased 52.9% to Ps. 4,231 million in 2018 compared with 2017.

Administrative expenses increased 57.1% to Ps. 242 million in 2018, compared with Ps. 154 million in 2017; as a percentage of sales, they increased 10 basis points to 0.5% in 2018. Selling expenses increased 51.3% to Ps. 3,526 million in 2018 compared with Ps. 2,330 million in 2017; as a percentage of sales, they reached 7.5% in 2018. The increase in administrative and selling expenses was driven by: (i) higher wages implemented to reduce turnover in a tight labor market; (ii) expenses related to the remodeling of our stations and the installation of new environmental controls and; (iii) provisions related to certain unprofitable institutional clients.

### **Results from our Operations for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016**

#### **FEMSA Consolidated**

FEMSA's consolidated total revenues increased 10.1% to Ps. 439,932 million in 2017 compared to Ps. 399,507 million in 2016. Coca-Cola FEMSA's total revenues increased 3.1% to Ps. 183,256 million, as a result of the acquisition of Vonpar in Brazil. Total revenues were also driven by average price per unit case increases in local currency aligned with or above the inflation in key territories, supported by the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso, partially offset by the depreciation of the

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Argentine peso and Venezuelan bolivar; in each case relative to the Mexican peso. The Proximity Division's revenues increased 12.5% to Ps. 149,833 million, driven by the opening of 1,303 net new OXXO stores combined with an average increase of 6.4% in same-store sales. The Health Division's revenues increased 9.2% to Ps. 47,421 million, driven by the opening of 105 net new stores combined with an average increase of 6.7% in same-store sales. The Fuel Division's revenues increased 34.2% to Ps. 38,388 million in 2017, driven by the addition of 70 total net new stations in the last twelve months, and a 19.8% increase in same-station sales.

Consolidated gross profit increased 9.4% to Ps. 162,090 million in 2017 compared to Ps. 148,204 million in 2016. Gross margin decreased 30 basis points to 36.8% of total revenues compared to 2016, reflecting the growth of lower margin businesses in FEMSA Comercio.

Consolidated administrative expenses increased 3.3% to Ps. 15,222 million in 2017 compared to Ps. 14,730 million in 2016. As a percentage of total revenues, consolidated administrative expenses decreased 20 basis points, from 3.7% in 2016, compared to 3.5% in 2017.

Consolidated selling expenses increased 10.8% to Ps. 105,880 million in 2017 as compared to Ps. 95,547 million in 2016. As a percentage of total revenues, selling expenses remained in line with 2016 at 23.9%.

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

Other income mainly reflects the gains on the partial sale of our investment in the Heineken Group. During 2017, other income increased to Ps. 31,952 million from Ps. 1,157 million in 2016, reflecting the aforementioned gain.

During 2017, other expenses increased to Ps. 33,866 million from Ps. 5,909 million in 2016, mainly reflecting the deconsolidation of results from operations of KOF Venezuela. Additionally, other expenses include contingencies associated with prior acquisitions or disposals, as well as foreign exchange losses related to operating activities.

Comprehensive financing result, which includes interest income and expense, foreign exchange gain (loss), monetary position gain (loss) and market value gain (loss) on financial instruments decreased to Ps. 3,302 million from Ps. 4,619 million in 2016, mostly driven by a positive result caused by a foreign exchange gain related to the effect of FEMSA's U.S. dollar-denominated cash position, as impacted by the depreciation of the Mexican Peso during the period. This cash position increased during 2017, mainly from the sale of 5.24% of the combined economic interest in the Heineken Group; this movement was enough to offset an interest expense increase of 15.0% to Ps. 11,092 million in 2017, compared to Ps. 9,646 million in 2016 resulting from new debt incurred at Coca-Cola FEMSA in connection with the Vonpar acquisition.

Our accounting provision for income taxes in 2017 was Ps. 10,213 million, as compared to Ps. 7,888 million in 2016, resulting in an effective tax rate of 28.6% in 2017, as compared to 27.6% in 2016, below our expected medium-term range of 30%. The lower effective tax rate registered during 2017 is mainly related to certain tax efficiencies related with the one-time non-operating income recorded in connection with the partial sale of shares of the Heineken Group occurred during 2017; offset by the deconsolidation of operations of KOF Venezuela.

Share of the profit of equity accounted investees, net of taxes, increased 21.8% to Ps. 7,923 million in 2017, compared to Ps. 6,507 million in 2016, mainly driven by an increase in FEMSA's participation in Heineken's results, which was partially offset by the decrease of the equity stake in Heineken Group from 20% to 14.76% following the completion of the partial sale in September 2017.

Consolidated net income was Ps. 37,206 million in 2017 compared to Ps. 27,175 million in 2016, resulting from growth in FEMSA's income from operations, higher non-operating income resulting from the sale of 5.24% of the combined economic interest in the Heineken Group on September 18, 2017, and a higher foreign exchange gain related to a higher U.S. dollar-denominated cash position at FEMSA coming from the aforementioned sale of Heineken shares of the Heineken Group partially offset by the deconsolidation of operations of KOF Venezuela,



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which resulted in the reclassification to profit and loss of foreign currency translation losses previously recorded in equity. This was a non-cash, one-time impact to the other non-operating expenses line of the income statement, in accordance with IFRS standards. Controlling interest amounted to Ps. 42,408 million in 2017 compared to Ps. 21,140 million in 2016. Controlling interest in 2017 per FEMSA Unit was Ps. 11.85 (US\$ 6.03 per ADS).

### **Coca-Cola FEMSA**

The comparability of Coca-Cola FEMSA's financial and operating performance in 2017 as compared to 2016 was affected by the following factors: (1) the ongoing integration of mergers, acquisitions, and divestitures completed in recent years; (2) translation effects from fluctuations in exchange rates; and (3) Coca-Cola FEMSA's results in Venezuela, which is considered a hyperinflationary economy, and the non-recurrent charges as a result of the deconsolidation of KOF Venezuela operations. In certain information presented below, Coca-Cola FEMSA has excluded the effects of (i) translation effects resulting from exchange rate fluctuations, (ii) Coca-Cola FEMSA's acquisition of Vonpar in Brazil, and (iii) Coca-Cola FEMSA's operations in Venezuela, in order to better describe the performance of Coca-Cola FEMSA's business on a comparable basis in 2017 as compared to 2016. To translate the results of Coca-Cola FEMSA's Venezuelan operations in 2017, Coca-Cola FEMSA 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 Coca-Cola FEMSA's 2016 reported results. In addition, the average depreciation of currencies used in Coca-Cola FEMSA's main operations relative to the U.S. dollar in 2017, as compared to 2016, were: 12.1% for the Argentine peso and 1.5% for the Mexican peso. Moreover, the average appreciation of currencies used in Coca-Cola FEMSA's 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.** Coca-Cola FEMSA's consolidated total revenues increased by 3.1% to Ps.183,256 million in 2017, as a result of the acquisition of Vonpar in Brazil. Total revenues were also driven by average price per unit case increases in local currency aligned with or above inflation in key territories, supported by the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso, despite the depreciation of the Argentine peso, and the Venezuelan bolivar; in each case relative to the Mexican peso. On a comparable basis, total revenues would have increased by 3.6%, driven by growth in Coca-Cola FEMSA's average price per unit case across most of Coca-Cola FEMSA's operations, which were partially offset by volume declines in Coca-Cola FEMSA's South American (excluding Venezuela) consolidated reporting segment.

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

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

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

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

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



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

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

The components of cost of goods sold include raw materials (principally concentrate, sweeteners and packaging materials), depreciation costs attributable to Coca-Cola FEMSA's production facilities, wages and other labor costs associated with labor force employed at Coca-Cola FEMSA's production facilities and certain overhead costs. Concentrate prices are determined as a percentage of the retail price of Coca-Cola FEMSA's 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.** Coca-Cola FEMSA's administrative and selling expenses as a percentage of total revenues increased by 50 basis points to 31.7% in 2017 as compared to 2016. Coca-Cola FEMSA's administrative and selling expenses in absolute terms increased by 4.7% to Ps.58,045 million as compared to Ps.55,462 million in 2016, mainly as a result of the acquisition of Vonpar; however, this increase was partially offset by the effects of foreign exchange translations. In 2017, Coca-Cola FEMSA continued investing across Coca-Cola FEMSA's territories to support marketplace execution, increase Coca-Cola FEMSA's cooler coverage, and bolster Coca-Cola FEMSA's returnable presentation base.

**Other Expenses Net.** Coca-Cola FEMSA recorded other expenses net of Ps.31,357 million in 2017 as compared to Ps.3,812 million in 2016, mainly due to the deconsolidation of Venezuela. For more information, see Note 3.3 to Coca-Cola FEMSA's 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 Coca-Cola FEMSA operates. Net financial foreign exchange gains or losses represent the impact of changes in foreign exchange rates on financial assets or liabilities denominated in currencies other than local currencies, and gains or losses resulting from derivative financial instruments. A financial foreign exchange loss arises if a liability is denominated in a foreign currency that appreciates relative to the local currency between the date the liability is incurred or the beginning of the period, whichever occurs first, and the date it is repaid or the end of the period, whichever occurs first, as the appreciation of the foreign currency results in an increase in the amount of local currency, which must be exchanged to repay the specified amount of the foreign currency liability.

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

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

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***Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method, Net of Taxes.*** In 2017, Coca-Cola FEMSA recorded a gain of Ps.60 million in the share of the profits of associates and joint ventures accounted for using the equity method, net of taxes; mainly as a result of gains in Coca-Cola FEMSA's 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 Coca-Cola FEMSA's Venezuelan operations, which resulted in the reclassification of an accumulated non-cash item as a one-time charge to the other expenses line of the income statement in accordance with IFRS standards. On a comparable basis, controlling net income would have grown 30.4% in 2017.

## **FEMSA Comercio**

### **Proximity Division**

The Proximity Division's total revenues increased 12.5% to Ps. 149,833 million in 2017 as compared to Ps. 133,228 million in 2016, primarily as a result of the opening of 1,303 net new OXXO stores during 2017, together with an average increase in same-store sales of 6.4%. As of December 31, 2017, there were a total of 16,526 OXXO stores. As referenced above, OXXO same-store sales increased an average of 6.4% compared to 2016, driven by a 3.8% increase in average customer ticket while store traffic increased 2.5%.

Cost of goods sold increased 11.3% to Ps. 93,706 million in 2017, compared to Ps. 84,182 million in 2016. Gross margin increased 65 basis points to reach 37.5% of total revenues. This increase reflects healthy trends in our commercial income activity and the sustained growth of the services category, including income from financial services. As a result, gross profit increased 14.4% to Ps. 56,127 million in 2017 compared with Ps. 49,046 in 2016.

Administrative expenses increased 17.5% to Ps. 2,983 million in 2017, compared to Ps. 2,539 million in 2016; as a percentage of sales, they reached 2.0% in 2017. Selling expenses increased 10.9% to Ps. 40,289 million in 2017 compared with Ps. 36,341 million in 2016; as a percentage of sales they reached 26.9% in 2017. The increase in administrative and selling expenses was driven by: (i) our continuing initiatives to improve compensation and reduce turnover of key in-store personnel, (ii) a sustained increase in electricity tariffs and (iii) higher secure cash transportation costs driven by increased volume and higher fuel prices.

### **Health Division**

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

Cost of goods sold increased 8.3% to Ps. 33,208 million in 2017, compared with Ps. 30,673 million in 2016, reflecting positive sales mix as well as a more effective collaboration and execution with our key supplier partners. Gross margin increased 70 basis points to reach 30.0% of total revenues compared with 29.3% in 2016. As a result, gross profit increased 11.6% to Ps. 14,213 million in 2017 compared with Ps. 12,738 in 2016.

Administrative expenses decreased 7.1% to Ps. 1,643 million in 2017, compared with Ps. 1,769 million in 2016; as a percentage of sales, they reached 3.5% in 2017. Selling expenses increased 15.9% to Ps. 10,850 million in 2017 compared with Ps. 9,365 million in 2016; as a percentage of sales, they reached 22.9% in 2017. The increase in administrative and selling expenses was primarily driven by the integration of a single platform in Mexico, building our distribution capabilities and increased services at our drugstores such as on-site doctors and home delivery in the key Mexican markets.

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### **Fuel Division**

The Fuel Division's total revenues increased 34.1% to Ps. 38,388 million in 2017 compared to Ps. 28,616 in 2016, primarily reflecting a national price increase established at the beginning of the year, as well as the opening of 70 net new OXXO GAS service stations during 2017. As of December 31, 2017, there were a total of 452 OXXO GAS service stations. Same-station sales increased an average of 19.8% compared to 2016, as the average price per liter increased by 21.1% reflecting the national price increase mentioned above, while the average volume decreased by 1.1% mainly from consumer reaction to the higher prices.

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

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

### **Liquidity and Capital Resources**

#### **Liquidity**

Each of our sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2018, 65% of our outstanding consolidated total indebtedness was at the level of our sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA.

In 2016, we issued EUR 1,000 million aggregate principal amount of 1.750% fixed rate Senior Notes due 2023 with a total yield of 1.824% that were listed on the Irish Stock Exchange (ISE).

In 2013, anticipating liquidity needs for general corporate purposes, we issued US\$ 300 million aggregate principal amount of 2.875% Senior Notes due 2023 and US\$ 700 million aggregate principal amount of 4.375% Senior Notes due 2043.

In June 2017, Coca-Cola FEMSA issued Ps. 8,500 million aggregate principal amount of 10-year fixed rate Mexican peso-denominated bonds (*certificados bursátiles*) bearing an annual interest rate of 7.87% due June 2027 and Ps. 1,500 million aggregate principal amount of 5-year floating rate *certificados bursátiles*, prices at 28-day Equilibrium Interbank Interest Rate (*Tasa de Interés Interbancaria de Equilibrio* or *TIIE*) plus 0.25% due June 2022. These series of *certificados bursátiles* are guaranteed by Coca-Cola FEMSA subsidiaries: Propimex S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V. (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R.L. de C.V. (the Guarantors).

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

In 2014, Coca-Cola FEMSA issued an additional US\$ 150 million aggregate principal amount of 3.875% Senior Notes due 2023 and US\$ 200 million in aggregate principal amount of 5.250% Senior Notes due 2043 under previously series issued in November 2013. These notes are guaranteed by the Guarantors. The indenture governing

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these notes imposes, among others, certain conditions upon a consolidation or merger by Coca-Cola FEMSA and restricts the incurrence of liens and the entering into sale and leaseback transactions by Coca-Cola FEMSA and its significant subsidiaries.

In 2013, Coca-Cola FEMSA issued US\$ 1.0 billion aggregate principal amount of 2.375% Senior Notes due 2018. In 2017, Coca-Cola FEMSA redeemed 55.5% of the aggregate principal amount of the 2.375% Senior Notes, equal to US\$ 555 million. The outstanding balance of the 2.375% Senior Notes following the redemption 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 Coca-Cola FEMSA and restricts the incurrence of liens and the entering into sale and leaseback transactions by Coca-Cola FEMSA and its significant subsidiaries.

In addition, in 2013, Coca-Cola FEMSA issued US\$ 750 million aggregate principal amount of 3.875% Senior Notes due 2023 and US\$ 400 million aggregate principal amount of 5.250% Senior Notes due 2043. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by Coca-Cola FEMSA and restricts the incurrence of liens and the entering into sale and leaseback transactions by Coca-Cola FEMSA and its significant subsidiaries.

In 2013, Coca-Cola FEMSA issued Ps. 7,500 million aggregate principal amount of 10-year fixed rate *certificados bursatiles* bearing an annual interest rate of 5.46% due May 2023, and these series of *certificados bursatiles* are guaranteed by the Guarantors.

In 2011, Coca-Cola FEMSA issued Ps. 2,500 million of 10-year fixed rate *certificados bursatiles* bearing an annual interest of 8.27% coupon due April 2021. These series of *certificados bursatiles* are guaranteed by the Guarantors.

In 2010, Coca-Cola FEMSA issued US\$ 500 million aggregate amount of 4.625% Senior Notes due 2020. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by Coca-Cola FEMSA and restricts the incurrence of liens and the entering into sale and leaseback transactions by Coca-Cola FEMSA and its significant subsidiaries.

We may decide to incur additional indebtedness at our holding company in the future to finance the operations and capital requirements of our subsidiaries or significant acquisitions, investments or capital expenditures. As a holding company, we depend on dividends and other distributions from our subsidiaries to service our indebtedness and to finance our operations and capital requirements.

We continuously evaluate opportunities to pursue acquisitions or engage in joint ventures or other transactions. We would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock.

Our principal source of liquidity has generally been cash generated from our operations. We have traditionally been able to rely on cash generated from operations because a significant majority of the sales of Coca-Cola FEMSA and FEMSA Comercio are on a cash or short-term credit basis. OXXO stores are able to finance a significant portion of their initial and ongoing inventories with supplier credit. Our principal use of cash has generally been for capital expenditure programs, debt repayment and dividend payments. In our opinion, our working capital is sufficient for our present requirements.

Our sub-holding companies generally incur short-term indebtedness in the event that they are temporarily unable to finance operations or meet capital requirements with cash from operations. A significant decline in the business of any of our sub-holding companies may affect the sub-holding company's ability to fund its capital requirements. A significant and prolonged deterioration in the economies where we operate or in our businesses may affect our ability to obtain short-term and long-term credit or to refinance existing indebtedness on terms satisfactory to us.

The following is a summary of the principal sources and uses of cash for the years ended December 31, 2018, 2017 and 2016, from our consolidated statement of cash flows:

**Table of Contents****Principal Sources and Uses of Cash****Years ended December 31, 2018, 2017 and 2016****(in millions of Mexican pesos)**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net cash flows provided by operating activities from continuing operations	Ps. 47,414	Ps. 33,435	Ps.50,131
Net cash flows (used in) provided by investing activities from continuing operations	(57,662)	28,596	(38,645)
Net cash flows (used in) provided by financing activities from continuing operations	(23,011)	(21,054)	1,297
Dividends paid	(12,933)	(12,450)	(12,045)

**Principal Sources and Uses of Cash for the Year ended December 31, 2018 Compared to the Year Ended December 31, 2017**

Our net cash generated by operating activities from continuing operations increased Ps. 13,979 to Ps. 47,414 million in 2018 compared to Ps. 33,435 million in 2017. This increase was primarily the result of:

An increase of Ps. 8,756 million due to higher collection of trade receivables compared to 2017 and an increase of Ps. 1,001 million due to higher inventory purchases;

A decrease of Ps. 2,438 million due to higher supplier payments compared to 2017 and Ps. 2,313 due to a decrease in other current financial liabilities; and

A change in cash flow of Ps. 6,056 mainly due to an increase in cash flow resulting from a reduction in income taxes paid, and also an increase of Ps. 5,307 million in our cash flow from operating activities before changes in operating working capital accounts. Our net cash used in investing activities from continuing operations was Ps. 57,662 million for the year ended December 31, 2018, compared to Ps. 28,596 million generated for investing activities from continuing operations for the year ended December 31, 2017, a decrease of Ps. 86,259 million. This reduction was primarily the result of:

A decrease of Ps. 37,949 million due to a higher amount of purchases of investments in 2018 compared to 2017, which include variable interest rate government and corporate debt securities; and

An increase of Ps. 1,957 million due the sale of KOF Philippines in 2018; and

A decrease of Ps. 50,790 million mainly due to the sale of a portion of our investment in the Heineken Group and payments for acquisitions in other equity accounted investees in 2017. Our net cash used in financing activities from continuing operations was Ps. 23,011 million for the year ended December 31, 2018, compared to Ps. 21,054 million used by financing activities from continuing operations for the year ended December 31, 2017, a decrease of Ps. 1,957 million. This decrease was primarily due to:

A decrease by capitalization of issued shares to former owner of Vonpar in Coca-Cola FEMSA of Ps. 4,082 million due to the merger with a Mexican company owned by the sellers in the last year, see note 4.1.3 to our audited consolidated financial statements;

A change of Ps. 2,556 million, which increased our cash flow mainly due to higher proceeds from borrowings in 2018 of Ps. 16,155 million as compared to Ps. 13,599 million in 2017;

A change of Ps. 948, which increased our cash flow due to lower payments of bank loans in 2018 of Ps. 17,182 million, as compared to Ps. 18,130 million in 2017; and

A change of Ps. 1,198, which decreased our cash flow due to dividend payments and derivative financial instruments compared to 2017.



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### **Principal Sources and Uses of Cash for the Year ended December 31, 2017 Compared to the Year Ended December 31, 2016**

Our net cash generated by operating activities from continuing operations decreased Ps. 16,696 to Ps. 33,435 million in 2017 compared to Ps. 50,131 million in 2016. This decrease was primarily the result of:

A decrease of Ps. 9,293 million due to lower collection of trade receivables compared to 2016, an increase of Ps. 2,808 million due to lower inventory purchases and a decrease of Ps. 4,936 million due to a greater cash flow hedging effect of our forward agreements compared to 2016;

A decrease of Ps. 7,933 million due to higher supplier payments compared to 2016; and

A change in cash flow of Ps. 7,338 mainly due to a decrease in cash flow resulting from higher income taxes paid mainly related to the sale of a portion of our investment in Heineken Group, which was offset by an increase of Ps. 9,358 million in our cash flow from operating activities before changes in operating working capital accounts.

Our net cash generated by investing activities from continuing operations was Ps. 28,596 million for the year ended December 31, 2017, compared to Ps. 38,645 million used for investing activities from continuing operations for the year ended December 31, 2016, an increase of Ps. 67,242 million. This was primarily the result of:

Higher payments in the amount of Ps. 18,230 million for acquisitions by Coca-Cola FEMSA and our other business acquisitions in 2016 as compared to 2017; and

An increase of Ps. 50,790 million mainly due to the sale of a portion of our investment in the Heineken Group and payments for acquisitions in other equity accounted investees in last year.

Our net cash used in financing activities from continuing operations was Ps. 21,054 million for the year ended December 31, 2017, compared to Ps. 1,297 million generated by financing activities from continuing operations for the year ended December 31, 2016, a decrease of Ps. 22,351 million. This decrease was primarily due to:

A change of Ps. 12,672, which decreased our cash flow due to higher payments of bank loans in 2017 of Ps. 18,130 million, as compared to Ps. 5,458 million in 2016;

A change of Ps. 13,030 million, which decreased our cash flow mainly due to lower proceeds from borrowings in 2017 of Ps. 13,599 million as compared to Ps. 26,629 million in 2016; and

These changes were partially offset by an increase by capitalization of issued shares to former owner of Vonpar in Coca-Cola FEMSA of Ps. 4,082 million due to the merger with a Mexican company owned by the sellers, see note 4.1.3 to our audited consolidated financial statements, and a change of Ps. 1,555 million, which decreased our cash flow mainly due to less contributions from non-controlling interest.

### **Consolidated Total Indebtedness**

Our consolidated total indebtedness as of December 31, 2018 was Ps. 128,664 million compared to Ps. 131,348 million in 2017 and Ps. 139,248 million as of December 31, 2016. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 13,674 and Ps. 114,990 as of December 31, 2018, Ps. 13,590 million and Ps. 117,758 million, respectively, as of December 31, 2017, as compared to Ps. 7,281 million and Ps. 131,967 million, respectively, as of December 31, 2016. Cash and cash equivalents were Ps. 62,047 million as of

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December 31, 2018 and Ps. 96,944 million as of December 31, 2017, as compared to Ps. 43,637 million as of December 31, 2016.

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

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

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

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

	Less than 1 year	1 - 3 years	Maturity 3 - 5 years	In excess of 5 years	Total
(in millions of Mexican pesos)					
<b>Long-Term Debt</b>					
Mexican pesos	Ps. 5,082	Ps. 8,179	Ps. 9,037	Ps. 8,488	Ps. 30,786
Brazilian reais <sup>(1)</sup>	458	462	111	24	1,055
Colombian pesos	424	424			848
U.S. dollars	4,652	13,854	23,406	25,322	67,234
Euro			22,439		22,439
Chilean pesos	586	1,683	1,003		3,212
Uruguayan pesos		573			573
<b>Capital Leases</b>					
U.S. dollars	5	2			7
Chilean pesos	31	26	17		74
<b>Interest payments<sup>(2)</sup></b>					
Mexican pesos	477	699	543	668	2,387
Brazilian reais	35	37	7	2	81
Colombian pesos	49	24			73
U.S. dollars	18	590	848		1,456
Argentine pesos	58				58
Chilean pesos	45	68	40		153
Euro			393		393
Uruguayan pesos	77	58			135
<b>Interest Rate Swaps and Cross-Currency Swaps<sup>(3)</sup></b>					
Mexican pesos	4,885	6,941	5,300	16,015	33,141
Brazilian reais	1,849	2,729	1,780	4	6,362
Colombian pesos	394	789	481		1,664
U.S. dollars	3,320	4,121	3,343	14,091	24,875
Argentine pesos	27				27
Chilean pesos	208	344	142		694
Euro	63	3			66
Uruguayan pesos	111	41			152
<b>Operating leases</b>					
Mexican pesos	7,467	13,493	11,963	36,120	69,043
U.S. dollars	565	841	562	282	2,251
Others	2,085	3,256	2,191	3,110	10,642
<b>Commodity price contracts</b>					
Sugar <sup>(4)</sup>	1,223				1,223
Aluminum <sup>(4)</sup>	265				265
PX+MEG <sup>(4)</sup>	1,303				1,303
<b>Expected benefits to be paid for pension and retirement plans, seniority premiums, post-retirement medical services and post-employment</b>					
	683	728	677	2,527	4,615
<b>Other long-term liabilities<sup>(5)</sup></b>				13,800	13,800

(1) A portion of our debt denominated in Brazilian reais consists of a promissory note for 1,166 million Brazilian reais, which was partially offset as a result of certain contingencies for which the sellers agreed to indemnify us, resulting in an outstanding amount of 916 million Brazilian reais (approximately Ps. 4,653 million as of December 31, 2018). This promissory note is denominated and payable in Brazilian reais; however, it is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

(2)

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Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2018 without considering interest rate swap agreements. The debt and applicable interest rates in effect are shown in note 18 to our audited consolidated financial statements. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 19.635 per US\$ 1.00, the exchange rate quoted to us by *Banco de México* for the settlement of obligations in foreign currencies on December 31, 2018.

- (3) Reflects the amount of future payments that we would be required to make. The amounts were calculated by applying the rates giving effect to interest rate swaps and cross-currency swaps applied to long-term debt as of December 31, 2018, and the market value of the unhedged cross-currency swaps.
- (4) Reflects the notional amount of the futures and forward contracts used to hedge sugar and aluminum cost with a fair value liability of Ps. 4 million; see note 20.6 to our audited consolidated financial statements.

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(5) Other long-term liabilities include provisions and others, but not deferred taxes. Other long-term liabilities additionally reflect those liabilities whose maturity date is undefined and depends on a series of circumstances out of our control; therefore, these liabilities have been considered to have a maturity of more than five years.

As of December 31, 2018, Ps. 13,674 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

As of December 31, 2018, our consolidated average cost of borrowing, after giving effect to the cross-currency and interest rate swaps, was approximately 6.8%. As of December 31, 2017, our consolidated average cost of borrowing, after giving effect to the cross-currency swaps, was 6.5% (the total amount of debt used in the calculation of this percentage was obtained by converting only the units of investment debt for the related cross-currency swap, and it also includes the effect of related interest rate swaps). As of December 31, 2018, after giving effect to cross-currency swaps, approximately 41.2% of our total consolidated indebtedness was denominated and payable in Mexican pesos, 16.2% in U.S. dollars, 1.1% in Colombian pesos, 0.1% in Argentine pesos, 18.5% in Brazilian reais, 3.2% in Chilean pesos, 1.1% Uruguayan pesos and the remaining 18.6% in Euros.

**Overview of Debt Instruments**

The following table shows the allocations of total debt of our company as of December 31, 2018:

	<b>Total Debt Profile of our Company</b>			
	<b>FEMSA and Others</b>	<b>Coca-Cola FEMSA</b>	<b>FEMSA Comercio</b>	<b>Total Debt</b>
	<b>(in millions of Mexican pesos)</b>			
<b>Short-term Debt</b>				
<i>Mexican pesos:</i>				
Notes Payable	Ps.	Ps.	Ps. 450	Ps. 450
Bank loans		157		157
<i>U.S. dollars:</i>				
Financial leases		10		10
<i>Colombian pesos:</i>				
Bank loans		454		454
<i>Chilean pesos:</i>				
Bank loans			594	594
<i>Argentine pesos:</i>				
Bank loans		157		157
<i>Uruguayan pesos:</i>				
Bank loans		771		771
<b>Long-term Debt<sup>(1)</sup></b>				
<i>Mexican pesos:</i>				
Bank loans		10,100	710	10,810
Domestic Senior notes		19,978		19,978
<i>Euros:</i>				
Senior unsecured notes	22,439			22,439
<i>U.S. dollars:</i>				
Senior notes	19,353	47,880		67,233
Financial leases	6			6
<i>Brazilian reais:</i>				
Bank loans	23	1,028		1,051
Note payable		5		5
<i>Colombian pesos:</i>				
Bank loans		848		848
<i>Chilean pesos:</i>				
Bank loans		3,211		3,211
Financial leases			74	74
<i>Uruguayan pesos:</i>				
Bank loans		573		573
<b>Total Debt</b>	<b>Ps. 45,031</b>	<b>Ps. 81,805</b>	<b>Ps. 1,828</b>	<b>Ps. 128,664</b>

**Average Cost <sup>(2)</sup>**

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	FEMSA and Others	Total Debt Profile of our Company Coca-Cola FEMSA (in millions of Mexican pesos)	FEMSA Comercio	Total Debt
Mexican pesos	7.0%	8.4%	9.5%	8.4%
U.S. dollars	7.0%	3.9%		5.9%
Euro	1.8%			1.8%
Brazilian reais	7.7%	5.6%		5.6%
Argentine pesos	0%	36.8%		36.8%
Colombian pesos	6.0%	8.9%		8.9%
Chilean pesos	5.8%		3.2%	5.8%
Uruguayan pesos		10.0%		10.0%
<b>Total</b>	<b>4.0%</b>	<b>8.2%</b>	<b>7.2%</b>	<b>6.8%</b>

(1) Includes the Ps.11,238 million current portion of long-term debt.

(2) Includes the effect of cross-currency and interest rate swaps. Average cost is determined based on interest rates as of December 31, 2018.

### Restrictions Imposed by Debt Instruments

Generally, the covenants contained in the credit agreements and other instruments governing indebtedness entered into by us or our sub-holding companies include limitations on the incurrence of any additional debt based on debt service coverage ratios or leverage tests. These credit agreements also generally include restrictive covenants applicable to our company, our sub-holding companies and their subsidiaries.

We and Coca-Cola FEMSA are in compliance with all of our covenants. 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.

### Summary of Debt

The following is a summary of our indebtedness as of December 31, 2018:

#### Coca-Cola FEMSA

Coca-Cola FEMSA's total indebtedness was Ps. 81,805 million as of December 31, 2018, as compared to Ps. 83,360 million as of December 31, 2017. Short-term debt and long-term debt were Ps. 11,593 million and Ps. 70,211 million, respectively, as of December 31, 2018, as compared to Ps. 12,171 million and Ps. 71,189 million, respectively, as of December 31, 2017. Total debt decreased Ps. 1,555 million in 2018, compared to year end 2017. As of December 31, 2018, Coca-Cola FEMSA's cash and cash equivalents were Ps. 22,430 million, as compared to Ps. 18,767 million as of December 31, 2017. Coca-Cola FEMSA had an extraordinary cash inflow of US\$ 715 million (Ps. 14,547 million as of December 31, 2018) in 2018 as a result of the exercise of the put option to sell the 51% stake in KOF Philippines. Additionally, Coca-Cola FEMSA had cash outflows in 2018, mainly resulting from dividend payments and the repayment of its 2.375% Notes due 2018. As of December 31, 2018, Coca-Cola FEMSA's cash and cash equivalents were comprised of 66.0% U.S. dollars, 15.0% Mexican pesos, 12.0% Brazilian reais, 2.0% Argentine pesos, 2.0% Colombian pesos, and 3.0% other legal currencies. As of March 31, 2019, Coca-Cola FEMSA's cash and cash equivalents balance was Ps.23,615 million, including US\$574 million denominated in U.S. dollars. Coca-Cola FEMSA believes that these funds, in addition to the cash generated by its operations, are sufficient to meet their own operating requirements.

Future currency devaluations or the imposition of exchange controls in any of the countries where Coca-Cola FEMSA has operations, could have an adverse effect on Coca-Cola FEMSA's financial position and liquidity.

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As part of Coca-Cola FEMSA's financing policy, Coca-Cola FEMSA expects to continue to finance its liquidity needs mainly with cash flows from its operating activities. Nonetheless, as a result of regulations in certain countries where Coca-Cola FEMSA operates, it may not be beneficial or practicable for Coca-Cola FEMSA 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, Coca-Cola FEMSA 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, Coca-Cola FEMSA may finance its working capital and capital expenditure needs with short-term or other borrowings.

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

**FEMSA Comercio**

As of December 31, 2018, the Proximity Division had total outstanding debt of Ps. 1,835 million. Short-term debt (including the current portion of long-term debt) and long-term debt were Ps. 1,044 million and Ps. 791 million, respectively. As of December 31, 2018, cash and cash equivalents were Ps. 7,590 million.

**FEMSA and other businesses**

As of December 31, 2018, FEMSA and other businesses had total outstanding debt of Ps. 45,025 million, which is composed of Ps. 3,233 million of bank debt in other legal currencies, Ps. 22,439 million of Senior Notes due 2023, Ps. 13,504 million of Senior Notes due 2043 and Ps. 5,849 million of Senior Unsecured Notes due 2023 that we issued in March 2016. **See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Liquidity.** FEMSA and other businesses average cost of debt, after giving effect to interest rate swaps and cross-currency swaps, as of December 31, 2018, was 8.4% in Mexican pesos.

**Contingencies**

We have various loss contingencies, for which reserves have been recorded in those cases where we believe an unfavorable resolution is probable and can be reasonably quantified. **See Item 8. Financial Information Legal Proceedings.** Any amounts required to be paid in connection with these loss contingencies would be required to be paid from available cash.

The following table presents the nature and amount of loss contingencies recorded as of December 31, 2018:

	<b>Loss Contingencies</b>	
	<b>As of December 31, 2018</b>	
	<b>(in millions of Mexican pesos)</b>	
Indirect taxes	Ps.	5,421
Legal	Ps.	1,906
Labor	Ps.	2,601
Total	Ps.	9,928

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

We have other contingencies that, based on a legal assessment of their risk of loss, have been classified by our legal counsel as more than remote but less than probable. These contingencies have a financial impact that is disclosed as loss contingencies in the notes of the audited consolidated financial statements. These contingencies, or our assessment of them, may change in the future, and we may record reserves or be required to pay amounts in respect of these contingencies. As of December 31, 2018, the aggregate amount of such contingencies for which we had not recorded a reserve was Ps. 57,446 million.





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### **Capital Expenditures**

For the past five years, we have had significant capital expenditure programs, which for the most part were financed with cash from operations. Capital expenditures reached Ps. 24,266 million in 2018, compared Ps. 23,486 million in 2017, an increase of 3.3%. The amount invested in 2018 was driven by additional investments at FEMSA Comercio, mainly related to the opening of new stores, drugstores and retail service stations. The principal components of our capital expenditures have been investments in placing coolers with retailers, returnable bottles and cases and distribution network expansion at Coca-Cola FEMSA and expansion of the Proximity Division, the Health Division and the Fuel Division, as mentioned above. See **Item 4. Information on the Company Capital Expenditures and Divestitures.**

### ***Expected Capital Expenditures for 2019***

Our capital expenditure budget for 2019 is expected to be US\$1,388 (Ps. 28,114) million. The following discussion is based on each of our sub-holding companies' internal budgets. The capital expenditure plan for 2019 is subject to change based on market and other conditions and the subsidiaries' results and financial resources.

Coca-Cola FEMSA has budgeted approximately US\$579 (Ps.11,725) million for its capital expenditures in 2019. Coca-Cola FEMSA's capital expenditures in 2019 are primarily intended for:

investments in production capacity;

market investments;

returnable bottles and cases;

improvements throughout our distribution network; and

investments in information technology.

Coca-Cola FEMSA estimates approximately 42% of its projected capital expenditures for 2019 will be for its Mexican territories and the remaining will be for its non-Mexican territories. Coca-Cola FEMSA believes that internally generated funds will be sufficient to meet its budgeted capital expenditure for 2019. Coca-Cola FEMSA's capital expenditure plan for 2019 may change based on market and other conditions, its results and financial resources.

The Proximity Division's capital expenditures budget in 2019 is expected to total US\$558 (Ps.11,300) million, and will be allocated to the opening of new OXXO stores and, to a lesser extent, the refurbishing of existing OXXO stores. In addition, investments are planned in FEMSA Comercio's IT, ERP software updates and transportation equipment.

The Health Division's capital expenditures budget in 2019 is expected to total US\$ 80 million (Ps. 1,620), and will be allocated to the opening of new drugstores and, to a lesser extent, the refurbishing of existing stores. In addition, investments are planned in warehouses, IT hardware and ERP software updates.

The Fuel Division's capital expenditures budget in 2019 is expected to total US\$ 48 million (Ps. 977), and will be allocated to the opening of new service stations, the change of our existing brand to a fresh image and, to a lesser extent, to the refurbishing of existing OXXO GAS service stations.

Our capital expenditures budget in 2019 for Other Businesses is expected to total US\$123 million (Ps.2,492), and will be allocated to our ancillary logistical and refrigeration businesses.

