



# FINANCIAL SECTION

INTEGRATED REPORT 2017

## Coca-Cola FEMSA

Annual report of the audit committee	<b>2</b>
Independent auditors' report	<b>4</b>
Consolidated statements of financial position	<b>8</b>
Consolidated income statements	<b>10</b>
Consolidated statements of comprehensive income	<b>11</b>
Consolidated statements of changes in equity	<b>12</b>
Consolidated statements of cash flows	<b>14</b>
Notes to the consolidated statements	<b>15</b>

# ANNUAL REPORT OF THE **audit committee**

## **To the Board of Directors**

### **Coca Cola FEMSA, S.A.B. de C.V. (the "Company"):**

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

#### **RISK ASSESSMENT**

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

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

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

#### **INTERNAL CONTROL**

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

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

#### **EXTERNAL AUDIT**

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

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

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

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

#### **INTERNAL AUDITING**

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

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

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

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

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

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

## FINANCIAL INFORMATION, ACCOUNTING POLICIES AND REPORTS TO THE THIRD PARTIES

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

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

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

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

## COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS, LEGAL ISSUES AND CONTINGENCIES

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

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

## CODE OF CONDUCT

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

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

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

## TRAINING

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

## ADMINISTRATIVE ACTIVITIES

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

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

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

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

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

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

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

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

Sincerely



**José Manuel Canal Hernando**  
February 21, 2018

# INDEPENDENT AUDITOR'S report

**The Board of Directors and Shareholders of  
Coca-Cola FEMSA, S.A.B. de C.V.**

## OPINION

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

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS FOR THE YEAR ENDED DECEMBER 31, 2017

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

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

## COCA COLA FEMSA PHILIPPINES CONSOLIDATION

### Description of the key audit matter

As disclosed in Notes 4.1.2 to the consolidated financial statements, on January 25, 2017, the Company took control over Coca Cola Femsa Philippines (CCFPI) as the veto rights held by TCCC over certain operating decisions expired. Consequently, all decisions relating to the day-to-day operation and management of CCFPI's business; including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. Commencing on February 1, 2017, the Company started consolidating CCFPI's financial results in its financial statements.

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

### How our audit addressed the matter

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

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

## IMPAIRMENT OF DISTRIBUTION RIGHTS AND GOODWILL

### Description of the key audit matter

As disclosed in Note 11 to the consolidated financial statements, Distribution Rights and Goodwill were Ps. 118,130 million as of December 31, 2017. Given the materiality of distribution rights and goodwill in relation to the consolidated financial statements and the significant judgment and estimation required by management when evaluating these accounts for impairment. We have determined this area to be a key audit matter, in particular for the territories in Brazil, due to recent acquisitions that resulted in significant additions to these accounts and in Venezuela given the general deterioration of the country's macroeconomic environment.

### How our audit addressed the matter

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

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

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

## VENEZUELA OPERATIONS

### Description of the key audit matter

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

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

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

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

### How our audit addressed the matter

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

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

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

## RECOVERABILITY OF DEFERRED TAX ASSETS

### Description of the key audit matter

As disclosed on Note 23 to the consolidated financial statements, the Group had Ps. 24,817 million of net operating loss carry-forwards as of December 31, 2017; such amount relates to the Brazilian and Mexican operations. Brazilian amounts are mainly attributable to tax deductions of goodwill amortization generated on recent business acquisitions while the amounts generated in Mexico related to operating tax losses generated in recent years.

Additionally, as disclosed on Note 23, the Company recognized deferred tax assets arising from tax credits for an amount Ps. 1,723 million, mostly generated in Mexico in 2016 as a result of dividends received from subsidiaries outside Mexico.

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

### How our audit addressed the matter

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

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

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

## VONPAR ACQUISITION

### Description of the key audit matter

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

### How our audit addressed the matter

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

## OTHER INFORMATION INCLUDED IN THE GROUP'S 2017 ANNUAL REPORT

Other information consists of the information included in the Group's 2017 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF MANAGEMENT AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

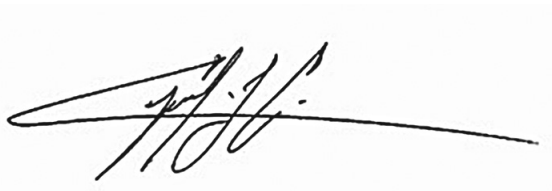
- Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of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

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

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

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

**Mancera, S.C.**  
A member practice of  
Ernst & Young Global Limited



**Adan Aranda Suarez**  
March 5, 2018  
Mexico City, Mexico

# CONSOLIDATED STATEMENTS OF **financial position**

COCA-COLA FEMSA, S.A.B. DE C.V. AND SUBSIDIARIES

At December 31, 2017 and 2016

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

	Note	December 2017 (*)	December 2017	December 2016
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	5	\$ 956	Ps. 18,767	Ps. 10,476
Accounts receivable, net	6	895	17,576	15,005
Inventories	7	579	11,364	10,744
Recoverable taxes	23	263	5,172	4,373
Other current financial assets	8	38	737	1,511
Other current assets	8	103	2,041	3,344
Total current assets		<b>2,834</b>	55,657	45,453
<b>Non-current assets:</b>				
Investments in other entities	9	639	12,540	22,357
Property, plant and equipment, net	10	3,861	75,827	65,288
Intangible assets, net	11	6,326	124,243	123,964
Deferred tax assets	23	408	8,012	5,981
Other non-current financial assets	12	65	1,277	4,733
Other non-current assets	12	413	8,121	11,480
Total non-current assets		<b>11,712</b>	230,020	233,803
<b>TOTAL ASSETS</b>		<b>\$ 14,546</b>	Ps. 285,677	Ps. 279,256

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

The accompanying notes are an integral part of these consolidated statements of financial position.



