

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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(Name, telephone, e-mail and/or facsimile number and
address of company contact person)

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

Title of each class:	Name of each exchange on which registered:
American Depositary Shares, each representing 10 BD Units, and each BD Unit consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value 2.875% Senior Notes due 2023 4.375% Senior Notes due 2043	New York Stock Exchange 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 filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See 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 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.

	2018 ⁽¹⁾	2018 ⁽³⁾⁽⁶⁾	December 31, 2017 ⁽²⁾⁽³⁾	2016 ⁽²⁾⁽⁴⁾	2015 ⁽⁵⁾	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 ⁽⁷⁾	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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	December 31,					
	2018 ⁽¹⁾	2018 ⁽³⁾⁽⁶⁾	2017 ⁽²⁾⁽³⁾	2016 ⁽²⁾⁽⁴⁾	2015 ⁽⁵⁾	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 ⁽⁸⁾	1,282	24,266	23,486	22,155	18,885	18,163
Gross margin ⁽⁹⁾	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 ⁽¹⁾	Per Series D Share Dividend	Per Series D Share Dividend ⁽¹⁾
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 depository in sufficient time to enable such holders to return voting instructions to the ADS depository in a timely manner. In the event that instructions are not received with respect to any shares underlying ADSs, the ADS depository 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 depository 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 depository 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 and at our website at 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**.

Table of Contents**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
CIBSA:	Mexico	100.0%
Coca-Cola FEMSA	Mexico	47.2% ⁽¹⁾
Emprex:	Mexico	100.0%
FEMSA Comercio	Mexico	100.0%
CB Equity	United Kingdom	100.0%

- (1) Percentage of capital stock. FEMSA, through CIBSA, owns 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 ⁽¹⁾		Proximity Division ⁽⁴⁾		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)% ⁽²⁾	(17)	440% ⁽³⁾					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⁽¹⁾⁽²⁾

	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.

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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

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

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

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

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

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

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

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

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

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

Unit Case Mix by Category	Sparkling Beverages		Stills		Water ⁽⁶⁾	
	Years Ended December 31					
	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⁽²⁾	74.2%	73.8%	6.8%	6.5%	19.1%	19.8%
Colombia	76.5%	75.4%	6.5%	8.4%	17.1%	16.2%
Brazil	87.5%	88.9%	5.6%	4.9%	6.9%	6.2%
Argentina	80.4%	80.7%	7.1%	7.6%	12.6%	11.7%
Uruguay	91.6%		1.5%		6.9%	
South America⁽⁴⁾⁽⁵⁾	84.2%	84.7%	5.9%	6.1%	9.9%	9.3%
Venezuela ⁽³⁾		84.9%		3.6%		11.4%
Total ⁽¹⁾	78.0%	77.9%	6.5%	6.3%	15.6%	15.8%

(1) 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 ⁽¹⁾	South America ⁽²⁾
Distribution centers	201	74
Retailers ⁽³⁾	1,045,780	852,091

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

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

(3) Estimated.

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.

Table of Contents**OXXO Stores****Regional Allocation in Mexico^(*)****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**

	Year Ended December 31,				
	2018	2017	2016	2015	2014
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

	2018 ⁽⁴⁾	2017 ⁽⁴⁾	Year Ended December 31, (percentage increase compared to previous year)		2014
			2016 ⁽⁴⁾	2015	
Total revenues	11.8%	12.5%	14.4% ⁽¹⁾	21.2% ⁽³⁾	12.4%
OXXO same-store sales ⁽²⁾	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

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

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

(2) Annualized rate.

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

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	Toluca, Estado de Mexico	317
	Leon, Guanajuato	124
	Morelia, Michoacan	50
	Ixtacomitan, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	La Pureza Altamira, Tamaulipas	300
	San Juan del Rio, Queretaro	84
Guatemala	Guatemala City	46
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San Jose	52
Panama	Panama City	29
Colombia	Barranquilla, Atlántico	37
	Bogota, DC	105
	Tocancipa, Cundinamarca	298
Brazil	Jundiai, Sao Paulo	191

	Marilia, Sao Paulo	159
	Curitiba, Paraná	119
	Itabirito, Minas Gerais	320
	Porto Alegre, R�o 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 Jundiá 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, Marilia, Maringa, Curitiba, and Bauru have been certified for (i) ISO 9001; (ii) ISO 14001 and; (iii) norm OHSAS 18001. The Jundiai, Campo Grande, Bauru, Marilia, Curitiba, Maringa, Porto Alegre, Antonio Carlos and Mogi das Cruzes plants are certified in standard FSSC 22000.