### **Hedging Activities**

Our business activities require the holding or issuing of 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.**

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The following table provides a summary of the fair value of derivative financial instruments as of December 31, 2018. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models we believe are supported by sufficient, reliable and verifiable market data, recognized in the financial sector.

	Fair Value at December 31, 2018				Fair Value Asset
	Maturity less than 1 year	Maturity 1-3 years	Maturity 3-5 years	Maturity in excess of 5 years	
	(in millions of Mexican pesos)				
Derivative financial instruments net position	Ps.92	Ps.1,207	Ps.8,491	Ps.5	Ps.9,795

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****Directors**

Management of our business is vested in the board of directors and in our chief executive officer. Our bylaws provide that the board of directors will consist of no more than 21 directors and their corresponding alternate directors elected by our shareholders at the AGM. Directors are elected for a term of one year. Alternate directors are authorized to serve on the board of directors in place of their specific directors who are unable to attend meetings and may participate in the activities of the board of directors. Our bylaws provide that the holders of the Series B Shares elect at least 11 directors and that the holders of the Series D Shares elect five directors. See Item 10. Additional Information Bylaws.

In accordance with our bylaws and article 24 of the Mexican Securities Law, at least 25% of the members of our board of directors must be independent (as defined by the Mexican Securities Law).

The board of directors may appoint interim directors in the event that a director is absent or an elected director and corresponding alternate are unable to serve. Such interim directors shall serve until the next AGM, at which the shareholders shall ratify or elect a replacement.

Our bylaws provide that the board of directors shall meet at least once every three months. Actions by the board of directors must be approved by at least a majority of the directors present and voting. The chairman of the board of directors, the chairman of our audit or corporate practices committee or at least 25% of our directors may call a board of directors meeting and include matters in the meeting agenda.

Our board of directors was elected at the AGM held on March 22, 2019, and currently comprises 20 directors and nine alternate directors. The following table sets forth the current members of our board of directors:

**Series B Directors**

José Antonio	Born:	1954
Fernández	First elected (Chairman):	2001
Carbajal <sup>(1)(2)</sup>	First elected (Director):	1984
	Term expires:	2020
<i>Executive Chairman of the Board</i>	Principal occupation:	Executive Chairman of the board of directors of FEMSA

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Other directorships:	Chairman of the board of directors of Coca-Cola FEMSA, Fundación FEMSA A.C. ( Fundación FEMSA ) and Instituto Tecnológico y de Estudios Superiores de Monterrey ( ITESM ); Chairman Emeritus of the US Mexico Foundation; member of the Heineken Holding Board, and vice-chairman of the Heineken Supervisory Board; chairman of the Americas Committee and member of the Preparatory Committee and Selection Appointment Committee of Heineken, N.V.; member of the board of directors of Industrias Peñoles, S.A.B. de C.V. ( Peñoles ); co-chairman of the advisory board of the Woodrow Wilson Center, Mexico Chapter; and member of the board of trustees of the Massachusetts Institute of Technology Corporation
Business experience:	Joined FEMSA s strategic planning department 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. On January 1, 2014, he was appointed Executive Chairman of our board of directors
Education:	Holds a degree in Industrial Engineering and a Master in Business Administration ( MBA ) from ITESM
Alternate director:	Federico Reyes García

Javier Gerardo Astaburuaga Sanjines	Born:	1959
	First elected:	2006
	Term expires:	2020
	Principal occupation:	Vice-President of Corporate Development of FEMSA
	Other directorships:	Alternate member of the board of directors of Coca-Cola FEMSA and member of the Heineken Supervisory Board. Member of the audit committee of Heineken N.V., finance and investment committee of ITESM and of the investment committee of Grupo Acosta Verde
	Business experience:	Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance, held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer, and for two years was FEMSA Cerveza s Director of Sales for the north region of Mexico until 2003, in which year he was appointed FEMSA Cerveza s Co-Chief Executive Officer; held the position of Chief Financial and Corporate Officer of FEMSA from 2006 to 2015

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	Education:	Holds an accounting degree from ITESM and is licensed as a certified public accountant
Barbara Garza	Born:	1959
Lagüera Gonda <sup>(3)</sup>	First elected:	1998
	Term expires:	2020
	Principal occupation:	Private investor and president of the acquisitions committee of Coleccion FEMSA
	Other directorships:	Member of the board of directors of ITESM Campus Mexico City, Solfi, Promecap Acquisition Company S.A.B. de C.V., 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. and BECL, S.A. de C.V. Member of the board of trustees of Fondo para la Paz, The International Council of the Museum of Modern Art, the Museum of Contemporary Art and Franz Mayer Museum
	Education:	Holds a business administration degree from ITESM
	Alternate director:	Mariana Garza Lagüera Gonda <sup>(3)</sup>
Eva María Garza	Born:	1958
	First elected:	1999
Lagüera Gonda <sup>(1)(3)</sup>	Term expires:	2020
	Principal occupation:	Private investor
	Other directorships:	Member of the board of directors of ITESM, Patronato Premio Eugenio Garza Sada, 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. and Controladora Pentafem, S.A.P.I. de C.V.
	Education:	Holds a communications degree from ITESM
	Alternate director:	Othón Páez Garza
José Fernando	Born:	1954
Calderón Rojas <sup>(4)</sup>	First elected:	1984
	Term expires:	2020
	Principal occupation:	Chief Executive Officer and chairman of the board of directors of, Servicios Administrativos de Monterrey, S.A. de C.V., Franca Servicios, S.A. de C.V., Regio Franca, S.A. de C.V. and Franca Industrias, S.A. de C.V.

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Alfonso Garza Garza <sup>(5)(6)</sup>	Other directorships:	Member of the board of directors of Alfa, S.A.B. de C.V. ( Alfa ); member of the regional consulting board of BBVA Bancomer, S.A., ( BBVA ) and member of the audit and corporate practices committee of Alfa; member of Fundación UANL, A.C. and founder of Centro Integral Down A.C.; President of Patronato del Museo del Obispado A.C. and member of the external advisory board of Facultad de Derecho y Criminología of the Universidad Autónoma de Nuevo León ( UANL )
	Education:	Holds a law degree from UANL, completed specialization studies in tax at UANL and various courses in business administration by ITESM
	Alternate director:	Francisco José Calderón Rojas <sup>(4)</sup>
	Born:	1962
	First elected:	2001
	Term expires:	2020
	Principal occupation:	Vice President of Strategic Businesses of FEMSA
	Other directorships:	Member of the board of directors of ITESM, Grupo Nutec, S.A. de C.V. and American School Foundation of Monterrey, A.C.; President of Fondo de Agua Metropolitano de Monterrey, A.C. and vice-chairman of the executive commission of Confederación Patronal de la República Mexicana, S.P. ( COPARMEX Nacional )
	Business experience:	Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Cerveza and as Chief Executive Officer of FEMSA Empaques
	Education:	Holds an industrial engineering degree from ITESM and an MBA from Instituto Panamericano de Alta Dirección de Empresa ( IPADE )
Maximino José Michel González <sup>(7)</sup>	Alternate director:	Juan Carlos Garza Garza <sup>(5)(6)</sup>
	Born:	1968
	First elected:	1996
	Term expires:	2020
	Principal occupation:	Chief Executive Officer of 3H Capital Servicios Corporativos, S.A. de C.V.

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Alberto Bailleres González <sup>(8)</sup>	Other directorships:	Member of the board of directors and audit committee of Grupo Lamosa, S.A.B. de C.V. ( Lamosa ); member of the board of directors of El Puerto de Liverpool, S.A.B. de C.V. ( Liverpool ), Afianzadora Sofimex, S.A.B. de C.V. Grupo Nacional Provincial, S.A.B and Seguros Ve por Más, S.A., Grupo Financiero Ve por Más; member of the board of directors and of the audit committee of SPAC PROMECAP
	Education:	Holds a business administration degree from Universidad Iberoamericana ( IBERO )
	Alternate director:	Bertha Paula Michel González <sup>(7)(8)</sup>
	Born:	1931
	First elected:	1989
Francisco Javier Fernández Carbajal <sup>(2)</sup>	Term expires:	2020
	Principal occupation:	Chairman of the boards of directors of the following companies which are part of Grupo BAL: Peñoles, Grupo Nacional Provincial, S.A.B. ( GNP ), Fresnillo Plc, Grupo Palacio de Hierro, S.A.B. de C.V., Grupo Profuturo, S.A.B. de C.V. and subsidiaries, Controladora Petrolal, S.A. de C.V., Energía Bal, S.A. de C.V., Energía Eléctrica Bal, S.A. de C.V., and Tane, S.A. de C.V.; chairman of the governance board of Instituto Tecnológico Autónomo de México ( ITAM ) and founding member of Fundación Alberto Bailleres, A.C.
	Other directorships:	Member of the board of directors of Grupo Financiero BBVA Bancomer, S.A. de C.V. ( Grupo Financiero BBVA Bancomer ), BBVA, Dine, S.A.B. de C.V., Grupo Televisa, S.A.B. ( Televisa ) and Grupo Kuo, S.A.B. de C.V. ( Kuo ); member of the Consejo Mexicano de Negocios
	Education:	Holds an economics degree and an Honorary Doctorate from ITAM
	Alternate director:	Alejandro Bailleres Gual <sup>(8)</sup>
Ricardo Guajardo Touché	Born:	1955
	First elected:	2004
	Term expires:	2020
	Principal occupation:	Chief Executive Officer of Servicios Administrativos Contry, S.A. de C.V.
	Other directorships:	Member of the boards of directors of Visa, Inc., Alfa, Cemex, S.A.B. de C.V. ( Cemex ) and Corporación EG, S.A. de C.V.; alternate member of the board of directors of Peñoles
<i>Independent Director</i>	Education:	Holds a mechanical and electrical engineering degree from ITESM and an MBA from Harvard University Business School
	Born:	1948
	First elected:	1988



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	Term expires:	2020
	Principal occupation:	Chairman of the board of directors of Solfi, S.A. de C.V.
	Other directorships:	Member of the board of directors of Coca-Cola FEMSA, Liverpool, Alfa, Grupo Financiero BBVA Bancomer, BBVA, Grupo Aeroportuario del Sureste, S.A. de C.V., Grupo Bimbo, S.A.B. de C.V. ( Bimbo ), Grupo Coppel, S.A. de C.V. ( Coppel ), ITESM and Vitro, S.A.B. de C.V.
	Education:	Holds an electrical engineering degree from ITESM and the University of Wisconsin and a master's degree from the University of California at Berkeley
Alfonso González Migoya	Born:	1945
	First elected:	2006
	Term expires:	2020
<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 at Acumen Empresarial, S.A. de C.V.
	Other directorships:	Member of the board of directors of Coca-Cola FEMSA, Nemark, S.A.B. de C.V. ( Nemark ), Bolsa Mexicana de Valores, S.A.B. de C.V., Regional, S.A.B. de C.V., Grupo Cuprum, S.A. de C.V., Berel, S.A. de C.V., Servicios Corporativos JAVER, S.A.B. de C.V., and Invercap Holdings S.A.P.I de C.V..
	Education:	Holds a mechanical engineering degree from ITESM and an MBA from the Stanford University Graduate School of Business
Paulina Garza Lagüera	Born:	1972
	First elected:	2009
Gonda <sup>(3)</sup>	Term expires:	2020
	Principal occupation:	Private Investor
	Other directorships:	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.
	Education:	Holds a business administration degree from ITESM
Ricardo Ernesto Saldivar Escajadillo	Born:	1952
	First elected:	2006
	Term expires:	2020
<i>Independent Director</i>	Principal Occupation:	Private Investor
	Other directorships:	Member of the board of directors of Axtel, S.A.B. de C.V. ( Axtel ), ITESM, Universidad TecMilenio and Grupo AlEn.

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	Education:	Holds a mechanical and industrial engineering degree from ITESM, a Master's degrees in systems engineering from Georgia Tech Institute and in executive studies from IPADE
Alfonso de Angoitia Noriega	Born:	1962
	First elected:	2015
	Term expires:	2020
<i>Independent Director</i>	Principal Occupation:	Co-Chief Executive Officer of Televisa
	Other directorships:	Member of the board of directors of Univision Communications, Inc., Banco Mercantil del Norte, S.A., Empresas Cablevisión, S.A. de C.V., Innova, S. de R.L. de C.V., and Liberty Latin America.
	Education:	Holds a law degree from the Universidad Nacional Autónoma de México ( UNAM )
Miguel Eduardo Padilla Silva	Born:	1955
	First elected:	2014
	Term expires:	2020
	Principal Occupation:	Chief Executive Officer of FEMSA
	Other directorships:	Member of the board of directors of Coca-Cola FEMSA, Grupo Lamosa, S.A.B. de C.V., Club Industrial, A.C., Universidad Tec Milenio and Coppel
	Business experience:	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 held the position of Chief Executive Officer of FEMSA Comercio from 2004 to 2016 and prior to his current position, he held the position of Chief Financial and Corporate Officer of FEMSA from 2016 to 2018
	Education:	Holds a mechanical engineering degree from ITESM, an MBA from Cornell University and executive management studies at IPADE
<i>Series D Directors</i>		
Armando Garza Sada	Born:	1957
	First elected:	2003
	Term expires:	2020
<i>Independent Director</i>	Principal occupation:	Chairman of the board of directors of Alfa, Alpek, S.A.B. de C.V. and Nemak
	Other directorships:	Member of the boards of directors of Axtel, Liverpool, Lamosa, Cemex, BBVA, Grupo PROEZA, S.A.P.I. de C.V. and ITESM
	Business experience:	He has a long professional career in Alfa, including as Executive Vice President of Corporate Development

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	Education:	Holds a BS in management from the Massachusetts Institute of Technology and an MBA from Stanford University Graduate School of Business
	Alternate director:	Enrique F. Senior Hernández ( <i>Independent Director</i> )
<b>Series D Directors</b>		
Moisés Naim	Born:	1952
	First elected:	2011
<i>Independent Director</i>	Term expires:	2020
	Principal occupation:	Distinguished Fellow Carnegie Endowment for International Peace; producer and host of Efecto Naim; author and journalist
	Other directorships:	Member of the board of directors of AES Corporation
	Business experience:	Former Editor in Chief of Foreign Policy Magazine
	Education:	Holds a degree from the Universidad Metropolitana de Caracas, Venezuela, a Master of Science and PhD from the Massachusetts Institute of Technology
	Alternate director:	Francisco Zambrano Rodríguez ( <i>Independent Director</i> )
Michael Larson	Born:	1959
	First elected:	2011
<i>Independent Director</i>	Term expires:	2020
	Principal occupation:	Chief Investment Officer of William H. Gates III
	Other directorships:	Member of the board of directors of Republic Services, Inc. and Ecolab, Inc., chairman of the board of trustees of two funds within the Western Asset / Management fund complex
	Education:	Holds an MBA from the University of Chicago and a BA from Claremont McKenna College
Robert Edwin Denham	Born:	1945
	First elected:	2001
<i>Independent Director</i>	Term expires:	2020
	Principal occupation:	Partner at Munger, Tolles & Olson LLP
	Other directorships:	Member of the board of directors of New York Times Co. and Oaktree Capital Group, LLC
	Education:	Magna cum laude graduate from the University of Texas, holds a JD from Harvard Law School and an MA in Government from Harvard University
Víctor Alberto Tiburcio Celorio	Born:	1951
	First elected:	2018
	Term expires:	2020
<i>Independent Director</i>	Principal occupation:	Independent consultant

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Other directorships:	Member of the board of directors and member of the audit committee of Coca-Cola FEMSA, Grupo Palacio de Hierro S.A.B. de CV., Grupo Financiero Scotiabank Inverlat, Profuturo Afore, S.A. de C.V., Grupo Nacional Providencial S.A.B., Frenesillo, Plc; and member of the governance board of ITAM.
Education	Holds a public accountant degree IBERO and an MBA from ITAM

- (1) José Antonio Fernández Carbajal and Eva María Garza Lagüera Gonda are spouses.
- (2) José Antonio Fernández Carbajal and Francisco Javier Fernández Carbajal are siblings.
- (3) Mariana Garza Lagüera Gonda, Eva María Garza Lagüera Gonda, Paulina Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda are siblings.
- (4) Francisco José Calderón Rojas and José Fernando Calderón Rojas are siblings.
- (5) Alfonso Garza Garza and Juan Carlos Garza Garza are siblings.
- (6) Juan Carlos Garza Garza and Alfonso Garza Garza are cousins of Eva María Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Paulina Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda.
- (7) Bertha Michel González and Max Michel González are siblings.
- (8) Alberto Bailleres González is the father of Alejandro Bailleres Gual.

## Senior Management

The names and positions of the members of our current senior management and that of our principal sub-holding companies, their dates of birth and information on their principal business activities both within and outside of FEMSA are as follows:

### FEMSA

José Antonio Fernández Carbajal  <i>Executive Chairman of the Board</i>	Born:	1954
	Joined FEMSA:	1987
	Appointed to current position:	2001
	Principal occupation:	Executive Chairman of the board of directors of FEMSA
	Directorships:	Chairman of the board of directors of FEMSA, Coca-Cola FEMSA, Fundación FEMSA and ITESM; Chairman Emeritus of the US Mexico Foundation; member of the Heineken Holding Board, and vice-chairman of the Heineken Supervisory Board; chairman of the Americas Committee and member of the Preparatory Committee and Selection Appointment Committee of Heineken, N.V.; member of the board of directors of Peñoles; co-chairman of the advisory board of the Woodrow Wilson Center, Mexico Chapter; and member of the board of trustees of the Massachusetts Institute of Technology Corporation
	Business experience:	Joined FEMSA's strategic planning department 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. On January 1, 2014, he was appointed Executive Chairman of our board of directors
	Education:	Holds an industrial engineering degree and an MBA from ITESM

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Miguel Eduardo Padilla Silva  <i>Chief Executive Officer</i>	Born:	1955
	Joined FEMSA:	1997
	Appointed to current position:	2018
	Business experience within FEMSA:	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 held the position of Chief Executive Officer of FEMSA Comercio from 2004 to 2016 and prior to his current position, he held the position of Chief Financial and Corporate Officer of FEMSA from 2016 to 2018.
	Other business experience:	Had a 20-year career in Alfa, culminating with a ten-year tenure as Chief Executive Officer of Terza, S.A. de C.V.; his major areas of expertise include operational control, strategic planning and financial restructuring
	Directorships:	Member of the board of directors of FEMSA, Coca-Cola FEMSA, Lamosa, Club Industrial, A.C., Universidad Tec Milenio and Coppel
	Education:	Holds a mechanical engineering degree from ITESM, an MBA from Cornell University and executive management studies at IPADE
Javier Gerardo Astaburuaga Sanjines  <i>Vice President of Corporate Development</i>	Born:	1959
	Joined FEMSA:	1982
	Appointed to current position:	2015
	Business experience:	Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance; held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer, and for two years was FEMSA Cerveza's Director of Sales for the north region of México, until 2003, when he was appointed FEMSA Cerveza's Co-Chief Executive Officer; held the position of Chief Financial and Corporate Officer of FEMSA from 2006 to 2015
	Directorships:	Member of the board of directors of FEMSA, and the Heineken Supervisory Board. Alternate member of the board of directors of Coca-Cola FEMSA; member of the audit committee of Heineken N.V., finances and investments committee of ITESM and of the investments committee of Grupo Acosta Verde
	Education:	Holds an accounting degree from ITESM and is licensed as a certified public accountant
Alfonso Garza Garza  <i>Vice President of Strategic Businesses</i>	Born:	1962
	Joined FEMSA:	1985
	Appointed to current position:	2009

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	Directorships:	Member of the board of directors of FEMSA, ITESM, Grupo Nutec, S.A. de C.V. and American School Foundation of Monterrey, A.C.; President of Fondo de Agua Metropolitano de Monterrey, A.C. and vice-chairman of the executive commission of COPARMEX Nacional
	Business experience:	Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Cerveza and as Chief Executive Officer of FEMSA Empaques
	Education:	Holds an industrial engineering degree from ITESM and an MBA from IPADE
José González Ornelas	Born:	1951
	Joined FEMSA:	1973
<i>Vice President of Administration and Corporate Control</i>	Appointed to current position:	2001
	Business experience:	Has held several managerial positions in FEMSA, including Chief Financial Officer of FEMSA Cerveza, Director of Planning and Corporate Development of FEMSA and Chief Executive Officer of FEMSA Logística, S.A. de C.V.
	Directorships:	Member of the board of directors of Productora de Papel, S.A.
	Education:	Holds an accounting degree from UANL and has post graduate studies in business administration from IPADE
Gerardo Estrada Attolini	Born:	1957
	Joined FEMSA:	2000
<i>Director of Corporate Finance</i>	Appointed to current position:	2006
	Business experience:	Held the position of Chief Financial Officer of FEMSA Cerveza from 2001 to 2006 and was Director of Corporate Finance of Grupo Financiero Bancomer from 1995 to 2000
	Education:	Holds a degree in accounting and an MBA from ITESM
Carlos Eduardo Aldrete	Born:	1956
	Joined FEMSA:	1979
Ancira	Appointed to current position:	1996
<i>General Counsel and Secretary of the Board of Directors</i>	Directorships:	Secretary of the board of directors of FEMSA, Coca-Cola FEMSA and all other sub-holding companies of FEMSA
	Business experience:	Extensive experience in international business and financial transactions, debt issuances and corporate restructurings and expertise in securities and private mergers and acquisitions
	Education:	Holds a law degree from UANL and a master's degree in Corporate Law from the College of Law of the University of Illinois

**Table of Contents****Coca-Cola FEMSA**

John Anthony Santa Maria Otazua  <i>Chief Executive Officer of Coca-Cola FEMSA</i>	Born:	1957
	Joined FEMSA:	1995
	Appointed to current position:	2014
	Business experience within FEMSA:	Has served as Strategic Planning and Business Development Officer and Chief Operating Officer of the Mexican operations of Coca-Cola FEMSA. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of South America division of Coca-Cola FEMSA. He also has experience in several areas of Coca-Cola FEMSA, 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
	Directorships:	Member of the board of directors of Coca-Cola FEMSA, Gentera and member of the board of directors and commercial committee of Banco Compartamos, S.A., Institución de Banca Múltiple
	Education:	Holds a degree in Business Administration and an MBA with a major in Finance from Southern Methodist University

**FEMSA Comercio**

Daniel Alberto Rodríguez Cofré  <i>Chief Executive Officer of FEMSA Comercio</i>	Born:	1965
	Joined FEMSA:	2015
	Appointed to current position:	2016
	Business experience:	Has broad experience in international finance in Latin America, Europe and Africa, held several financial roles at Shell International Group in Latin America and Europe. In 2008, he was appointed as Chief Financial Officer of Centros Comerciales Sudamericanos S.A., and from 2009 to 2014, he held the position of Chief Executive Officer at the same company. From 2015 to 2016, he was Chief Financial and Corporate Officer of FEMSA during 2015
	Directorships:	Alternate member of the board of directors of Coca-Cola FEMSA and FEMSA
	Education:	Holds a forest engineering degree from Austral University of Chile and an MBA from Adolfo Ibañez University

**Compensation of Directors and Senior Management**

The compensation of Directors is approved at the AGM. For the year ended December 31, 2018, the aggregate compensation paid to our directors by FEMSA was approximately Ps. 56 million. In addition, in the year ended December 31, 2018, Coca-Cola FEMSA paid approximately Ps. 30 million in aggregate compensation to the Directors and executive officers of FEMSA who also serve as directors on the board of Coca-Cola FEMSA.

For the year ended December 31, 2018, the aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries was approximately Ps. 2,286 million. Aggregate compensation includes bonuses we paid to certain members of senior management and payments in connection with the EVA stock incentive plan described in note 17 to our audited consolidated financial statements. Our senior management and

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executive officers participate in our benefit plan and post-retirement medical services plan on the same basis as our other employees. Members of our board of directors do not participate in our benefit plan and post-retirement medical services plan, unless they are retired employees of our company. As of December 31, 2018, amounts set aside or accrued for all employees under these retirement plans were Ps. 7,379 million, of which Ps. 2,680 million is already funded.

### **EVA Stock Incentive Plan**

In 2004, we, along with our subsidiaries, commenced a new stock incentive plan for the benefit of our senior executives, which we refer to as the EVA stock incentive plan. This plan uses as its main evaluation metric the Economic Value Added (EVA) framework developed by Stern Stewart & Co., a compensation consulting firm. Under the EVA stock incentive plan, eligible employees are entitled to receive a special cash bonus, which will be used to purchase shares of FEMSA (in the case of employees of FEMSA) or of both FEMSA and Coca-Cola FEMSA (in the case of employees of Coca-Cola FEMSA). Under the plan, it is also possible to provide stock options of FEMSA or Coca-Cola FEMSA to employees; however, since the plan's inception, only shares have been granted.

Under this plan, each year, our Chief Executive Officer together with the Corporate Governance Committee of our board of directors, together with the chief executive officer of the respective sub-holding company, determines the employees eligible to participate in the plan. A bonus formula is then created for each eligible employee, using the EVA framework, which determines the number of shares to be received by such employee. The terms and conditions of the share-based payment arrangement are then agreed upon with the eligible employee, such that the employee can begin to accrue shares under the plan. Until 2015, the shares vested ratably over a six-year period; from January 1, 2016, they will ratably vest over a four-year period, with retrospective effects. We account for the EVA stock incentive plan as an equity-settled share-based payment transaction, as we will ultimately settle our obligations with our employees by issuing our own shares or those of our subsidiary, Coca-Cola FEMSA.

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. The formula considers the employee's level of responsibility within the organization, the employee's evaluation and competitive compensation in the market. The bonus is granted to the eligible employee on an annual basis after withholding applicable taxes.

The shares are administered by a trust for the benefit of the eligible executives (the Administrative Trust). We created the Administrative Trust with the objective of administering the purchase of FEMSA and Coca-Cola FEMSA shares, so that the shares can then be assigned to the eligible executives participating in the EVA stock incentive plan. The Administrative Trust's objectives are to acquire shares of FEMSA or of Coca-Cola FEMSA and to manage the shares granted to the individual employees based on instructions set forth by the Technical Committee of the Administrative Trust. Once the shares are acquired following the Technical Committee's instructions, the Administrative Trust assigns to each participant their respective rights. As the trust is controlled and therefore consolidated by FEMSA, shares purchased in the market and held within the Administrative Trust are presented as treasury stock (as it relates to FEMSA's shares) or as a reduction of the non-controlling interest (as it relates to Coca-Cola FEMSA's shares). Should an employee leave prior to their shares vesting, they would lose the rights to such shares, which would then remain within the Administrative Trust and be able to be reallocated to other eligible employees as determined by us. 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.

All shares held in the Administrative Trust are considered outstanding for diluted earnings per share purposes, and dividends on shares held by the trusts are charged to retained earnings.

As of April 10, 2019, the trust that manages the EVA stock incentive plan held a total of 2,516,085 BD Units of FEMSA and 831,758 Series L Shares of Coca-Cola FEMSA, each representing 0.07% and 0.04% of the total number of shares outstanding of FEMSA and of Coca-Cola FEMSA, respectively.



**Table of Contents****Insurance Policies**

We maintain life insurance policies for all of our employees. These policies mitigate the risk of having to pay benefits in the event of an industrial accident, natural or accidental death within or outside working hours and total and permanent disability. We maintain a directors' and officers' insurance policy covering all directors and certain key executive officers for liabilities incurred in their capacities as directors and officers.

**Ownership by Management**

Several of our directors are participants of a voting trust. Each of the trust participants of the voting trust is deemed to have beneficial ownership with shared voting power over the shares deposited in the voting trust. As of March 22, 2019, 6,922,134,985 Series B Shares representing 74.86% of the outstanding Series B Shares were deposited in the voting trust. See **Item 7. Major Shareholders and Related Party Transactions**.

The following table shows the Series B Shares, Series D-B Shares and Series D-L Shares as of March 22, 2019 beneficially owned by our directors and alternate directors who are participants in the voting trust, other than shares deposited in the voting trust:

Beneficial Owner	Series B		Series D-B		Series D-L	
	Shares	Percent of Class	Shares	Percent of Class	Shares	Percent of Class
Eva María Garza Lagüera Gonda	2,770,230	0.03%	5,470,960	0.13%	5,470,960	0.13%
Mariana Garza Lagüera Gonda	2,835,357	0.03%	5,670,714	0.13%	5,670,714	0.13%
Bárbara Garza Lagüera Gonda	2,665,480	0.03%	5,330,960	0.12%	5,330,960	0.12%
Paulina Garza Lagüera Gonda	2,665,480	0.03%	5,330,960	0.12%	5,330,960	0.12%
Alberto Bailleres González	9,610,577	0.10%	11,934,874	0.28%	11,934,874	0.28%
Alfonso Garza Garza	913,828	0.01%	1,771,756	0.04%	1,771,756	0.04%
Juan Carlos Garza Garza	18,950	0.00%		0.00%		0.00%
Maximino Michel González	5,629,340	0.06%	11,258,680	0.26%	11,258,680	0.26%
Francisco José Calderón Rojas and José Fernando Calderón Rojas <sup>(1)</sup>	8,317,629	0.09%	16,558,258	0.38%	16,558,258	0.38%

(1) Shares beneficially owned through various family-controlled entities.

To our knowledge, no other director or officer is the beneficial owner of more than 1% of any class of our capital stock.

**Board Practices**

Our bylaws state that the board of directors will meet at least once every three months following the end of each quarter to discuss our operating results and the advancement in the achievement of strategic objectives. 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 even after the term for which they were appointed ends for up to 30 calendar days, as set forth in article 24 of Mexican Securities Law. None of our directors or senior managers of our subsidiaries has service contracts providing for benefits upon termination of employment, other than post-retirement medical services plans and post-retirement pension plans for our senior managers on the same basis as our other employees.

Our board of directors is supported by committees, which are working groups that analyze issues and provide recommendations to the board of directors regarding their respective areas of focus. The executive officers interact periodically with these committees to address management issues. Each committee has a secretary who attends meetings but is not a member of the committee. The following are the three committees of the board of directors, the members of which were elected at our AGM on March 22, 2019:

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*Audit Committee.* The Audit Committee is responsible for (1) reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements, (2) the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee and (3) identifying and following-up on contingencies and legal

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proceedings. 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. Pursuant to the Mexican Securities Law, the chairman of the audit committee is elected by the shareholders at the AGM. The chairman of the Audit Committee submits a quarterly and an annual report to the board of directors of the Audit Committee's activities performed during the corresponding fiscal year, and the annual report is submitted at the AGM for approval. To carry out its duties, the Audit Committee may hire independent counsel and other advisors. As necessary, our company compensates the independent auditor and any outside advisor hired by the Audit Committee and provides funding for ordinary administrative expenses incurred by the Audit Committee in the course of its duties. The current Audit Committee members are: Víctor Alberto Tiburcio Celorio (chairman and financial expert), Alfonso González Migoya and Francisco Zambrano Rodríguez. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Law and applicable U.S. Securities Laws and applicable NYSE listing standards. The secretary (non-member) of the Audit Committee is José González Ornelas, FEMSA's Vice President of Administration and Corporate Control.

*Strategy and Finance Committee.* The Strategy and Finance Committee's responsibilities include (1) evaluating the investment and financing policies of our company; (2) evaluating the risk factors to which our company is exposed, as well as evaluating its management policies; (3) making recommendations on our dividend policy; (4) strategic analysis and assessment of our business units and strategic alternatives for their growth and (5) making recommendations to our board of directors on annual operation plans and strategic projects for our business units. The current Strategy and Finance Committee members are: Ricardo Guajardo Touché (chairman), Michael Larson, Federico Reyes García, Robert E. Denham, Francisco Javier Fernández Carbajal, Enrique F. Senior Hernández, José Antonio Fernández Carbajal, Ricardo Saldívar Escajadillo and Javier Gerardo Astaburuaga Sanjines. The secretary (non-member) of the Strategy and Finance Committee is Eugenio Garza y Garza.

*Corporate Practices Committee.* The Corporate Practices Committee 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 may deem appropriate, approve policies on the use of our company's assets or related-party transactions, approve the compensation of the Chief Executive Officer and relevant officers and support our board of directors in the elaboration of reports on accounting practices. Pursuant to the Mexican Securities Law, the chairman of the Corporate Practices Committee is elected by the shareholders at the AGM. The chairman of the Corporate Practices Committee submits a quarterly and an annual report to the board of directors of the Corporate Practices Committee's activities performed during the corresponding fiscal year, and the annual report is submitted at the AGM for approval. The members of the Corporate Practices Committee are: Ricardo Saldívar Escajadillo (chairman), Robert E. Denham, Moisés Naim and Ricardo Guajardo Touché. Each member of the Corporate Practices Committee is an independent director. The secretary (non-member) of the Corporate Practices Committee is Raymundo Yutani Vela.

## **Employees**

As of December 31, 2018, our headcount by geographic region was as follows: 224,164 in Mexico, 8,867 in Central America, 13,880 in Colombia, 4,735 in Venezuela, 27,965 in Brazil, 2,571 in Argentina, 1,242 in the United States, 18 in Ecuador, 388 in Peru, 952 in Uruguay and 12,291 in Chile. We include in the headcount employees of third-party distributors and non-management store employees. The table below sets forth headcount for the years ended December 31, 2018, 2017 and 2016:

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	Non-Union	2018 Union	Total	Non-Union	2017 Union	Total	Non-Union	2016 Union	Total
<b>Sub-holding company:</b>									
Coca-Cola FEMSA <sup>(1)</sup>	36,042	51,941	87,983	45,111	56,575	101,686	34,010	51,135	85,145
FEMSA Comercio									
Proximity Division <sup>(1)(2)</sup>	70,605	71,823	142,428	69,967	59,788	129,755	69,238	51,645	120,883
Fuel Division <sup>(1)</sup>	952	6,211	7,163	798	5,041	5,839	737	4,622	5,359
Health Division <sup>(1)</sup>	3,212	18,762	21,974	3,211	18,282	21,493	3,464	17,782	21,246
Other <sup>(1)</sup>	15,010	22,515	37,525	13,954	22,300	36,254	12,250	21,261	33,511
Total	125,821	171,252	297,073	133,041	161,986	295,027	119,699	146,445	266,144

(1) Includes employees of third-party distributors, whom we do not consider to be our employees, amounting to 12,870, 15,917 and 8,745 in 2018, 2017 and 2016.

(2) Includes non-management store employees, whom we do not consider to be our employees, amounting to 54,332, 57,321 and 58,116 in 2018, 2017 and 2016. As of December 31, 2018, our subsidiaries had entered 625 collective bargaining or similar agreements with 225 labor unions. In general, we have a good relationship with the labor unions throughout our operations, but we also operate in complex labor environments, such as Nicaragua, Brazil and Argentina.

The table below sets forth the number of collective bargaining agreements and unions for our employees:

**Collective Bargaining Labor Agreements between****Sub-holding Companies and Unions****As of December 31, 2018**

Sub-holding Company	Collective Bargaining Agreements	Labor Unions
Coca-Cola FEMSA	191	105
FEMSA Comercio <sup>(1)</sup>	181	14
Others	253	106
Total	625	225

(1) Does not include non-management store employees, who are employed directly by each individual store.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Major Shareholders**

The following table identifies each owner of more than 5% of any class of our shares known to our company as of March 22, 2019. Except as described below, we are not aware of any holder of more than 5% of any class of our shares. Only the Series B Shares have full voting rights under our bylaws.

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### Ownership of Capital Stock as of March 22, 2019

Shareholder	Series B Shares <sup>(1)</sup>		Series D-B Shares <sup>(2)</sup>		Series D-L Shares <sup>(3)</sup>		Total Shares of FEMSA Capital Stock
	Shares Owned	Percent of Class	Shares Owned	Percent of Class	Shares Owned	Percent of Class	
Technical Committee and Trust Participants under the Voting Trust <sup>(4)</sup>	6,922,134,985	74.86%					38.69%
William H. Gates III <sup>(5)</sup>	278,873,490	3.02%	557,746,980	12.9%	557,746,980	12.9%	7.79%

(1) As of March 22, 2019, there were 2,161,177,770 Series B Shares outstanding.

(2) As of March 22, 2019, there were 4,322,355,540 Series D-B Shares outstanding.

(3) As of March 22, 2019, there were 4,322,355,540 Series D-L Shares outstanding.

(4) As a consequence of the voting trust's internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power over those same deposited shares: 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 María 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 María 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, María 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).

(5) Includes aggregate shares beneficially owned by Cascade Investments, LLC, over which William H. Gates III has sole voting and dispositive power. As of March 31, 2019, there were 40 holders of record of ADSs in the United States, which represented approximately 50.53% of our outstanding BD Units. Since a substantial number of ADSs are held in the name of nominees of the beneficial owners, including the nominee of The Depository Trust Company, the number of beneficial owners of ADSs is substantially greater than the number of record holders of these securities.

## Related-Party Transactions

### Voting Trust

The trust participants, who are our major shareholders, agreed on May 6, 1998 to deposit a majority of their shares, which we refer to as the trust assets, of FEMSA into the voting trust, and later entered into an amended agreement on August 8, 2005, following the substitution by Banco Invex, S.A. as trustee to the voting trust, which agreement was subsequently renewed on March 15, 2013. The primary purpose of the voting trust is to permit the trust assets to be voted as a block, in accordance with the instructions of the technical committee of the voting trust. The trust participants are separated into seven trust groups, and the technical committee comprises one representative appointed by each trust group. The number of B Units corresponding with each trust group (the proportional share of the shares deposited in the trust of such group) determines the number of votes that each trust representative has on the technical committee. Most matters are decided by a simple majority of the trust assets.