	Note	December 2017 (*)	December 2017	December 2016
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities:</b>				
Bank loans and notes payable	17	\$ 105	Ps. 2,057	Ps. 1,573
Current portion of non-current debt	17	515	10,114	1,479
Interest payable		25	487	520
Suppliers		1,016	19,956	21,489
Accounts payable		580	11,397	6,355
Taxes payable		360	7,074	7,560
Other current financial liabilities	24	230	4,509	892
<b>Total current liabilities</b>		<b>2,831</b>	55,594	39,868
<b>Non-current liabilities:</b>				
Bank loans and notes payable	17	3,625	71,189	85,857
Post-employment and other non-current employee benefits	15	154	3,029	2,319
Deferred tax liabilities	23	87	1,714	1,205
Other non-current financial liabilities	24	60	1,169	5,745
Provisions and other non-current liabilities	24	624	12,272	15,029
<b>Total non-current liabilities</b>		<b>4,550</b>	89,373	110,155
<b>Total liabilities</b>		<b>7,381</b>	144,967	150,023
<b>Equity:</b>				
Capital stock	21	105	2,060	2,048
Additional paid-in capital		2,320	45,560	41,490
Retained earnings		3,146	61,786	81,579
Other equity instruments		(25)	(485)	(485)
Cumulative other comprehensive income (loss)		695	13,648	(2,495)
<b>Equity attributable to equity holders of the parent</b>		<b>6,241</b>	122,569	122,137
Non-controlling interest in consolidated subsidiaries	20	924	18,141	7,096
<b>Total equity</b>		<b>7,165</b>	140,710	129,233
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 14,546</b>	Ps. 285,677	Ps. 279,256

# CONSOLIDATED income statements

For the years ended December 31, 2017, 2016 and 2015

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.) except per share amounts

	Note	2017 (*)	2017	2016	2015
Net sales		\$ 10,355	PS. 203,374	Ps. 177,082	Ps. 151,914
Other operating revenues		21	406	636	446
Total revenues		10,376	203,780	177,718	152,360
Cost of goods sold		5,708	112,094	98,056	80,330
Gross profit		4,668	91,686	79,662	72,030
Administrative expenses		457	8,983	7,423	6,405
Selling expenses		2,848	55,927	48,039	41,879
Other income	18	223	4,371	1,281	620
Other expenses	18	1,682	33,032	5,093	2,368
Interest expense	17	449	8,809	7,471	6,337
Interest income		45	887	715	414
Foreign exchange gain (loss), net		41	810	(1,792)	(1,459)
Gain (loss) on monetary position for subsidiaries in hyperinflationary economies		81	1,591	2,417	(33)
Market value gain on financial instruments	19	13	246	51	142
(Loss) Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method		(365)	(7,160)	14,308	14,725
Income taxes	23	232	4,554	3,928	4,551
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	9	3	60	147	155
Net (loss) income		\$ (594)	PS. (11,654)	Ps. 10,527	Ps. 10,329
Attributable to:					
Equity holders of the parent		\$ (652)	PS. (12,802)	Ps. 10,070	Ps. 10,235
Non-controlling interest		58	1,148	457	94
Net (loss) income		\$ (594)	PS. (11,654)	Ps. 10,527	Ps. 10,329
<b>Equity holders of the parent</b>					
<b>(U.S. dollars and Mexican pesos):</b>					
<b>Earnings per share</b>					
Basic net controlling interest (loss) income	22	\$ (0.31)	PS. (6.12)	Ps. 4.86	Ps. 4.94
Diluted net controlling interest (loss) income	22	(0.31)	(6.12)	4.85	4.94

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

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE **income**

For the years ended December 31, 2017, 2016 and 2015

Amounts expressed in millions of U.S. dollars ( \$ ) and in millions of Mexican pesos ( Ps.)

	Note	2017 (*)	2017	2016	2015
Consolidated net (loss) income		\$ (594)	PS. (11,654)	Ps. 10,527	Ps. 10,329
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Valuation of the effective portion of derivative financial instruments, net of taxes	19	(14)	(266)	715	(27)
Exchange differences on the translation of foreign operations and associates		776	15,207	16,052	(5,407)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		762	14,941	16,767	(5,434)
Items that will not be reclassified to profit or loss in subsequent periods:					
Remeasurements of the net defined benefit liability, net of taxes	15	1	28	(123)	138
Net other comprehensive income (loss) not being reclassified to profit or loss in subsequent periods		1	28	(123)	138
Total other comprehensive income (loss), net of tax		763	14,969	16,644	(5,296)
Consolidated comprehensive income for the year, net of tax		\$ 169	PS. 3,315	Ps. 27,171	Ps. 5,033
Attributable to:					
Equity holders of the parent		\$ 170	PS. 3,341	Ps. 24,818	Ps. 5,437
Non-controlling interest		(1)	(26)	2,353	(404)
Consolidated comprehensive income for the year, net of tax		\$ 169	PS. 3,315	Ps. 27,171	Ps. 5,033

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

The accompanying notes are an integral part of these consolidated statements of comprehensive income.