In 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 Alcorta plant is in compliance with environmental standards, and Coca-Cola FEMSA has been, and continues to be, certified for ISO 14001:2004 for the plants and operative units in Buenos Aires.

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 (Agencia 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, Marilia, Curitiba, Maringa, Porto Alegre, Antonio Carlos and Itabirito plants, Coca-Cola FEMSA does not exploit spring water. Coca-Cola FEMSA only exploits spring water where it has all the necessary permits.

In Colombia, in addition to natural spring water for *Manantial*, Coca-Cola FEMSA obtains water directly from wells and from utility companies. Coca-Cola FEMSA is required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees No. 2811 of 1974 and No. 3930 of 2010. In addition, Decree No. 303 requires Coca-Cola FEMSA to apply for water concessions and for authorization to discharge its water into public waterways. The Ministry of Environment and Sustainable Development and Regional Autonomous Corporations supervises companies that use water as a raw material for their businesses. Furthermore, in Colombia, Law No. 142 of 1994 provides that public sewer services are charged based on volume (usage). The Water and Sewerage Company of the City of Bogota has interpreted this rule to be the volume of water captured, and not the volume of water discharged by users. Based on Coca-Cola FEMSA's production process, Coca-Cola FEMSA's Colombian subsidiary discharges into the public sewer system significantly less water than the water it captures. As a result, since October 2010, Coca-Cola FEMSA's Colombian subsidiary has filed monthly claims with the Water and Sewerage Company of the City of Bogota challenging these charges. In 2015, the highest court in Colombia issued a final ruling stating that the Water and Sewerage Company of the City of Bogota is not required to measure the volume of water discharged by users in calculating public sewer services charges. Based on this ruling, the Water and Sewerage Company of the City of Bogota commenced an administrative proceeding against our Colombian subsidiary requesting payment of approximately Ps. 309 million for the sewer services it claims Coca-Cola FEMSA's subsidiary has not properly paid since 2005. In connection with such proceeding, in 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 Alcorta plant on a limited basis; however, Coca-Cola FEMSA believes the authorized amount meets its requirements for this plant. In Coca-Cola FEMSA's Monte Grande plant in Argentina, it pumps water from wells, in accordance with Law No. 25.688.

In 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 acquiree. 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 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 ⁽¹⁾	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 ⁽²⁾	34	673	31,951	1,157
Other expenses ⁽³⁾	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 (in millions of Mexican pesos, except margins)	2017 ⁽³⁾	2016 ⁽³⁾	Percentage Growth (Decrease)	
Net sales					
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%
Total revenues					
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%
Cost of goods sold					
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%
Gross profit					
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%
Gross margin⁽¹⁾⁽²⁾					
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.
Administrative expenses					
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%
Selling expenses					
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%
Share of the profit of equity accounted investees, net of taxes					

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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 bursatiles*) 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 bursatiles*, 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 bursatiles* 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)**

	2018	2017	2016
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)				
Long-Term Debt					
Mexican pesos	Ps. 5,082	Ps. 8,179	Ps. 9,037	Ps. 8,488	Ps. 30,786
Brazilian reais ⁽¹⁾	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
Capital Leases					
U.S. dollars	5	2			7
Chilean pesos	31	26	17		74
Interest payments⁽²⁾					
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
Interest Rate Swaps and Cross-Currency Swaps⁽³⁾					
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
Operating leases					
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
Commodity price contracts					
Sugar ⁽⁴⁾	1,223				1,223
Aluminum ⁽⁴⁾	265				265
PX+MEG ⁽⁴⁾	1,303				1,303
Expected benefits to be paid for pension and retirement plans, seniority premiums, post-retirement medical services and post-employment					
	683	728	677	2,527	4,615
Other long-term liabilities⁽⁵⁾					
				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:

	Total Debt Profile of our Company			
	FEMSA and Others	Coca-Cola FEMSA	FEMSA Comercio	Total Debt
	(in millions of Mexican pesos)			
Short-term Debt				
<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
Long-term Debt⁽¹⁾				
<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
Total Debt	Ps. 45,031	Ps. 81,805	Ps. 1,828	Ps. 128,664

Average Cost ⁽²⁾

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	Total Debt Profile of our Company			Total Debt
	FEMSA and Others	Coca-Cola FEMSA (in millions of Mexican pesos)	FEMSA Comercio	
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%
Total	4.0%	8.2%	7.2%	6.8%

(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:

	Loss Contingencies	
	As of December 31, 2018	
	(in millions of Mexican pesos)	
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	
	First elected		
Fernández	(Chairman):	2001	
	First elected		
Carbajal ⁽¹⁾⁽²⁾	(Director):	1984	
	Term expires:	2020	
	Principal occupation:		
<i>Executive Chairman of the Board</i>			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 Lagüera Gonda ⁽³⁾	Born:	1959
	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 ⁽³⁾
Eva María Garza Lagüera Gonda ⁽¹⁾⁽³⁾	Born:	1958
	First elected:	1999
	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 Calderón Rojas ⁽⁴⁾	Born:	1954
	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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	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 ⁽⁴⁾
Alfonso Garza Garza ⁽⁵⁾⁽⁶⁾	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)
	Alternate director:	Juan Carlos Garza Garza ⁽⁵⁾⁽⁶⁾
Maximino José Michel González ⁽⁷⁾	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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	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 ⁽⁷⁾⁽⁸⁾
Alberto Bailleres González ⁽⁸⁾	Born:	1931
	First elected:	1989
	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 Petrobal, 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 ⁽⁸⁾
Francisco Javier Fernández Carbajal ⁽²⁾	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
	Education:	Holds a mechanical and electrical engineering degree from ITESM and an MBA from Harvard University Business School
Ricardo Guajardo Touché	Born:	1948
	First elected:	
<i>Independent Director</i>		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 ⁽³⁾	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 Saldívar 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 AIEn.

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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
<i>Independent Director</i>	Term expires:	2020
	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>)
<i>Series D Directors</i>		
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

<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: Joined FEMSA: Appointed to current position: Business experience within FEMSA: Other business experience: Directorships: Education:	1955 1997 2018 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. 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 Member of the board of directors of FEMSA, Coca-Cola FEMSA, Lamosa, Club Industrial, A.C., Universidad Tec Milenio and Coppel 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: Joined FEMSA: Appointed to current position: Business experience: Directorships: Education:	1959 1982 2015 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 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 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: Joined FEMSA: Appointed to current position:	1962 1985 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

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John Anthony Santa Maria Otazua	Born:	1957
	Joined FEMSA:	1995
<i>Chief Executive Officer of Coca-Cola FEMSA</i>	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	Born:	1965
	Joined FEMSA:	2015
<i>Chief Executive Officer of FEMSA Comercio</i>	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 ⁽¹⁾	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
Sub-holding company:									
Coca-Cola FEMSA ⁽¹⁾	36,042	51,941	87,983	45,111	56,575	101,686	34,010	51,135	85,145
FEMSA Comercio									
Proximity Division ⁽¹⁾⁽²⁾	70,605	71,823	142,428	69,967	59,788	129,755	69,238	51,645	120,883
Fuel Division ⁽¹⁾	952	6,211	7,163	798	5,041	5,839	737	4,622	5,359
Health Division ⁽¹⁾	3,212	18,762	21,974	3,211	18,282	21,493	3,464	17,782	21,246
Other ⁽¹⁾	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 ⁽¹⁾	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.

Table of Contents**Ownership of Capital Stock as of March 22, 2019**

Shareholder	Series B Shares ⁽¹⁾		Series D-B Shares ⁽²⁾		Series D-L Shares ⁽³⁾		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 ⁽⁴⁾	6,922,134,985	74.86%					38.69%
William H. Gates III ⁽⁵⁾	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%
Units			
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 credibi