The trust participants agreed to certain transfer restrictions with respect to the trust assets. The trust is irrevocable, for a term that will conclude on January 17, 2020 (subject to additional five-year renewal terms), during



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which time trust assets may be transferred by trust participants to spouses and immediate family members and, subject to certain conditions, to companies that are 100% owned by trust participants, which we refer to as the permitted transferees, provided in all cases that the transferee agrees to be bound by the terms of the voting trust. In the event that a trust participant wishes to sell part of its trust assets to someone other than a permitted transferee, the other trust participants have a right of first refusal to purchase the trust assets that the trust participant wishes to sell. If none of the trust participants elects to acquire the trust assets from the selling trust participant, the technical committee will have a right to nominate (subject to the approval of technical committee members representing 75% of the trust assets, excluding trust assets that are the subject of the sale) a purchaser for such trust assets. In the event that none of the trust participants or a nominated purchaser elects to acquire trust assets, the selling trust participant will have the right to sell the trust assets to a third-party on the same terms and conditions that were offered to the trust participants. Acquirors of trust assets will only be permitted to become parties to the voting trust upon the affirmative vote by the technical committee of at least 75% of the trust shares, which must include trust shares represented by at least three trust group representatives. In the event that a trust participant holding a majority of the trust assets elects to sell its trust assets, the other trust participants have tag along rights that will enable them to sell their trust assets to the acquiror of the selling trust participant's trust assets.

Because of their ownership of a majority of the Series B Shares, the trust participants may be deemed to control our company. Other than as a result of their ownership of the Series B Shares, the trust participants do not have any voting rights that are different from those of other shareholders.

### **Interest of Management in Certain Transactions**

The following is a summary of: (i) the main transactions we have entered into with entities for which members of our board of directors or management serve as a member of the board of directors or management, (ii) the main transactions our subsidiaries have entered into with entities for which members of their board of directors or management serve as members of the board of directors or management, and (iii) the main transactions our subsidiaries have entered into with related entities. Each of these transactions was entered into in the ordinary course of business, and we believe each is on terms comparable to those that could be obtained in arm's length negotiations with unaffiliated third parties. Under our bylaws, transactions entered with related parties not in the ordinary course of business are subject to the approval of our board of directors, subject to the prior opinion of the corporate practices committee.

José Antonio Fernández Carbajal, our Executive Chairman of the Board, serves as a member of the Heineken Holding Board and the Heineken Supervisory Board. Javier Astaburuaga Sanjines, our Vice President of Corporate Development, also serves on the Heineken Supervisory Board. We made purchases of beer and raw materials in the ordinary course of business from the Heineken Group in the amount of Ps. 27,999 million in 2018, Ps. 24,942 million in 2017 and Ps. 16,436 million in 2016. We also supplied logistics and administrative services to subsidiaries of Heineken for a total of Ps. 3,265 million in 2018, Ps. 3,570 in 2017 and Ps. 3,153 million in 2016. As of the end of December 31, 2018, 2017 and 2016, our net balance due to Heineken amounted to Ps. 2,181, Ps. 1,730 and Ps. 1,836 million, respectively.

We, along with certain of our subsidiaries, regularly engage in financing and insurance coverage transactions, including entering into loans and bond offerings in the local capital markets, with subsidiaries of Grupo Financiero BBVA Bancomer, a financial services holding company of which Alberto Bailleres González and Ricardo Guajardo Touché who are also directors of FEMSA or Coca-Cola FEMSA, are directors. We made interest expense payments and fees paid to Grupo Financiero BBVA Bancomer in respect of these transactions of Ps. 220 million, Ps. 40 million and Ps. 26 million as of December 31, 2018, 2017 and 2016, respectively. The total amount due to Grupo Financiero BBVA Bancomer as of the end of December 31, 2018, 2017 and 2016 was Ps. 2,947 million, Ps. 352 million and Ps. 395 million, respectively, and we also had a receivable balance with Grupo Financiero BBVA Bancomer of Ps. 11,093, Ps. 1,496 million and Ps. 2,535 million, respectively, as of December 31, 2018, 2017 and 2016.

Until 2015, we maintained an insurance policy covering utility cars issued by GNP, an insurance company of which Alberto Bailleres González and Maximino Michel González, directors of FEMSA, Víctor Alberto Tiburcio Celorio, director of FEMSA and Coca-Cola FEMSA and Alejandro Bailleres Gual, alternate director of FEMSA, are directors. The aggregate amount of premiums paid under the policy was Ps. 12 million, Ps. 32 million and Ps. 63 million in 2018, 2017 and 2016, respectively.

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We, along with certain of our subsidiaries, spent Ps. 113 million, Ps. 107 million and Ps. 193 million in the ordinary course of business in 2018, 2017 and 2016, respectively, in publicity and advertisement purchased from Televisa, a media corporation in which our directors Alberto Bailleres González and Alfonso de Angoitia Noriega, our alternate director and director of Coca-Cola FEMSA, Enrique F. Senior Hernández and Herbert A. Allen III, director of Coca-Cola FEMSA, serve as directors.

FEMSA Comercio, in its ordinary course of business, purchased Ps. 5,763 million, Ps. 4,802 million and Ps. 4,184 million in 2018, 2017 and 2016, respectively, in baked goods and snacks for its stores from subsidiaries of Bimbo, of which Ricardo Guajardo Touché, one of FEMSA's directors, Daniel Servitje Montull, one of Coca-Cola FEMSA's directors, and Jaime A. El Koury, one of Coca-Cola FEMSA's alternate directors, are directors. FEMSA Comercio also purchased Ps. 1,656 million, Ps. 1,290 million and 871 million in 2018, 2017 and 2016, respectively, in juices from subsidiaries of Jugos del Valle.

José Antonio Fernández Carbajal, Eva Maria Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Ricardo Guajardo Touché, Alfonso Garza Garza, Alfonso González Migoya, Ricardo Saldívar Escajadillo and Armando Garza Sada, who are directors or alternate directors of FEMSA or Coca-Cola FEMSA, are also members of the board of directors of ITESM, also, Carlos Aldrete Ancira, Secretary of the Board of Directors of FEMSA and Coca-Cola FEMSA, is alternate secretary of the board of directors of ITESM, which is a prestigious university system with headquarters in Monterrey, Mexico that routinely receives donations from FEMSA and its subsidiaries. For the years ended December 31, 2018, 2017 and 2016 donations to ITESM amounted to Ps. 192 million, Ps. 108 million and Ps. 1 million, respectively.

José Antonio Fernández Carbajal, Alfonso Garza Garza, Federico Reyes Garcia, Javier Astaburuaga Sanjines, Miguel Eduardo Padilla Silva, José González Ornelas, John Anthony Santa Maria Otazua, Charles H. McTier, Carlos Aldrete Ancira and Daniel Alberto Rodríguez Cofré, who are directors, alternate directors or senior officers of FEMSA or Coca-Cola FEMSA, are also members of the board of directors of Fundación FEMSA, A.C., which is a social investment instrument for communities in Latin America. For the years ended December 31, 2018, 2017 and 2016, donations to Fundación FEMSA, A.C. amounted to Ps. 113 million, Ps. 23 million and Ps. 62 million, respectively.

### **Business Transactions between Coca-Cola FEMSA, FEMSA and The Coca-Cola Company**

Coca-Cola FEMSA regularly engages in transactions with TCCC and its affiliates. Coca-Cola FEMSA purchases all of its concentrate requirements for *Coca-Cola* trademark beverages from TCCC. Total expenses charged to Coca-Cola FEMSA by TCCC for concentrates were approximately Ps. 32,379 million, Ps. 30,758 million and Ps. 38,146 million in 2018, 2017 and 2016, respectively. Coca-Cola FEMSA and TCCC pay and reimburse each other for marketing expenditures. TCCC also contributes to Coca-Cola FEMSA's coolers, bottles and case investment program. Coca-Cola FEMSA received contributions to its marketing expenses of Ps. 3,542 million, Ps. 4,023 million and Ps. 4,518 million in 2018, 2017 and 2016, respectively.

In 2007 and 2008, Coca-Cola FEMSA sold most of its proprietary brands to TCCC. The proprietary brands are licensed back to Coca-Cola FEMSA by TCCC pursuant to its bottler agreements.

In Argentina, Coca-Cola FEMSA purchases 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 TCCC with operations in Argentina, Chile, Brazil and Paraguay in which TCCC has a substantial interest.

Coca-Cola FEMSA purchases products from Jugos del Valle, a Mexican joint business acquired together with TCCC, in the amount of Ps.2,872 million, Ps.2,604 million and Ps.2,428 million in 2018, 2017 and 2016, respectively, which is mainly related to certain juice-based beverages that are part of its product portfolio. Coca-Cola FEMSA purchases products from Leão Alimentos, a Brazilian business acquired together with TCCC, in the amount of Ps.2,654 million, Ps.4,010 million, and Ps.3,448 in 2018, 2017 and 2016, respectively, which is mainly related to certain juice-based beverages and teas that are part of its product portfolio. In 2013, Coca-Cola FEMSA acquired, through its subsidiary Controladora de Inversiones en Bebidas Refrescantes, S.L. (CIBR), a 51.0% stake in KOF Philippines from TCCC. In December 2018, CIBR completed the sale of its stake in KOF Philippines back to the TCCC through exercise of CIBR's option to sell.



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See note 14 to our audited consolidated financial statements for additional information about our related party transactions.

### **ITEM 8. FINANCIAL INFORMATION** **Consolidated Financial Statements**

See pages F-1 through F-187, incorporated herein by reference.

#### **Dividend Policy**

For a discussion of our dividend policy, See **Item 3. Key Information Dividends** and **Item 10. Additional Information**.

#### **Legal Proceedings**

We are party to various legal proceedings in the ordinary course of business. 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 on an aggregate basis will not have a material adverse effect on our consolidated financial condition or results.

#### **Coca-Cola FEMSA**

##### **Mexico**

**Antitrust Matters.** During 2000, the COFECE, motivated by complaints filed by PepsiCo and certain of its bottlers in Mexico, began an investigation of TCCC Export Corporation and the Mexican *Coca-Cola* bottlers for alleged monopolistic practices through exclusivity arrangements with certain retailers. Nine of Coca-Cola FEMSA's Mexican subsidiaries, including those acquired through its 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 Coca-Cola FEMSA's 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 Coca-Cola FEMSA filed on behalf of one of its subsidiaries after the merger with Grupo Fomento Queretano, which had received an adverse judgment. Coca-Cola FEMSA 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 Coca-Cola FEMSA's 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; such *amparo* claim was resolved in favor of the COFECE in 2018 confirming the original resolution and requiring the payment of the fine together with surcharges for an amount of Ps. 17 million. Coca-Cola FEMSA duly and timely paid this fine in full in October 2018.

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### **Brazil**

In July 2017, Heineken Brazil issued a notice of termination with respect to the agreement under which Coca-Cola FEMSA distributes and sells *Heineken* beer products in Coca-Cola FEMSA's Brazilian territories. Because the agreement is scheduled to expire in 2022, this dispute was submitted to an arbitration proceeding. Coca-Cola FEMSA continues 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 Coca-Cola FEMSA's operations in Brazil.

### **Significant Changes**

Except as disclosed under "Recent Developments" in Item 5, no significant changes have occurred since the date of the annual financial statements included in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **Description of Securities**

We have three series of capital stock, each with no par value:

Series B Shares ( "Series B Shares" );

Series D-B Shares ( "Series D-B Shares" ); and

Series D-L Shares ( "Series D-L Shares" ).

Series B Shares have full voting rights, and Series D-B and D-L Shares have limited voting rights. The shares of our company are not separable and may be transferred only in the following forms:

B Units, consisting of five Series B Shares; and

BD Units, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares.

At our AGM held on March 29, 2007, our shareholders approved a three-for-one stock split in respect all of our outstanding capital stock, which became effective in May 2007. Following the stock split, our total capital stock consists of 2,161,177,770 BD Units and 1,417,048,500 B Units. Our stock split also resulted in a three-for-one stock split of our ADSs. The stock-split was conducted on a pro-rata basis in respect of all holders of our shares and all ADS holders of record as of May 25, 2007, and the ratio of voting and non-voting shares was maintained, thereby preserving our ownership structure as it was prior to the stock-split.

On April 22, 2008, FEMSA shareholders approved a proposal to amend our bylaws in order to preserve the unit structure for our shares that has been in place since May 1998, and to maintain our existing share structure beyond May 11, 2008, absent further shareholder action.

Previously, our bylaws provided that on May 11, 2008, each Series D-B Share would automatically convert into one Series B Share with full voting rights, and each Series D-L Share would automatically convert into one Series L Share with limited voting rights. At that time:

the BD Units and the B Units would cease to exist and the underlying Series B Shares and Series L Shares would be separate; and

the Series B Shares and Series L Shares would be entitled to share equally in any dividend, and the dividend preferences of the Series D-B Shares and Series D-L Shares of 125% of any amount distributed in respect of each Series B Share existing prior to May 11, 2008, would be terminated.

However, following the April 22, 2008 shareholder approvals, these changes will no longer occur and instead our share and unit structure will remain unchanged, absent shareholder action, as follows:

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the BD Units and the B Units will continue to exist; and

the dividend preferences of the Series D-B Shares and Series D-L Shares of 125% of any amount distributed in respect of each Series B Share will continue to exist.

The following table sets forth information regarding our capital stock as of March 22, 2019:

Class	Number	Percentage of Capital	Percentage of Full Voting Rights
Series B Shares (no par value)	9,246,420,270	51.68%	100.00%
Series D-B Shares (no par value)	4,322,355,540	24.16%	0.00%
Series D-L Shares (no par value)	4,322,355,540	24.16%	0.00%
Total Shares	17,891,131,350	100.00%	100.00%
<b>Units</b>			
BD Units	2,161,177,770	60.40%	23.47%
B Units	1,417,048,500	39.60%	76.63%
Total Units	3,578,226,270	100.00%	100.00%

**Trading Markets**

Since May 11, 1998, ADSs representing BD Units have been listed on the NYSE, and the BD Units and the B Units have been listed on the Mexican Stock Exchange. Each ADS represents 10 BD Units deposited under the deposit agreement with the ADS depository. As of March 31, 2019, approximately 50.53% of BD Units traded in the form of ADSs.

The NYSE trading symbol for the ADSs is **FMX** and the Mexican Stock Exchange trading symbols are **FEMSA UBD** for the BD Units and **FEMSA UB** for the B Units.

Fluctuations in the exchange rate between the Mexican peso and the U.S. dollar have affected the U.S. dollar equivalent of the Mexican peso price of our shares on the Mexican Stock Exchange and, consequently, have also affected the market price of our ADSs.

**Trading on the Mexican Stock Exchange**

The Mexican Stock Exchange, located in Mexico City, is currently the only stock exchange in Mexico. Founded in 1907, it is organized as a *sociedad anónima bursátil de capital variable*. Trading on the Mexican Stock Exchange takes place principally through automated systems and is open between the hours of 9:30 a.m. and 4:00 p.m. Eastern Time, each business day. Trades in securities listed on the Mexican Stock Exchange can also be effected off the exchange. 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 BD Units that are directly or indirectly (for example, in the form of ADSs) quoted on a stock exchange (including for these purposes the NYSE) outside Mexico.

Settlement is effected three 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 *Comisión Nacional Bancaria y de Valores* ( **CNBV** ). Most securities traded on the Mexican Stock Exchange, including ours, are on deposit with *S.D. Indeval Institución para el Depósito de Valores S.A. de C.V.*, which we refer to as **Indeval**, a privately owned securities depository that acts as a clearinghouse for Mexican Stock Exchange transactions.

**ITEM 10. ADDITIONAL INFORMATION****Bylaws**

The following is a summary of the material provisions of our bylaws and applicable Mexican law. Our bylaws were last amended on April 22, 2008. 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.**

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### ***Organization and Registry***

We are a *sociedad anónima bursátil de capital variable* organized in Mexico under the *Ley General de Sociedades Mercantiles* (Mexican General Corporations Law) and the Mexican Securities Law. We were incorporated in 1936 under the name Valores Industriales, S.A., as a *sociedad anónima*, and are currently named Fomento Económico Mexicano, S.A.B. de C.V. We are registered in the *Registro Público de la Propiedad y del Comercio* (Public Registry of Property and Commerce) of Monterrey, Nuevo León.

### ***Voting Rights and Certain Minority Rights***

Each Series B Share entitles its holder to one vote at any of our ordinary or extraordinary general shareholders meetings. Our bylaws state that the board of directors must be composed of no more than 21 members, at least 25% of whom must be independent. Holders of Series B Shares are entitled to elect at least 11 members of our board of directors. Holders of Series D Shares are entitled to elect five members of our board of directors. Our bylaws also contemplate that, should a conversion of the Series D-L Shares to Series L Shares occur pursuant to the vote of our Series D-B and Series D-L shareholders at special and extraordinary shareholders meetings, the holders of Series D-L shares (who would become holders of newly-issued Series L Shares) will be entitled to elect two members of the board of directors. None of our shares has cumulative voting rights, which is a right not regulated under Mexican law.

Under our bylaws, the holders of Series D Shares are entitled to vote at extraordinary shareholders meetings called to consider any of the following limited matters: (1) the transformation from one form of corporate organization to another, other than from a company with variable capital stock to a company without variable capital stock or vice versa, (2) any merger in which we are not the surviving entity or with other entities whose principal corporate purposes are different from those of our company or our subsidiaries, (3) change of our jurisdiction of incorporation, (4) dissolution and liquidation and (5) the cancellation of the registration of the Series D Shares or Series L Shares in the Mexican Stock Exchange or in any other foreign stock market where listed, except in the case of the conversion of these shares as provided for in our bylaws.

Holders of Series D Shares are also entitled to vote on the matters that they are expressly authorized to vote on by the Mexican Securities Law and at any extraordinary shareholders meeting called to consider any of the following matters:

To approve a conversion of all of the outstanding Series D-B Shares and Series D-L Shares into Series B shares with full voting rights and Series L Shares with limited voting rights, respectively.

To agree to the unbundling of their share Units.

This conversion and/or unbundling of shares would become effective two years after the date on which the shareholders agreed to such conversion and/or unbundling.

Under Mexican 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 shareholders 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.

The Mexican Securities Law, the Mexican General Corporations Law and our bylaws provide for certain minority shareholder protections. These minority protections include provisions that permit:

holders of at least 10% of our outstanding capital stock entitled to vote, including in a limited or restricted manner, to 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% of our outstanding capital stock, including limited or restricted vote, may bring an action for liabilities against our directors, the secretary of the board of directors or certain key officers;



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holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, 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% of our outstanding capital stock to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote, including limited or restricted 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

holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, to appoint one member of our board of directors and one alternate member of our board of directors.

### **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 and 228 BIS of the Mexican General Corporations Law, Articles 53 and 108(ii) of the Mexican Securities Law and in our bylaws. These matters include: amendments to our bylaws, liquidation, dissolution, merger, spin-off and transformation from one form of corporate organization to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. In addition, our bylaws require a general shareholders extraordinary meeting to consider the cancellation of the registration of shares with the Mexican Registry of Securities ( 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 in terms of the Mexican Securities Law. General meetings called to consider all other matters, including increases or decreases affecting the variable portion of our capital stock, are ordinary meetings. An ordinary meeting must be held at least once each year within the first four months following the end of the preceding fiscal year. Holders of BD Units or B Units are entitled to attend all shareholders meetings of the Series B Shares and Series D Shares and to vote on matters that are subject to the vote of holders of the underlying shares.

The quorum for an ordinary shareholders meeting on first call is more than 50% of the Series B Shares, and action may be taken by a majority of the Series B Shares represented at the meeting. If a quorum is not available, a second or subsequent meeting may be called and held by whatever number of Series B Shares is represented at the meeting, at which meeting action may be taken by a majority of the Series B Shares that are represented at the meeting.

The quorum for an extraordinary shareholders meeting is at least 75% of the shares entitled to vote at the meeting, and action may be taken by a vote of the majority of all the outstanding shares that are entitled to vote. If a quorum is not available, a second meeting may be called, at which the quorum will be the majority of the outstanding capital stock entitled to vote, and actions will be taken by holders of the majority of all the outstanding capital stock entitled to vote.

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. Additionally, holders of 10% or more of our capital stock may require the chairman of the board of directors, or the chairman of the audit or corporate practices committees to call a shareholders meeting. A notice of meeting and an agenda must be published in the electronic system of the Secretary of Economy (*Secretaría de Economía*) and in the Official State Gazette of Nuevo León (*Periódico Oficial del Estado de Nuevo León*, or the Official State Gazette ) or a newspaper of general distribution in Monterrey, Nuevo León, Mexico at least 15 days prior to the date set for 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. Shareholders meetings will be deemed validly held and convened without a prior notice or publication only to the extent that all the shares representing our capital stock are fully represented. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice



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involving such shareholders meeting. To attend a meeting, shareholders must deposit their shares with our company or with Indeval or an institution for the deposit of securities prior to the meeting as indicated in the notice. If entitled to attend a meeting, a shareholder may be represented by an attorney-in-fact.

In addition to the provisions of the Mexican General Corporations Law, the ordinary shareholders meeting shall be convened to approve any transaction that, in a fiscal year, represents 20% or more of the consolidated assets of our company as of the immediately prior quarter, whether such transaction is executed in one or several operations, to the extent that, according to the nature of such transactions, they may be deemed the same. All shareholders shall be entitled to vote on in such ordinary shareholders meeting, including those with limited or restricted voting rights.

### ***Dividend Rights***

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

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

### ***Change in Capital***

Our outstanding capital stock consists of both a fixed and a variable portion. The fixed portion of our capital stock may be increased or decreased only by an amendment of the bylaws adopted by an extraordinary shareholders meeting. The variable portion of our capital stock may be increased or decreased by resolution of an ordinary shareholders meeting. Capital increases and decreases must be recorded in our share registry and book of capital variations, if applicable.

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 stockholders' equity. Treasury stock may only be sold pursuant to a public offering.

Any increase or decrease in our capital stock or any redemption or repurchase will be subject to the following limitations: (1) Series B Shares will always represent at least 51% of our outstanding capital stock and the Series D-L Shares and Series L Shares will never represent more than 25% of our outstanding capital stock; and (2) the Series D-B, Series D-L and Series L Shares will not exceed, in the aggregate, 49% of our outstanding capital stock.

### ***Preemptive Rights***

Under Mexican law, except in limited circumstances which are described below, in the event of an increase in our capital stock, a holder of record generally has the right to subscribe to 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 in the Official State Gazette. 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.

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Our bylaws provide that shareholders will not have preemptive rights to subscribe shares in the event of a capital stock increase or listing of treasury stock in any of the following events: (i) merger of our company; (ii) conversion of obligations (*conversion de obligaciones*) in terms of the Mexican General Credit Instruments and Credit Operations Law (*Ley General de Títulos y Operaciones de Crédito*); (iii) public offering made according to the terms of articles 53, 56 and related provisions of the Mexican Securities Law; and (iv) capital increase made through the payment in kind of the issued shares or through the cancellation of debt of our company.

### ***Limitations on Share Ownership***

Ownership of shares of Mexican companies by non-Mexican residents is regulated by the Foreign Investment Law and its regulations. The Foreign Investment Commission is responsible for the enforcement of the Foreign Investment Law and its regulations.

As a general rule, the Foreign Investment Law allows foreign holdings of up to 100% of the capital stock of Mexican companies, except for those companies engaged in certain specified restricted industries. The 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 Foreign Investment Law or its regulations.

### ***Management of our Company***

Management of our company is entrusted to the board of directors and also to the chief executive officer, who is required to follow the strategies, policies and guidelines approved by the board of directors and the authority, obligations and duties expressly authorized in the Mexican Securities Law.

At least 25% of the members of the board of directors shall be independent. Independence of the members of the board of directors is determined by the shareholders meeting, subject to the CNBV's challenge of such determination. In the performance of its responsibilities, the board of directors will be supported by a corporate practices committee and an audit committee. The corporate practices committee and the audit committee consist solely of independent directors. Each committee is formed by at least three board members appointed by the shareholders or by the board of directors. The chairmen of said committees are appointed (taking into consideration their experience, capacity and professional prestige) and removed exclusively by a vote in a shareholders meeting.

### ***Surveillance***

Surveillance of our company is entrusted to the board of directors, which shall be supported in the performance of these functions by the corporate practices committee, the audit committee and our external auditor. The external auditor may be invited to attend board of directors meetings as an observer, with a right to participate but without voting rights.

### ***Authority of the Board of Directors***

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

any related-party transactions which are deemed to be outside the ordinary course of our business;

significant asset transfers or acquisitions;

material guarantees or collateral;

internal policies; and

other material transactions.

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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 members of the board of directors present at the meeting. If required, the chairman of the board of directors may cast a tie-breaking vote.

### ***Redemption***

We may redeem part of our shares for cancellation with distributable earnings pursuant to a decision of an extraordinary shareholders meeting. Only shares subscribed and fully paid for may be redeemed. Any shares intended to be redeemed shall be purchased on the Mexican Stock Exchange in accordance with the Mexican General Corporations Law and the Mexican Securities Law. No shares will be redeemed, if as a consequence of such redemption, the Series D and Series L Shares in the aggregate exceed the percentages permitted by our bylaws or if any such redemption will reduce our fixed capital below its minimum.

### ***Repurchase of Shares***

According to our bylaws, subject to the provisions of the Mexican Securities Law and under rules promulgated by the CNBV, we may repurchase our shares at any time at the then prevailing market price. The maximum amount available for repurchase of our shares must be approved at the AGM. The economic and voting rights corresponding to such repurchased shares may not be exercised while our company owns the shares.

In accordance with the Mexican Securities 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 BD Units, B Units or shares (1) are 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. In the opinion of Carlos Eduardo Aldrete Ancira, our general counsel, under this provision, a non-Mexican shareholder (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***

The bylaws provide that the duration of our company is 99 years, commencing on May 30, 1936, unless extended by a resolution of an extraordinary shareholders meeting.

### ***Appraisal Rights***

Whenever the shareholders approve a change of corporate purpose, change of jurisdiction of incorporation or the transformation from one form of corporate organization to another, 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 by FEMSA 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. Under Mexican law, the amount which a withdrawing shareholder is entitled to receive is equal to its proportionate interest in our capital stock or according to our most recent balance sheet approved by an ordinary general shareholders meeting.

### ***Delisting of Shares***

In the event of a cancellation of the registration of any of our shares with the RNV, whether by order of the CNBV or at our request with the prior consent of 95% of the holders of our outstanding capital stock, our bylaws and the new Mexican Securities Law require us to make a public offer to acquire these shares prior to their cancellation.



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### ***Liquidation***

Upon the dissolution of our company, one or more liquidators must be appointed by an extraordinary general meeting of the shareholders to wind up its affairs. All fully paid and outstanding shares of capital stock will be entitled to participate equally in any distribution upon liquidation.

### ***Actions Against Directors***

Shareholders (including holders of Series D-B and Series D-L Shares) representing, in the aggregate, not less than 5% of our 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 favor of our company. The Mexican Securities 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 Law provides that the members of the board of directors will not incur, individually or jointly, liability for damages and losses caused to our company, when their acts were made in good faith, in any of the following events: (1) the directors complied with the requirements of the Mexican Securities Law and with our company's 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) they comply with the resolutions of the shareholders' meeting when such resolutions comply with applicable law.

### ***Fiduciary Duties Duty of Care***

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

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

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

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

require a matter be discussed and voted upon by the full board of directors in the presence of the secretary of the board of directors. Our directors may be liable for damages for failing to comply 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 was 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 or contractually prohibited from doing so in order to maintain confidentiality and (3) failed to comply with the duties imposed by the Mexican Securities Law or our bylaws.

### ***Fiduciary Duties Duty of Loyalty***

The Mexican Securities 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.

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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:

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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 of transactions without complying with the requirements of the Mexican Securities 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 third parties, without the prior approval of the board of directors.

### ***Limited Liability of Shareholders***

The liability of shareholders for our company's losses is limited to their shareholdings in our company.

## **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 ADSs, 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 ADSs. For purposes of this summary, the term "U.S. holder" means 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 our 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 ADSs or investors who hold our ADSs as part of a hedge, straddle, conversion or integrated transaction, partnerships that hold ADSs, or partners therein, nonresident aliens present in the United States for more than 182 days in a taxable year, or investors who have a functional currency other than the U.S. dollar. This summary deals only with U.S. holders that will hold our ADSs as capital assets and does not address the tax treatment of a U.S. holder that owns or is treated as owning 10% or more of the shares by vote or value (including ADSs) 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 which we refer to as 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 our ADSs should consult their tax advisors as to the U.S., Mexican or other tax consequences of the purchase, ownership and disposition of 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 for tax purposes and that does not hold our ADSs in connection with the conduct of a trade or business through a permanent establishment for tax purposes 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 (*Centro de Intereses Vitales*) (as defined in the Mexican Tax Code) is located in Mexico and, among other circumstances, when more than 50% of that person's total income during a calendar year comes from within Mexico. A legal entity is a resident of Mexico if it has either 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 he or she 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 the permanent establishment will



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be subject to Mexican taxes, in accordance with applicable tax laws.

*Taxation of Dividends.* Under Mexican income tax law, dividends, either in cash or in kind, paid with respect to our shares represented by our ADSs are not subject to Mexican withholding tax if such dividends were distributed from the net taxable profits generated before 2014. Dividends distributed from the net taxable profits account (CUFIN) generated after or during 2014 will be subject to Mexican withholding tax at a rate of 10%.

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*Taxation of Dispositions of ADSs.* Gains from the sale or disposition of ADSs by non-resident holders will not be subject to Mexican tax, if the disposition is carried out through a stock exchange recognized under applicable Mexican tax law and the transferor is resident of a country with which Mexico has entered into a tax treaty for the avoidance of double taxation; if the transferor is not a resident of such a country, the gain will be taxable at the rate of 10%, in which case the tax will be withheld by the financial intermediary.

In compliance with certain requirements, gains on the sale or other disposition of ADSs made in circumstances different from those set forth in the prior paragraph generally would be subject to Mexican tax, at the general rate of 25% of the gross income, 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 our 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% or more of our outstanding capital stock (including shares represented by our ADSs) within the 12-month period preceding such sale or other disposition. Deposits of shares in exchange for ADSs and withdrawals of shares in exchange for our ADSs will not give rise to Mexican tax.

*Other Mexican Taxes.* There are no Mexican inheritance, gift, succession or value added taxes applicable to the ownership, transfer, exchange or disposition of our ADSs. There are no Mexican stamp, issue, registration or similar taxes or duties payable by holders of our ADSs.

## **United States Taxation**

### ***Tax Considerations Relating to the ADSs***

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

*Taxation of Dividends.* The gross amount of any distributions paid with respect to our shares represented by our ADSs, to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, generally will be included in the gross income of a U.S. holder as foreign source dividend income on the day on which the dividends are received by the ADS depository 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 includible 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 ADS depository (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 tax advisors regarding the treatment of the foreign currency gain or loss, if any, on any Mexican pesos received that are converted into U.S. dollars on a date subsequent to the date of 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 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 the ADSs generally is subject to taxation at the reduced rate 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

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dividends are paid with respect to ADSs that are readily tradable on an established U.S. securities market and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (or PFIC, as further explained below under *Passive Foreign Investment Company Rules* ). The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2018 taxable year. In addition, based on our audited consolidated financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2019 taxable year.

Distributions to holders of additional shares with respect to our 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 taxable disposition of ADSs 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 (each calculated in dollars). Any such gain or loss will be a long-term capital gain or loss if the ADSs were held for more than one year on the date of such sale. Any long-term capital gain recognized by a U.S. holder that is an individual is subject to a reduced rate of federal income taxation. The deduction of capital losses is subject to limitations for U.S. federal income tax purposes. Deposits and withdrawals of shares by U.S. holders in exchange for ADSs will not result in the realization of gains or losses for U.S. federal income tax purposes.

Any gain realized by a U.S. holder on the sale or other disposition of ADSs generally will be treated as U.S. source income for U.S. foreign tax credit purposes.

*Passive Foreign Investment Company Rules.* Special U.S. tax rules apply to companies that are considered to be PFICs. We will be classified as a PFIC in a particular taxable year if, taking into account our proportionate share of the income and assets of our subsidiaries under applicable look-through rules, either

75 percent or more of our gross income for the taxable year is passive income; or

the average percentage of the value of our assets that produce or are held for the production of passive income is at least 50 percent. For this purpose, passive income generally includes dividends, interest, gains from certain commodities transactions, rents, royalties and the excess of gains over losses from the disposition of assets that produce passive income.

Although we do not believe that we are a PFIC and do not anticipate becoming a PFIC, the determination whether we are a PFIC must be made annually based on the facts and circumstances at that time, some of which may be beyond our control, such as the valuation of our assets, including goodwill and other intangible assets, at the time. Accordingly, we cannot be certain that we will not be a PFIC in the current year or in future years. If we are classified as a PFIC, and you do not make one of the elections described below, you will be subject to a special tax at ordinary income tax rates on excess distributions, including certain distributions by us and gain that you recognize on the sale of your ADSs. The amount of income tax on any excess distributions will be increased by an interest charge to compensate for tax deferral, calculated as if the excess distributions were earned ratably over the period you hold your ADSs. Classification as a PFIC may also have other adverse tax consequences, including, in the case of individuals, the denial of a step-up in the basis of your ADSs at death.

You can avoid the unfavorable rules described in the preceding paragraph by electing to mark your ADSs to market, provided the ADSs are considered marketable. The ADSs will be marketable if they are regularly traded on certain qualifying U.S. stock exchanges, including the New York Stock Exchange, or on a foreign stock exchange that meets certain requirements. If you make this mark-to-market election, you will be required in any year in which we are a PFIC to include as ordinary income the excess of the fair market value of your ADSs at the end of your taxable year over your basis in those ADSs. If at the end of your taxable year, your basis in the ADSs

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exceeds their fair market value, you will be entitled to deduct the excess as an ordinary loss, but only to the extent of your net mark-to-market gains from previous years. Your adjusted tax basis in the ADSs will be adjusted to reflect any income or loss recognized under these rules. In addition, any gain you recognize upon the sale of your ADSs will be taxed as ordinary income in the year of sale and any loss will be treated as an ordinary loss to the extent of your net mark-to-market gains from previous years. Once made, the election cannot be revoked without the consent of the IRS unless the shares cease to be marketable.

If you are a U.S. Holder that owns an equity interest in a PFIC, you generally must annually file IRS Form 8621, and may be required to file other IRS forms. A failure to file one or more of these forms as required may toll the running of the statute of limitations in respect of each of your taxable years for which such form is required to be filed. As a result, the taxable years with respect to which you fail to file the form may remain open to assessment by the IRS indefinitely, until the form is filed.

You should consult your own tax advisor regarding the U.S. federal income tax considerations discussed above and the desirability of making a mark-to-market election.

*United States Backup Withholding and Information Reporting.* A U.S. holder of 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, interest or the proceeds of a sale or disposition of 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 USD 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 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 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 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 ADSs or on any gain realized on the sale of 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.

### **Material Contracts**

We and our subsidiaries are parties to a variety of material agreements with third parties, including shareholders' agreements, supply agreements and purchase and service agreements. Set forth below are summaries of the material terms of such agreements. The actual agreements have either been filed as exhibits to, or incorporated by reference in, this annual report. See **Item 19. Exhibits**.

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### **Material Contracts Relating to Coca-Cola FEMSA**

#### ***Shareholders Agreement***

Coca-Cola FEMSA operates pursuant to a shareholders agreement among our company and TCCC and certain of its subsidiaries. This agreement, together with Coca-Cola FEMSA's bylaws, sets forth the basic rules pursuant to which Coca-Cola FEMSA operates.

In February 2010, Coca-Cola FEMSA's main shareholders, FEMSA and TCCC, amended the shareholders agreement, and Coca-Cola FEMSA's bylaws were amended accordingly. The amendment mainly related to changes in the voting requirements for decisions on: (1) ordinary operations within an annual business plan and (2) appointment of the chief executive officer and all officers reporting to him, all of which may be taken by the board of directors by simple majority voting. Also, the amendment provided that payment of dividends, up to an amount equivalent to 20% of the preceding years' retained earnings, may be approved by a simple majority of the voting capital stock and any payment of dividends above 20.0% of the preceding years' retained earnings shall require the approval of a majority of the voting capital stock, which majority must also include a majority of Coca-Cola FEMSA Series D shares. Any decision on extraordinary matters, as they are defined in Coca-Cola FEMSA's bylaws and which include, among other things, any new business acquisition, business combinations or any change in the existing line of business 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 TCCC.

Under Coca-Cola FEMSA's bylaws and shareholders agreement, its Series A Shares, Series B Shares and Series D Shares are the only shares with full voting rights and, therefore, control actions by its shareholders.

The shareholders agreement also sets forth the principal shareholders' understanding as to the effect of adverse actions of TCCC under the bottler agreements. Coca-Cola FEMSA's bylaws and shareholders agreement provide that a majority of the directors appointed by the holders of its Series A Shares, upon making a reasonable, good faith determination that any action of TCCC under any bottler agreement between TCCC and Coca-Cola FEMSA or any of its subsidiaries is materially adverse to Coca-Cola FEMSA's business interests and that TCCC has failed to cure such action within 60 days of notice, may declare a simple majority period, as defined in Coca-Cola FEMSA's bylaws, at any time within 90 days after giving notice. During the simple majority period certain decisions, namely the approval of material changes in Coca-Cola FEMSA's 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 Coca-Cola FEMSA Series D directors would otherwise be required, can be made by a simple majority vote of its entire board of directors, without requiring the presence or approval of any Coca-Cola FEMSA Series D director. A majority of the Coca-Cola FEMSA 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 Coca-Cola FEMSA's bylaws regarding proposed transfers of its 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 Coca-Cola FEMSA: (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 Coca-Cola FEMSA in any of the circumstances described above or (2) the beneficial ownership of TCCC or FEMSA is reduced below 20% of our outstanding voting stock, and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement will be terminated and Coca-Cola FEMSA's bylaws will be amended to eliminate all share transfer restrictions and all special-majority voting and quorum requirements.