# CONSOLIDATED STATEMENTS OF changes in equity

For the years ended December 31, 2017, 2016 and 2015

Amounts expressed in millions of U.S. dollars ( \$ ) and in millions of Mexican pesos ( Ps.)

Attributable to:	Capital Stock		Additional Paid-in Capital		Retained Earnings		Other Equity Instruments	
Balances at January 1, 2015	Ps.	2,048	Ps.	41,490	Ps.	74,624	Ps.	–
Net income		–		–		10,235		–
Other comprehensive income, net of tax		–		–		–		–
Total comprehensive income		–		–		10,235		–
Dividends declared		–		–		(6,405)		–
Balances at December 31, 2015		2,048		41,490		78,454		–
Net income		–		–		10,070		–
Other comprehensive income, net of tax		–		–		–		–
Total comprehensive income		–		–		10,070		–
Dividends declared		–		–		(6,945)		–
Increase in non-controlling interest		–		–		–		–
Acquisition of Vonpar (Note 4)		–		–		–		(485)
Balances at December 31, 2016		2,048		41,490		81,579		(485)
Net (loss) income		–		–		(12,802)		–
Other comprehensive loss, net of tax		–		–		–		–
Deconsolidation of Venezuela (Note 3.3)		–		–		–		–
Total comprehensive income		–		–		(12,802)		–
Acquisition of Vonpar (Note 4)		12		4,070		–		–
Dividends declared		–		–		(6,991)		–
Consolidation of Phillipines		–		–		–		–
<b>BALANCES AT DECEMBER 31, 2017</b>	<b>PS.</b>	<b>2,060</b>	<b>PS.</b>	<b>45,560</b>	<b>PS.</b>	<b>61,786</b>	<b>PS.</b>	<b>(485)</b>

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

Valuation of the Effective Portion of Derivative Financial Instruments		Exchange Differences on Translation of Foreign Operations and Associates		Remeasurements of the Net Defined Benefit Liability		Equity Attributable To Equity Holders of the Parent		Non-Controlling Interest		Total Equity	
Ps.	(148)	Ps.	(11,731)	Ps.	(566)	Ps.	105,717	Ps.	4,401	Ps.	110,118
	-		-		-		10,235		94		10,329
	(77)		(4,853)		132		(4,798)		(498)		(5,296)
	(77)		(4,853)		132		5,437		(404)		5,033
	-		-		-		(6,405)		(11)		(6,416)
	(225)		(16,584)		(434)		104,749		3,986		108,735
	-		-		-		10,070		457		10,527
	664		14,207		(123)		14,748		1,896		16,644
	664		14,207		(123)		24,818		2,353		27,171
	-		-		-		(6,945)		(69)		(7,014)
	-		-		-		-		826		826
	-		-		-		(485)		-		(485)
	439		(2,377)		(557)		122,137		7,096		129,233
	-		-		-		(12,802)		1,148		(11,654)
	(192)		(9,778)		(10)		(9,980)		(1,174)		(11,154)
	-		26,123		-		26,123		-		26,123
	(192)		16,345		(10)		3,341		(26)		3,315
	-		-		-		4,082		-		4,082
	-		-		-		(6,991)		(1)		(6,992)
	-		-		-		-		11,072		11,072
<b>PS.</b>	<b>247</b>	<b>PS.</b>	<b>13,968</b>	<b>PS.</b>	<b>(567)</b>	<b>PS.</b>	<b>122,569</b>	<b>PS.</b>	<b>18,141</b>	<b>PS.</b>	<b>140,710</b>