The shareholders agreement also contains provisions relating to the principal shareholders' understanding as to Coca-Cola FEMSA's growth. It states that it is TCCC's intention that Coca-Cola FEMSA 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 Coca-Cola FEMSA expands by acquiring additional bottler territories in Mexico and other Latin American

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countries in the event any become available through horizontal growth. In addition, TCCC has agreed, subject to a number of conditions, that if it obtains ownership of a bottler territory that fits with Coca-Cola FEMSA's operations, it will give Coca-Cola FEMSA the option to acquire such territory. TCCC has also agreed to support reasonable and sound modifications to Coca-Cola FEMSA's capital structure to support horizontal growth. TCCC's agreement as to horizontal growth expires upon either the elimination of the super-majority voting requirements described above or TCCC's election to terminate the agreement as a result of a default.

### *The Coca-Cola Memorandum*

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

The shareholder arrangements between our company and TCCC and certain of its subsidiaries will continue in place. On February 1, 2010, FEMSA amended its shareholders agreement with TCCC. See **Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA The Shareholders Agreement.**

We will continue to consolidate Coca-Cola FEMSA's financial results under IFRS.

TCCC and our company will continue to discuss in good faith the possibility of implementing changes to Coca-Cola FEMSA's capital structure in the future.

TCCC may require the establishment of a different long-term strategy for Brazil. If, after taking into account Coca-Cola FEMSA's performance in Brazil, TCCC does not consider Coca-Cola FEMSA to be part of this long-term strategic solution for Brazil, then Coca-Cola FEMSA will sell its Brazilian franchise to TCCC or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures. In light of the performance of Coca-Cola FEMSA's business in Brazil and the fact that TCCC authorized Coca-Cola FEMSA to acquire four Coca-Cola bottlers in Brazil from 2008 to 2017 and participate in the acquisition of Brazilian operations of Jugos del Valle, Leão Alimentos, Laticínios Verde Campo Ltda and the AdeS business in Brazil, Coca-Cola FEMSA believe that this provision is no longer applicable.

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

TCCC agreed to sell to us sufficient shares to permit us to beneficially own 51% of Coca-Cola FEMSA outstanding capital stock (assuming that we do not sell any shares and that there are no issuances of Coca-Cola FEMSA stock other than as contemplated by the acquisition). As a result of this understanding, in November 2006, we acquired, through a subsidiary, 148,000,000 of Coca-Cola FEMSA Series D shares from certain subsidiaries of TCCC, representing 9.4% of the total outstanding voting shares and 8% of the total outstanding equity of Coca-Cola FEMSA, 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.

Coca-Cola FEMSA may be entering some markets where significant infrastructure investment may be required. TCCC and our company 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 our company and TCCC will reach an agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome

for either partner.

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

In July 2016, Coca-Cola FEMSA announced a new, comprehensive framework with TCCC. 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 generating profitable growth. The cooperation framework contemplates the following main objectives:

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

***Other Concentrate Price Adjustments.*** Potential future concentrate price adjustments for sparkling beverages and flavored water in Mexico will take into account investment and profitability levels that are beneficial both to Coca-Cola FEMSA and TCCC.

***Marketing and commercial strategies.*** Coca-Cola FEMSA and TCCC are committed to implementing marketing and commercial strategies as well as productivity programs to maximize profitability. Coca-Cola FEMSA believes that these initiatives will partially mitigate the effects of concentrate price adjustments.

TCCC also recognized Coca-Cola FEMSA's strong operating model and execution capabilities. With respect to territories of TCCC's Bottling Investments Group that it may divest in the future, Coca-Cola FEMSA has reached an understanding with TCCC to assess, on a preferred basis, the acquisition of available territories.

### ***Bottler Agreements***

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

These bottler agreements also provide that Coca-Cola FEMSA will purchase its 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 TCCC 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 TCCC at its sole discretion, Coca-Cola FEMSA sets the price of products sold to customers at its discretion, subject to the applicability of price restraints imposed by authorities in certain territories. Coca-Cola FEMSA has the exclusive right to distribute *Coca-Cola* trademark beverages for sale in its territories in authorized containers of the nature approved by the bottler agreements and currently used by Coca-Cola FEMSA. 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 Coca-Cola FEMSA that TCCC is the sole owner of the trademarks that identify the *Coca-Cola* trademark beverages and of the formulas with which TCCC's concentrates are made. Subject to Coca-Cola FEMSA's exclusive right to distribute *Coca-Cola* trademark beverages in its territories, TCCC reserves the right to import and export *Coca-Cola* trademark beverages to and from each of Coca-Cola FEMSA's territories. Coca-Cola FEMSA's bottler agreements do not contain restrictions on TCCC's ability to set the price of concentrates and do not impose minimum marketing obligations on TCCC. The prices at which Coca-Cola FEMSA purchases concentrate under the bottler agreements may vary materially from the prices Coca-Cola FEMSA has historically paid. However, under Coca-Cola FEMSA's bylaws and the shareholders agreement among TCCC and certain of its subsidiaries and our subsidiaries, an adverse action by TCCC under any of the bottler agreements may result in a suspension of certain voting rights of the directors appointed by TCCC.



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This provides Coca-Cola FEMSA with limited protection against TCCC'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 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA The Shareholders Agreement.**

TCCC 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. TCCC may also introduce new beverages in Coca-Cola FEMSA's territories in which case Coca-Cola FEMSA has 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 Coca-Cola FEMSA 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 TCCC, except under the authority of, or with the consent of, TCCC. The bottler agreements also prohibit Coca-Cola FEMSA 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 TCCC so as to conform to policies approved by TCCC. In particular, Coca-Cola FEMSA is 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 its bottler agreements and in sufficient quantities to satisfy fully the demand in its territories;

undertake adequate quality control measures established by TCCC;

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 it and its subsidiaries of its obligations to TCCC; and

submit annually to TCCC its marketing, management, promotional and advertising plans for the ensuing year.

TCCC contributed a significant portion of Coca-Cola FEMSA's total marketing expenses in Coca-Cola FEMSA's territories during 2016 and has reiterated its intention to continue providing such support as part of Coca-Cola FEMSA's cooperation framework. Although Coca-Cola FEMSA believes that TCCC 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 TCCC may vary materially from the levels historically provided. See **Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA The Shareholders Agreement.**

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

As of the date of this report, Coca-Cola FEMSA had:

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

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

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

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one bottler agreement in Argentina, which is up for renewal in September 2024;

one bottler agreement in Colombia, which is up for renewal in June 2024;

one bottler agreement in Costa Rica, which is up for renewal in September 2027;

one bottler agreement in Nicaragua, which is up for renewal in May 2026;

one bottler agreement in Panama, which is up for renewal in November 2024; and

one bottler agreement in Uruguay, which is up for renewal in June 2028.

As of date of this report, Coca-Cola FEMSA's investee KOF Venezuela had one bottler agreement, which is up for renewal in August 2026.

The bottler agreements are subject to termination by TCCC in the event of default by Coca-Cola FEMSA. The default provisions include limitations on the change in ownership or control of Coca-Cola FEMSA and the assignment or transfer of the bottler agreements and are designed to preclude any person not acceptable to TCCC from obtaining an assignment of a bottler agreement or from acquiring Coca-Cola FEMSA independently of other rights set forth in the shareholders' agreement. These provisions may prevent changes in Coca-Cola FEMSA's principal shareholders, including mergers or acquisitions involving sales or dispositions of Coca-Cola FEMSA's capital stock, which will involve an effective change of control, without the consent of TCCC. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA The Shareholders Agreement.**

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

## **Material Contracts Relating to our Heineken Investment**

### ***Share Exchange Agreement***

On January 11, 2010, FEMSA and certain of our subsidiaries entered into a share exchange agreement, which we refer to as the Share Exchange Agreement, with Heineken Holding N.V. and Heineken N.V. The Share Exchange Agreement required Heineken N.V., in consideration for 100% of the shares of EMPREX Cerveza, S.A. de C.V. (now Heineken Mexico Holding, S.A. de C.V.), which we refer to as EMPREX Cerveza, to deliver at the closing of the Heineken transaction 86,028,019 newly-issued Heineken N.V. shares to FEMSA with a commitment to deliver, pursuant to the ASDI, 29,172,504 Allotted Shares over a period of not more than five years from the date of the closing of the Heineken transaction. As of October 5, 2011, we had received the totality of the Allotted Shares.

The Share Exchange Agreement provided that, simultaneously with the closing of the transaction, Heineken Holding N.V. would swap 43,018,320 Heineken N.V. shares with FEMSA for an equal number of newly issued Heineken Holding N.V. shares. After the closing of the Heineken transaction, we owned 7.5% of Heineken N.V.'s shares. This percentage increased to 12.53% upon full delivery of the Allotted Shares and, together with our ownership of 14.94% of Heineken Holding N.V.'s shares, represented an aggregate 20% economic interest in the Heineken Group.

Under the terms of the Share Exchange Agreement, in exchange for such economic interest in the Heineken Group, FEMSA delivered 100% of the shares representing the capital stock of EMPREX Cerveza, which owned 100% of the shares of FEMSA Cerveza. As a result of the transaction, EMPREX Cerveza and FEMSA Cerveza became wholly-owned subsidiaries of Heineken.

The principal provisions of the Share Exchange Agreement are as follows:



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delivery to Heineken N.V., by FEMSA, of 100% of the outstanding share capital of EMPREX Cerveza, which together with its subsidiaries, constitutes the entire beer business and operations of FEMSA in Mexico and Brazil (including the United States and other export business);

delivery to FEMSA by Heineken N.V. of 86,028,019 new Heineken N.V. shares;

simultaneously with the closing of the Heineken transaction, a swap between Heineken Holding N.V. and FEMSA of 43,018,320 Heineken N.V. shares for an equal number of newly issued shares in Heineken Holding N.V.;

the commitment by Heineken N.V. to assume indebtedness of EMPREX Cerveza and subsidiaries amounting to approximately US\$ 2.1 billion;

the provision by FEMSA to the Heineken Group of indemnities customary in transactions of this nature concerning FEMSA and FEMSA Cerveza and its subsidiaries and their businesses;

FEMSA's covenants to operate the EMPREX Cerveza business in the ordinary course consistent with past practice until the closing of the transaction, subject to customary exceptions, with the economic risks and benefits of the EMPREX Cerveza business transferring to Heineken as of January 1, 2010;

the provision by Heineken N.V. and Heineken Holding N.V. to FEMSA of indemnities customary in transactions of this nature concerning the Heineken Group; and

FEMSA's covenants, subject to certain limitations, to not engage in the production, manufacture, packaging, distribution, marketing or sale of beer and similar beverages in Latin America, the United States, Canada and the Caribbean.

In September 2017, FEMSA sold shares equivalent to 3.9% of Heineken N.V.'s capital stock and shares equivalent to 2.67% of Heineken Holding N.V.'s capital stock. This sale decreased FEMSA's economic interest in Heineken from 20.0% to 14.76%.

### ***Corporate Governance Agreement***

On April 30, 2010, FEMSA, CB Equity (as transferee of the Heineken N.V. and Heineken Holding N.V. Exchange Shares and Allotted Shares), Heineken N.V., Heineken Holding N.V. and L. Arche Green N.V. (as majority shareholder of Heineken Holding N.V.) entered into a corporate governance agreement, which we refer to as the Corporate Governance Agreement, which establishes the terms of the relationship between Heineken and FEMSA after the closing of the Heineken transaction.

The Corporate Governance Agreement covers, among other things, the following topics:

FEMSA's representation on the Heineken Holding Board and the Heineken Supervisory Board and the creation of an Americas committee, also with FEMSA's representation;

FEMSA's representation on the selection and appointment committee and the audit committee of the Heineken Supervisory Board;

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FEMSA's commitment to not increase its holding in Heineken Holding N.V. above 20% and to not increase its holding in the Heineken Group above a maximum 20% economic interest (subject to certain exceptions); and

FEMSA's agreement not to transfer any shares in Heineken N.V. or Heineken Holding N.V. for a five-year period, subject to certain exceptions, including among others, (i) beginning in the third anniversary, the right to sell up to 1% of all outstanding shares of each of Heineken N.V. and Heineken Holding N.V. in each calendar quarter, and (ii) beginning in the third anniversary, the right to dividend or distribute to its shareholders each of Heineken N.V. and Heineken Holding N.V. shares.

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Under the Corporate Governance Agreement, FEMSA is entitled to nominate two representatives to the Heineken Supervisory Board, one of whom will be appointed as its vice-chairman and will also serve as a representative of FEMSA on the Heineken Supervisory Board. José Antonio Fernández Carbajal, our Executive Chairman of the Board and Javier Astaburuaga Sanjines, our Vice President of Corporate Development were appointed to the Heineken Supervisory Board by Heineken N.V.'s general meeting of shareholders. Mr. Fernández Carbajal was also approved to the Heineken Holding Board by the general meeting of shareholders of Heineken Holding N.V.

In addition, the Heineken Supervisory Board has created an Americas committee to oversee the strategic direction of the business in the American continent and assess new business opportunities in that region. The Americas committee consists of two existing members of the Heineken Supervisory Board and one FEMSA representative, who acts as the chairman. The chairman of the Americas committee is José Antonio Fernández Carbajal, our Executive Chairman of the Board.

The Corporate Governance Agreement has no fixed term, but certain provisions cease to apply if FEMSA ceases to have the right to nominate a representative to the Heineken Holding Board and the Heineken Supervisory Board. For example, in certain circumstances, FEMSA would be entitled to only one representative on the Heineken Supervisory Board, including in the event that FEMSA's economic interest in the Heineken Group were to fall below 14%, the current FEMSA control structure were to change or FEMSA were to be subject to a change of control. In the event that FEMSA's economic interest in Heineken falls below 7% or a beer producer acquires control of FEMSA, all of FEMSA's corporate governance rights would end pursuant to the Corporate Governance Agreement.

## **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. Any filings we make electronically are available to the public over the internet at the SEC's web site at [www.sec.gov](http://www.sec.gov) and at our website at [www.femsa.com](http://www.femsa.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.)

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### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our business activities require the holding or issuing of derivative financial instruments that expose us to market risks related to changes in interest rates, foreign currency exchange rates, equity risk and commodity price risk.

#### **Interest Rate Risk**

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. At December 31, 2018, we had outstanding total debt of Ps. 128,664 million, of which 16.9% bore interest at variable interest rates and 83.1% bore interest at fixed interest rates. After giving effect to derivative hedging contracts, as of December 31, 2018, 84.9% of our total debt was fixed rate and 15.1% of our total debt was variable rate (the total amount of debt and of variable rate debt and fixed rate debt used in the calculation of this percentage includes the effect of cross-currency and interest rate swaps). The interest rate on our variable rate debt is determined by reference to the London Interbank Offered Rate ( LIBOR, a benchmark rate used for Eurodollar loans), the Equilibrium Interbank Interest Rate (*Tasa de Interés Interbancaria de Equilibrio*, or TIIE ), and the Treasury Certificates (*Certificados de la Tesorería*, or CETES ) rate. If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our derivative financial instruments that are sensitive to changes in interest rates and exchange rates. The table presents notional amounts and weighted average interest rates by expected contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on the reference rates on December 31, 2018, plus spreads contracted by us. Our derivative financial instruments current payments are denominated in U.S. dollars and Mexican pesos. All of the payments in the table are presented in Mexican pesos, our reporting currency, utilizing the December 31, 2018 exchange rate of Ps. 19.635 per U.S. dollar.

The table below also includes the estimated fair value as of December 31, 2018 of:

short and long-term debt, based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities;

long-term notes payable and capital leases, based on quoted market prices; and

cross-currency swaps and interest rate swaps, based on quoted market prices to terminate the contracts as of December 31, 2018. As of December 31, 2018, the fair value represents an increase in total debt of Ps. 77 million more than book value.



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### Principal by Year of Maturity

(in millions of Mexican pesos)	At December 31, <sup>(1)</sup>						Carrying Value at December 31, 2018	Fair Value at December 31, 2018	Carrying Value at December 31, 2017 <sup>(1)</sup>
	2019	2020	2021	2022	2023	2024 and Thereafter			
<b>Short-term debt:</b>									
<b>Fixed rate debt:</b>									
<b>Argentine pesos</b>									
Bank loans	157						157	141	106
Interest rate	36.8%						36.8%		22.4%
<b>Chilean pesos</b>									
Bank loans	594						594	594	770
Interest rate	3.2%						3.2%		3.1%
<b>U.S. dollars</b>									
Bank loans									
Interest rate									
Finance leases	10.0						10	10	
Interest rate	3.3%						3.3%		
<b>Uruguayan pesos</b>									
Bank loans	771						771	771	
Interest rate	10.0%						10.0%		
<b>Variable rate debt:</b>									
<b>Mexican pesos</b>									
Bank loans	450						450	450	
Interest rate	9.2%						9.2%		
<b>Colombian pesos</b>									
Bank loans	454						454	454	1,951
Interest rate	5.6%						5.6%		
<b>Chilean pesos</b>									
Bank loans									3
Interest rate									6.1%
<b>Total short-term debt</b>	Ps. 2,436	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 2,436	Ps. 2,420	Ps. 2,830

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At December 31, <sup>(1)</sup>									
(in millions of Mexican pesos)	2019	2020	2021	2022	2023	2024 and Thereafter	Carrying Value at December 31, 2018	Fair Value at December 31, 2018	Carrying Value at December 31, 2017 <sup>(1)</sup>
<b>Long-term debt:</b>									
<b>Fixed rate debt:</b>									
<b>Euro</b>									
Senior unsecured notes	Ps.	Ps.	Ps.	Ps.	Ps. 22,439	Ps.	Ps. 22,439	Ps. 23,063	Ps. 23,449
Interest rate					1.70%		1.7%		1.8%
<b>U.S. dollars</b>									
Yankee bond		9,829			17,557	11,818	39,204	40,716	48,043
Interest rate		4.6%			3.9%	5.3%	4.5%		4.1%
U.S. dollars Promissory Note	4,652						4,652	4,516	
Interest rate	0.4%						0.4%		
Bank of NY (FEMSA USD 2023)					5,849		5,849	5,657	5,852
Interest rate <sup>(1)</sup>					2.9%		2.9%		2.9%
Bank of NY (FEMSA USD 2043)						13,504	13,504	13,229	13,510
Interest rate <sup>(1)</sup>						4.4%	4.4%		4.4%
Finance leases	5	2				7	7	7	13
Interest rate <sup>(1)</sup>	17.8%	8.1%				14.7%	14.7%		3.8%
<b>Mexican pesos</b>									
Units of investment (UDIs)									
Interest rate									
Domestic senior notes			2,498		7,495	8,488	18,481	17,218	18,479
Interest rate			8.3%		5.5%	7.9%	6.9%		6.9%
Bank loans	33	32	12				77	77	
Interest rate			8.3%				6.4%		
<b>Brazilian reais</b>									
Bank loans	209	129	78	67	38	24	545	531	1,033
Interest rate	5.8%	5.9%	6.0%	6.1%	6.4%	6.6%	6.0%		5.7%
Notes payable <sup>(2)</sup>									6,707
Interest rate									0.4%
<b>Chilean pesos</b>									
Bank loans									40
Interest rate									7.9%
Finance leases	31	26	17				74		98
Interest rate	3.7%	3.5%	3.2%				3.5%		3.5%
<b>Colombian pesos</b>									
Bank loans									728
Interest rate									9.6%
Finance leases									17
Interest rate									4.2%
<b>Uruguayan pesos</b>									
Bank loans		573					573	573	
Interest rate		10.2%					10.2%		
Subtotal	Ps. 4,930	Ps. 10,591	Ps. 2,605	Ps. 67	Ps. 53,378	Ps. 33,834	Ps. 105,405	Ps. 105,661	Ps. 117,969

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

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	At December 31, <sup>(1)</sup>						2024 and Thereafter	Carrying Value at December 31, 2018	Fair Value at December 31, 2018	Carrying Value at December 31, 2017 <sup>(1)</sup>
(in millions of Mexican pesos)	2019	2020	2021	2022	2023					
Variable rate debt:										
U.S. dollars										
Bank loans	Ps.	Ps. 4,025	Ps.	Ps.	Ps.	Ps.	Ps.	4,025	Ps. 4,062	Ps. 4,032
Interest rate <sup>(1)</sup>		3.3%						3.3%		2.1%
Mexican pesos										
Domestic senior notes				1,497				1,497	1,276	1,496
Interest rate <sup>(1)</sup>				8.6%				8.6%		7.7%
Bank loans	5,049	145	5,492	38	7			10,731	10,731	
Interest rate <sup>(1)</sup>	8.60%	10.1%	8.6%	10.1%	10.1%			8.6%		
Brazilian reais										
Bank loans	244	198	57	6				505	527	870
Interest rate	9.4%	9.5%	10.4%	10.4%				9.5%		8.5%
Notes payable	5							5	5	15
Interest rate	0.4%							0.4%		0.4%
Colombian pesos										
Bank loans	424	424						848	848	
Interest rate	5.6%	5.7%						5.7%		
Chilean pesos										
Bank loans	586	978	645	663	340			3,212	3,211	4,136
Interest rate	4.3%	4.1%	4.0%	4.1%	3.9%			4.1%		4.1%
Subtotal	Ps. 6,308	Ps. 5,770	Ps. 6,194	Ps. 2,204	Ps. 347	Ps.	Ps.	20,823	Ps. 20,660	Ps. 10,549
Total long-term debt	Ps. 11,238	Ps. 16,361	Ps. 8,799	Ps. 2,271	Ps. 53,725	Ps. 33,834	Ps.	126,228	Ps. 126,321	Ps. 128,518
Current portion of long term debt										
								(11,238)		(10,760)
								Ps. 114,990		Ps. 117,758

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

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

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Hedging Derivative Financial Instruments <sup>(1)</sup>	2019	2020	2021	2022	2023	2024 and Thereafter	Total 2018	Total 2017
(notional amounts in millions of Mexican pesos)								
<b>Cross currency swaps:</b>								
<b>U.S. dollars to Mexican pesos</b>								
Fixed to variable <sup>(2)</sup>	Ps.	Ps.	Ps.	Ps.	Ps. 11,403	Ps.	<b>Ps. 11,403</b>	Ps. 11,403
Interest pay rate					9.8%		<b>9.8%</b>	8.9%
Interest receive rate					4.0%		<b>4.0%</b>	4.0%
Fixed to fixed		9,841			3,038	6,889	<b>19,768</b>	19,818
Interest pay rate		9.0%			7.7%	9.7%	<b>9.1%</b>	9.1%
Interest receive rate		3.9%			3.9%	4.0%	<b>3.9%</b>	3.9%
<b>U.S. dollars to Brazilian reais</b>								
Fixed to variable	4,652						<b>4,652</b>	19,617
Interest pay rate	4.7%						<b>4.7%</b>	6.0%
Interest receive rate	0.4%						<b>0.4%</b>	2.0%
Variable to variable								19,617
Interest pay rate								6.6%
Interest receive rate								2.5%
Fixed to fixed		4,559					<b>4,559</b>	
Interest pay rate		8.3%					<b>8.3%</b>	
Interest receive rate		2.9%					<b>2.9%</b>	
Variable to fixed			4,035		9,448		<b>13,483</b>	
Interest pay rate			7.9%		9.5%		<b>9.0%</b>	
Interest receive rate			2.9%		3.9%		<b>3.6%</b>	
<b>Chilean pesos</b>								
Variable to fixed		364					<b>364</b>	620
Interest pay rate		6.9%					<b>6.9%</b>	6.9%
Interest receive rate		4.6%					<b>4.6%</b>	3.9%
<b>Interest rate swap:</b>								
<b>Mexican pesos</b>								
Variable to fixed rate:	19		513	617	1,698		<b>2,847</b>	3,515
Interest pay rate	6.5%		7.6%	6.6%	5.8%		<b>6.3%</b>	5.8%
Interest receive rate	3.8%		3.8%	4.5%	3.9%		<b>4.0%</b>	4.5%
Variable to fixed rate <sup>(2)</sup> :								
Interest pay rate					7.2%		<b>7.2%</b>	7.2%
Interest receive rate					9.8%		<b>9.8%</b>	8.9%

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

(2) Interest rate swaps with a notional amount of Ps. 11,403 that receive a variable rate of 9.8% and pay a fixed rate of 7.2%; joined with a cross currency swap, which covers U.S. dollars to Mexican pesos, that receives a fixed rate of 4.0% and pay a variable rate of 9.8%.

A hypothetical, instantaneous and unfavorable change of 100 basis points in the average interest rate applicable to variable-rate liabilities held at FEMSA as of December 31, 2018 would increase our interest expense by approximately Ps. 134 million, or 1.95%, over the 12-month period of 2019, assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest 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 2018, the percentage of our consolidated total revenues was denominated as follows:

**Total Revenues by Currency at December 31, 2018**

Region	Currency	% of Consolidated Total Revenues
Mexico and Central America <sup>(1)</sup>	Mexican peso and others	72%
South America	Brazilian reais, Argentine peso, Colombian peso, Chilean peso, Uruguayan peso and Peru sol.	28%

(1) Mexican peso, Quetzal, Balboa, Colon, Cordoba and U.S. dollar.

We estimate that a majority of our consolidated costs and expenses are denominated in Mexican pesos for Mexican subsidiaries and in the aforementioned currencies for the foreign subsidiaries, which are principally subsidiaries of Coca-Cola FEMSA. Substantially all of our costs and expenses denominated in a foreign currency, other than the functional currency of each country where we operate, are denominated in U.S. dollars. As of December 31, 2018, after giving effect to all cross-currency swaps and interest rate swaps, 41.2% of our long-term indebtedness was denominated in Mexican pesos, 16.2% was denominated in U.S. Dollars, 18.6% was denominated in Euros, 18.5% was denominated in Brazilian reais, 3.2% was denominated in Chilean pesos and 1.1% was denominated in Colombian pesos, 1.1% Uruguayan pesos and 0.1% in Argentine pesos. We also have short-term indebtedness, which mostly consists of bank loans in Colombian pesos, Argentine pesos, Chilean pesos and U.S. dollars. 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 the debt service obligations with respect to our foreign currency-denominated indebtedness. 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 long-term indebtedness is increased.

Our exposure to market risk associated with changes in foreign currency exchange rates relates primarily to U.S. dollar and Euro-denominated debt obligations as shown in the interest rate risk table above. We occasionally utilize financial derivative instruments to hedge our exposure to the U.S. dollar relative to the Mexican peso and other currencies. Also, we occasionally use non-derivative financial instruments to hedge our exposure to the Euro relative to the Mexican peso, regarding our net investment in Heineken.

As of December 31, 2018, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and Euros. The notional amount of these forward agreements was Ps. 5,808 million, for which we have recorded a net fair value asset of Ps. 68 million. The maturity date of these forward agreements is in 2019. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2018, a gain of Ps. 87 million on expired forward agreements was recorded in our consolidated results.

As of December 31, 2017, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and Euros. The notional amount of these forward agreements was Ps. 7,739 million, for which we have recorded a fair value asset of Ps. 152 million. The maturity date of these forward agreements is in 2018. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2017, a gain of Ps. 40 million on expired forward agreements was recorded in our consolidated results.

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As of December 31, 2016, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and Euros. The notional amount of these forward agreements was Ps. 8,265 million, for which we have recorded a fair value asset of Ps. 117 million. The maturity date of these forward agreements was in 2017. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2016, a loss of Ps. 160 million on expired forward agreements was recorded in our consolidated results.

As of December 31, 2018, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations. The notional amount of these options was Ps. 1,734 million, for which we have recorded a net fair value asset of Ps. 24 million as part of cumulative other comprehensive income. The maturity date of these options was in 2019.

As of December 31, 2017, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations. The notional amount of these options was Ps. 266 million, for which we have recorded a net fair value asset of Ps. 12 million as part of cumulative other comprehensive income. The maturity date of these options was in 2018.

As of December 31, 2016, we have not had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations.

As of December 31, 2018, we have long-term debt in the amount of 1,000. We have designated a non-derivative financial liability as a hedge on the net investment in our stake hold in Heineken. We recognized a foreign exchange gain, net of tax, of Ps. 724 million, which is as part of the exchange differences on translation of foreign operation within the cumulative other comprehensive income.

The following table illustrates the effects that hypothetical fluctuations in the exchange rates of the U.S. dollar and the Euro relative to the Mexican peso, and the U.S. dollar relative to the Brazilian reais and Colombian peso, would have on our equity and profit or loss:

Foreign Currency Risk	Change in Exchange Rate	Effect on Equity
<b>2018</b>		
FEMSA <sup>(1)</sup>	+12 MXN/EUR	Ps. (116)
	-12% MXN/EUR	116
Coca-Cola FEMSA	+13% MXN/USD	668
	-13% MXN/USD	(668)
	+16% BRL/USD	413
	-16% BRL/USD	(413)
	+8% UYU/USD	46
	-8% UYU/USD	(46)
	+12% COP/USD	2
	-12% COP/USD	(2)
	+27% ARS/USD	522
	-27% ARS/USD	(522)
<b>2017</b>		
FEMSA <sup>(1)</sup>	+13% MXN/EUR	Ps. (141)
	-13% MXN/EUR	141

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	+8% CLP/USD	2
	-8% CLP/USD	(2)
Coca-Cola FEMSA	+12% MXN/USD	626
	-12% MXN/USD	(625)
	+14% BRL/USD	234
	-14% BRL/USD	(234)
	+9% COP/USD	73
	-9% COP/USD	(73)
	+10% ARS/USD	29
	-10% ARS/USD	(29)
<b>2016</b>		
FEMSA <sup>(1)</sup>	+17% MXN/EUR	Ps. (293)
	-17% MXN/EUR	293
	+11% CLP/USD	12
	-11% CLP/USD	(12)
Coca-Cola FEMSA	+18% BRL/USD	203
	-18% BRL/USD	(203)
	+17% MXN/USD	916
	-17% MXN/USD	(916)
	+18% COP/USD	255
	-18% COP/USD	(255)

(1) Does not include Coca-Cola FEMSA.

As of December 31, 2018, we had (i) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 4,738 million that expire in 2019, for which we have recorded a net fair value asset of Ps. 502 million; (ii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 18,126 million that expire in 2020, for which we have recorded a net fair value asset of Ps. 637 million; (iii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 4,774 million that expire in 2021, for which we have recorded a net fair value asset of Ps. 615 million; (iv) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 396 million that expire in 2023, for which we have recorded a net fair value liability of Ps. 7 million; (v) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 23,948 million that expire in 2026, for which we have recorded a net fair value asset of Ps. 7,422 million; (vi) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 813 million that expire in 2027, for which we have recorded a net fair value liability of Ps. 154 million; and (vii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 6,889 million that expire in 2028, for which we have recorded a net fair value asset of Ps. 160 million.

As of December 31, 2017, we had (i) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 24,760 million that expire in 2018, for which we have recorded a net fair value liability of Ps. 3,878 million; (ii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 6,263 million that expire in 2019, for which we have recorded a net fair value liability of Ps. 205 million; (iii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 18,428 million that expire in 2020, for which we have recorded a net fair value liability of Ps. 360 million; (iv) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 4,853 million that expire in 2021, for which we have recorded a net fair value asset of Ps. 12 million; (v) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 14,446 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 8,336 million; (vi) cross-currency swaps designated as fair value hedges under contracts with an aggregate

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notional amount of Ps. 888 million that expire in 2026, for which we have recorded a net fair value liability of Ps. 192 million; and (vii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 6,907 million that expire in 2027, for which we have recorded a net fair value asset of Ps. 51 million.

As of December 31, 2016, we had (i) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,707 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 1,155 million; (ii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 39,262 million that expire in 2018, for which we have recorded a net fair value liability of Ps. 1,149 million; (iii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 7,022 million that expire in 2019, for which we have recorded a net fair value liability of Ps. 265 million; (iv) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 19,474 million that expire in 2020, for which we have recorded a net fair value liability of Ps. 44 million; (v) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 5,076 million that expire in 2021, for which we have recorded a net fair value liability of Ps. 100 million; (vi) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 12,670 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 9,057 million; (vii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 925 million that expire in 2026, for which we have recorded a net fair value liability of Ps. 131 million; and (viii) cross-currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 5,476 million that expire in 2027 for which we have recorded a net fair value asset of Ps. 125 million.

Certain cross-currency swap instruments did not meet the hedging criteria for accounting purposes. For the years ended December 31, 2018, 2017 and 2016 no changes in the estimated fair value were recorded in the income statement.

A hypothetical, instantaneous and unfavorable 10% devaluation of the Mexican peso relative to the U.S. dollar occurring on December 31, 2018 would result in a foreign exchange gain increasing our consolidated net income by approximately Ps. 7,998 million over the 12-month period of 2019, reflecting greater foreign exchange loss related to our U.S. dollar denominated indebtedness, net of a gain in the cash balances held by us in U.S. dollars and Euros.

As of April 19, 2019, the exchange rates relative to the U.S. dollar of all the countries where we operate, as well as their devaluation/revaluation effect compared to December 31, 2018, were as follows:

Country	Currency	Exchange Rate as of April 19, 2019	(Devaluation) / Revaluation
Mexico	Mexican peso	18.9516	3.7%
Brazil	Brazilian reais	3.94	(1.6)%
Colombia	Colombian peso	3,160.48	2.7%
Argentina	Argentine peso	41.90	(11.1)%
Costa Rica	Colon	598.63	2.1%
Guatemala	Quetzal	7.63	1.4%
Nicaragua	Cordoba	32.81	(1.5)%
Panama	U.S. dollar	1.00	
Euro Zone	Euro	0.89	(1.8)%
Peru	Nuevo sol	3.30	2.4%
Chile	Chilean peso	660.48	5.1%
Uruguay	Uruguayan peso	34.24	(5.7)%

A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the currencies in each of the countries where we operate, relative to the U.S. dollar, occurring on December 31, 2018, would produce a reduction (or gain) in stockholders' equity as follows:



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Country	Currency	Reduction in Stockholders' Equity (in millions of Mexican pesos)
Mexico	Mexican peso	7,998
Brazil	Brazilian reais	3,200
Colombia	Colombian peso	1,372
Costa Rica	Colon	478
Argentina	Argentine peso	311
Guatemala	Quetzal	82
Nicaragua	Cordoba	112
Panama	U.S. dollar	119
Peru	Nuevo sol	3
Chile	Chilean peso	860
Euro Zone	Euro	6,534
U.S.A	U.S. dollar	1,749

**Equity Risk**

As of December 31, 2018, 2017 and 2016, we did not have any equity derivative agreements, other than as described in notes 2.3.1.8 and 20.7 of our audited consolidated financial statements.

**Commodity Price Risk**

We entered into various derivative contracts to hedge the cost of certain raw materials that are exposed to variations of commodity price exchange rates. As of December 31, 2018, we had various derivative instruments contracts with maturity dates through 2019, notional amounts of Ps. 2,791 million and a fair value liability of Ps. 236 million. The results of our commodity price contracts for the years ended December 31, 2018, 2017, and 2016, were a gain of Ps. 258 million, gain of Ps. 6 million, and gain of Ps. 241 million, respectively, which were recorded in the results of each year.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****ITEM 12A. DEBT SECURITIES**

Not applicable.

**ITEM 12B. WARRANTS AND RIGHTS**

Not applicable.

**ITEM 12C. OTHER SECURITIES**

Not applicable.

**ITEM 12D. AMERICAN DEPOSITARY SHARES**

The Bank of New York Mellon, headquartered at 225 Liberty Street, New York, New York 10286, serves as the depositary for our ADSs. Holders of our ADSs, evidenced by 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

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transmission, or the 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.

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### **Depository service**

Issuance and delivery of ADSs, including in connection with share distributions, stock splits

Distribution of dividends

Withdrawal of shares underlying ADSs

### **Fee payable by ADS holders**

Up to US\$ 5.00 per 100 ADSs (or portion thereof)

Up to US\$ 0.02 per ADS

Up to US\$ 5.00 per 100 ADSs (or portion thereof)

### **Direct and indirect payments by the depository**

The depository pays us an agreed amount, which includes reimbursements for certain expenses we incur in connection with the ADS program. These reimbursable expenses include legal and accounting fees, listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADS holders. For the year ended December 31, 2018, this amount was US\$1,068,522.80.

### **ITEMS 13-14. NOT APPLICABLE**

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **(a) Disclosure Controls and Procedures**

We have evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2018. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our principal executive officer and principal 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 Securities Exchange Act of 1934, as amended (or 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 principal executive officer and principal 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 Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework, as 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 International Financial Reporting Standards. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the 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 International Financial Reporting Standards, 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 2013 framework in Internal Controls Integrated Framework, as issued by the Committee of Sponsoring Organizations of the Treadway Commission, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

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In accordance with applicable guidance provided by SEC, our management assessment and conclusions of internal control effectiveness over financial reporting as of December 31, 2018 excludes an assessment of the internal control over financial reporting of Café del Pacífico, S.A.P.I. de C.V. ( Caffenio ), Alimentos y Bebidas Atlántida, S.A. ( ABASA ), Comercializadora y Productora de Bebidas Los Volcanes S.A. ( Los Volcanes ) and Montevideo Refrescos S.R.L. ( MONRESA ). These acquisitions represented 1.7% and 2.0% of our total assets and net assets, respectively, as of December 31, 2018, and 2.5% of our revenues, for the year ended December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Mancera, S.C., a member practice of Ernst & Young Global Limited, an independent registered public accounting firm, as stated in its report included herein.

### **(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

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

#### **Opinion on Internal Control over Financial Reporting**

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

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of 1) Café del Pacífico, S.A.P.I. de C.V. ( Caffenio ) consolidated since May 2018, 2) Alimentos y Bebidas Atlántida S.A. ( ABASA ) and Comercializadora y Productora de Bebidas Los Volcanes, S.A. ( Los Volcanes ), consolidated since April 2018; and 3) Montevideo Refrescos S.R.L. ( MONRESA ), consolidated since July 2018, which collectively constituted 1.7% and 2.0% of total and net assets, respectively, as of December 31, 2018 and 2.5% 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 these subsidiaries.

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, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes, and our report dated April 24, 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 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 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also includes performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

## Definitions 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 (IFRS). 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 IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

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

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

/s/ MANCERA, S.C.

Monterrey, N.L., Mexico

April 24, 2019.

## (d) Changes in Internal Control over Financial Reporting

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

## ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our shareholders and our board of directors have designated Víctor Alberto Tiburcio Celorio, an independent director under the Mexican Securities Law and applicable U.S. Securities Laws and NYSE listing standards, as an audit committee financial expert within the meaning of this Item 16A. **See Item 6. Directors, Senior Management and Employees Directors.**

## ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics, within the meaning of this Item 16B of Form 20-F. Our code of ethics applies to our principal executive officer, principal financial officer, principal accounting 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 [http://ir.femsa.com/code\\_ethics.cfm](http://ir.femsa.com/code_ethics.cfm). If we amend the provisions of our code of ethics that apply to our principal executive officer, principal financial officer, principal accounting 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.

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

### Audit and Non-Audit Fees

For the fiscal years ended December 31, 2018, 2017 and 2016, Mancera, S.C., a member practice of Ernst & Young Global Limited, was our auditor.

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The following table summarizes the aggregate fees billed to us in 2018, 2017 and 2016 by Mancera, S.C., which is an independent registered public accounting firm, during the fiscal years ended December 31, 2018, 2017 and 2016:

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	Year ended December 31,		
	2018	2017	2016
	(in millions of Mexican pesos)		
Audit fees	Ps.139	Ps.129	Ps.111
Audit-related fees	10	18	15
Tax fees	24	13	14
Other fees	8	1	4
Total	Ps.181	Ps.161	Ps.144

*Audit fees.* Audit fees in the above table represent the aggregate fees billed in connection with the audit of our annual financial statements, as well as to other limited procedures in connection with our quarterly financial information and other statutory and regulatory audit activities.

*Audit-related fees.* Audit-related fees in the above table are the aggregate fees billed for assurance and other services related to the performance of the audit, mainly in connection with bond issuance processes and other special audits and reviews.

*Tax fees.* Tax fees in the above table are fees billed for services based upon existing facts and prior transactions in order to document, compute and obtain government approval for amounts included in tax filings such as value-added tax return assistance and transfer pricing documentation.

*Other fees.* Other fees in the above table include mainly fees billed for due diligence services.

**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 board of directors are briefed on matters discussed by the different committees of our board of directors.

**ITEM 16D. NOT APPLICABLE****ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

We did not purchase any of our equity securities in 2018. The following table presents purchases by trusts that we administer in connection with our stock incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. See **Item 6. Directors, Senior Management and Employees** - EVA Stock Incentive Plan.

**Purchases of Equity Securities**

Period	Total Number of BD Units Purchased	Average Price Paid per BD Units	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate U.S. dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
March 2018	2,598,083	Ps. 179.15		

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### ITEM 16F. NOT APPLICABLE

### ITEM 16G. CORPORATE GOVERNANCE

Pursuant to Rule 303A.11 of the Listed Company Manual of the 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 Law and the regulations issued by the CNBV. We also disclose the extent of compliance with the *Código de Principios y Mejores Prácticas de Gobierno Corporativo* (Mexican Code of Principles and Best Corporate Governance), which was created by a group of Mexican business leaders and was endorsed by the Mexican Stock Exchange.

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.

**Executive sessions:** Non-management directors must meet at regularly scheduled executive sessions without management.

**Nominating/Corporate Governance Committee:** A nominating/corporate governance committee composed entirely of independent directors is required.

#### Our Corporate Governance Practices

**Directors independence:** Pursuant to the Mexican Securities Law, we are required to have a board of directors with a maximum of 21 members, 25% of whom must be independent.

The Mexican Securities 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 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 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:** We are not required to have a nominating committee, and the Mexican Code of Best Corporate Practices does not provide for a nominating



committee.

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### NYSE Standards

**Compensation Committee:** A compensation committee composed entirely independent directors is required.

**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.

**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.

### Our Corporate Governance Practices

However, Mexican law requires us to have a Corporate Practices Committee. Our Corporate Practices Committee is composed of four members, and as required by the Mexican Securities Law and our bylaws, the four members are independent, and its chairman is elected at the shareholders' meeting.

**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:** We have an Audit Committee of three members, as required by the Mexican Securities Law. Each member of the Audit Committee is an independent director, and its chairman is elected at the shareholders' meeting.

**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. Our current equity compensation plans have been approved by our board of directors.

**Code of business conduct and ethics:** We have adopted a code of ethics, within the meaning of Item 16B 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 [http://ir.femsa.com/code\\_ethics.cfm](http://ir.femsa.com/code_ethics.cfm). 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.

ITEM 16H. NOT APPLICABLE

ITEM 17. NOT APPLICABLE

ITEM 18. FINANCIAL STATEMENTS  
See pages F-1 through F-187, incorporated herein by reference.

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### **ITEM 19. EXHIBITS**

- 1.1 Bylaws (*estatutos sociales*) of Fomento Económico Mexicano, S.A.B. de C.V., approved on April 22, 2008, together with an English translation thereof (incorporated by reference to Exhibit 1.1 of FEMSA's Annual Report on Form 20-F filed on June 30, 2008 (File No. 333-08752)).
- 1.2 Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Emprex and FEMSA dated as of January 11, 2010 (incorporated by reference to Exhibit 1.2 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 (File No. 333-08752)).
- 1.3 First Amendment to Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Emprex and FEMSA dated as of April 26, 2010 (incorporated by reference to Exhibit 1.3 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 (File No. 333-08752)).
- 1.4 Corporate Governance Agreement, dated April 30, 2010, between Heineken Holding N.V., Heineken N.V., L. Arche Green N.V., FEMSA and CB Equity (incorporated by reference to Exhibit 1.4 of FEMSA's Annual Report on Form 20-F filed on April 27, 2012 (File No. 333-08752)).
- 2.1 Deposit Agreement, as further amended and restated as of May 11, 2007, among FEMSA, The Bank of New York Mellon (formerly The Bank of New York), and all owners and holders from time to time of any American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to FEMSA's registration statement on Form F-6 filed on April 30, 2007 (File No. 333-142469)).
- 2.2 Specimen certificate representing a BD Unit, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, together with an English translation (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 33-8618)).\*
- 2.3 Indenture dated, as of February 5, 2010, among Coca-Cola FEMSA 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)).
- 2.4 First Supplemental Indenture dated as of February 5, 2010 among Coca-Cola FEMSA 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)).
- 2.5 Second Supplemental Indenture, dated as of April 1, 2011, among Coca-Cola FEMSA, 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 Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 17, 2011 (File No. 001-12260)).
- 2.6 Indenture, dated as of April 8, 2013, between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent, and Transfer Agent (incorporated by reference to Exhibit 4.1 of FEMSA's registration statement on Form F-3 filed on April 9, 2013 (File No. 333-187806)).
- 2.7 First Supplemental Indenture, dated as of May 10, 2013, between FEMSA, as Issuer, and 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, including the form of global note therein (incorporated by reference to Exhibit 1.4 to FEMSA's registration statement on Form 8-A filed on May 17, 2013 (File No. 001-35934)).

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- 2.8 Third Supplemental Indenture, dated as of September 6, 2013, among Coca-Cola FEMSA, 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.A. 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)).
- 2.9 Fourth Supplemental Indenture, dated as of October 18, 2013, among Coca-Cola FEMSA, 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.A. 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)).
- 2.10 Fifth Supplemental Indenture, dated as of November 26, 2013, among Coca-Cola FEMSA, 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.A. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer 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)).
- 2.11 Sixth Supplemental Indenture dated as of January 21, 2014 among Coca-Cola FEMSA, 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.A. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer 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)).
- 2.12 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)).
- 2.13 Second Supplemental Indenture, dated as of March 18, 2016, between FEMSA, as Issuer, and 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, including the form of global note therein (incorporated by reference to Exhibit 2.13 of FEMSA's Annual Report on Form 20-F filed on April 21, 2016 (File No. 1-35934)).
- 3.1 Amended Voting Trust Agreement among certain principal shareholders of FEMSA, together with an English translation (incorporated by reference to FEMSA's Schedule 13D as amended, filed on August 11, 2005 (File No. 005-54705)).
- 4.1 Amended and Restated Shareholders' Agreement, dated as of July 6, 2002, by and among CIBSA, Emprex, The Coca-Cola Company and Inmex (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).

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- 4.2 Amendment, dated May 6, 2003, to the Amended and Restated Shareholders Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex, 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)).
- 4.3 Second Amendment, dated February 1, 2010, to the Amended and Restated Shareholders Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex 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)).
- 4.4 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast 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)).
- 4.5 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast 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)).\*
- 4.6 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- 4.7 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA 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)).\*
- 4.8 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)).\*
- 4.9 Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA 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)).\*
- 4.10 Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA 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)).\*
- 4.11 Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA 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)).\*
- 4.12 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)).\*
- 4.13 Supply Agreement, dated June 21, 1993, between Coca-Cola FEMSA and FEMSA Empaques (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 33-8618)).\*

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- 4.14 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)).
- 4.15 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)).
- 4.16 Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to FEMSA's Registration Statement on Form F-4 filed on April 9, 1998 (File No. 33-8618)).\*
- 4.17 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 Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.18 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 Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.19 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 Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.20 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)).\*
- 4.21 Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA and FEMSA Logística, S.A. de C.V. (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)).\*
- 4.22 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 Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.23 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 Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.24 Memorandum of Understanding, dated as of March 11, 2003, by and among Panamco, as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.25 Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA 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)).\*
- 4.26 Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA 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)).\*

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4.27	<u>The Coca-Cola Company Memorandum to Steve Hoyer from Jose 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>
4.28	<u>Shareholders Agreement, dated as of January 25, 2013, by and among KOF Philippines, 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 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on March 15, 2013 (File No. 1-12260)).</u>
8.1	<u>Significant Subsidiaries.</u>
12.1	<u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 24, 2019.</u>
12.2	<u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 24, 2019.</u>
13.1	<u>Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 24, 2019.</u>
101. INS	XBRL Instance Document.
101. SCH	XBRL Taxonomy Extension Schema Document.
101. CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101. LAB	XBRL Taxonomy Extension Label Linkbase Document.
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101. DEF	XBRL Taxonomy Extension Definition Document.

\* 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 our long-term debt, none of which authorizes the issuance of securities in a total amount that exceeds 10% of our total assets. We hereby agree to furnish to the SEC copies of any such omitted instruments or agreements as the SEC requests.

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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.

Date: April 24, 2019

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

By: /s/ Gerardo Estrada Attolini  
Gerardo Estrada Attolini  
Director of Corporate Finance



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**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES**

**MONTERREY, N.L., MÉXICO**

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### **Report of Independent Registered Public Accounting Firm**

To the shareholders and the board of directors of

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

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial position of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, based on our audits and the report of the other auditors, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We did not audit the consolidated financial statements of Heineken N.V. (a corporation in which the Company has an 8.63% interest at December 31, 2018 and 2017) which is majority owned by Heineken Holding N.V. (a corporation in which the Company has a 12.26% interest at December 31, 2018 and 2017) (collectively Heineken). In the consolidated financial statements, the Company's investment in Heineken includes its share of the net assets of Ps. 47,765 ( \$.2,199) and Ps. 46,349 ( \$.1,966) million at December 31, 2018 and 2017, respectively, and its equity in the net income of Heineken of Ps. 6,320, ( \$.281), Ps. 7,656 ( \$.357) and Ps. 6,430 ( \$.308) million for the years ended December 31, 2018, 2017 and 2016, respectively, which are exclusive of the impact of goodwill and other adjustments recorded by the Company. The financial statements of Heineken were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included above for Heineken, is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated April 24, 2019 expressed an unqualified opinion thereon.

### **Basis for opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according to the 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 and the report of the other auditors 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

Monterrey, N.L., Mexico

April 24, 2019.

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**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Statements of Financial Position*

As of December 31, 2018 and 2017.

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

	Note	2018 <sup>(1)</sup>	2018	2017
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	5	\$ 3,160	Ps. 62,047	Ps. 96,944
Investments	6	1,575	30,924	2,160
Trade accounts receivables, net	7	1,434	28,164	32,316
Inventories	8	1,817	35,686	34,840
Recoverable taxes	24	840	16,488	11,284
Other current financial assets	9	45	878	756
Other current assets	9	174	3,420	2,888
<b>Total current assets</b>		<b>9,045</b>	<b>177,607</b>	<b>181,188</b>
<b>NON CURRENT ASSETS</b>				
Equity accounted investees	10	4,803	94,315	96,097
Property, plant and equipment, net	11	5,531	108,602	116,712
Intangible assets, net	12	7,416	145,610	154,093
Deferred tax assets	24	843	16,543	15,853
Other non-current financial assets	13	1,191	23,387	12,073
Other non-current assets	13	526	10,317	12,525
<b>Total non-current assets</b>		<b>20,310</b>	<b>398,774</b>	<b>407,353</b>
<b>TOTAL ASSETS</b>		<b>\$ 29,355</b>	<b>Ps. 576,381</b>	<b>Ps. 588,541</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Bank loans and notes payable	18	\$ 124	Ps. 2,436	Ps. 2,830
Current portion of non-current debt	18	572	11,238	10,760
Interest payable		49	964	976
Trade payable		2,653	52,101	48,625
Accounts payable		691	13,568	17,538
Taxes payable		625	12,264	11,214
Other current financial liabilities	25	453	8,893	13,079
<b>Total current liabilities</b>		<b>5,167</b>	<b>101,464</b>	<b>105,022</b>

**NON-CURRENT LIABILITIES**

Bank loans and notes payable	18	5,856	114,990	117,758
Post-employment benefits	16	239	4,699	5,373
Deferred tax liabilities	24	300	5,886	6,133
Other non-current financial liabilities	25	114	2,232	2,797
Provisions and other non-current liabilities	25	590	11,568	14,546

<b>Total non-current liabilities</b>		<b>7,099</b>	<b>139,375</b>	<b>146,607</b>
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<b>TOTAL LIABILITIES</b>		<b>12,266</b>	<b>240,839</b>	<b>251,629</b>
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**EQUITY**

Controlling interest:				
Capital stock		171	3,348	3,348
Additional paid-in capital		1,367	26,850	26,808
Retained earnings		11,093	217,802	201,868
Other comprehensive income		461	9,053	18,267

Total controlling interest		<b>13,092</b>	<b>257,053</b>	<b>250,291</b>
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Non-controlling interest	21	<b>3,997</b>	<b>78,489</b>	<b>86,621</b>
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<b>TOTAL EQUITY</b>		<b>17,089</b>	<b>335,542</b>	<b>336,912</b>
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<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 29,355</b>	<b>Ps. 576,381</b>	<b>Ps. 588,541</b>
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<sup>(1)</sup> 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****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Income Statements*

For the years ended December 31, 2018, 2017 and 2016.

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

	Note	2018 <sup>(1)</sup>	2018	2017 <sup>(2)</sup>	2016
Net sales		\$ 23,881	Ps. 468,894	Ps. 439,239	Ps. 398,622
Other operating revenues		43	850	693	885
Total revenues		23,924	469,744	439,932	399,507
Cost of goods sold		15,002	294,574	277,842	251,303
<b>Gross profit</b>		<b>8,922</b>	<b>175,170</b>	162,090	148,204
Administrative expenses		882	17,313	15,222	14,730
Selling expenses		5,835	114,573	105,880	95,547
Other income	19	34	673	31,951	1,157
Other expenses	19	150	2,947	33,866	5,909
Interest expense	18	500	9,825	11,092	9,646
Interest income		144	2,832	1,470	1,299
Foreign exchange (loss) gain, net		(13)	(248)	4,934	1,131
Monetary position gain, net		11	216	1,590	2,411
Market value (loss) gain on financial instruments		(18)	(355)	(204)	186
<b>Income before income taxes from continuing operations and share of profit in equity accounted investees</b>		<b>1,713</b>	<b>33,630</b>	35,771	28,556
Income taxes	24	518	10,169	10,213	7,888
Share of the profit of equity accounted investees, net of tax	10	318	6,252	7,923	6,507
Net income from continuing operations		1,513	29,713	33,480	27,175
Net income from discontinued operations	4	171	3,366	3,726	
<b>CONSOLIDATED NET INCOME</b>		<b>1,684</b>	<b>33,079</b>	37,206	27,175
Controlling interest from continuing operations		1,148	22,560	40,863	21,140
Controlling interest from discontinued operations		73	1,430	1,545	
Non-controlling interest from continuing operations		364	7,153	(7,383)	6,035
		99	1,936	2,181	

Non-controlling interest from discontinued operations

<b>CONSOLIDATED NET INCOME</b>		<b>\$ 1,684</b>	<b>Ps. 33,079</b>	<b>Ps. 37,206</b>	<b>Ps. 27,175</b>
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**Basic earnings per share of continuing operations**

Per series B share	23	<b>\$ 0.06</b>	<b>Ps. 1.13</b>	<b>Ps. 2.04</b>	<b>Ps. 1.05</b>
Per series D share	23	<b>0.07</b>	<b>1.41</b>	<b>2.55</b>	<b>1.32</b>

**Basic earnings per share of discontinued operations**

Per series B share	23	<b>0.07</b>	<b>0.08</b>		
Per series D share	23	<b>0.09</b>	<b>0.10</b>		

**Diluted earnings per share of continuing operations**

Per series B share	23	<b>0.06</b>	<b>1.13</b>	<b>2.04</b>	<b>1.05</b>
Per series D share	23	<b>0.07</b>	<b>1.41</b>	<b>2.55</b>	<b>1.32</b>

**Diluted earnings per share of discontinued operations**

Per series B share	23	<b>0.07</b>	<b>0.08</b>		
Per series D share	23	<b>0.09</b>	<b>0.10</b>		

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

(2) Revised to reflect the discontinued Philippines operations of Coca-Cola FEMSA See Note 4.2.1

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

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Statements of Comprehensive Income*

For the years ended December 31, 2018, 2017 and 2016.

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

	<b>Note</b>	<b>2018 (1)</b>	<b>2018</b>	<b>2017 (2)</b>	<b>2016</b>
<b>CONSOLIDATED NET INCOME</b>		<b>\$ 1,684</b>	<b>Ps. 33,079</b>	<b>Ps. 37,206</b>	<b>Ps. 27,175</b>
<b>Items that will be reclassified to consolidated net income, net of tax:</b>					
Valuation of the effective portion of derivative financial instruments	20	(30)	(592)	(439)	1,732
Income (loss) on hedge of a net investment in foreign operations	18	37	724	(1,259)	(1,443)
Exchange differences on the translation of foreign operations and equity accounted investees		(671)	(13,174)	14,482	30,763
Share of other comprehensive loss of equity accounted investees	10	(18)	(360)	(2,013)	(2,228)
Total items that will be reclassified		(682)	(13,402)	10,771	28,824
<b>Items that will not to be reclassified to consolidated net income in subsequent periods, net of tax:</b>					
Loss due to changes in the fair value in equity financial instruments		(53)	(1,039)		
Share of other comprehensive income (loss) of equity accounted investees		30	597	69	(1,004)
Remeasurements of the net defined benefit liability		28	551	(7)	(167)
Total items that will not be reclassified		5	109	62	(1,171)
Other items of comprehensive (loss) income, net of tax		(677)	(13,293)	10,833	27,653
Consolidated comprehensive income, net of tax		\$ 1,007	Ps. 19,786	Ps. 48,039	Ps. 54,828
Controlling interest comprehensive income		753	14,776	46,052	39,330
Reattribution to non-controlling interest of other comprehensive income by acquisition of Vonpar				(51)	



Controlling interest comprehensive income	\$ 753	Ps. 14,776	Ps. 46,001	Ps. 39,330
Non-controlling interest comprehensive income	254	5,010	1,987	15,498
Reattribution from controlling interest of other comprehensive income by acquisition of Vonpar			51	
Non-controlling interest comprehensive income	254	5,010	2,038	15,498
<b>Consolidated comprehensive income, net of tax</b>	<b>\$ 1,007</b>	<b>Ps. 19,786</b>	<b>Ps. 48,039</b>	<b>Ps. 54,828</b>
Out of which:				
Controlling comprehensive income from continuing operations, net of tax	\$ 231	Ps. 4,540	Ps. 20,895	Ps. 25,891
Controlling comprehensive income from discontinued operations, net of tax	245	4,804	1,790	
Non-controlling comprehensive income from continuing operations, net of tax	521	10,236	25,106	28,937
Non-controlling comprehensive income from discontinued operations, net of tax	11	206	248	

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

(2) Revised to reflect the discontinued operations of Coca-Cola FEMSA Philippines See Note 4.2.1

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

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ions										
olling	21									
ts in ounted net	14	(521)				(521)				
as of r 31,	Ps. 3,348	Ps. 25,733	Ps. 168,796	Ps.	Ps. 2,663	Ps. 14,553	Ps. (3,189)	Ps. 211,904	Ps. 74,266	Ps.

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Notes	Capital stock	Additional paid-in capital	Retained earnings	Fair value in equity financial instrument	Valuation of the effective portion of derivative financial instrument	Exchange differences on the translation of foreign operations and equity accounted investees	Remeasurements of the net defined benefit liability	Total controlling interest	Non-controlling interest	T
			42,408					42,408	(5,202)	
					(47)	3,607	33	3,593	7,240	
			42,408		(47)	3,607	33	46,001	2,038	
21, 22			(8,636)					(8,636)	(3,622)	
17		(89)						(89)	50	
4		1,164			2	47	2	1,215	2,867	
4									(322)	
21									272	
4									11,072	
14			(596)				596			

	10	(104)	(104)							
f of , f	Ps. 3,348	Ps. 26,808	Ps. 201,868		Ps. 2,618	Ps. 18,207	Ps. (2,558)	Ps. 250,291	Ps. 86,621	Ps.
				Fair value in equity financial instrument	Valuation of the effective portion of derivative financial instrument	Exchange differences on the translation of foreign operations and equity accounted investees	Remeasurements of the net defined benefit liability	Total controlling interest	Non-controlling interest	
f	Notes	Capital Stock	Additional paid-in capital	Retained earnings						
18		3,348	26,808	201,868		2,618	18,207	(2,558)	250,291	86,621
	2			(229)				(229)	(150)	
				1,269				1,269	1,418	
18		3,348	26,808	202,908		2,618	18,207	(2,558)	251,331	87,889
				23,990				23,990	9,089	
e y					(491)	(727)	(8,988)	992	(9,214)	(4,079)
e				23,990	(491)	(727)	(8,988)	992	14,776	5,010
	21,22			(9,220)				(9,220)	(3,713)	

	17	42					42	31	
g	21							412	
t	4							(11,140)	
	10	124					124		
f									
,									
	Ps. 3,348	Ps. 26,850	Ps. 217,802	Ps. (491)	Ps. 1,891	Ps. 9,219	Ps. (1,566)	Ps. 257,053	Ps. 78,489

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

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MEXICO***Consolidated Statements of Cash Flows*

For the years ended December 31, 2018, 2017 and 2016.

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

	2018 <sup>(1)</sup>	2018	2017 <sup>(2)</sup>	2016
<b>OPERATING ACTIVITIES</b>				
<b>Income before income taxes from discontinued operations</b>	\$ 67	Ps. 1,308	Ps. 1,265	Ps.
<b>Income before income taxes from continuing operations</b>	\$ 2,031	Ps. 39,882	Ps. 43,694	Ps. 35,063
Non-cash items adjustments:				
Operating expenses	111	2,171	3,166	4,111
Non-operating expenses			25,817	
Depreciation	749	14,698	13,799	12,076
Amortization	129	2,539	1,841	1,633
Gain on sale of long-lived assets	(9)	(174)	(210)	(170)
(Gain) loss on sale of shares			(30,112)	8
Disposal of long-lived assets	26	518	451	238
Impairment of long-lived assets	22	432	2,063	
Share of the profit of equity accounted investees, net of taxes	(318)	(6,252)	(7,923)	(6,507)
Interest income	(144)	(2,832)	(1,470)	(1,299)
Interest expense	500	9,825	11,092	9,646
Foreign exchange loss (gain), net	13	248	(4,934)	(1,131)
Monetary position (gain) loss, net	(11)	(216)	(1,590)	(2,411)
Market value loss (gain) on financial instruments	18	355	204	(186)
Net cash flow from operating activities before changes in operating accounts	3,117	61,194	55,888	51,071
Trade accounts receivable and other current assets	(124)	(2,426)	(11,182)	(1,889)
Other current financial assets	19	379	1,417	(1,395)
Inventories	(194)	(3,809)	(2,808)	(4,936)
Derivative financial instruments	(1)	(23)	18	130
Trade accounts payable and other accounts	250	4,906	7,344	15,337
Other non-current liabilities	38	752	309	968
Other current financial liabilities	(28)	(544)	1,769	2,642
Employee benefits paid	(21)	(412)	(661)	(476)
Net cash generated from operations	3,056	60,017	52,094	61,452

Income taxes paid	(642)	(12,603)	(18,659)	(11,321)
Net cash generated by operating activities from discontinued operations	33	654	5,435	
Net cash generated by operating activities from continuing operations	2,414	47,414	33,435	50,131

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**Table of Contents****MONTERREY, N.L., MEXICO***Consolidated Statements of Cash Flows*

For the years ended December 31, 2018, 2017 and 2016.

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

	2018 <sup>(1)</sup>	2018	2017 <sup>(2)</sup>	2016
<b>INVESTING ACTIVITIES</b>				
Proceeds from the sale of subsidiary, net of cash disposed	390	7,649		
Acquisition of Coca-Cola FEMSA, net of cash acquired (see Note 4)	(290)	(5,692)		
Deconsolidation in Coca-Cola FEMSA Venezuela (see Note 3.3)			(170)	
Partial payment of Vonpar, net				(13,198)
Other acquisitions, net	(16)	(321)		(5,032)
Equity accounted investees	(5)	(98)	(889)	(2,189)
Partial disposal of investment in Heineken Group			50,790	
Purchase of investments	(2,062)	(40,487)	(2,539)	(118)
Proceeds from investments				20
Interest received	139	2,736	1,470	1,299
Derivative financial instruments	5	99	(35)	(220)
Dividends received from equity accounted investees	124	2,443	3,277	3,276
Property, plant and equipment acquisitions	(1,099)	(21,584)	(19,484)	(19,083)
Disposal of property, plant and equipment	24	467	491	574
Acquisition of intangible assets	(91)	(1,793)	(3,003)	(2,309)
Investment in other assets	(60)	(1,182)	(1,222)	(1,709)
Collections of other assets	8	166	94	2
Investment in other financial assets	(3)	(65)	(184)	(23)
Collection in other financial assets				65
<b>Net cash (used in) generated by investing activities from discontinued operations</b>	<b>(49)</b>	<b>(962)</b>	<b>2,820</b>	
<b>Net cash (used in) generated by investing activities from continuing operations</b>	<b>(2,936)</b>	<b>(57,662)</b>	<b>28,596</b>	<b>(38,645)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from borrowings	823	16,155	13,599	26,629
Payments of bank loans	(875)	(17,182)	(18,130)	(5,458)
Interest paid	(346)	(6,799)	(6,547)	(5,470)
Derivative financial instruments	(117)	(2,288)	(1,579)	(3,471)
Dividends paid	(659)	(12,933)	(12,450)	(12,045)
Acquisition of non-controlling interest			(663)	892

Other financing activities	2	36	634	220
Financing from Vonpar's acquisition			4,082	
<b>Net cash used in financing activities from discontinued operations</b>	<b>(2)</b>	<b>(37)</b>	<b>(485)</b>	
<b>Net cash (used) generated by financing activities from continuing operations</b>	<b>(1,172)</b>	<b>(23,011)</b>	<b>(21,054)</b>	<b>1,297</b>
(Decrease) increase in cash and cash equivalents from continuing operations	<b>(1,694)</b>	<b>(33,258)</b>	40,977	12,783
Increase in cash and cash equivalents from discontinued operations	<b>49</b>	<b>963</b>	9,035	
Cash and cash equivalents at the beginning of the period	<b>4,937</b>	<b>96,944</b>	43,637	29,396
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies	<b>(132)</b>	<b>(2,602)</b>	3,295	1,458
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 3,160</b>	<b>Ps. 62,047</b>	Ps. 96,944	Ps. 43,637

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

(2) Revised to reflect the discontinued Philippines operations of Coca-Cola FEMSA See Note 4.2.1

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

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

For the years ended December 31, 2018, 2017 and 2016.

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

**Note 1. Company business**

Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries ( FEMSA or the Company), incorporated in 1936, is a public company established as a *sociedad anónima bursátil de capital variable* under the Mexican laws leading subsidiaries that are direct and indirect sub-holding companies in businesses in which the Company operates as beverage industry through Coca-Cola FEMSA; retail industry through FEMSA Comercio Proximity, Fuel and Health Divisions; beer industry through the Heineken investment and other businesses.

The following is a description of the Company's businesses, along with its interest ownership in each reportable segment:

<b>Business</b>	<b>% Ownership</b>		<b>Activities</b>
	<b>2018</b>	<b>2017</b>	
Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries ( Coca-Cola FEMSA )	<b>47.2%</b> <sup>(1)</sup> <b>(63.0% of the voting shares)</b>	47.2% <sup>(1)</sup> (63.0% of the voting shares)	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil, Argentina and Uruguay (see Note 4). As of December 31, 2018, The Coca-Cola Company ( TCCC ) indirectly owns 27.8% of Coca-Cola FEMSA's capital stock. In addition, shares representing 25% of Coca-Cola FEMSA's capital stock are traded on the Bolsa Mexicana de Valores (Mexican Stock Exchange BMV ) and on the New York Stock Exchange, Inc. ( NYSE ) in the form of American Depositary Shares ( ADS ).
FEMSA Comercio Proximity Division <sup>(3)</sup>	<b>100%</b>	100%	Small-box retail chain format operations in Mexico, Colombia, Peru, United States and Chile, mainly under the trade name OXXO .
FEMSA Comercio Fuel Division	<b>100%</b>	100%	Retail service stations for fuels, motor oils, lubricants and car care products under the trade name OXXO GAS with operations in Mexico.
FEMSA Comercio Health Division	<b>Various</b> <sup>(2)</sup>	Various <sup>(2)</sup>	Drugstores operations in Chile and Colombia, mainly under the trademark Cruz Verde and Mexico under various brands such as YZA, La Moderna and Farmacon.
Heineken investment	<b>14.8%</b>	14.8%	

Heineken N.V. and Heineken Holding N.V. shares, which represents an aggregate of 14.8% economic interest in both entities (Heineken Group).

Companies engaged in the production and distribution of coolers, commercial refrigeration equipment, plastic cases, food processing, preservation and weighing equipment; logistic transportation and maintenance services to FEMSA's subsidiaries and to third parties.

Other businesses	<b>100%</b>	100%
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- (1) The Company controls Coca-Cola FEMSA's relevant activities.
- (2) The former shareholders of Farmacias YZA hold a 18.6% stake in Cadena Comercial de Farmacias, S.A.P.I. de C.V., a subsidiary of FEMSA that holds all pharmacy business in Mexico (which we refer to as CCF). In addition, FEMSA Comercio Health Division through one of its subsidiaries, Cadena Comercial de Farmacias Sudamérica, S.P.A., holds a 60% stake in Grupo Socofar, see Note 4.1.2.
- (3) In 2018, the Company made a change in its reporting segment previously named FEMSA Comercio Retail Division in which the activities not directly related with FEMSA Comercio Retail Division were eliminated from the Proximity stores, including restaurant and discount retail units, before including in this operating segment. The reclassified operations from this segment is now included in Others.

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**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES**

**MONTERREY, N.L., MEXICO**

For the years ended December 31, 2018, 2017 and 2016.

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

**Note 2. Basis of Preparation**

*2.1 Statement of compliance*

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

The Company's consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer Eduardo Padilla Silva and the Chief Corporate Financial Officer Gerardo Estrada Attolini on February 21, 2019. These consolidated financial statements and notes were then approved by the Company's Board of Directors on February 27, 2019 and by the Annual Shareholders meeting on March 22, 2019. 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 Corporate Financial Officer on April 24, 2019 and subsequent events have been considered through that date (see Note 29).

*2.2 Basis of measurement and presentation*

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

Derivative financial instruments.

Long-term notes payable on which fair value hedge accounting is applied.

Trust assets of post-employment and other long-term employee benefit plans.

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

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

*2.2.1 Presentation of consolidated income statement*

The Company's consolidated income statement classifies its related costs and expenses by function accordingly within the industry practices in which the Company operates.

*2.2.2 Presentation of consolidated statements of cash flows*

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

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

The consolidated financial statements are stated in millions of Mexican pesos ( Ps. ) and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position, as of December 31, 2018 the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2018 were converted into U.S. dollars at closing exchange rate of 19.6350 Mexican pesos per U.S. dollar as published by the Federal Reserve Bank of New York as of December 31, 2018. This arithmetic conversion should not be construed as representation that amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate.

As explained in Note 2.1 above, as of April 19, 2019 (the issuance date of these consolidated financial statements) the exchange rate was Ps. 18.7705 per U.S. dollar, a revaluation of 4% since December 31, 2018.

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**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES**

**MONTERREY, N.L., MEXICO**

For the years ended December 31, 2018, 2017 and 2016.

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

*2.3 Critical accounting judgments and estimates*

For the application of the Company's accounting policies, as 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 assumptions are based on historical experience and other factors that are considered to be relevant. Real results may differ from these estimates.

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

*Judgements*

In the process of applying the Company's accounting policies, management has made the following judgements most significant effects are included on consolidated financial statements.

*2.3.1 Key sources of estimation uncertainty*

The following are the assumptions and other sources of estimation uncertainty as of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the subsequent financial period. 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 would be included in the assumptions when they occur.

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

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

The Company assesses at each reporting date whether there is an indication that a long-lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU

is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are expected to be generated from the use of the asset or CGU discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available.

If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The key assumptions used to determine the recoverable amount for the Company's CGUs, including a sensitivity analysis, are further explained in Notes 3.19 and 12.

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

Property, plant and equipment, including returnable bottles which are expected to provide benefits over a period of more than one year, as well as intangible assets with definite useful lives are depreciated/amortized over their estimated useful lives. The Company bases its estimates on the experience of its technical personnel as well as its experience in the industry for similar assets, see Notes 3.15, 3.17, 11 and 12.



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**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES**

**MONTERREY, N.L., MEXICO**

For the years ended December 31, 2018, 2017 and 2016.

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

*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 long-term employee benefit computations. Information about such assumptions is described in Note 16.

*2.3.1.4 Income taxes*

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Company recognizes deferred tax assets for unused tax losses and other credits and regularly reviews them for recoverability, based on its judgment regarding the probability of the timing and level of future taxable income, the expected timing of the reversals of existing taxable temporary differences and future tax planning strategies, see Note 24.

*2.3.1.5 Tax, labor and legal contingencies and provisions*

The Company is subject to various claims and contingencies related to tax, labor and legal proceedings as described in Note 25. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a provision and/or discloses the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a provision for the estimated loss. Management's judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

*2.3.1.6 Valuation of financial instruments*

The Company measures all derivative financial instruments at fair value.

The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient reliable and verifiable data, recognized in the financial sector. The Company bases its forward price curves upon market price quotations. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 20.

*2.3.1.7 Business combinations*

Businesses combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets

transferred by the Company to, and liabilities assumed by the Company from the former owners of the 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 compensation arrangements of the acquiree or share-based compensation arrangements of the Company entered into to replace share-based compensation arrangements of the acquiree are measured in accordance with IFRS 2, *Share-based Payment* at the acquisition date, see Note 3.27;

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Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

Indemnifiable assets are recognized at the acquisition date on the same basis as the indemnifiable liability subject to any contractual limitations.

For each acquisition, management's judgment must be exercised to determine the fair value of the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, applying estimates or judgments in techniques used, especially in forecasting 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, goodwill, distribution and trademark rights.

*2.3.1.8 Equity accounted investees*

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

Representation on the board of directors or equivalent governing body of the investee;

Participation in policy-making processes, including participation in decisions about dividends or other distributions;

Material transactions between the Company and the investee;

Interchange of managerial personnel; or

Provision of essential technical information.

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

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

Whether the extent of the Company's ownership is significant relative to other shareholders (i.e., a lack of concentration of other shareholders);

Whether the Company's significant shareholders, fellow subsidiaries, or officers hold additional investment in the investee; and

Whether the Company is a part of significant investee committees, such as the executive committee or the finance committee.