# CONSOLIDATED STATEMENTS OF cash flows

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

	2017 (*)	2017	2016	2015
<b>Cash flows from operating activities:</b>				
Income before income taxes	\$ (362)	PS. (7,100)	Ps. 14,455	Ps. 14,880
<b>Adjustments for:</b>				
Non-cash operating expenses	235	4,611	2,329	1,435
Depreciation	521	10,216	7,579	6,310
Amortization	73	1,441	1,087	834
(Loss) on disposal of long-lived assets	(7)	(128)	(22)	(217)
Write-off of long-lived assets	9	174	40	332
Share of the (profit) loss of associates and joint ventures accounted for using the equity method, net of taxes	(3)	(60)	(147)	(155)
Interest income	(45)	(887)	(715)	(414)
Interest expense	237	4,649	4,388	3,718
Foreign exchange loss, net	(41)	(810)	1,792	1,459
Non-cash movements in post-employment and other non-current employee benefits obligations	25	500	580	68
Impairment Venezuela	94	1,843	–	–
Deconsolidation of Venezuela	1,342	26,333	–	–
Consolidation of Philippines	(153)	(2,996)	–	–
Monetary position loss, net	(81)	(1,591)	(2,417)	33
Market value loss on financial instruments	207	4,073	2,817	3,096
(Increase) decrease:				
Accounts receivable and other current assets	(180)	(3,530)	(2,727)	(1,010)
Other current financial assets	(97)	(1,903)	(3,552)	(2,849)
Inventories	(25)	(482)	(2,142)	(1,784)
Increase (decrease):				
Suppliers and other accounts payable	189	3,718	11,199	3,329
Other liabilities	48	934	931	249
Employee benefits paid	(20)	(384)	(258)	(193)
Income taxes paid	(274)	(5,385)	(2,771)	(5,919)
<b>Net cash flows from operating activities</b>	<b>1,692</b>	<b>33,236</b>	<b>32,446</b>	<b>23,202</b>
<b>Investing activities:</b>				
Acquisition and mergers, net of cash acquired (see Note 4)	206	4,038	(13,198)	–
Deconsolidation of Venezuela (see Note 3.3)	(9)	(170)	–	–
Interest received	45	887	715	414
Acquisitions of long-lived assets	(564)	(11,069)	(10,308)	(10,545)
Proceeds from the sale of long-lived assets	16	322	324	233
Acquisition of intangible assets	(191)	(3,753)	(2,385)	(956)
Other non-current assets	(13)	(258)	–	(72)
Dividends received from investments in associates and joint ventures (Note 9)	2	33	5	13
Investment in shares	(47)	(920)	(2,068)	(32)
<b>Net cash flows used in investing activities</b>	<b>(555)</b>	<b>(10,890)</b>	<b>(26,915)</b>	<b>(10,945)</b>
<b>Financing activities:</b>				
Proceeds from borrowings	636	12,488	8,040	1,907
Repayment of borrowings	(668)	(13,109)	(4,948)	(9,076)
Interest paid	(234)	(4,589)	(4,122)	(3,568)
Dividends paid	(356)	(6,992)	(7,013)	(6,416)
Other financing activities	(135)	(2,655)	(2,517)	8,586
Proceeds from issuing shares (see Note 4)	208	4,082	–	–
Increase in non-controlling interest	–	–	826	–
<b>Net cash flows (used in) financing activities</b>	<b>(549)</b>	<b>(10,775)</b>	<b>(9,734)</b>	<b>(8,567)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>588</b>	<b>11,571</b>	<b>(4,203)</b>	<b>3,690</b>
<b>Initial balance of cash and cash equivalents</b>	<b>534</b>	<b>10,476</b>	<b>15,989</b>	<b>12,958</b>
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies	(166)	(3,280)	(1,310)	(659)
<b>Ending balance of cash and cash equivalents</b>	<b>\$ 956</b>	<b>PS. 18,767</b>	<b>Ps. 10,476</b>	<b>Ps. 15,989</b>

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

# NOTES TO THE CONSOLIDATED statements

For the years ended December 31, 2017, 2016 and 2015

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

## Note 1. ACTIVITIES OF THE COMPANY

Coca-Cola FEMSA, S.A.B. de C.V. ("Coca-Cola FEMSA") is a Mexican corporation, mainly engaged in acquiring, holding and transferring all types of bonds, shares and marketable securities.

Coca-Cola FEMSA is indirectly owned by Fomento Economico Mexicano, S.A.B. de C.V. ("FEMSA"), which holds 47.2% of its capital stock and 63% of its voting shares and The Coca-Cola Company ("TCCC"), which indirectly owns 27.8% of its capital stock and 37% of its voting shares. The remaining 25% of Coca-Cola FEMSA's shares trade on the Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV: KOF) and its American Depositary Shares ("ADS") (equivalent to ten series "L" shares) trade on the New York Stock Exchange, Inc. The address of its registered office and principal place of business is Mario Pani No. 100 Col. Santa Fe Cuajimalpa, Delegacion Cuajimalpa de Morelos, Mexico City, 05348, Mexico.

Coca-Cola FEMSA and its subsidiaries (the "Company"), as an economic unit, are engaged in the production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela, Brazil, Argentina and Philippines.

As of December 31, 2017 and 2016 the most significant subsidiaries which the Company controls are:

Company	Activity	Country	Ownership percentage 2017	Ownership percentage 2016
Propimex, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	100.00%	100.00%
Controladora Interamericana de Bebidas, S. de R.L. de C.V.	Holding	Mexico	100.00%	100.00%
Spal Industria Brasileira de Bebidas, S.A.	Manufacturing and distribution	Brazil	96.06%	96.06%
Distribuidora y Manufacturera del Valle de México, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	100.00%	100.00%
Servicios Refresqueros del Golfo, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	100.00%	100.00%

## Note 2. BASIS OF PREPARATION

### 2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements of Coca-Cola FEMSA S.A.B. de C.V. and its subsidiaries for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer John Santa Maria Otazua and Chief Financial and Administrative Officer Héctor Treviño Gutiérrez on February 21, 2018. These consolidated financial statements and notes were approved at the Company's Board of Directors meeting on February 21, 2018 and will be presented at the Shareholders meeting on March 9, 2018. The Company's Board of Directors and Shareholders have the authority to approve or modify the Company's consolidated financial statements.

### 2.2 BASIS OF MEASUREMENT AND PRESENTATION

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

- Derivative financial instruments
- Trust assets of post-employment and other non-current employee benefit plans

The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationship.

The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period.

#### 2.2.1 Presentation of consolidated income statement

The Company classifies its costs and expenses by function in the consolidated income statement in order to conform to industry practices.

#### 2.2.2 Presentation of consolidated statements of cash flows.

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

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

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position as of December 31, 2017, the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2017 were converted into U.S. dollars at the exchange rate of Ps 19.64 per U.S. dollar as published by the Federal Reserve Bank of New York on December 29, 2017, the last date in 2017 for which information is available. This arithmetic conversion should not be construed as representations that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate. As of March 05, 2018 (the issuance date of these financial statements) such exchange rate was Ps. 18.89 per U.S. dollar, an appreciation of 3.97% since December 31, 2017.

### 2.3 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

#### Judgements

In the process of applying the Company's accounting policies, management has made the following judgements which have the most significant effects on the amounts recognized in the consolidated financial statements.

#### 2.3.1 Key sources of estimation uncertainty

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

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

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



The Company assesses at each reporting date whether there is an indication that a long-lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples or other available fair value indicators. The key assumptions used to determine the recoverable amount for the Company's CGUs, including a sensitivity analysis, are further explained in Notes 3.16 and 11.

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

Property, plant and equipment, including returnable bottles which expected to provide benefits over a period of more than one year, as well as intangible assets with definite useful lives are depreciated/amortized over their estimated useful lives. The Company bases its estimates on the experience of its technical personnel as well as its experience in the industry for similar assets, see Notes 3.12, 10 and 11.

#### **2.3.1.3 Post-employment and other non-current employee benefits**

The Company regularly evaluates the reasonableness of the assumptions used in its post-employment and other non-current employee benefit computations. Information about such assumptions is described in Note 15.

#### **2.3.1.4 Income taxes**

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Company recognizes deferred tax assets for unused tax losses and other credits and regularly reviews them for recoverability, based on its judgment regarding the probability of the expected timing and level of future taxable income, the expected timing of the reversals of existing taxable temporary differences and future tax planning strategies, see Note 23.

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

The Company is subject to various claims and contingencies related to tax, labor and legal proceedings as described in Note 24. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a provision and/ or discloses the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a provision for the estimated loss. Management's judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

#### **2.3.1.6 Valuation of financial instruments**

The Company is required to measure all derivative financial instruments at fair value.

The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient, reliable and verifiable data, recognized in the financial sector. The Company bases its forward price curves upon market price quotations. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 19.

#### **2.3.1.7 Business combinations**

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

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

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

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

### 2.3.1.8 Investments in associates

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

- representation on the board of directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the Company and the investee;
- interchange of managerial personnel; or
- provision of essential technical information.

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

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

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

### 2.3.1.9 Joint Arrangements

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When the Company is a party to an arrangement it shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively; joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. Management needs to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. When assessing joint control, management considers the following facts and circumstances:

- a) If all the parties, or a group of the parties, control the arrangement, considering definition of joint control, as described in Note 3.1; and
- b) If decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties

As mentioned in Note 4 and 9, until January 2017, the Company accounts for its 51% investment in Coca-Cola FEMSA Philippines, Inc. (CCFPI) as a joint venture, based on the facts that the Company and TCCC: (i) make all operating decisions jointly during the initial four-year period and (ii) potential voting rights to acquire the remaining 49% of CCFPI were not probable to be exercised in the foreseeable future because the related call option remains "out of the money" as of December 31, 2017,

### 2.3.1.10 Venezuela Exchange Rates and Consolidation

As further explained in Note 3.3 below, as of December 31, 2017, the exchange rate used to translate the financial statements of the Company's Venezuelan operations for reporting purposes into the consolidated financial statements, was 22,793 bolivars per US dollar.

As also explained in Note 3.3 below, effective December 31, 2017 the Company deconsolidated its operations in Venezuela due to the political and economic environment in that country and began accounting for the operations under the fair value method. Consequently beginning January 1, 2018, all changes in the fair value of the investment, including foreign currency translations differences will be recognized for Venezuela's operations in other comprehensive income.

## 2.4 CHANGES IN ACCOUNTING POLICIES

The Company has applied the following amendments to the standards, which are effective for annual periods beginning on or after January 2017, their application has no significant effects:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

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

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. (See Note 17.1).

#### **Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments clarify that the Company needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

### **Note 3. SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1 BASIS OF CONSOLIDATION**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2017. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained

- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities

### 3.1.1 Acquisitions of non-controlling interests

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

## 3.2 BUSINESS COMBINATIONS

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

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

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

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

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

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

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

- The acquiree repurchases a sufficient number of its own shares for the Company to obtain control.
- Minority veto rights lapse that previously kept the Company from controlling an acquiree in which it held the majority voting rights.
- The Company and the acquiree agree to combine their businesses by contract alone in which it transfers no consideration in exchange for control and no equity interest is held in the acquiree, either on the acquisition date or previously.