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When the Company is a party to an arrangement it shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively; joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. Management needs to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. When assessing joint control, management considers the following facts and circumstances such as:

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a) Whether all the parties or a group of the parties, control the arrangement, considering definition of joint control, as described in Note 3.14; and

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

As mentioned in Note 4, until January 2017, Coca-Cola FEMSA accounted for its 51% investment in Coca-Cola FEMSA Philippines, Inc. (CCFPI) as a joint venture, this was based on the facts that Coca-Cola FEMSA and TCCC: (i) make all operating decisions jointly during the initial four-year period and (ii) potential voting rights to acquire the remaining 49% of CCFPI were not probable to be exercised in the foreseeable future and the fact that the call option remains out of the money as of December 31, 2017. In January 2017, the arrangement between Coca-Cola FEMSA and TCCC for joint control of CCFPI expired; therefore, Coca-Cola FEMSA started to consolidate the operations of CCFPI effective February 2017. On August 16, 2018, Coca-Cola FEMSA announced the exercise of the put option to sell its 51% stake in CCFPI back to TCCC. Therefore, its operations for the years ended December 31, 2018 and 2017 were reclassified as discontinued operations in the consolidated income statements.

*2.3.1.9 Venezuela exchange rates and deconsolidation*

As is further explained in Note 3.3 below, as of December 31, 2017, the exchange rates used to translate the financial statements of the Company's Venezuelan subsidiary for reporting purposes into the consolidated financial statements was 22,793 bolivars per U.S. dollar.

As is also explained in Note 3.3 below, effective December 31, 2017, the Company deconsolidated its Coca-Cola FEMSA subsidiary's operations in Venezuela due to the political and economic environment in that country and began accounting for its investments under the fair value method. Consequently, beginning January 1, 2018, all changes in the fair value of the investment, including foreign currency translation differences will be recognized for Venezuela's operations in *Other comprehensive income, net of tax*.

*2.4 Application of recently issued accounting standards*

The Company has applied the following amendments to IFRS during 2018:

**2.4.1 IFRS 15 Revenue from contracts with customers**

The Company adopted IFRS 15 *Revenue from contracts with customers* for its consolidated financial statements as of the effective date January 1, 2018.

IFRS 15 establishes a 5-step model approach to which the entity recognizes revenue to depict the transfer of control of promise goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. According to the standard, a performance obligation may be satisfied over time (which better reflects the pattern of the which the Company fulfills its performance obligations for the exchange of those goods and services) or at a point in time that the control of good and services are totally transferred to the customers.

For the transition, the Company applied the modified retrospective method by determining the cumulative effect as of the date of the standard adoption on the consolidated financial information for the years ended December 31, 2017 and prior periods. In this manner, the prior periods financial statements were not restated, concluding the impacts of adoption are immaterial to the consolidated financial statements.

In contrast to the previous issued standard, IFRS 15 describes the accounting treatment for variable considerations that may result from incentives given to customers (rebates and promotional allowances) which are included (estimated) in the transaction price to the extent that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

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#### **Sale of goods**

It includes the sales of goods by all the subsidiaries of the Company in which the revenue is recognized in the point of time those products were sold to the customers. Applying IFRS 15 did not result in a significant change in the revenues recognition pattern for the sale of goods because the performance obligation of all the activities of the Company were satisfied at the moment that the product is sold and the Company becomes entitled to the consideration promised in the arrangement; that is the control of the products are transfers in a point of time.

#### **Rendering of services**

It includes the revenues of distribution services, maintenance services and packing of raw materials that the Company recognizes as revenues when performance obligation is satisfied, which generally occurs over time since the related benefits are consumed by the customers as control is transferred and the arrangements cover a short period of time.

#### **Financial products**

It includes interest generated for the purpose to obtain yields generated from related financial assets which includes accounts receivables recorded when the following conditions are accomplished:

The amount of the financial products can be measured reliably; and

Is probable that the economic benefits outflow to the Company; for all the financial instruments that are measured at amortized cost. Therefore, there is no change in the recognition of revenues from financial products of related financial assets, which mainly are trade receivables; because the adoption of IFRS 9 *Financial Instruments: Classification and measurement* does not impact the assignment of those financial assets in the different business models establishes by the standard and including the measurement of those related financial assets measured at its amortized cost and applying the effective interest rate, which is the rate that exactly discounts the collections of cash flows to the expected life of the related financial asset.

The adoption of IFRS 15 does not have any impact on the Company, however it modifies its accounting policies with the purpose to align those to the new 5-step model established by IFRS 15. Those changes did not result in additional impacts for the revenue recognition in contrast to the previous standard. See Notes 3.25 and 27.

#### **2.4.2 IFRS 9 *Financial Instruments***

#### **Classification and measurement of financial assets and liabilities, and hedge accounting**

The Company adopted IFRS 9 *Financial Instruments* issued in July 2014 at the adoption date of January 1, 2018. The requirements under IFRS 9 supersede entirely those of IAS 39 *Financial Instruments: Classification and Measurement*. The nature and key effects of the changes within the accounting policies of the Company as a result of the adoption of IFRS 9 are summarized below.

The classification of financial assets under IFRS 9 is based on the business model over which the financial asset is managed and also the characteristics of the contractual cash flows. IFRS 9 contains three classification categories for financial assets: measured at amortized cost, fair value with changes in other comprehensive income ( FVOCI ) and fair value through profit or loss ( FVTPL ). IFRS 9 also allows equity instruments in non-listed companies to be designed as FVOCI, if they are intended to be held for the foreseeable future. The standard eliminates the categories of IAS 39: investments held to maturity, loans and accounts receivable and available for sale. According to IFRS 9, the embedded derivatives in contracts where the host contract is a financial asset under the scope of the standard will never be separated. In contrast, the hybrid financial instrument is evaluated as a whole for the evaluation of its classification. The adoption of IFRS 9 has not had a significant effect on the accounting policies of the Company in terms of classification and measurement of financial assets and related profit or loss accounts.

The Company chose to adopt the new hedge accounting model under IFRS 9. This implies that the Company confirms that hedge accounting relationships are aligned with its risk management, objectives and strategy and to apply a more qualitative and prospective approach to evaluate the effectiveness of hedges.

For an explanation of how the Company applies hedge accounting under IFRS 9, see Note 20.



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*Activities carried out in the adoption*

The Company conducted a qualitative and quantitative evaluation for the adoption of IFRS 9. The activities carried out are the following:

The determination of the business model within which the financial assets are held.

Review and documentation of the business models for managing financial assets, accounting policies, processes and internal controls related to financial instruments.

Update of documentation of the hedging relationships, as well as the policies for hedge accounting, and internal controls.

All hedge relationships designated in accordance with the criteria of IAS 39 as of December 31, 2017 fulfilled the criteria and requirements to be designated as accounting hedges in accordance with IFRS 9 as of January 1, 2018 and, therefore, it was considered that they continue to be hedging relationships.

For classification, measurement and accounting for hedges, no significant changes were determined, except those related to the documentation of the adoption of the standard, which include the tests of holding for Solely Payments of Principal and Interest ( SPPI ), and the update of the hedge files. Therefore, no significant adjustments from the adoption of IFRS 9 were recognized in the consolidated financial statements of the entity in relation to the classification, measurement and accounting for hedges.

**Impairment of financial assets**

IFRS 9 replaces the loss incurred model in IAS 39 with an expected credit loss model. The new impairment model is applicable to financial assets measured at amortized cost and debt investments measured at FVOCI and other contractual assets. Under IFRS 9, the provision for impairment loss is recognized earlier than under IAS 39.

An analysis was carried out to determine the impact of the new expected credit loss model of financial assets to calculate the provisions that should be registered. As of January 1, 2018, the effect of adopting the standard within the retained earnings was Ps. 379, equivalent to 1% of the total portfolio maintained at the adoption date. The impact for the provisions of the financial assets under the new standard is not significant because most of the accounts receivable are characterized by recovering in the short term, which results in estimates of expected credit loss that approximates

the previous provisions for doubtful accounts under IAS 39.

### **2.4.3 Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions**

The IASB issued amendments to IFRS 2 *Share-based Payments* that address three main areas: (i) the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; (ii) the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and (iii) 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 Company's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Company has no cash-settled share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company's consolidated financial statements.

### **2.4.4 Other adjustments**

In addition to the adjustments described above, upon adoption of IFRS 9, other items of the primary financial statements such as deferred taxes, investment in an associate and a joint venture (arising from the financial instruments held by these entities), income tax expense, non-controlling interests and retained earnings were adjusted as necessary.

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*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on FEMSA's consolidated financial statements.

**Note 3. Significant Accounting Policies**

*3.1 Basis of consolidation*

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

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

Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

Exposure, or rights, to variable returns from its involvement with the investee; and

The ability to use its power over the investee to affect its returns.

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

The contractual arrangements with the other vote holders of the investee;

Rights arising from other contractual arrangements; and

The Company's voting rights and potential voting rights.

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

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

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

Derecognizes the assets (including goodwill) and liabilities of the subsidiary.

Derecognizes the carrying amount of any non-controlling interests.

Derecognizes the cumulative translation differences recorded in equity.

Recognizes the fair value of the consideration received.

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Recognizes the fair value of any investment retained.

Recognizes any surplus or deficit in profit or loss.

Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

*3.1.1 Acquisitions of non-controlling interests*

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

*3.2 Business combinations*

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

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

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

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

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

Sometimes obtaining control of an acquiree in which equity interest is held immediately before the acquisition date is considered as a business combination achieved in stages also referred to as a step acquisition. The Company remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and 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 3.14.

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

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

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- (b) Minority veto rights lapse that previously kept the Company from controlling an acquiree in which it held the majority voting rights.
- (c) The Company and the acquiree agree to combine their businesses by contract alone in which it transfers no consideration in exchange for control and no equity interest is held in the acquiree, either on the acquisition date or previously.

*3.3 Foreign currencies, consolidation of foreign subsidiaries and accounting equity accounted investees*

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

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

The variations in the net investment in foreign subsidiaries generated by exchange rate fluctuation which are included in other comprehensive income, which is recorded in equity as part of accumulated translation adjustment within the cumulative other comprehensive income;

Intercompany financing balances with foreign subsidiaries are considered as long-term investments when there is no plan to pay such financing in the foreseeable future. Monetary position and exchange rate fluctuation regarding this financing is recorded in the exchange differences on translation of foreign operations within the accumulated other comprehensive income (loss) item, which is recorded in equity; and

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

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

For hyperinflationary economic environments, the inflation effects of the origin country are recognized pursuant IAS 29 *Financial Reporting in Hyperinflationary Economies*, and subsequently translated into Mexican pesos using the year-end exchange rate for the consolidated statements of financial position and consolidated income statement and comprehensive income; and

For non-hyperinflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction.

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



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

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

**Exchange Rates of Local Currencies Translated to Mexican Pesos**  
(1)

Country or Zone	Functional / Recording Currency	Average Exchange Rate for			Exchange Rate as of	
		2018	2017	2016	December 31, 2018	December 31, 2017
Guatemala	Quetzal	2.56	2.57	2.46	2.54	2.69
Costa Rica	Colon	0.03	0.03	0.03	0.03	0.03
Panama	U.S. dollar	19.24	18.93	18.66	19.68	19.74
Colombia	Colombian peso	0.01	0.01	0.01	0.01	0.01
Nicaragua	Cordoba	0.62	0.63	0.65	0.61	0.64
Argentina	Argentine peso	0.73	1.15	1.26	0.52	1.06
Venezuela a)	Bolivar		a)	a)		a)
Brazil	Reais	5.29	5.94	5.39	5.08	5.97
Chile	Chilean peso	0.03	0.03	0.03	0.03	0.03
Euro Zone	Euro ( )	22.71	21.32	20.66	22.54	23.57
Peru	Nuevo Sol	5.85	5.78	5.53	5.83	6.08
Ecuador	U.S. dollar	19.24	18.93	18.66	19.68	19.74
Philippines	Philippine peso	0.37	0.38	0.39	0.37	0.40
Uruguay	Uruguayan peso	0.63	0.66	0.71	0.61	0.69

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

a) Venezuela

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

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

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

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Beginning on January 1, 2018, Coca-Cola FEMSA recognizes its investment in Venezuela under the fair value through OCI method following the new *IFRS 9 Financial Instruments* standard.

#### **Exchange rate**

Until December 31, 2017, Coca-Cola FEMSA's recognition of its Venezuelan operations involved a two-step accounting process in order to translate into bolivars all transactions in a different currency than bolivars and then to translate the bolivar amounts to Mexican pesos.

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

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

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

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

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

The Company recognizes the effects of inflation on the financial information of its subsidiaries 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, net, intangible assets, net including related costs and expenses when such assets are consumed or depreciated;

Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, net income, retained earnings and items of other comprehensive income by the necessary amount to maintain the purchasing power equivalent in the currency of Venezuela on the dates such capital was contributed, or income was generated up to the date those consolidated financial statements are presented; and

Including the monetary position gain or loss in consolidated net income.

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

As disclosed in Note 3.3, Coca-Cola FEMSA deconsolidated its Venezuelan operations. Consequently, the Venezuelan investment is no longer consolidated by Coca-Cola FEMSA, however, Coca-Cola FEMSA's Venezuelan subsidiary will continue operating.

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As of December 31, 2018, 2017, and 2016, the operations of the Company are classified as follows:

Country	Cumulative Inflation 2016- 2018	Type of Economy	Cumulative Inflation 2015- 2017	Type of Economy	Cumulative Inflation 2014- 2016	Type of Economy
Mexico	15.7%	Non-hyperinflationary	12.7%	Non-hyperinflationary	9.9%	Non-hyperinflationary
Guatemala	12.2%	Non-hyperinflationary	13.5%	Non-hyperinflationary	10.6%	Non-hyperinflationary
Costa Rica	5.7%	Non-hyperinflationary	2.5%	Non-hyperinflationary	5.1%	Non-hyperinflationary
Panama	2.1%	Non-hyperinflationary	2.3%	Non-hyperinflationary	2.8%	Non-hyperinflationary
Colombia	13.4%	Non-hyperinflationary	17.5%	Non-hyperinflationary	17.0%	Non-hyperinflationary
Nicaragua	13.1%	Non-hyperinflationary	12.3%	Non-hyperinflationary	13.1%	Non-hyperinflationary
Argentina (a)	158.4%	Hyperinflationary	101.5%	Non-hyperinflationary	99.7%	Non-hyperinflationary
Venezuela		Hyperinflationary	30,690.0%	Hyperinflationary	2,263.0%	Hyperinflationary
Brazil	25.0%	Non-hyperinflationary	21.1%	Non-hyperinflationary	25.2%	Non-hyperinflationary
Philippines	11.9%	Non-hyperinflationary	7.5%	Non-hyperinflationary	5.7%	Non-hyperinflationary
Euro Zone	2.7%	Non-hyperinflationary	2.7%	Non-hyperinflationary	1.2%	Non-hyperinflationary
Chile	9.7%	Non-hyperinflationary	9.7%	Non-hyperinflationary	12.2%	Non-hyperinflationary
Peru	9.3%	Non-hyperinflationary	9.3%	Non-hyperinflationary	11.2%	Non-hyperinflationary
Ecuador	30.3%	Non-hyperinflationary	30.3%	Non-hyperinflationary	8.4%	Non-hyperinflationary
Uruguay	25.3%	Non-hyperinflationary		Non-hyperinflationary		Non-hyperinflationary

**a) Argentina**

As of December 2017 and 2016 there were multiple inflation indexes (including combination of indices in the case of CPI) or certain months without official available information in the case of National Wholesale Price Index ( WPI ) which provide different inflation indexes for Argentina, therefore, there was different judgments about the criteria in the application of hyperinflation for this country.

Beginning on July 1, 2018, Argentina was classified as hyperinflationary economy based on several consumer price indexes of the country. Therefore, the financial statements of the subsidiary were remeasured in its functional currency (Argentine peso) but they were not restated in its presentation currency (Mexican pesos) as it is not stated as a hyperinflationary economy. In addition, the Company's financial statements for prior periods were not restated for comparative purposes. For being considered hyperinflationary, the financial information for our Argentine subsidiary has been adjusted to recognize the inflationary effects since January 1, 2018 through:

Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, net, intangible assets, net, including related costs and expenses when such assets are consumed or depreciated.

Recognize the monetary position gain or loss in consolidated net income.

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

The Federacion Argentina de Consejos Profesionales de Ciencias Económicas ( FACPCE ) approved on September 29, 2018 and published on October 5, 2018, a resolution in which states that general index price must be computed by the inflation factor for non-monetary assets and by November and December 2015 CPI and CABA variation, respectively.

Because of multiple price indexes, the Company is required to use judgment in determining the most practical inflation factor to be applied in the Company in despite of the FACPCE s resolution. Therefore, it has decided to continue with the recognition of the inflationary effects for the Argentine subsidiary by applying the consumer price index, since the difference inflationary effects between such indexes does not represents a material effect in the results of the Company.

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*3.5 Cash and cash equivalents and restricted cash*

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

The Company also maintains restricted cash which is insured as collateral to meet certain contractual obligations. Restricted cash is presented within other current financial assets given that, by their nature, the restrictions are short-term.

*3.6 Investments*

The investments include debt securities and bank deposits with a maturity of more than three months as of the acquisition date. Management determines the appropriate classification of investments at the time of purchase and evaluates that classification at the date of each statement of financial position, see Notes 6 and 13.

*3.7 Financial assets*

Financial assets are classified within the following business models depending on management's objective: (i) held to maturity to recover cash flows, (ii) held to maturity and to sell financial assets and (iii) others or held for trading, including derivatives assigned in hedging instruments with efficient hedge, as appropriate. The classification depends on the nature and purpose of holding the financial assets and is determined at the time of initial recognition.

The Company performs a portfolio level assessment of the business model in which a financial asset is managed to accomplish with Company's risk management purposes. The information that is considered within the evaluation includes:

The policies and objectives of the Company in relation to the portfolio and the practical implementation of policies;

Performance and evaluation of the Company's portfolio including accounts receivable;

Risks that affect the performance of the business model and how those risks are managed;

Any compensation related to the performance of the portfolio; and

Frequency, volume and timing of sales of financial assets in previous periods together with the reasons for said sales and expectations regarding future sales activities.

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

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

The fair value of an asset is measured using assumptions that would be used by market participants when valuing the asset, assuming that the transaction is orderly and takes place in the principal or the most advantageous market for the asset.

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



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

*3.7.1 Financial assets at amortized cost*

A financial asset is measured at amortized cost if it meets the following two conditions and is not designated as FVTPL:

Its managed within a business model whose objective is to maintain financial assets to recover the contractual cash flows; and

The contractual terms are only payments at specified dates of the principal and interest on the amount of the outstanding principal.

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

*3.7.2 Effective interest rate method ( ERR )*

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

*3.7.3 Financial assets at fair value with changes in other comprehensive income*

A financial asset is measured in FVOCI if it meets the following two conditions and is not designated as FVTPL:

Its managed within a business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets; and

The contractual terms are only payments of the principal and interest on the amount of the outstanding principal. These assets are subsequently measured at fair value. The financial product calculated using the internal rate of return ( IRR ), the exchange fluctuation and the impairment are recognized in profit and loss. Other gains and losses, related to changes in fair value, are recognized in OCI. In case of disposals, the accumulated gains and losses in OCI are reclassified to profit and loss.

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

#### *3.7.4 Financial assets at fair value through profit or loss*

Financial assets designated as fair value through profit and loss include financial assets held for trading and financial assets designated at initial recognition as fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the short term. Derivatives, including embedded derivatives are also classified as held for trading unless they are allocated as effective hedging instruments. Financial assets at fair value through profit or loss are recorded in the balance sheet with changes in fair value presented as financial costs (net negative changes in fair value) or financial products (net positive changes in fair value) in profit or loss, including any dividend income.

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*3.7.5 Evaluation that contractual cash flows are solely principal and interest payments ( SPPI )*

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

Contingent events that would change the amount or timing of cash flows;

Terms that can adjust the contractual coupon rate, including variable interest rate characteristics;

Payment and extension features; and

Characteristics that limit the Company's right to obtain cash flows from certain assets.

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

*3.7.6 Impairment of financial assets*

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

Financial assets measured at amortized cost;

Debt investments measured at FVOCI; and

Other contractual assets.

Impairment losses on accounts receivable, contractual assets and leasing receivables are measured at the amount that equals the lifetime expected loss of credit, whether or not it has a significant component. The Company applies the criteria to all accounts receivable, contractual assets and leasing credits, together or separately.

The Company measures impairment losses at an amount that equals to lifetime ECL, except for the following:

Debt instruments classified as low credit risk; and

Other debt instruments in which the credit risk (irrecoverability risk over the financial instrument expected life) has not increased significantly since the initial recognition.

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

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

The Company annually evaluates if there was evidence of an impairment. Some observable data that financial assets were impaired includes:

Significant financial difficulty of the issuer or the borrower;

A breach of contract, such as default or past due event;

Granting concessions due to the borrower's financial difficulties in which Company would not consider in other circumstances.

It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

The disappearance of an active market for a financial instrument because of financial difficulties; or

Information indicating that there was a measurable decrease in the expected cash flows of a group of financial assets.

For a capital instrument, evidence of impairment includes a significant decrease in its fair value even lower than its carrying value.

The impairment loss on financial assets measured at amortized cost is reduced from the book value and for financial assets measured at FVOCI, the impairment loss is recognized as profit or loss within OCI.

***3.7.7 Derecognition***

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

The rights to receive cash flows from the financial asset have expired; or

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

*3.7.8 Offsetting of financial instruments*

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

Currently has an enforceable legal right to offset the recognized amounts; and

Intends to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

*3.8 Other financial assets*

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

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*3.9 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 FVTPL or FVOCI, considering quoted prices in recognized markets. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models supported by sufficient, reliable and verifiable market data. Changes in the fair value of derivative financial instruments are recorded each period in current earnings otherwise as a component of cumulative other comprehensive income based on the item being hedged and the effectiveness of the hedge.

*3.9.1 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.

*3.9.2 Cash flow hedges*

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

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to consolidated net income in the periods when the hedged item is recognized in consolidated net income, in the same line of the consolidated income statement as the recognized hedged item. However, when the hedged forecast

transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

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

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*3.9.2.1 Fair value hedges*

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

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

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

*3.9.2.2 Hedge of net investment in a foreign business*

The Company designates debt securities as a hedge of certain net investment in foreign subsidiaries and applies hedge accounting to foreign currency differences arising between the functional currency of its investments abroad and the functional currency of the holding company (Mexican peso), regardless of whether the net investment is held directly or through a sub-holding company.

Differences in foreign currency that arise in the conversion of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income in the exchange differences on the translation of foreign operations and associates caption, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized as market value gain or loss on financial instruments within the consolidated income statements. When part of the hedge of a net investment is disposed, the corresponding accumulated foreign currency translation effect is recognized as part of the gain or loss on disposal within the consolidated income statement.

*3.10 Fair value measurement*

The Company measures financial instruments, such as derivatives, and certain non-financial assets, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Notes 13 and 18.

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

In the principal market for the asset or liability; or

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

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

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

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

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

### *3.12 Loans and receivables*

The instruments under this category includes loans, trade receivables, and other accounts receivables measured at amortized cost which represents future cash flows discounted at the effective interest rate of the transaction date.

In addition, an expected credit loss model is applied to this category, which is reported net of this impairment allowance in the financial statements. The allowance amount is not significant because the trade accounts receivable are usually recovered in the short term.

Interest income is recognized by applying the effective interest rate except for current receivables, considering that the recognition of interest is immaterial. For the years ended December 31, 2018 and 2017 there was no interest income on loans and receivables. For the year ended December 31, 2016 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements was Ps. 41.

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*3.13 Other current assets*

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

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

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

Coca-Cola FEMSA has agreements with customers for the right to sell and promote Coca-Cola FEMSA's products over a certain period. The majority of these agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract, with amortization presented as a reduction of net sales. During the years ended December 31, 2018, 2017 and 2016, such amortization aggregated to Ps. 277, Ps. 759 and Ps. 582, respectively.

*3.14 Equity accounted investees*

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 it is not control over those policies. Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value.

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

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

Profits and losses resulting from upstream and downstream transactions between the Company (including its consolidated subsidiaries) and an associate are recognized in the consolidated financial statements only to the extent

of unrelated investors' interests in the associate. Upstream transactions are, for example, sales of assets from an associate to the Company. Downstream transactions are, for example, sales of assets from the Company to an associate. The Company's share in the associate's profits and losses resulting from these transactions is eliminated.

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

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

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

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

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

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

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

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method. As of December 31, 2018 and 2017 the Company does not have an interest in joint operations.

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

The Company reclassifies the proportion to the interest disposed of in joint ventures investment interest reduction. During the years ended December 31, 2018 and 2017 the Company does not have a significant disposal or partial

disposal in joint arrangements.

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

### *3.15 Property, plant and equipment*

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

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

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



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Depreciation is computed using the straight-line method over the asset's estimated useful life. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted and depreciated for as separate items (major components) of property, plant and equipment. The Company estimates depreciation rates, considering the estimated useful lives of the assets.

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

	<b>Years</b>
Buildings	25-50
Machinery and equipment	10-20
Distribution equipment	7-15
Refrigeration equipment	5-7
Returnable bottles	1.5-4
Leasehold improvements	The shorter of lease term or 15 years
Information technology equipment	3-5
Other equipment	3-10

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

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

*Returnable and non-returnable bottles:*

Coca-Cola FEMSA has two types of bottles: returnable and non-returnable.

Non-returnable: Are recorded in consolidated income statement at the time of the sale of the product.

Returnable: Are classified as long-lived assets as a component of property, plant and equipment. Returnable bottles are recorded at acquisition cost and for countries with hyperinflationary economies, restated according to

IAS 29, Depreciation of returnable bottles is computed using the straight-line method considering their estimated useful lives.

There are two types of returnable bottles:

Those that are in Coca-Cola FEMSA's control within its facilities, plants and distribution centers; and

Those that have been placed in the hands of customers, and still belong to Coca-Cola FEMSA.

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

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

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*3.16 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.

*3.17 Intangible assets*

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

Intangible assets with finite useful lives are amortized and mainly consist of:

Information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over their expected useful lives, with a range in useful lives from 3 to 10 years. Expenditures that do not fulfill the requirements for capitalization are expensed as incurred.

Long-term alcohol licenses are amortized using the straight-line method over their estimated useful lives, which range between 12 and 15 years, and are presented as part of intangible assets with finite useful lives. Amortized intangible assets, such as finite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable through its expected future cash flows.

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

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

As of December 31, 2018, and in regards to a joint restructure with TCCC for the bottling agreements, Coca-Cola FEMSA had four bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) one agreement for the Bajio territory, which is up for renewal in May 2025 and (iv) the agreement for the Golfo territory, which is up for renewal in May 2025.

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As of December 31, 2018, and in regards to a joint restructure with TCCC for the bottling agreements, Coca-Cola FEMSA had two bottler agreements in Brazil which are up for renewal in October 2027; and three bottler agreements in Guatemala, which are up for renewal in March 2025 and April 2028 (two contracts).

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

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

*3.18 Non-current assets held for sale and discontinued operations*

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. In addition, the sale is considered highly probable if the following conditions are met:

The appropriate level of management must be committed to a plan to sell the asset (or disposal group);

An active programme to locate a buyer and complete the plan must have been initiated;

The active (disposal group) must be actively marketed for sale at a price is reasonable in relation to its current fair value; and

The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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.

The discontinued operations are operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity, that either has been disposed of, or is classified as held for sale, and:

Represents a separate major line of business or geographical area of operations;

Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or

Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the continuing operations and are also presented as a single entity as earnings (loss) after income taxes of discontinued operations in the income statement. For further information, please see Note 5. In addition, the information included elsewhere in this report, includes only continuing operations otherwise it would be indicated the opposite.

### *3.19 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 CGU, or otherwise they are allocated to the smallest CGU for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

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

For the year ended December 31, 2018 and December 31, 2017, the Company recognized impairment losses of Ps. 432 and Ps. 2,063, respectively (see Note 19).

***3.20 Leases***

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

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

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are

apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are recognized immediately in consolidated net income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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



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*3.21 Financial liabilities and equity instruments*

*3.21.1 Classification as debt or equity*

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

*3.21.2 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.

*3.21.3 Financial liabilities*

*Initial recognition and measurement*

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

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

The Company's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments, see Note 3.9.

*Subsequent measurement*

The subsequent measurement of the Company's financial liabilities depends on their classification as described below.

*3.21.4 Loans and borrowings*

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

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

#### *3.21.5 Derecognition*

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

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*3.22 Provisions*

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

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

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

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

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

*3.23 Post-employment and other long-term employee benefits*

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

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

Company also provides certain post-employment healthcare benefits such as the medical-surgical services, pharmaceuticals and hospital.

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

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

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

- a) When it can no longer withdraw the offer of those benefits; or
- b) When it recognizes costs for a restructuring that is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits.

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

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

***3.24 Revenue recognition***

The Company recognizes revenue when the control of performance obligations included in the contract are transferred to the customer. Control refers to the ability that customer has to direct the use and also to obtain substantially all the benefits of the goods or services exchanged.

Management defined the following as indicators to analyze the timing and circumstances as well as the amount by which the revenues would be recognized:

Identify the contract(s) with a customer (written, oral or any other according with business practices);

Evaluating the goods and services committed in the contract and identify how each performance obligation in the contract will be transferred to the customer;

Considering the contractual terms jointly with business practices to determinate the transaction price. The transaction price is the amount of the consideration the Company expects to receive in exchange for transferring the committed goods and services to the customer, excluding tax on sales. The expected consideration in a contract should include fixed or variable amounts, or both;

Allocate the transaction price to each performance obligations in the contract (to each good and service) for an amount that represents the consideration to which the entity expects to receive in exchange to the goods and services arranged with the customer; and

Recognise revenue when (or as) the entity satisfies a performance obligation in exchange for committed goods and services.

All of the above conditions are typically met at the point in time that goods are delivered to the customer at the customers facilities. Net sales reflect units delivered at list prices reduced by promotional allowances and discounts.

The benefits granted from supplier to the Company as discounts and incentives are recognized as benefit in the cost of goods sold, because they do not represent an additional revenue by mean of which a separate performance obligation is to be satisfied, with a separate reasonable fair value to be identified by the Company.

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The Company generates revenues for the following activities:

**Sale of goods**

It includes the sales of goods by all the subsidiaries of the Company, mainly the sale of beverages of the leading brand of Coca-Cola and the sale or consumption of goods in the small-format stores of the FEMSA Comercio Proximity, FEMSA Comercio Health and FEMSA Comercio Fuel Divisions; in which the revenue is recognized in the point of time those products were sold to the customers. See Note 27.

**Rendering of services**

It includes the revenues of distribution services, maintenance services and packing of raw materials that the Company recognizes as revenues as the related performance obligation is satisfied. The Company recognizes revenues for rendering of services during the time period in which the performance obligation is satisfied according with the following conditions:

The customer receives and consume simultaneously the benefits, as the Company satisfies the obligation;

The customer controls related assets, even if the Company improve them;

The revenues can be measured reliably; and

Is probable that economic benefits will flow to the Company.

**Financial products**

It includes interest generated on related financial assets used by third parties which includes accounts receivables recorded when the following conditions are accomplished:

The revenues can be measured reliably; and

It is probable that economic benefits will flow to the Company. In addition, the Company evaluates the revenue recognition based on the classification previously defined for the financial asset that generates the related financial product, according with the business models establishes for the financial instruments classified by the Company. See Note 3.9.

The main financial instruments of the Company that could generate a financial product are trade accounts receivables classified as financial assets held to maturity to cover cash flows which are measured at amortized cost through the effective interest rate method, applying EIR, which is the rate that exactly discounts the collections of cash flows to the expected life of the related financial asset.

### **Rewards programs**

The Company recognizes a provision for the obligation to award additional benefits to its customers. Management considers for those effects, the expectation that some percentage of its customers would not redeem their rewards points in future based on previous experience.

### **Variable allowances granted to customers**

The Company adjust the transaction price based on its estimated amount of rebates and promotional allowances, among others. Those estimations include commercial commitments with customers and previous expected performance. The variable allowances are assigned to each related performance obligation.



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**Contacts costs**

The incremental costs to obtain a contract with a customer are recognized as an asset (capitalized) if the Company expect to recover those costs. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Company recognizes those costs as an expense in the income statement when the income associated with those costs is incurred for a period is equal to or less than a year. For any other cost that is related with the fulfillment of a contract with a customer, but it is not part of the own revenue recognition, then this will be considered as an asset including related costs, but only if those costs are related with a contract or with a contract that the Company expects to identify specifically and also, those costs generates or improves the resources of the Company that will be applied to satisfy, or continue satisfying; the performance obligations in the future and that is expected to recover those costs. The asset recognized is amortized progressively in the same manner as the exchange of the goods and services are transferred to the customer, accordingly, the asset is recognized in the income statement through its amortization in the same period of time in which the revenue is recognized.

*3.25 Administrative and selling expenses*

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

Selling expenses include:

Distribution: labor costs, outbound freight costs, warehousing costs of finished products, write off of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2018, 2017 and 2016, these distribution costs amounted to Ps. 23,421, Ps. 20,800 and Ps. 20,250, respectively;

Sales: labor costs and sales commissions paid to sales personnel; and

Marketing: promotional expenses and advertising costs.

PTU is paid by the Company s Mexican subsidiaries to eligible employees. In Mexico, employee profit sharing is computed at the rate of 10% of the individual company taxable income. PTU in Mexico is calculated from the same

taxable income for income tax, except for the following: a) neither tax losses from prior years nor the PTU paid during the year are deductible; and b) payments exempt from taxes for the employees are fully deductible in the PTU computation.

### *3.26 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.

#### *3.26.1 Current income taxes*

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

#### *3.26.2 Deferred income taxes*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, including tax loss carryforwards and certain tax credits, to the extent that it is probable that future taxable profits, reversal of existing taxable temporary differences and future tax planning strategies will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from initial recognition of goodwill (no recognition of deferred tax liabilities) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes, the Company recognizes in connection with the acquisition accounting a deferred tax asset for the tax effect of the excess of the tax basis over the related carrying value.

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

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

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

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

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

In Mexico, the income tax rate is 30%, for 2018, 2017 and 2016, and it will remain at 30% for the following years.

*3.27 Share-based payments arrangements*

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

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

recognized in consolidated income statements such that the cumulative expense reflects the revised estimate.

### *3.28 Earnings per share*

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

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*3.29 Issuance of subsidiary common shares*

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

**Note 4. Mergers, Acquisitions and Disposals**

*4.1 Mergers and acquisitions*

The Company has consummated certain mergers and acquisitions during 2018, 2017 and 2016; which were recorded using the acquisition method of accounting. The results of the acquired operations have been included in the consolidated financial statements since the date on which the Company obtained control of the business, as disclosed below. Therefore, the consolidated income statements and the consolidated statements of financial position in the year of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2018, 2017 and 2016 show the cash outflow and inflow for the merged and acquired operations net of the cash acquired related to those mergers and acquisitions.

*4.1.1 Other acquisitions of Coca-Cola FEMSA*

During 2018, the Company completed acquisitions which in the aggregate amounted to Ps. 5,692. These acquisitions were primarily related to the following: 1) Acquisition of 100% of the Guatemalan Company Alimentos y Bebidas Atlántida, S.A. ( ABASA ), which was a bottler of Cola-Cola Company products which operated in the north and orient zone of Guatemala, which is included in the Company results since May, 2018; (2) Acquisition of 100% of Comercializadora y Productora de Bebidas Los Volcanes S.A. ( Los Volcanes ) which was a bottler of Cola-Cola Company products which operated in the south and occident zone of Guatemala and which is included in the Company consolidated results beginning on May, 2018; and (3) Acquisition of 100% of Montevideo Refrescos S.R.L. ( MONRESA ) founded in 1943 and is the responsible of the production and distribution for the Coca-Cola Company brands portfolio in Uruguay, reaching a market of 3.4 millions of consumers through 26 thousand points of sale; which is included in the consolidated financial results beginning on July 2018.

The Company is in the process of finalizing the allocation of the purchase price to the fair values of the identifiable assets acquired and liabilities assumed. This process is expected to be completed for each acquisition within 12 months of the acquisition date.

The preliminary allocation on the purchase prices to the fair value of the net assets acquired is as follows:

	2018
Total current assets (including cash acquired of Ps. 860)	<b>Ps. 1,846</b>
Total non-current assets	<b>3,795</b>
Distribution rights	<b>4,602</b>
 Total assets	 <b>10,243</b>
 Total liabilities	 <b>(3,691)</b>
 Net assets acquired	 <b>6,552</b>
Total consideration transferred	<b>6,552</b>
Cash acquired	<b>(860)</b>
 Net cash paid	 <b>Ps. 5,692</b>

Coca-Cola FEMSA expects to recover the registered amounts recorded as goodwill through the synergies related to the available production capacity.

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The income statement information of these acquisitions for the period from the acquisition date through to December 31, 2018 is as follows:

Income Statement	2018
Total revenues	<b>Ps. 4,628</b>
Income before income taxes	<b>496</b>
Net income	<b>Ps. 413</b>

***4.1.2 Acquisition of Philippines***

In January 25, 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in CCFPI from The Coca-Cola Company. As mentioned in Note 20.7, Coca-Cola FEMSA has a call option to acquire the remaining 49.0% stake in CCFPI at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in CCFPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Pursuant to the Company's shareholders agreement with The Coca-Cola Company, during a four-year period that ended on January 25, 2017, all decisions relating to CCFPI were approved jointly with The Coca-Cola Company.