## 3.3 FOREIGN CURRENCIES AND CONSOLIDATION OF FOREIGN SUBSIDIARIES, INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

In preparing the financial statements of each individual subsidiary, associate and joint venture, transactions in currencies other than the individual entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not remeasured.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

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

Foreign exchange differences on monetary items are recognized in profit or loss. Their classification in the income statement depends on their nature. Differences arising from fluctuations related to operating activities are presented in the "other expenses" line (see Note 18) while fluctuations related to non-operating activities such as financing activities are presented as part of "foreign exchange gain (loss)" line in the income statement.

For incorporation into the Company's consolidated financial statements, each foreign subsidiary, associate or joint venture's individual financial statements are translated into Mexican pesos, as follows:

- For hyperinflationary economic environments, the inflation effects of the origin country are recognized pursuant IAS 29 Financial Reporting in Hyperinflationary Economies, and subsequently translated into Mexican pesos using the year-end exchange rate for the consolidated statements of financial position and consolidated income statement and comprehensive income; and
- For non-inflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month only if the exchange rate does not fluctuate significantly.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint ventures that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

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

Exchange Rates of Local Currencies Translated to Mexican Pesos <sup>(1)</sup>

Country or Zone	Functional/Currency	Average Exchange Rate for			Exchange Rate as of	
		2017	2016	2015	2017	2016
Mexico	Mexican peso	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00
Guatemala	Quetzal	2.57	2.46	2.07	2.69	2.75
Costa Rica	Colon	0.03	0.03	0.03	0.03	0.04
Panama	U.S Dollar	18.93	18.66	15.85	19.74	20.66
Colombia	Colombian peso	0.01	0.01	0.01	0.01	0.01
Nicaragua	Cordoba	0.63	0.65	0.58	0.64	0.70
Argentina	Argentine peso	1.15	1.26	1.71	1.06	1.30
Venezuela (a)	Bolivar	(a)	(a)	(a)	(a)	(a)
Brazil	Reais	5.94	5.39	4.81	5.97	6.34
Philippines	Philippines peso	0.38	0.39	0.35	0.40	0.41

<sup>(1)</sup> Exchange rates published by the central bank of each country

**(A) VENEZUELA**

Effective December 31, 2017, the Company determined that deteriorating conditions in Venezuela had led the Company to no longer meet the accounting criteria to consolidate its Venezuelan operations. Such deteriorating conditions had significantly impacted the Company's ability to manage its capital structure its capacity to import and purchase raw materials and had imposed limitations on the portfolio dynamics. In addition, certain government controls over pricing of some products, labor law restrictions and ability to obtain of US Dollars and imports, have affected the normal course of business. Therefore, and due to the fact that its Venezuelan operations will continue, as of December 31, 2017, the Company changed the method of accounting for its investment in Venezuela from consolidation to fair value method measured using a Level 3 concept and recognized at December 31, 2017.

As a result of the deconsolidation, the Company recorded an extraordinary loss in other expenses line of Ps. 28,177 at December 31, 2017. Such charge includes the reclassification of Ps. 26,123 (see Note 20) previously recorded in accumulated foreign currency translation losses in equity, to the income statement and impairment charges as follows, Ps. 745 of distribution rights, Ps. 1,098 of property plan and equipment and Ps 210 of remeasurement at fair-value of the Venezuelan's investment.

Prior to deconsolidation, during 2017, the Company's Venezuela operations contributed Ps. 4,005 to net sales and losses of Ps. (2,223) to net income. See also Note 25 for additional information about the Venezuelan operations.

Beginning in January 1, 2018, the Company will recognize its investment in Venezuela under the fair value method upon adoption of the new IFRS 9 standard, Consequently the Company will no longer include the results of the Venezuelan operations in its future Consolidated Financial Statements.

### Exchange rate

Until December 31, 2017, the Company's recognition of its Venezuelan operations involved a two-step accounting process in order to translate into bolivars all transactions in a different currency than bolivars and then to translate the bolivar amounts to Mexican pesos.

Step-one: Transactions were first recorded in the stand-alone accounts of the Venezuelan subsidiary in its functional currency, which are bolivars. Any non-bolivar denominated monetary assets or liabilities were translated into bolivars at each balance sheet date using the exchange rate at which the Company expects them to be settled, with the corresponding effect of such translation being recorded in the income statement.

As of December 31, 2016 the Company had US\$629 million in monetary liabilities recorded using the DIPRO (Divisa Protegida) exchange rate at 10 bolivars per US dollar, mainly because at that date the Company believes it continued to qualify at that rate to pay for the import of various products into Venezuela and its ability to renegotiate with their main vendors, if necessary, the settlement of such liabilities in bolivars, and US\$104 million recorded at DICOM (Divisas Complementarias) exchange rate at 673.76 bolivars per US dollar.

Step-two: In order to integrate the results of the Venezuelan operations into the consolidated figures of the Company, such Venezuelan results were translated from Venezuelan bolivars into Mexican pesos.

On December 2017, the Company translated the Venezuela entity figures using an exchange rate of Bolivars. 22,793 per USD, as such exchange rate better represents the economic conditions in Venezuela. The Company considers that this exchange rate provides more useful and relevant information with respect to Venezuela's financial position, financial performance and cash flows. On January 30, 2018, a new auction of the DICOM conducted by the Venezuela government resulted in an estimated exchange rate of bolivars. 30,987 per USD (equivalent to 25,000 per USD).

### 3.4 RECOGNITION OF THE EFFECTS OF INFLATION IN COUNTRIES WITH HYPERINFLATIONARY ECONOMIC ENVIRONMENTS

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

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

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

As disclosed in Note 3.3 the Company deconsolidated the operations in Venezuela. Consequently, the Company will no longer include the results of the Venezuelan operations in its future Consolidated Financial Statements. However, the Venezuela entity will continue operating.



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

Country	Cumulative Inflation 2015 - 2017	Type of Economy	Cumulative Inflation 2014 - 2016	Type of Economy	Cumulative Inflation 2013- 2015	Type of Economy
Mexico	12.7%	Non-hyperinflationary	9.9%	Non-hyperinflationary	10.5%	Non-hyperinflationary
Guatemala	13.5%	Non-hyperinflationary	10.6%	Non-hyperinflationary	10.8%	Non-hyperinflationary
Costa Rica	2.5%	Non-hyperinflationary	5.1%	Non-hyperinflationary	8.1%	Non-hyperinflationary
Panama	2.3%	Non-hyperinflationary	2.8%	Non-hyperinflationary	5.1%	Non-hyperinflationary
Colombia	17.5%	Non-hyperinflationary	17.0%	Non-hyperinflationary	12.8%	Non-hyperinflationary
Nicaragua	12.3%	Non-hyperinflationary	13.1%	Non-hyperinflationary	15.8%	Non-hyperinflationary
Argentina (a)	101.5%	Non-hyperinflationary	99.7%	Non-hyperinflationary	59.2%	Non-hyperinflationary
Venezuela	30,690%	Hyperinflationary	2,263.0%	Hyperinflationary	562.9%	Hyperinflationary
Brazil	21.1%	Non-hyperinflationary	25.2%	Non-hyperinflationary	24.7%	Non-hyperinflationary
Philippines	7.5%	Non-hyperinflationary	5.7%	Non-hyperinflationary	8.3%	Non-hyperinflationary

#### (a) Argentina

As of December 2017 and 2016 there are multiple inflation indices (including combination of indices in the case of CPI or certain months without official available information in the case of National Wholesale Price Index (WPI)), as follows:

- (i) CPI for the City and Greater Buenos Aires Area (New CPI-CGBA), for which the IMF noted improvements in quality, this new consumer price index will only be provided for periods after April 2016 and does not provide national coverage.
- (ii) "Coeficiente de Estabilización de Referencia" (CER or Reference Stabilization Ratio) to calculate the three-year cumulative inflation rate in Argentina, the CER is used by the government of Argentina to adjust the rate they pay on certain adjustable rate bonds they issue. At April 31, 2017, the three-year cumulative inflation rate based on CER data is estimated to be approximately 95.5%.
- (iii) National Wholesale Price Index (WPI) with a cumulative inflation for three years of 92.2% at November 2016 but not including information for November and December 2015 since it was not published by the National Bureau of Statistics of Argentina (INDEC). The WPI has historically been viewed as the most relevant inflation measure for companies by practitioners in Argentina.

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

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

### 3.5 CASH AND CASH EQUIVALENTS

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

The Company also maintains restricted cash held as collateral to meet certain contractual obligations (see Note 8). Restricted cash is presented within other current financial assets given that the restrictions are short-term in nature.

### 3.6 FINANCIAL ASSETS

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

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

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

The Company's financial assets include cash and cash equivalents, loans and receivables, derivative financial instruments and other financial assets (Current and non-current).

### 3.6.1 Effective interest rate method (EIR)

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

### 3.6.2. Financial assets at fair value through profit or loss (FVTPL)

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

### 3.6.3 Loans and receivables

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

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. For the years ended December 31, 2017, 2016 and 2015 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 4, Ps. 3 and Ps. -, respectively.

### 3.6.4 Other financial assets

Other financial assets are non-current accounts receivable and derivative financial instruments. Other financial assets with a relevant period are measured at amortized cost using the effective interest method, less any impairment.

### 3.6.5 Impairment of financial assets

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

Evidence of impairment may include indicators as follows:

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

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

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

### 3.6.6 Derecognition

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

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



### 3.6.7 Offsetting of financial instruments

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

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

## 3.7 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

### 3.7.1 Hedge accounting

The Company designates certain hedging instruments, which include derivatives to cover foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

### 3.7.2 Cash flow hedges

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

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

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

### 3.7.3 Fair value hedges

For hedge items carried at fair value the change in the fair value of a hedging derivative is recognized in the statement of profit or loss as foreign exchange gain or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of profit or loss as foreign exchange gain or loss.

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

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

### 3.8 FAIR VALUE MEASUREMENT

The Company measures financial instruments, such as, derivatives, and certain non-financial assets such as trusts assets of labor obligations at fair value at each balance sheet date. Also, fair values of bank loans and notes payable carried at amortized cost are disclosed in Note 17.