Since January 25, 2017, Coca-Cola FEMSA controls CCFPI's as all decisions relating to the day-to-day operation and management of CCFPI's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) CCFPI's Chief Financial Officer. Coca-Cola FEMSA has the right to appoint (and may remove) the Chief Executive Officer and all other officers of CCFPI. Commencing on February 1, 2017, Coca-Cola FEMSA started consolidating CCFPI's financial results.

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

	2017 Final Purchase Price Allocation
Total current assets	Ps. 9,645
Total non-current assets	18,909
Distribution rights	4,144
Total assets	32,698

Total liabilities	(10,101)
Net assets acquired	22,597
Net assets acquired attributable to the parent company (51%)	11,524
Non-controlling interest	(11,073)
Fair value of the equity interest at the acquisition date	22,110
Carrying value of CCFPI investment derecognized	11,690
Loss as a result of remeasuring to fair value the equity interest	(166)
Gain on derecognition of other comprehensive income	2,996
Total profit from remeasurement of previously equity interest	Ps. 2,830

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



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

***4.1.3 Acquisition of Vonpar***

On December 6, 2016, Coca-Cola FEMSA through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Vonpar S.A. (herein Vonpar) for a consideration transferred of Ps. 20,992. Vonpar was a bottler of Coca-Cola trademark products which operated mainly in Rio Grande do Sul and Santa Catarina, Brazil. This acquisition was made to reinforce the Company's leadership position in Brazil. Of the purchase price of approximately Ps. 20,992 (R\$ 3,508), Spal paid an amount of approximately Ps. 10,370 (R\$ 1,730) in cash on December 6, 2016.

On the same date Spal additionally paid Ps. 4,124 (R\$ 688) in cash, of which in a subsequent and separate transaction the sellers committed to capitalize for an amount of Ps. 4,082 into Coca-Cola FEMSA in exchange for approximately 27.9 million KOF series L shares at an implicit value of Ps. 146.27. In May 4, 2017 Coca-Cola FEMSA merged with POA Eagle, S.A. de C.V., a Mexican company 100% owned by the sellers of Vonpar in Brazil. As a result of this merger, POA Eagle, S.A. de C.V. shareholders received approximately 27.9 million newly issued KOF series L shares. POA Eagle, S.A. de C.V. merged its net assets, principally cash for an amount of \$4,082 million Mexican Pesos with Coca-Cola FEMSA.

At closing, Spal issued and delivered a three-year promissory note to the sellers, for the remaining balance of R\$ 1,090 million Brazilian reais (approximately Ps. 6,534 million as of December 6, 2016). The promissory note bears interest at an annual rate of 0.375% and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into Coca-Cola FEMSA in exchange for Series L shares at a strike price of Ps. 178.5 per share. Such capitalization and issuance of new Series L shares is subject to Coca-Cola FEMSA having a sufficient number of Series L shares available for issuance.

As of December 6, 2016, the fair value of KOF series L (KL) shares was Ps. 128.88 per share, in addition the KL shares have not been issued, consequently as a result of this subsequent transaction an embedded financial instrument was originated and recorded into equity for an amount of Ps. 485. In accordance with IAS 32, in the consolidated financial statements the purchase price was also adjusted to recognize the fair value of the embedded derivative arising from the difference between the implicit value of KL shares and the fair value at acquisition date.

Transaction related costs of Ps. 35 were expensed by Spal as incurred and recorded as a component of administrative expenses in the accompanying consolidated income statements. Results of operation of Vonpar have been included in the Company's consolidated income statements from the acquisition date.

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

	<b>2017 Final Purchase Price Allocation</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

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Net assets acquired	18,819
Goodwill	2,173 <sup>(1)</sup>
<b>Total consideration transferred</b>	<b>Ps. 20,992</b>
Amount to be paid through Promissory Notes	(6,992)
Cash acquired of Vonpar	(1,287)
Amount recognized as embedded financial instrument	485
<b>Net cash paid</b>	<b>Ps. 13,198</b>

- (1) As a result of the purchase price allocation which was finalized in 2017, additional fair value adjustments from those recognized in 2016 have been recognized as follows: total non-current assets amounted to Ps. 490, distribution rights of Ps. 5,192 and goodwill of Ps. (5,681).

Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been preliminary allocated to Coca-Cola FEMSA's cash generating unit in Brazil. The goodwill recognized and expected to be deductible for income tax purposes according to Brazil tax law, is Ps. 1,667.

Selected income statement information of Vonpar for the period from the acquisition date through to December 31, 2016 is as follows:

<b><u>Income Statement</u></b>	<b>2016</b>
Total revenues	Ps. 1,628
Income before income taxes	380
Net income	Ps. 252

**4.1.4 Other acquisitions**

On May 22, 2018, the Company acquired an additional 10% its participation in Café del Pacífico, S.A.P.I. de C.V. (Caffenio), a Mexican company founded in 1941 whose main activities includes the production of coffee and beverages formulas, commercialization of beverages and whole foods and trading of commercial contracts, for an amount of Ps. 370 and reaching a controlling interest of 50% of ownership, through an agreement with other shareholders assuming control of the subsidiary.

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

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

- (1) In the case of the acquisition of Specialty s the non-controlling interest was measured at fair value at the acquisition date, and for Open Market the non-controlling interest was recognized at the proportionate share of the net assets acquired.
- (2) As a result of the purchase price allocation which was finalized in 2017, additional fair value adjustments from those recognized in 2016 have been recognized as follow in property, plant and equipment of Ps. 32, trademark rights of Ps. 836, other intangible assets of Ps. 983, and other liabilities of Ps. 593.

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

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

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

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

#### Unaudited Pro Forma Financial Data

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisitions of Coca-Cola FEMSA and Caffenio as if these acquisitions has occurred on January 1, 2018; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired company.

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Unaudited pro forma financial data for the acquisitions, is as follow:

	<b>Unaudited pro forma financial information for the year ended December 31, 2018</b>	
Total revenues	<b>Ps.</b>	<b>473,420</b>
Income before income taxes and share of the profit of equity accounted investees		<b>34,266</b>
Net income		<b>33,521</b>
Basic net controlling interest income per share Series B	<b>Ps.</b>	<b>1.22</b>
Basic net controlling interest income per share Series D		<b>1.52</b>

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

Unaudited pro forma financial data for the acquisition included, is as follow:

	<b>Unaudited pro forma financial information for the year ended December 31, 2017</b>	
Total revenues	<b>Ps.</b>	<b>462,112</b>
Income before income taxes and share of the profit of equity accounted investees		<b>39,917</b>
Net income		<b>37,311</b>
Basic net controlling interest income per share Series B	<b>Ps.</b>	<b>2.12</b>
Basic net controlling interest income per share Series D		<b>2.65</b>

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

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

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**4.2. Disposals****4.2.1 Discontinued operations (Coca-Cola FEMSA Philippines)**

On August 16, 2018, Coca-Cola FEMSA announced its decision to exercise the put option to sell its 51% stake in CCFPI to The Coca-Cola Company. Such decision was approved by the Company's board on August 6, 2018. Consequently beginning August 31, 2018 CCFPI had been classified as an asset held for sale and its operations as a discontinued operation in the financial statements for December 31, 2017 and 2018. Previously CCFPI represented the Asia division and was considered an independent segment until December 31, 2017. Coca-Cola FEMSA Philippines operations was sold on December 13, 2018. In addition, the income statement as of December 2017 was restated.

**Income statement of discontinued operations**

For the years ended December 31, 2018 and 2017, the income statement of discontinued operations was as follows:

	<b>2018</b>	<b>2017</b>
Total revenues	<b>Ps. 24,167</b>	Ps. 20,524
Cost of goods sold	<b>17,360</b>	12,346
Gross profit	<b>6,807</b>	8,178
Operating expenses	<b>5,750</b>	6,865
Other expenses, net	<b>7</b>	134
Financial income, net	<b>(185)</b>	(64)
Foreign exchange gain, net	<b>(73)</b>	(22)
Income before income taxes	<b>1,308</b>	1,265
Income taxes	<b>466</b>	370
Net income for discontinued operations before currency translation effect for the subsidiary disposal and the gain from the sale	<b>Ps. 842</b>	Ps. 895
Less: non-controlling interest in discontinued operations	<b>391</b>	469
Controlling interest in discontinued operations	<b>Ps. 451</b>	Ps. 426

Accumulated currency translation effect for the subsidiary disposal	(811)	2,830
Gain from sale	3,335	
Net income for subsidiary disposal    controlling interest	2,975	3,256
Net income for discontinued operations	Ps. 3,366	Ps. 3,725

#### 4.2.2 Heineken

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

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**Note 5. Cash and Cash Equivalents**

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

	<b>December 31, 2018</b>	December 31, 2017
Cash and bank balances	<b>Ps. 31,768</b>	Ps. 73,774
Cash equivalents (see Note 3.5)	<b>30,279</b>	23,170
	<b>Ps. 62,047</b>	Ps. 96,944

As explained in Note 3.3, the cash and cash equivalents balances of the Company included cash held by deconsolidated entity in Venezuela. As of December 31, 2017, the cash and cash equivalents balances in the Venezuela subsidiaries were Ps. 170.

**Note 6. Investments**

As of December 31, 2018 and 2017, current investments with maturity greater than three-month period but less than twelve-month period are classified as held to maturity, and their carrying value is similar to their fair value. The following is a detail of such investments:

	<b>2018</b>	2017
<i>Fixed rate</i>		
<b>Government debt securities</b>		
Acquisition cost	<b>Ps.</b>	Ps. 1,934
Accrued interest		
<b>Corporate debt securities</b>		
Acquisition cost	<b>906</b>	222
Accrued interest	<b>4</b>	4
Total fixed rate	<b>910</b>	2,160

<i>Variable rate</i>		
<b>Government debt securities</b>		
Acquisition cost	<b>8,660</b>	
Accrued interest	<b>28</b>	
<b>Corporate debt securities</b>		
Acquisition cost	<b>21,259</b>	
Accrued interest	<b>67</b>	
Total variable rate	<b>30,014</b>	
<b>Total investments</b>	<b>Ps. 30,924</b>	<b>Ps. 2,160</b>

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**Note 7. Trade Accounts Receivable, Net**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Trade accounts receivables	<b>Ps. 25,615</b>	Ps. 26,856
The Coca-Cola Company (see Note 14)	<b>1,173</b>	2,054
Loans to employees	<b>108</b>	128
Heineken Group (see Note 14)	<b>768</b>	999
Former shareholders of Vonpar (see Note 14)		1,219
Others	<b>2,614</b>	2,435
Allowance for expected credit losses	<b>(2,114)</b>	(1,375)
	<b>Ps. 28,164</b>	Ps. 32,316

**7.1 Trade receivables**

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

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

Because less than 10% of the trade accounts receivables is unrecoverable, the Company does not have customers classified as high risk, which would be eligible to have special management conditions for the credit risk.

As of December 31, 2018, the main customers of the Company represent, in aggregate form, the expected loss on 5%.

The allowance is calculated under an expected loss model that recognizes the impairment losses throughout the life of the contract. For this particular case, because the accounts receivable is generally less than one year, the Company defined an impairment estimation model under a simplified approach of expected loss through a parametric model.

The parameters used within the model are:

Breach probability;

Losses severity;

Financing rate;

Special recovery rate; and

Breach exposure.

<i>Aging of accounts receivable (days current or outstanding)</i>	<b>December 31, 2018</b>	December 31, 2017
Current	<b>Ps. 22,789</b>	Ps. 25,537
0-30 days	<b>4,081</b>	5,009
31-60 days	<b>869</b>	838
61-90 days	<b>598</b>	398
91-120 days	<b>241</b>	383
120+ days	<b>1,700</b>	1,527
Total	<b>Ps. 30,278</b>	Ps. 33,691

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*7.2 Changes in the allowance for expected credit losses*

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Balance at the beginning of the period	<b>Ps. 1,375</b>	Ps. 1,193	Ps. 849
Effect of adoption of IFRS 9	<b>468</b>		
Adjusted balance at the beginning of the period	<b>1,843</b>	1,193	849
Allowance for the period	<b>348</b>	530	467
Additions (write-offs) of uncollectible accounts <sup>(1)</sup>	<b>(402)</b>	(400)	(418)
Addition from business combinations	<b>1</b>	86	94
Effects of changes in foreign exchange rates	<b>324</b>	(32)	201
Effect of Venezuela deconsolidation		(2)	
Balance at the end of the period	<b>Ps. 2,114</b>	Ps. 1,375	Ps. 1,193

<sup>(1)</sup> In 2018, includes the effect of Coca-Cola FEMSA Philippines, Inc. sale for an aggregate amount of \$ 82. In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and disperse.

*7.3 Receivable from The Coca-Cola Company*

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Coca-Cola FEMSA's refrigeration equipment and returnable bottles investment program. Contributions received by Coca-Cola FEMSA for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the carrying amount of refrigeration equipment and returnable bottles items. For the years ended December 31, 2018, 2017 and 2016 contributions due were Ps. 3,542, Ps. 3,436 and Ps. 4,518, respectively.

**Note 8. Inventories**

	<b>December 31, 2018</b>	December 31, 2017
Finished products	<b>Ps. 27,145</b>	Ps. 25,864
Raw materials	<b>5,363</b>	5,194
Spare parts	<b>1,362</b>	2,102
Work in process	<b>225</b>	198
Inventories in transit	<b>1,591</b>	1,437
Other		45
	<b>Ps. 35,686</b>	Ps. 34,840

For the years ended 2018, 2017 and 2016, the Company recognized write-downs of its inventories for Ps. 2,006, Ps. 308, and Ps. 1,832 to net realizable value, respectively.

For the years ended 2018, 2017 and 2016, changes in inventories are comprised as follows and included in the consolidated income statement under the cost of goods sold caption:

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	2018	2017	2016
Changes in inventories of finished goods and work in progress	<b>Ps. 204,688</b>	Ps. 188,022	Ps. 172,554
Raw materials and consumables used	<b>79,825</b>	85,568	63,285
<b>Total</b>	<b>Ps. 284,513</b>	Ps. 273,590	Ps. 235,839

**Note 9. Other Current Assets and Other Current Financial Assets***9.1 Other current assets*

	December 31, 2018	December 31, 2017
Prepaid expenses	<b>Ps. 2,714</b>	Ps. 2,425
Recoverable taxes	<b>316</b>	
Agreements with customers	<b>146</b>	192
Licenses	<b>146</b>	224
Other	<b>98</b>	47
	<b>Ps. 3,420</b>	Ps. 2,888

As of December 31, 2018 and 2017, Company's prepaid expenses are as follows:

	December 31, 2018	December 31, 2017
Advances for inventories	<b>Ps. 1,500</b>	Ps. 1,260
Advertising and promotional expenses paid in advance	<b>510</b>	370
Advances to service suppliers	<b>236</b>	268
Prepaid leases	<b>211</b>	218
Prepaid insurance	<b>117</b>	103
Others	<b>140</b>	206
	<b>Ps. 2,714</b>	Ps. 2,425

For the years ended December 31, 2018, 2017 and 2016, Company's advertising and promotional expenses amounted to Ps. 7,695, Ps. 6,148 and Ps. 6,578, respectively.

*9.2 Other current financial assets*

	<b>December 31, 2018</b>	December 31, 2017
Restricted cash	<b>Ps. 101</b>	Ps. 504
Derivative financial instruments (see Note 20)	<b>735</b>	233
Note receivables <sup>(1)</sup>	<b>42</b>	19
	<b>Ps. 878</b>	Ps. 756

(1) The carrying value approximates its fair value as of December 31, 2018 and 2017.

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The Company has pledged part of its cash in order to fulfill the collateral requirements for the accounts payable in different currencies. As of December 31, 2018 and 2017, the carrying of restricted cash pledged were:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Brazilian reais	<b>98</b>	65
Chilean pesos	<b>3</b>	
Colombian pesos		439
	<b>Ps. 101</b>	Ps. 504

The restricted cash in Brazil consist in non-current deposits as requirements to guarantee the notes payable.

As of December 21, 2017 due to a jurisdictional order with the municipal sewage system services, the Colombian authorities withheld all the cash that Coca-Cola FEMSA has in some specific back account, such amount was reclassified as restricted cash according with Coca-Cola FEMSA accounting policy pending resolution of the order. As of December 31, 2018 this restricted cash has been released.

**Note 10. Equity accounted investees**

As of December 31, 2018 and 2017, Company's equity accounted investees are as follows:

<b>Investee</b>	<b>Principal Activity</b>	<b>Place of Incorporation</b>	<b>Ownership Percentage</b>		<b>Carrying Value</b>	
			<b>December 31, 2018</b>	<b>December 31, 2017</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Heineken <sup>(1)(2)</sup>	Beverages	The Netherlands	<b>14.8%</b>	14.8%	<b>Ps. 83,461</b>	Ps. 83,720
<b>Coca-Cola FEMSA:</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>1,550</b>	2,036
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	<b>50.0%</b>	50.0%	<b>162</b>	153
Fountain Agua Mineral, L.T.D.A	Beverages	Brazil	<b>50.0%</b>	50.0%	<b>826</b>	784

**Associates:**

Promotora Industrial Azucarera, S.A. de C.V. ( PIASA )	Sugar production	Mexico	36.4%	36.4%	3,120	2,933
Industria Envasadora de Querétaro, S.A. de C.V. ( IEQSA )	Canned bottling	Mexico	26.5%	26.5%	179	177
Industria Mexicana de Reciclaje, S.A. de C.V. ( IMER )	Recycling	Mexico	35.0%	35.0%	129	121
Jugos del Valle, S.A.P.I. de C.V.	Beverages	Mexico	26.3%	26.3%	1,571	1,560
KSP Participações, L.T.D.A.	Beverages	Brazil	31.4%	38.7%	104	117
Leao Alimentos e Bebidas, L.T.D.A.	Beverages	Brazil	24.7%	24.7%	2,084	3,001
UBI 3 Participações L.T.D.A. ( ADES )	Beverages	Brazil	26.0%	26.0%	7	391
Other investments in Coca-Cola FEMSA s companies	Various	Various	Various	Various	786	228
<b>FEMSA Comercio:</b>						
Café del Pacífico, S.A.P.I. de C.V. ( CAFFENIO <sup>(4)</sup>	Coffee	Mexico		40.0%		539
<b>Other investments</b> <sup>(1) (3)</sup>	Various	Various	Various	Various	336	337
					<b>Ps. 94,315</b>	<b>Ps. 96,097</b>

(1) Associate.

(2) As of December 31, 2018 comprised of 8.63% of Heineken, N.V. and 12.26% of Heineken Holding, N.V., which represents an economic interest of 14.76% in Heineken Group. The Company has significant influence, mainly, due to the fact that it participates in the Board of Directors of Heineken Holding, N.V. and the Supervisory Board of Heineken N.V.; and for the material transactions between the Company and Heineken Group.

(3) Joint ventures.

(4) Associate until May 22, 2018, date in which the Company acquired an additional 10% of participation in Caffenio reaching an amount of 50% of ownership and, through an agreement with other shareholders the Company assumed control of the subsidiary.

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During 2018, Coca-Cola FEMSA received dividends from Industria Envasadora de Queretaro, S.A. de C.V. for the amount of Ps. 8. During 2017, the Coca-Cola FEMSA received dividends from Industria Envasadora de Queretaro, S.A. de C.V., and Promotora Mexicana de Embotelladores, S.A. de C.V. in the amount of Ps. 16 and Ps. 17, respectively.

During 2018, the Company made capital contributions to Jugos del Valle, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 73 and Ps. 146, respectively, there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders. During 2018, there was a spin-off for our investment in UBI 3 resulted in Ps. 333 capitalized.

As of December 31, 2018, Coca-Cola FEMSA recognized an impairment, in their investment Compañía Panameña de Bebidas, S.A.P.I. de C.V., for an amount of Ps. 432 million charged as other expenses line. The Company will continue to monitor the results of this investment in conjunction with its partner The Coca-Cola Company, looking for alternatives to improve the business profitability in the near future.

During 2017, Coca-Cola FEMSA made capital contributions to Compañía Panameña de Bebidas, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 349 and Ps. 182, respectively; and there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders. On June 25, 2017, the Coca-Cola FEMSA through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. sold 3.05% of their participation in Leao Alimentos e Bebidas, L.T.D.A. for an amount of Ps.198.

On March 28, 2017, as part of AdeS acquisition the Coca-Cola FEMSA acquired indirect participations in equity method investees in Brazil and Argentina for an aggregate amount of Ps. 587. During 2017, Itabirito merged with Spal in a transaction did not generate any cash flow.

On April 30, 2010, the Company acquired an economic interest of 20% of Heineken Group. Heineken's main activities are the production, distribution and marketing of beer worldwide. On September 18, 2017, the Company concluded the sale of a portion of its investment, representing 5.2% combined economic interest, consisting of 22,485,000 Heineken N.V. shares and 7,700,000 Heineken Holding N.V. shares at the price of \$ 84.50 and \$ 78.00 per share, respectively, see Note 4.2. The Company recognized an equity income of Ps. 6,478, Ps. 7,847 and Ps. 6,342 net of taxes based on its economic interest in Heineken Group for the years ended December 31, 2018, 2017 and 2016, respectively. The economic interest for the year 2018 was 14.8%, for the year 2017 was 20% for the first eight months and 14.8% for the last four months and for the year 2016 was 20%. The Company's share of the net income attributable to equity holders of Heineken Group exclusive of amortization of adjustments amounted to Ps. 6,320 (\$ 281 million), Ps. 7,656 (\$ 357 million) and Ps. 6,430 (\$ 308 million), for the years ended December 31, 2018, 2017 and 2016, respectively. Summarized financial information in respect of the associate Heineken Group accounted for under the equity method is set out below.

Amounts in millions	December 31, 2018		December 31, 2017	
	Peso	Euro	Peso	Euro
Total current assets	<b>Ps. 204,422</b>	<b>. 9,070</b>	Ps. 194,429	. 8,248
Total non-current assets	<b>741,195</b>	<b>32,886</b>	772,861	32,786
Total current liabilities	<b>235,525</b>	<b>10,450</b>	246,525	10,458
Total non-current liabilities	<b>359,846</b>	<b>15,966</b>	378,463	16,055
Total equity	<b>350,245</b>	<b>15,540</b>	342,302	14,521
Equity attributable to equity holders	<b>323,605</b>	<b>14,358</b>	314,017	13,321
Total revenue and other income	<b>Ps. 517,115</b>	<b>22,546</b>	Ps. 493,488	21,750
Total cost and expenses	<b>445,165</b>	<b>19,409</b>	417,434	18,398
Net income	<b>Ps. 48,051</b>	<b>. 2,095</b>	Ps. 48,850	. 2,153
Net income attributable to equity holders	<b>43,647</b>	<b>1,903</b>	43,903	1,935
Other comprehensive income	<b>(1,170)</b>	<b>(51)</b>	(26,524)	(1,169)
Total comprehensive income	<b>Ps. 46,881</b>	<b>. 2,044</b>	Ps. 22,326	. 984
Total comprehensive income attributable to equity holders	<b>42,386</b>	<b>1,848</b>	19,989	881

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

Amounts in millions	December 31, 2018		December 31, 2017	
	Peso	Euro	Peso	Euro
Equity attributable to equity holders of Heineken	<b>Ps. 323,608</b>	<b>14,358</b>	Ps. 314,018	13,321
Economic ownership percentage	<b>14.76%</b>	<b>14.76%</b>	14.76%	14.76%
Investment in Heineken investment exclusive of goodwill and other adjustments	<b>Ps. 47,765</b>	<b>. 2,119</b>	Ps. 46,349	. 1,966
Effects of fair value determined by purchase price allocation	<b>15,846</b>	<b>703</b>	16,610	705
Goodwill	<b>19,850</b>	<b>881</b>	20,761	881
Heineken investment	<b>Ps. 83,461</b>	<b>. 3,703</b>	Ps. 83,720	. 3,552

As of December 31, 2018 and 2017, the fair value of Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 14.8% of its outstanding shares amounted to Ps. 145,177 ( . 6,441 million) and Ps. 170,517 ( . 7,234 million) based on quoted market prices of those dates. As of April 19, 2019, issuance date of these consolidated financial statements, fair value amounted to . 7,930 million.

During the years ended December 31, 2018, 2017 and 2016, the Company received dividends distributions from Heineken Group, amounting to Ps. 2,388, Ps. 3,250 and Ps. 3,263, respectively.

For the years ended December 31, 2018, 2017 and 2016 the total net income corresponding to the immaterial associates of Coca-Cola FEMSA was Ps. 44, Ps. 235 and Ps. 31, respectively.

For the years ended December 31, 2018, 2017 and 2016 the total net income or loss corresponding to the immaterial joint ventures of Coca-Cola FEMSA was a loss of Ps. 270, a loss of Ps. 175, and a gain of Ps. 116, respectively.

For the year ended December 31, 2018, 2017 and 2016, the Company's share of other comprehensive income from equity investees, net of taxes are as follows:

	2018	2017	2016
Items that may be reclassified to consolidated net income:			
Valuation of the effective portion of derivative financial instruments	<b>Ps. (355)</b>	Ps. 252	Ps. 614
Exchange differences on translating foreign operations	<b>(6)</b>	(2,265)	(2,842)
Total	<b>Ps. (361)</b>	Ps. (2,013)	Ps. (2,228)
Items that may not be reclassified to consolidated net income in subsequent periods:			
Remeasurements of the net defined benefit liability	<b>Ps. 597</b>	Ps. 69	Ps. (1,004)

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**Note 11. Property, Plant and Equipment, Net**

	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
at January 1, 2016	Ps. 7,569	Ps. 17,951	Ps. 53,685	Ps. 12,592	Ps. 11,651	Ps. 5,815	Ps. 14,488	Ps. 927	Ps. 124,677
Acquisitions	328	877	6,499	73	2,236	8,667	36	367	19,086
Acquisitions from business combinations	163	763	1,521	105	23	45	668		3,289
Changes in fair value of past acquisitions	50		85				115		250
Transfer of completed projects in progress	46	1,039	2,445	1,978	779	(8,493)	2,206		2,000
Transfer to/from assets classified as held for sale			(36)						(36)
Disposals	(88)	(202)	(2,461)	(574)	(139)	(2)	(474)	(19)	(3,955)
Effects of changes in foreign exchange rates	260	2,643	5,858	1,953	1,271	569	329	(132)	12,755
Changes in value on the recognition of translation effects	854	1,470	2,710	851	122	415		942	7,364
Capitalization of borrowing costs			61			(38)		1	23



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	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
<b>As of January 1, 2018</b>	<b>Ps. 13,589</b>	<b>Ps. 25,972</b>	<b>Ps. 80,302</b>	<b>Ps. 17,465</b>	<b>Ps. 21,532</b>	<b>Ps. 7,390</b>	<b>Ps. 19,666</b>	<b>Ps. 1,028</b>	<b>Ps. 166,944</b>
Acquisitions	334	877	6,926	644	2,888	6,482	3,322	111	14,104
Disposals from business operations	25	451	4,128	537	393	290	2	41	5,817
Disposals of completed assets	526	567	2,193	1,711	3	(4,927)	(93)	20	(2,826)
Disposals in progress									
Disposals (to)/from assets held for sale			(127)						(127)
Disposals	(93)	(152)	(4,623)	(614)	(312)	(633)	(748)	(21)	(7,106)
Disposals of disposal	(4,654)	(2,371)	(11,621)	(2,415)	(10,116)	(489)	(236)		(23,905)
Disposals of changes in foreign exchange rates	(401)	(1,079)	(3,526)	(759)	(251)	(330)	(354)	(293)	(6,993)
Disposals in the recognition of effects	242	816	2,552	465	612	66		9	4,757
Disposals of borrowing									
<b>As of December 31,</b>	<b>Ps. 9,568</b>	<b>Ps. 25,081</b>	<b>Ps. 76,204</b>	<b>Ps. 17,034</b>	<b>Ps. 14,749</b>	<b>Ps. 7,849</b>	<b>Ps. 21,559</b>	<b>Ps. 895</b>	<b>Ps. 163,949</b>
<b>Related Depreciation</b>	<b>Land</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Refrigeration Equipment</b>	<b>Returnable Bottles</b>	<b>Investments in Fixed Assets in Progress</b>	<b>Leasehold Improvements</b>	<b>Other</b>	<b>Total</b>
<b>As of January 1, 2016</b>	<b>Ps.</b>	<b>Ps. (3,758)</b>	<b>Ps. (22,449)</b>	<b>Ps. (6,004)</b>	<b>Ps. (7,378)</b>	<b>Ps.</b>	<b>Ps. (4,392)</b>	<b>Ps. (401)</b>	<b>Ps. (34,381)</b>
Provision for the year		(734)	(5,737)	(1,723)	(2,235)		(1,447)	(200)	(11,876)
Provision to/(from) assets held for sale			16						16
Provision		132	2,101	672	227		364	9	3,405
Provision of changes in foreign exchange rates		(600)	(3,093)	(1,147)	(847)		(81)	39	(5,659)
Provision		(593)	(1,101)	(521)	(33)			(306)	(2,554)

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on of inflation

**lated Depreciation**

<b>ember 31, 2016</b>	Ps.	Ps. (5,553)	Ps. (30,263)	Ps. (8,723)	Ps. (10,266)	Ps.	Ps. (5,556)	Ps. (859)	Ps. (
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			<b>Machinery and Equipment</b>	<b>Refrigeration Equipment</b>	<b>Returnable Bottles</b>	<b>Investments in Fixed Assets in Progress</b>	<b>Leasehold Improvements</b>	<b>Other</b>	<b>Total</b>
<b>Accumulated Depreciation January 1, 2017</b>	Ps.	Ps. (5,553)	Ps. (30,263)	Ps. (8,723)	Ps. (10,266)	Ps.	Ps. (5,556)	Ps. (859)	Ps. (60,260)
Depreciation for the year		(887)	(6,928)	(2,186)	(3,365)		(1,562)	(685)	(12,913)
Transfer to/(from) assets classified as held for sale		44	7						51
Disposals		40	3,125	683	103		300	5	4,256
Effect of changes in foreign exchange rates		518	437	1,157	93		(138)	940	3,007
Reclassification deconsolidation		481	1,186	626	56			335	3,684
Goodwill impairment		(257)	(841)						(1,098)
Changes in value on the effect of inflation		(437)	(1,031)	(553)	(44)			(234)	(2,299)
<b>Accumulated Depreciation December 31, 2017</b>	Ps.	Ps. (6,051)	Ps. (34,308)	Ps. (8,996)	Ps. (13,423)	Ps.	Ps. (6,956)	Ps. (498)	Ps. (66,232)
<b>Accumulated Depreciation January 1, 2018</b>	Ps.	Ps. (6,051)	Ps. (34,308)	Ps. (8,996)	Ps. (13,423)	Ps.	Ps. (6,956)	Ps. (498)	Ps. (66,232)
Depreciation for the year		(786)	(7,437)	(1,752)	(2,827)		(1,763)	(133)	(14,896)
Transfer to/(from) assets classified as held for sale			78						78
Disposals		69	4,970	579	204		571		6,393
Business disposal		700	6,125	2,083	7,225		77		16,110
Effect of changes in foreign exchange rates		112	404	250	631		141	143	2,581
		(223)	(2,692)	(338)	(516)				(3,769)

s in value on the  
tion of inflation

# ulated Depreciation

December 31, 2018 Ps. Ps. (6,179) Ps. (32,860) Ps. (8,174) Ps. (8,706) Ps. Ps. (7,930) Ps. (488) Ps. (6

ing Amount						Investments					Tot
	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Assets in Progress	Leasehold Improvements	Other			
December 31,											
	Ps. 9,182	Ps. 18,988	Ps. 40,104	Ps. 8,255	Ps. 5,677	Ps. 6,978	Ps. 11,812	Ps. 1,227	Ps. 10		
December 31,											
	Ps. 13,589	Ps. 19,921	Ps. 45,994	Ps. 8,469	Ps. 8,109	Ps. 7,390	Ps. 12,710	Ps. 530	Ps. 11		
December 31,											
	Ps. 9,568	Ps. 18,902	Ps. 43,344	Ps. 8,860	Ps. 6,043	Ps. 7,849	Ps. 13,629	Ps. 407	Ps. 10		

During the year ended December 31, 2016 the Company capitalized Ps. 61 of borrowing costs in relation to Ps. 99 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization was 4.5%. For the years ended December 31, 2018 and 2017, the Company did not recognize any capitalization of borrowing costs.

For the years ended December 31, 2018, 2017 and 2016 interest expense, interest income and net foreign exchange losses and gains are analyzed as follows:

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	<b>2018</b>	<b>2017</b>	<b>2016</b>
Interest expense, interest income and net foreign exchange	<b>Ps. 7,241</b>	Ps. 4,688	Ps. 7,285
Amount capitalized <sup>(1)</sup>			69
Net amount in consolidated income statements	<b>Ps. 7,241</b>	Ps. 4,688	Ps. 7,216

(1) Amount of interest capitalized in property, plant and equipment and intangible assets.

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

**Note 12. Intangible Assets**

Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other	Total	Technology	Systems in Development	Alcohol Licenses	Other	Total	T
			Indefinite Lived Intangible Assets	Unamortized Intangible Assets	Costs and Management Systems				Amortized Intangible Assets	
Ps. 66,392	Ps. 33,850	Ps. 1,481	Ps. 1,246	Ps. 102,969	Ps. 4,890	Ps. 683	Ps. 1,225	Ps. 860	Ps. 7,658	Ps.
		3		3	345	609	191	146	1,291	
4)	9,602	12,276	239	1,067	23,184	318	3	174	495	
		(2,385)	4,315	(554)	1,376			1,078	1,078	
						304	(304)			
						(336)		(24)	(360)	
	8,124	8,116	187	392	16,819	451	(193)	104	362	
	1,220				1,220	141			141	
						11			11	



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r 31,

**Ps. 85,338 Ps. 51,857 Ps. 6,225 Ps. 2,151 Ps. 145,571 Ps. 6,124 Ps. 798 Ps. 1,416 Ps. 2,338 Ps. 10,676 Ps.**

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<b>Rights to Produce and Distribute Coca-Cola Trademark Products</b>	<b>Goodwill</b>	<b>Trademark Rights</b>	<b>Other Indefinite Lived Intangible Assets</b>	<b>Total Unamortized Intangible Assets</b>	<b>Technology Costs and Management Systems</b>	<b>Systems in Development</b>	<b>Alcohol Licenses</b>	<b>Other</b>	<b>Total Amortized Intangible Assets</b>	<b>P</b>
Ps. 85,338 1,288	Ps. 51,857	Ps. 6,225	Ps. 2,151 6	Ps. 145,571 1,294	Ps. 6,124 464	Ps. 798 920	Ps. 1,416 221	Ps. 2,338 445	Ps. 10,676 2,050	P
4,144	140	5		4,289	6			80	86	
5,167	(7,022)	836	9	(1,010)	(188)			892	704	
					412 110	(412)			110	
(2,563)	(1,526)	119	91	(3,879)	175	(15)		52	212	
(727)				(727)				175	175	
(745)				(745)				(139)	(139)	
<b>Ps. 91,902</b>	<b>Ps. 43,449</b>	<b>Ps. 7,185</b>	<b>Ps. 2,257</b>	<b>Ps. 144,793</b>	<b>Ps. 7,103</b>	<b>Ps. 1,291</b>	<b>Ps. 1,637</b>	<b>Ps. 3,843</b>	<b>Ps. 13,874</b>	<b>P</b>

Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets		
Ps. 91,902	Ps. 43,449	Ps. 7,185	Ps. 2,257	Ps. 144,793	Ps. 7,103	Ps. 1,291	Ps. 1,637	Ps. 3,843	Ps. 13,874	P	
	75		71	146	1,051	371	131	94	1,647		
	4,602	842	170	5,614	35	57		291	383		
	272			272							
								41	41		
					904	(904)					
			(2)	(2)	(43)			(146)	(189)		
	(3,882)			(3,882)				(596)	(596)		
	(5,005)	(4,108)	(656)	(349)	(10,118)	(343)	(38)	(311)	(692)		
								57	57		
1,	Ps. 87,617	Ps. 40,530	Ps. 6,699	Ps. 1,977	Ps. 136,823	Ps. 8,707	Ps. 777	Ps. 1,768	Ps. 3,273	Ps. 14,525	P

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	Rights to Produce and Distribute Coca-Cola Trademark	Goodwill	Other Indefinite Livable Intangible Assets	Other Indefinite Livable Intangible Assets	Total Amortized Intangible Assets	Technology Costs and Systems Management	Systems Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Assets	
<b>Amortization and Impairment Losses</b>	<b>Product</b>	<b>Goodwill</b>	<b>Rights</b>	<b>Assets</b>	<b>Assets</b>	<b>Systems</b>	<b>Development</b>	<b>Licenses</b>	<b>Other</b>	<b>Assets</b>	<b>Assets</b>	
Amortization as of January 1, 2016	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	(1,619)	Ps.	Ps. (302)	Ps. (365)	Ps. (2,286)	Ps. (2,286)
Amortization expense							(630)		(74)	(302)	(1,006)	(1,006)
Impairment losses												
Disposals							313			36	349	349
Effect of movements in exchange rates							(1)			(35)	(36)	(36)
<b>Amortization as of December 31, 2016</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>(1,937)</b>	<b>Ps.</b>	<b>Ps. (376)</b>	<b>Ps. (666)</b>	<b>Ps. (2,979)</b>	<b>Ps. (2,979)</b>
Amortization as of January 1, 2017	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	(1,937)	Ps.	Ps. (376)	Ps. (666)	Ps. (2,979)	Ps. (2,979)
Amortization expense							(961)		(81)	(217)	(1,259)	(1,259)
Impairment losses							(110)				(110)	(110)
Disposals												
Guatemala deconsolidation effect										(120)	(120)	(120)
Guatemala impairment												
Effect of movements in exchange rates							(254)			148	(106)	(106)
<b>Amortization as of December 31, 2017</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>(3,262)</b>	<b>Ps.</b>	<b>Ps. (457)</b>	<b>Ps. (855)</b>	<b>Ps. (4,574)</b>	<b>Ps. (4,574)</b>
Amortization as of January 1, 2018	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	(3,262)	Ps.	Ps. (457)	Ps. (855)	Ps. (4,574)	Ps. (4,574)
Amortization expense							(1,453)		(87)	(373)	(1,913)	(1,913)
Disposals							93			98	191	191
Philippines Disposal										375	375	375
Effect of movements in exchange rates							236			(1)	235	235
Changes in value on the recognition of												
Conversion effects							(51)			(1)	(52)	(52)
<b>Amortization as of December 31, 2018</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>(4,437)</b>	<b>Ps.</b>	<b>Ps. (544)</b>	<b>Ps. (757)</b>	<b>Ps. (5,738)</b>	<b>Ps. (5,738)</b>

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	Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total
<b>g Amount</b>											
r 31, 2016	Ps. 85,338	Ps. 51,857	Ps. 6,225	Ps. 2,151	Ps. 145,571	Ps. 4,187	Ps. 798	Ps. 1,040	Ps. 1,672	Ps. 7,697	Ps.
r 31, 2017	Ps. 91,902	Ps. 43,449	Ps. 7,185	Ps. 2,257	Ps. 144,793	Ps. 3,841	Ps. 1,291	Ps. 1,180	Ps. 2,988	Ps. 9,300	Ps.
r 31,	Ps. 87,617	Ps. 40,530	Ps. 6,699	Ps. 1,977	Ps. 136,823	Ps. 4,270	Ps. 777	Ps. 1,224	Ps. 2,516	Ps. 8,787	Ps.

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During the year ended December 31, 2016 the Company capitalized Ps. 8 of borrowing costs in relation to Ps. 28 in qualifying assets. The effective interest rate used to determine the amount of borrowing costs eligible for capitalization was 4.1%. For the years ended December 31, 2018 and 2017, the Company did not recognize any capitalization of borrowing costs.

On March 28, 2017 Coca-Cola FEMSA acquired distribution rights and other intangibles of AdeS soy-based beverages in its territories in Mexico and Colombia for an aggregate amount of Ps. 1,287. This acquisition was made to reinforce Coca-Cola FEMSA leadership position. For the years ended 2018, 2017 and 2016, allocation for amortization expense is as follows:

	<b>2018</b>	2017	2016
Cost of goods sold	<b>Ps. 399</b>	Ps. 132	Ps. 82
Administrative expenses	<b>858</b>	627	727
Selling expenses	<b>656</b>	500	207
	<b>Ps. 1,913</b>	Ps. 1,259	Ps. 1,016

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

	Years
Technology Costs and Management Systems	<b>3 - 10</b>
Alcohol Licenses	<b>12 - 15</b>

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

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

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

<b>December 31, 2018</b>	December 31, 2017
------------------------------	----------------------

Mexico	<b>Ps. 56,352</b>	Ps. 56,352
Guatemala	<b>1,853</b>	488
Nicaragua	<b>460</b>	484
Costa Rica	<b>1,417</b>	1,520
Panama	<b>1,182</b>	1,185
Colombia	<b>4,600</b>	5,824
Brazil	<b>42,153</b>	48,345
Argentina	<b>327</b>	50
Uruguay	<b>3,003</b>	
Philippines		3,882
<b>Total</b>	<b>Ps. 111,347</b>	Ps. 118,130

Goodwill and distribution rights are tested for impairments annually.

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

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

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

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

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

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

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

Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. Coca-Cola FEMSA believes that this forecasted period is justified due to the non-current nature of the business and past experiences.

Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.

A per CGU-specific WACC was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjustments.

The key assumptions by CGU for impairment test as of December 31, 2018 were as follows:



<b>CGU</b>	<b>Pre-tax WACC</b>	<b>Post-tax WACC</b>	<b>Expected Annual Long-Term Inflation 2019-2028</b>	<b>Expected Volume Growth Rates 2019-2028</b>
Mexico	7.4%	5.3%	4.0%	1.4%
Colombia	7.8%	5.2%	3.1%	4.0%
Costa Rica	13.9%	9.2%	4.0%	1.6%
Guatemala	9.4%	7.5%	3.2%	7.3%
Nicaragua	21.2%	11.0%	6.2%	3.8%
Panama	9.2%	7.0%	2.4%	3.0%
Argentina	19.6%	11.3%	21.9%	2.7%
Brazil	10.7%	6.6%	3.8%	1.7%

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The key assumptions by CGU for impairment test as of December 31, 2017 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2018-2027	Expected Volume Growth Rates 2018-2027
Mexico	7.3%	5.3%	3.7%	2.2%
Colombia	9.1%	6.6%	3.1%	3.2%
Costa Rica	11.5%	7.8%	3.3%	2.7%
Guatemala	13.9%	10.7%	4.7%	7.1%
Nicaragua	16.6%	10.6%	5.0%	4.9%
Panama	8.3%	6.5%	2.3%	3.4%
Argentina	11.0%	7.3%	10.7%	3.1%
Brazil	9.7%	6.2%	4.1%	1.3%

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

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

**Sensitivity to Changes in Assumptions**

At December 31, 2018, Coca-Cola FEMSA performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and an additional sensitivity to the volume of 100 basis points and concluded that no impairment would be recorded.

CGU	Change in WACC	Change in Volume Growth CAGR <sup>(1)</sup>	Effect on Valuation
Mexico	+0.3%	-1.0%	Passes by 5.0x
Colombia	+0.6%	-1.0%	Passes by 3.9x

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Costa Rica	+1.7%	-1.0%	Passes by 1.9x
Guatemala	+0.7%	-1.0%	Passes by 18.4x
Nicaragua	+0.3%	-0.3%	Passes by 1.0x
Panama	+0.3%	-1.0%	Passes by 6.9x
Argentina	+6.1%	-1.0%	Passes by 8.9x
Brazil	+1.1%	-1.0%	Passes by 1.3x

(1) Compound Annual Growth Rate ( CAGR ).

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

**FEMSA Comercio Proximity Division, FEMSA Comercio Health Division and FEMSA Comercio Fuel Division Impairment Test for Cash-Generating Units Containing Goodwill**

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

As of December 31, 2018 in FEMSA Comercio Health Division there is a significant carrying amount of goodwill allocated in Chile and Colombia as a group of cash generating (South America) with a total carrying amount of Ps. 6,048.

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

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

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

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

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

period.

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

Cash flows were projected based on actual operating results and the five-year business plan. The Company believes that this forecasted period is justified due to the non-current nature of the business and past experiences.

Cash flows projected based on actual operating results and five-year business plan were calculated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.

A per CGU-specific Weighted Average Cost of Capital ( WACC ) was applied by FEMSA Comercio Health Division as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes size premium adjustments.

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

The key assumptions by CGU for impairment test as of December 31, 2018 were as follows:

	<b>Pre-tax WACC</b>	<b>Post-tax WACC</b>	<b>Expected Annual Long-Term Inflation 2019-2028</b>	<b>Expected Volume Growth Rates 2019-2028</b>
<b>CGU</b>				
South America (FEMSA Comercio Health Division)	<b>9.0%</b>	<b>6.3%</b>	<b>3.0%</b>	<b>0.4%</b>

The key assumptions by CGU for impairment test as of December 31, 2017 were as follows:

	<b>Pre-tax WACC</b>	<b>Post-tax WACC</b>	<b>Expected Annual Long-Term Inflation 2018-2027</b>	<b>Expected Volume Growth Rates 2018-2027</b>
<b>CGU</b>				
South America (FEMSA Comercio Health Division)	<b>6.9%</b>	<b>6.2%</b>	<b>3.0%</b>	<b>2.0%</b>

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.

**Sensitivity to Changes in Assumptions**

At December 31, 2018, the Company performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and a sensitivity analysis of sales that would be affected considering a contraction in economic conditions as a result of lower purchasing power of customers, which based on management estimation considered to be reasonably possible an effect of 100 basis points in the sales compound annual growth rate (CAGR), concluding that no impairment would be recognized.

<b>CGU</b>	<b>Change in WACC</b>	<b>Change in Sales Growth CAGR <sup>(1)</sup></b>	<b>Effect on Valuation</b>
	<b>+0.3%</b>	<b>-0.5%</b>	<b>Passes by 1.15x</b>

FEMSA Comercio Health Division  
(South America)

(1) Compound Annual Growth Rate.

**Note 13. Other Assets and Other Financial Assets**

*13.1 Other non-current assets*

	<b>December 31, 2018</b>	December 31, 2017
Agreement with customers	<b>Ps. 897</b>	Ps. 849
Long term prepaid advertising expenses	<b>388</b>	298
Guarantee deposits <sup>(1)</sup>	<b>2,910</b>	3,491
Prepaid bonuses	<b>248</b>	151
Advances to acquire property, plant and equipment	<b>233</b>	266
Recoverable taxes	<b>1,289</b>	1,674
Indemnifiable assets from business combinations <sup>(2)</sup>	<b>3,336</b>	4,510
Recoverable taxes from business combinations	<b>395</b>	458
Others	<b>621</b>	828
	<b>Ps. 10,317</b>	Ps. 12,525

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

(2) Corresponds to indemnifiable assets that are warranted by former Vonpar owners as per the share purchase agreement. See Note 4.1.3

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*13.2 Other non-current financial assets*

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Non-current accounts receivable	<b>Ps. 724</b>	Ps. 733
Derivative financial instruments (see Note 20)	<b>10,752</b>	10,137
Investments <sup>(2)</sup>	<b>11,810</b>	
Investments in other entities <sup>(1)</sup>		1,039
Others	<b>101</b>	164
	<b>Ps. 23,387</b>	Ps. 12,073

(1) In 2017, Coca-Cola FEMSA determined that deteriorating conditions in its Venezuela's investment subsidiary had led the Company to no longer meet the accounting criteria to continue consolidating its operations. For further information about the impacts of such deconsolidation, see Note 3.3 above.

(2) It represents an investment in corporate debt securities with variable interest rates, measured at amortized cost. The carrying value approximates its fair value as of December 31, 2018.

As of December 31, 2018 and 2017, the fair value of non-current accounts receivable amounted to Ps. 740 and Ps. 707, respectively. The fair value is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for receivable of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy.

**Note 14. Balances and Transactions with Related Parties and Affiliated Companies**

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

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

<b>December 31, 2018</b>	<b>December 31, 2017</b>
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**Balances**

Due from The Coca-Cola Company (see Note 7)				
(1) (8)	<b>Ps.</b>	<b>1,173</b>	<b>Ps.</b>	2,054
Balance with BBVA Bancomer, S.A. de C.V. (2)		<b>11,093</b>		1,496
Balance with JP Morgan Chase & Co. (2)		<b>27</b>		6,907
Balance with Banco Mercantil del Norte S.A. (3)				806
Grupo Industrial Saltillo S.A.B. de C.V. (3)		<b>169</b>		141
Due from Heineken Group (1) (3) (7)		<b>2,572</b>		2,673
Former shareholders of Vonpar				1,219
Other receivables (1) (4)		<b>565</b>		209
Due to The Coca-Cola Company (5) (6) (8)	<b>Ps.</b>	<b>3,893</b>	<b>Ps.</b>	3,731

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Due to BBVA Bancomer, S.A. de C.V. <sup>(5)</sup>	<b>2,947</b>	352
Due to Caffenio <sup>(9)</sup>		293
Due to Heineken Group <sup>(6) (7)</sup>	<b>4,753</b>	4,403
Other payables <sup>(6)</sup>	<b>1,402</b>	1,508

(1) Presented within accounts receivable.

(2) Presented within cash and cash equivalents.

(3) Presented within other financial assets.

(4) Presented within other current financial assets.

(5) Recorded within bank loans and notes payable.

(6) Recorded within accounts payable.

(7) Associates.

(8) Non-controlling interest.

(9) On May 22, 2018 the Company completed the acquisition of an additional 10% of non-controlling interest of Café del Pacífico S.A.P.I. de C.V. (Caffenio).

Balances due from related parties are considered to be recoverable. Accordingly, for the years ended December 31, 2018 and 2017, there was no expense resulting from uncollectible balances due from related parties.

<b>Transactions</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Income:</b>			
Services to Heineken Group <sup>(1)</sup>	<b>Ps. 3,265</b>	Ps. 3,570	Ps. 3,153
Logistic services to Grupo Industrial Saltillo, S.A. de C.V. <sup>(3)</sup>	<b>255</b>	457	427
Logistic services to Jugos del Valle <sup>(1)</sup>	<b>369</b>	587	555
Other revenues from related parties	<b>762</b>	620	857
<b>Expenses:</b>			
Purchase of concentrate from The Coca-Cola Company <sup>(2)</sup>	<b>Ps. 32,379</b>	Ps. 30,758	Ps. 38,146
Purchases of beer from Heineken Group <sup>(1)</sup>	<b>27,999</b>	24,942	16,436
Purchase of coffee from Caffenio <sup>(5)</sup>		2,397	2,064
Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. <sup>(3)</sup>	<b>5,763</b>	4,802	4,184
Advertisement expense paid to The Coca-Cola Company <sup>(2) (4)</sup>	<b>2,193</b>	1,392	2,354
	<b>4,537</b>	3,905	3,310

Purchase of juices from Jugos del Valle, S.A.P.I.  
de C.V. <sup>(1)</sup>

Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V. <sup>(1)</sup>	<b>2,604</b>	1,885	1,765
Interest expense and fees paid to BBVA Bancomer, S.A. de C.V. <sup>(3)</sup>	<b>220</b>	40	26
Purchase of sugar from Beta San Miguel <sup>(3)</sup>	<b>651</b>	1,827	1,349
Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V. <sup>(3)</sup>	<b>739</b>	839	759
Purchase of canned products from IEQSA <sup>(1)</sup>	<b>596</b>	804	798
Purchase of inventories to Leao Alimentos e Bebidas, L.T.D.A. <sup>(1)</sup>	<b>2,654</b>	4,010	3,448
Advertising paid to Grupo Televisa, S.A.B. <sup>(3)</sup>	<b>113</b>	107	193
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. <sup>(3)</sup>	<b>12</b>	32	63
Donations to Fundación FEMSA, A.C. <sup>(3)</sup>	<b>113</b>	23	62
Donations to Difusión y Fomento Cultural, A.C. <sup>(3)</sup>	<b>63</b>	44	49
Donations to ITESM <sup>(3)</sup>	<b>192</b>	108	
Other expenses with related parties	<b>602</b>	742	618

(1) Associates.

(2) Non-controlling interest.

(3) Members of the board of directors in FEMSA participate in board of directors of this entity.

(4) Net of the contributions from The Coca-Cola Company of Ps. 3,542, Ps. 4,023 and Ps. 4,518, for the years ended in 2018, 2017 and 2016, respectively.

(5) On May 22, 2018 the Company completed the acquisition of an additional 10% of non-controlling interest of Café del Pacífico S.A.P.I. de C.V. (Caffenio).

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*Commitments with related parties*

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

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Short-term employee benefits paid	<b>Ps. 1,885</b>	Ps. 1,699	Ps. 1,510
Postemployment benefits	<b>37</b>	48	39
Termination benefits	<b>88</b>	74	192
Share based payments	<b>401</b>	351	468

**Note 15. Balances and Transactions in Foreign Currencies**

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different than the functional currency of the Company. As of December 31, 2018 and for each of the three years ended on December 31, 2018, 2017 and 2016, respectively; the assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

<b>Balances</b>	<b>Assets</b>		<b>Liabilities</b>	
	<b>Short-Term</b>	<b>Long-Term</b>	<b>Short-Term</b>	<b>Long-Term</b>
<b>As of December 31, 2018</b>				
U.S. dollars	<b>Ps. 69,281</b>	<b>Ps. 12,026</b>	<b>Ps. 4,625</b>	<b>Ps. 63,112</b>
Euros	<b>749</b>		<b>417</b>	<b>22,538</b>
Other currencies	<b>46</b>	<b>1,605</b>	<b>24</b>	<b>1</b>

Total	Ps. 70,076	Ps. 13,631	Ps. 5,066	Ps. 85,651
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As of December 31, 2017

U.S. dollars	Ps. 69,772	Ps. 148	Ps. 4,241	Ps. 73,115
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Euros	25		1,881	23,573
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Other currencies	46	1,674	340	1
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Total	Ps. 69,843	Ps. 1,822	Ps. 6,462	Ps. 96,689
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<b>Transactions</b>	<b>Revenues</b>	<b>Other Operating Revenues</b>	<b>Purchases of Raw Materials</b>	<b>Interest Expense</b>	<b>Consulting Fees</b>	<b>Asset Acquisitions</b>	<b>Other</b>
<b>For the year ended December 31, 2018</b>							
U.S. dollars	Ps. 7,228	Ps. 130	Ps. 21,460	Ps. 2,309	Ps. 752	Ps. 2,166	Ps. 2,676
Euros			63	434	20		1
Other currencies		9			2		
<b>Total</b>	<b>Ps. 7,228</b>	<b>Ps. 139</b>	<b>Ps. 21,523</b>	<b>Ps. 2,743</b>	<b>Ps. 774</b>	<b>Ps. 2,166</b>	<b>Ps. 2,677</b>
<b>For the year ended December 31, 2017</b>							
U.S. dollars	Ps. 1,909	Ps. 1,677	Ps. 16,320	Ps. 2,534	Ps. 267	Ps. 272	Ps. 4,052
Euros		2	87	452	23	4	20
Other currencies					12		
<b>Total</b>	<b>Ps. 1,909</b>	<b>Ps. 1,679</b>	<b>Ps. 16,407</b>	<b>Ps. 2,986</b>	<b>Ps. 302</b>	<b>Ps. 276</b>	<b>Ps. 4,072</b>
<b>For the year ended December 31, 2016</b>							
U.S. dollars	Ps. 4,068	Ps. 1,281	Ps. 14,961	Ps. 3,173	Ps. 182	Ps. 407	Ps. 3,339
Euros	6		104	355	43		5
Other currencies	29	150		150	185		4
<b>Total</b>	<b>Ps. 4,103</b>	<b>Ps. 1,431</b>	<b>Ps. 15,065</b>	<b>Ps. 3,678</b>	<b>Ps. 410</b>	<b>Ps. 407</b>	<b>Ps. 3,348</b>

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

	December 31, 2018	December 31, 2017	April 19, 2019
U.S. dollar	19.6829	19.7354	18.9516
Euro	22.5383	23.5729	21.3171

**Note 16. Employee Benefits**

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

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

#### *16.1 Assumptions*

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

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

<b>Mexico</b>	<b>December 31, 2018</b>	December 31, 2017	December 31, 2016
<b>Financial:</b>			
Discount rate used to calculate the defined benefit obligation	<b>9.40%</b>	7.60%	7.60%
Salary increase	<b>4.60%</b>	4.50%	4.50%
Future pension increases	<b>3.60%</b>	3.50%	3.50%
Healthcare cost increase rate	<b>5.10%</b>	5.10%	5.10%
<b>Biometric:</b>			
Mortality <sup>(1)</sup>	<b>EMSSA 2009</b>	EMSSA 2009	EMSSA 2009
Disability <sup>(2)</sup>	<b>IMSS-97</b>	IMSS-97	IMSS-97
Normal retirement age	<b>60 years</b>	60 years	60 years
Employee turnover table <sup>(3)</sup>	<b>BMAR 2007</b>	BMAR 2007	BMAR 2007

Measurement date December:

(1) EMSSA. Mexican Experience of social security.

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

(3) BMAR. Actuary experience.

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

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

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

**Total**



	Pension and Retirement Plans		Seniority Premiums		Post-Retirement Medical Services		
2019	Ps.	630	Ps.	101	Ps.	22	Ps. 753
2020		340		71		23	434
2021		284		63		24	371
2022		286		56		24	366
2023		345		53		25	423
2024 to 2028		2,000		257		165	2,422

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*16.2 Balances of the liabilities for employee benefits*

	<b>December 31, 2018</b>	December 31, 2017
<b>Pension and Retirement Plans:</b>		
Defined benefit obligation	<b>Ps. 6,189</b>	Ps. 7,370
Pension plan funds at fair value	<b>(2,501)</b>	(3,131)
Net defined benefit liability	<b>Ps. 3,688</b>	Ps. 4,239
<b>Seniority Premiums:</b>		
Defined benefit obligation	<b>Ps. 772</b>	Ps. 783
Seniority premium plan funds at fair value	<b>(111)</b>	(109)
Net defined benefit liability	<b>Ps. 661</b>	Ps. 674
<b>Postretirement Medical Services:</b>		
Defined benefit obligation	<b>Ps. 418</b>	Ps. 524
Medical services funds at fair value	<b>(68)</b>	(64)
Net defined benefit liability	<b>Ps. 350</b>	Ps. 460
<b>Total Employee Benefits</b>	<b>Ps. 4,699</b>	Ps. 5,373

*16.3 Trust assets*

Trust assets consist of fixed and variable return financial instruments recorded at fair value (Level 1), which are invested as follows:

	<b>December 31, 2018</b>	December 31, 2017
<b>Fixed return:</b>		
Traded securities	<b>19%</b>	18%
Bank instruments	<b>6%</b>	5%
	<b>60%</b>	62%

Federal government instruments of the respective countries

**Variable return:**

Publicly traded shares	15%	15%
	100%	100%

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

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

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

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

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

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

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

	December 31, 2018	December 31, 2017
<b>Debt:</b>		
Grupo Televisa, S.A.B. de C.V.	Ps. 45	Ps. 28
El Puerto de Liverpool, S.A.B. de C.V.	30	30
Grupo Financiero Banorte, S.A.B. de C.V.	8	
Grupo BBVA Bancomer, S.A. de C.V.	19	10
Gentera, S.A.B. de C.V.	4	
Grupo Industrial Bimbo, S.A.B. de C. V.	27	5
<b>Equity:</b>		
Grupo Televisa, S.A.B. de C.V.	1	
El Puerto de Liverpool, S.A.B. de C.V.	3	
Grupo Aeroportuario del Sureste, S.A.B. de C.V.	2	
CEMEX, S.A.B. de C.V.	3	

For the years ended December 31, 2018 and 2017, 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. There are no restrictions placed on the trustee's ability to sell those securities. As of December 31, 2018 and 2017, the plan assets did not include securities of the Company in portfolio funds.

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

December 31, 2018	Income Statement				AOCI <sup>(1)</sup>
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or	Net Interest on the Net Defined Benefit	Remeasurements of the Net Defined Benefit

			<b>Curtailment</b>	<b>Liability</b>	<b>Liability</b>
Pension and retirement plans	<b>Ps. 318</b>	<b>Ps.</b>	<b>Ps. (5)</b>	<b>Ps. 304</b>	<b>Ps. 668</b>
Seniority premiums	<b>125</b>		<b>(8)</b>	<b>49</b>	<b>(63)</b>
Postretirement medical services	<b>25</b>		<b>(1)</b>	<b>34</b>	<b>41</b>
Total	<b>Ps. 468</b>	<b>Ps.</b>	<b>Ps. (14)</b>	<b>Ps. 387</b>	<b>Ps. 646</b>

				Net	
			Gain or	Interest on	Remeasurements
			Loss on	the Net	of the Net
	Current	Past	Settlement	Defined	Defined
	Service	Service	or	Benefit	Benefit
	Cost	Cost	Curtailment	Liability	Liability
<b>December 31, 2017</b>					
Pension and retirement plans	Ps. 244	Ps. 10	Ps. (2)	Ps. 248	Ps. 1,061
Seniority premiums	106		(1)	41	46
Postretirement medical services	24			30	184
Total	Ps. 374	Ps. 10	Ps. (3)	Ps. 319	Ps. 1,291

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	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or Curtailment	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability
<b>December 31, 2016</b>					
Pension and retirement plans	Ps.245	Ps.45	Ps. (61)	Ps. 224	Ps. 1,102
Seniority premiums	93	1		34	18
Postretirement medical services	21			24	151
<b>Total</b>	<b>Ps.359</b>	<b>Ps.46</b>	<b>Ps. (61)</b>	<b>Ps. 282</b>	<b>Ps. 1,271</b>

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

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

	<b>December 31, 2018</b>	December 31, 2017	December 31, 2016
Amount accumulated in other comprehensive income as of the beginning of the period, net of tax	<b>Ps. 892</b>	Ps. 966	Ps. 810
Actuarial losses arising from exchange rates	<b>(21)</b>	(2)	123
Remeasurements during the year, net of tax	<b>221</b>	295	288
Actuarial gains and (losses) arising from changes in financial assumptions	<b>(617)</b>	(367)	(255)
Amount accumulated in other comprehensive income as of the end of the period, net of tax	<b>Ps. 475</b>	Ps. 892	Ps. 966

Remeasurements of the net defined benefit liability include the following:

The return on plan assets, excluding amounts included in net interest expense.

Actuarial gains and losses arising from changes in demographic assumptions.

Actuarial gains and losses arising from changes in financial assumptions.

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

	<b>December 31, 2018</b>	December 31, 2017	December 31, 2016
<b>Pension and Retirement Plans:</b>			
Initial balance	<b>Ps. 7,370</b>	Ps. 5,702	Ps. 5,308
Current service cost	<b>318</b>	341	245
Past service cost		10	45
Interest expense	<b>484</b>	491	369
Effect on curtailment		(2)	(61)
Settlement	<b>(5)</b>		
Remeasurements of the net defined benefit obligation	<b>(740)</b>	263	(67)
Foreign exchange loss (gain)	<b>(86)</b>	(79)	150
Benefits paid	<b>(450)</b>	(550)	(287)
(Derecognition) acquisitions	<b>(702)</b>	1,194	
<b>Ending balance</b>	<b>Ps. 6,189</b>	Ps. 7,370	Ps. 5,702
<b>Seniority Premiums:</b>			
Initial balance	<b>Ps. 783</b>	Ps. 663	Ps. 610

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Current service cost	125	106	93
Interest expense	57	49	41
Settlement	(8)	(1)	
Effect on curtailment			
Remeasurements of the net defined benefit obligation	(115)	28	(43)
Benefits paid	(77)	(68)	(55)
Acquisitions	7	6	17
<b>Ending balance</b>	<b>Ps. 772</b>	<b>Ps. 783</b>	<b>Ps. 663</b>
<b>Postretirement Medical Services:</b>			
Initial balance	Ps. 524	Ps. 460	Ps. 404
Current service cost	25	24	22
Interest expense	39	34	27
Curtailment / Settlement	(1)		
Remeasurements of the net defined benefit obligation	(143)	32	30
Benefits paid	(26)	(26)	(23)
<b>Ending balance</b>	<b>Ps. 418</b>	<b>Ps. 524</b>	<b>Ps. 460</b>
<b>Post-employment:</b>			
Initial balance	Ps.	Ps.	Ps. 135
Reclassification to certain liability cost			(135)
<b>Ending balance</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>

*16.6 Changes in the balance of plan assets*

	December 31, 2018	December 31, 2017	December 31, 2016
<b>Total Plan Assets:</b>			
Initial balance	Ps. 3,304	Ps. 2,378	Ps. 2,228
Actual return on trust assets	47	213	40
Foreign exchange loss (gain)	(1)	86	4



Life annuities	35	65	107
Benefits paid	(1)	(136)	(1)
(Derecognition) acquisitions	(704)	698	
<b>Ending balance</b>	<b>Ps. 2,680</b>	<b>Ps. 3,304</b>	<b>Ps. 2,378</b>

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

#### *16.7 Variation in assumptions*

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

Discount rate: The rate that determines the value of the obligations over time.

Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable.

Healthcare cost increase rate: The rate that considers the trends of health care costs which implies an impact on the postretirement medical service obligations and the cost for the year.

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The following table presents the amount of defined benefit plan expense and OCI impact in absolute terms of a variation of 1% in the assumptions on the net defined benefit liability associated with the Company's defined benefit plans. The sensitivity of this 1% on the significant actuarial assumptions is based on a projected long-term discount rates for Mexico and a yield curve projections of long-term sovereign bonds:

	Income Statement OCI <sup>(1)</sup>			
	Remeasurements Effect of Net of the Interest on the Net Defined Benefit Liability			
	Current Service Cost	Gain or Loss on Settlement	Defined Benefit Liability (Asset)	Defined Benefit Liability (Asset)
<b>Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability</b>				
Pension and retirement plans	Ps. 284	Ps. (4)	Ps. 291	Ps. 391
Seniority premiums	121	(7)	53	(79)
Postretirement medical services	24	(1)	38	20
Post-employment				
<b>Total</b>	<b>Ps. 429</b>	<b>Ps. (12)</b>	<b>Ps. 382</b>	<b>Ps. 332</b>
<b>Expected salary increase</b>				
Pension and retirement plans	Ps. 309	Ps. (6)	Ps. 296	Ps. 610
Seniority premiums	131	(8)	53	(67)
Postretirement medical services				
Post-employment				
<b>Total</b>	<b>Ps. 440</b>	<b>Ps. (14)</b>	<b>Ps. 349</b>	<b>Ps. 543</b>
<b>Assumed rate of increase in healthcare costs</b>				
Postretirement medical services	Ps. 29	Ps. (1)	Ps. 41	Ps. 33

-1%:

	Remeasurements Effect of Net of the Interest on the Net Defined Defined Current Gain or Loss Benefit Benefit Service Settlement Liability Liability Cost Curtailment (Asset) (Asset)			
<b>Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability</b>				
Pension and retirement plans	Ps. 324	Ps. (6)	Ps. 261	Ps. 571
Seniority premiums	129	(8)	46	(61)
Postretirement medical services	28	(1)	35	37
Post-employment				
<b>Total</b>	<b>Ps. 481</b>	<b>Ps. (15)</b>	<b>Ps. 342</b>	<b>Ps. 547</b>

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			Effect of Net Interest on the Net	Remeasurements of the Net
	Current	Gain or Loss on	Defined	Defined
Expected salary increase	Service Cost	Settlement or	Benefit	Benefit
		Curtailment	Liability	Liability
			(Asset)	(Asset)
Pension and retirement plans	Ps. 284	Ps.(3)	Ps. 239	Ps. 444
Seniority premiums	120	(7)	47	(72)
Postretirement medical services				
Post-employment				
Total	Ps. 404	Ps. (10)	Ps. 286	Ps. 372
<b>Assumed rate of increase in healthcare costs</b>				
Postretirement medical services	Ps. 24	Ps. (1)	Ps. 34	Ps. 23

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

*16.8 Employee benefits expense*

For the years ended December 31, 2018, 2017 and 2016, employee benefits expenses recognized in the consolidated income statements as cost of goods sold, administrative and selling expenses are as follows:

	2018	2017	2016
Wages and salaries	<b>Ps.58,745</b>	Ps.51,874	Ps. 49,393
Social security costs	<b>10,486</b>	9,800	8,814
Employee profit sharing	<b>1,294</b>	1,209	1,506
Post-employment benefits	<b>842</b>	700	625
Share-based payments	<b>405</b>	351	468
Termination benefits	<b>132</b>	159	325
	<b>Ps.71,904</b>	Ps.64,093	Ps. 61,131

## **Note 17. Bonus Programs**

### *17.1 Quantitative and qualitative objectives*

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

The quantitative objectives represent approximately 50% of the bonus and are based on the Economic Value Added (EVA) methodology. The objective established for the executives at each entity is based on a combination of the EVA generated per entity and the EVA generated by the Company, calculated at approximately 70% and 30%, respectively. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

The bonus amount is determined based on each eligible participant's level of responsibility and based on the EVA generated by the applicable business unit the employee works for. This formula is established by considering the level of responsibility within the organization, the employee's evaluation and competitive compensation in the market. The bonus is paid to the eligible employee on an annual basis and after withholding applicable taxes.

### *17.2 Share-based payment bonus plan*

The Company has implemented a stock incentive plan for the benefit of its senior executives. As discussed above, this plan uses as its main evaluation metric the EVA. Under the EVA stock incentive plan, eligible employees are entitled to receive a special annual bonus (fixed amount), to be paid in shares of FEMSA or Coca-Cola FEMSA, as applicable or stock options (the plan considers providing stock options to employees; however, since inception only shares of FEMSA or Coca-Cola FEMSA have been granted).

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The plan is managed by FEMSA's chief executive officer ( CEO ), with the support of the board of directors, together with the CEO of the respective sub-holding company. FEMSA's Board of Directors is responsible for approving the plan's structure, and the annual amount of the bonus. Each year, FEMSA's CEO in conjunction with the Evaluation and Compensation Committee of the board of directors and the CEO of the respective sub-holding company determine the employees eligible to participate in the plan and the bonus formula to determine the number of shares to be received. Until 2015 the shares were vested ratably over a six-year period, beginning with January 1, 2016 onwards they were ratably vest over a four-year period, with retrospective effects, on existing grants recognized in 2016. FEMSA accounts for its share-based payment bonus plan as an equity-settled share-based payment transaction as it will ultimately settle its obligations with its employees by issuing its own shares or those of its subsidiary Coca-Cola FEMSA.

The Company contributes the individual employee's special bonus (after taxes) in cash to the Administrative Trust (which is controlled and consolidated by FEMSA), who then uses the funds to purchase FEMSA or Coca-Cola FEMSA shares (as instructed by the Administrative Trust's Technical Committee), which are then allocated to such employee. The Administrative Trust tracks the individual employees' account balance. FEMSA created the Administrative Trust with the objective of conducting the purchase of FEMSA and Coca-Cola FEMSA shares by each of its subsidiaries with eligible executives participating in the stock incentive plan. The Administrative Trust's objectives are to acquire FEMSA shares or shares of Coca-Cola FEMSA and to manage the shares granted to the individual employees based on instructions set forth by the Technical Committee. Once the shares are acquired following the Technical Committee's instructions, the Administrative Trust assigns to each participant their respective rights. As the trust is controlled and therefore consolidated by FEMSA, shares purchased in the market and held within the Administrative Trust are presented as treasury stock (as it relates to FEMSA's shares) or as a reduction of the noncontrolling interest (as it relates to Coca-Cola FEMSA's shares) in the consolidated statement of changes in equity, on the line issuance (purchase) of shares associated with share-based payment plans. Should an employee leave prior to their shares vesting, they would lose the rights to such shares, which would then remain within the Administrative Trust and be able to be reallocated to other eligible employees as determined by the Company. The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. For the years ended December 31, 2018, 2017 and 2016, the compensation expense recorded in the consolidated income statement amounted to Ps. 401, Ps. 351 and Ps. 468, respectively.

All shares held in the Administrative Trust are considered outstanding for diluted earnings per share purposes and dividends on shares held by the trust are charged to retained earnings.

As of December 31, 2018 and 2017, the number of shares held by the trust associated with the Company's share-based payment plans are as follows:

	Number of Shares			
	FEMSA UBD		KOFL	
	2018	2017	2018	2017
Beginning balance	<b>2,945,209</b>	3,625,171	<b>935,899</b>	1,068,327
Shares acquired by the administrative trust to employees	<b>913,846</b>	1,311,599	<b>262,909</b>	344,770
Shares released from administrative trust to employees upon vesting	<b>(1,580,595)</b>	(1,991,561)	<b>(501,582)</b>	(477,198)
Forfeitures				
Ending balance	<b>2,278,460</b>	2,945,209	<b>697,226</b>	935,899

The fair value of the shares held by the trust as of the end of December 31, 2018 and 2017 was Ps. 468 and Ps. 673, respectively, based on quoted market prices of those dates.

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**Note 18. Bank Loans and Notes Payable**

At December 31, <sup>(1)</sup>									
(in millions of Mexican pesos)	2019	2020	2021	2022	2023	2024 Thereafter	Carrying Value at December 31, 2018	Fair Value at December 31, 2018	Carrying Value at December 31, 2017 <sup>(1)</sup>
<b>Short-term debt:</b>									
<b>Fixed rate debt:</b>									
<b>Argentine pesos</b>									
Bank loans	Ps. 157	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 157	Ps. 141	Ps. 106
Interest rate	36.8%						36.8%		22.4%
<b>Chilean pesos</b>									
Bank loans	594						594	594	770
Interest rate	3.2%						3.2%		3.1%
<b>U.S. dollars</b>									
Bank loans									
Interest rate									
Capital leases	10						10	10	
Interest rate	3.3%						3.3%		
<b>Uruguayan pesos</b>									
Bank loans	771						771	771	
Interest rate	10%						10%		
<b>Variable rate debt:</b>									
<b>Mexican pesos</b>									
Bank loans	450						450	450	
Interest rate	9.2%						9.2%		
<b>Colombian pesos</b>									
Bank loans	454						454	454	1,951
Interest rate	5.6%						5.6%		7.3%
<b>Chilean pesos</b>									
Bank loans									3
Interest rate									6.1%
<b>Total short-term debt</b>	Ps. 2,436	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 2,436	Ps. 2,420	Ps. 2,830



(in millions of Mexican pesos)	2019	2020	2021	2022	2023	2024 and Thereafter	Carrying Value at December 31, 2018	Fair Value at December 31, 2018	Carrying Value at December 31, 2017 <sup>(1)</sup>
<b>Long-term debt:</b>									
<b>Fixed rate debt:</b>									
<b>Euro</b>									
Senior unsecured notes	Ps.	Ps.	Ps.	Ps.	Ps. 22,439	Ps.	<b>Ps. 22,439</b>	<b>Ps. 23,063</b>	Ps. 23,449
Interest rate									