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

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

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

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

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

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

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

The Company determines the policies and procedures for both recurring fair value measurement, such as those described in Note 19 and unquoted liabilities such as debt described in Note 17.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### 3.9 INVENTORIES AND COST OF GOODS SOLD

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Inventories represent the acquisition or production cost which is incurred when purchasing or producing a product, and are based on the weighted average cost formula.

Cost of goods sold is based on weighted average cost of the inventories at the time of sale. Cost of goods sold includes expenses related to the purchase of raw materials used in the production process, as well as labor costs (wages and other benefits), depreciation of production facilities, equipment and other costs, including fuel, electricity, equipment maintenance and inspection.

### 3.10 OTHER CURRENT ASSETS

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

Prepaid assets principally consist of advances to suppliers of raw materials, advertising, promotional, leasing and insurance costs, and are recognized as other current assets at the time of the cash disbursement, and are unrecognized in the consolidated statement of financial position and recognized in the appropriate consolidated income statement caption when the risks and rewards of the related goods have been transferred to the Company or services have been received, respectively.

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

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

## 3.11 INVESTMENTS IN OTHER ENTITIES

### 3.11.1 Investments in associates

Associates are those entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. Upon loss of significant influence over the associate, the Company measures and recognises any retained investment at its fair value.

Investments in associates are accounted for using the equity method and initially recognized at cost, which comprises the investment's purchase price and any directly attributable expenditure necessary to acquire it. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date. The financial statements of the associates are prepared for the same reporting period as the Company.

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

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

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

### 3.11.2 Joint arrangements

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

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. As of December 31, 2017 and 2016 the Company does not have an interest in joint operations.

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

### 3.11.3 Investment in Venezuela

As disclosed in Note 3.3 on December 31, 2017 the Company changed the method of accounting for its investment in Venezuela from consolidation to fair value method using a Level 3 concept and recognized at December 31, 2017 an impairment on its investment of Ps. 210.

## 3.12 PROPERTY, PLANT AND EQUIPMENT

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

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

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

Depreciation is computed using the straight-line method over acquisition cost. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted and depreciated for as separate items (major components) of property, plant and equipment. The Company estimates depreciation rates, considering the estimated useful lives of the assets.

The estimated useful lives of the Company's principal assets are as follows:

	Years
Buildings	40 – 50
Machinery and equipment	10 – 20
Distribution equipment	7 – 15
Refrigeration equipment	5 – 7
Returnable bottles	1.5 – 4
Other equipment	3 – 10

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds (if any) and the carrying amount of the asset and is recognized in consolidated income statement.

Returnable and non-returnable bottles:

The Company has two types of bottles: returnable and non-returnable.

- Non-returnable: Are recorded in consolidated income statement at the time of the sale of the product.
- Returnable: Are classified as long-lived assets as a component of property, plant and equipment. Returnable bottles are recorded at acquisition cost and for countries with hyperinflationary economies, restated according to IAS 29. Depreciation of returnable bottles is computed using the straight-line method considering their estimated useful lives.

There are two types of returnable bottles:

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

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

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

### 3.13 BORROWING COSTS

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

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

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

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

### 3.14 INTANGIBLE ASSETS

Intangible assets are identifiable non-monetary assets without physical substance and represent payments whose benefits will be received in future years. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition (see Note 3.2). Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite, in accordance with the period over which the Company expects to receive the benefits.

Intangible assets with finite useful lives are amortized and mainly consist of information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over their expected useful lives. Expenditures that do not fulfill the requirements for capitalization are expensed as incurred.

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

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

The Company's intangible assets with an indefinite life mainly consist of rights to produce and distribute Coca-Cola trademark products in the Company's territories. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers.

As of December 31, 2017, the Company had ten bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in May 2018 and June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) three agreements for the Central territory, which are up for renewal in May 2018 (two agreements), and May 2025, (iv) the agreement for the Northeast territory, which is up for renewal in May 2018, and (v) two agreements for the Bajio territory, which are up for renewal in May 2018 and May 2025. As of December 31, 2017, the Company had nine bottler agreements in Brazil, which are up for renewal in May 2018 (seven agreements) and April 2024 (two agreements); and one bottler agreement in each of Argentina, which is up for renewal in September 2024; Colombia, which is up for renewal in June 2024; Venezuela, which is up for renewal in August 2026; Guatemala, which is up for renewal in March 2025; Costa Rica, which is up for renewal in September 2027; Nicaragua, which is up for renewal in May 2026 Panama, which is up for renewal in November 2024; and the Philippines, which is up for renewal in December 2022. The bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent the Company from selling Coca-Cola trademark beverages in the affected territory and would have an adverse effect on the Company's business, financial conditions, results from operations and prospects.

### 3.15 NON-CURRENT ASSETS HELD FOR SALE

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

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

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

### 3.16 IMPAIRMENT OF LONG-LIVED ASSETS

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest CGUs for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

As of December, 31 2017 the Company recognized an impairment loss in long-lived assets used in the operation in Venezuela relating to property, plant and equipment for Ps.1,098 and distribution rights for Ps.745. See Note 10 and 11, respectively.

### 3.17 LEASES

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

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

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

### 3.18 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

#### 3.18.1 Classification as debt or equity

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

#### 3.18.2 Equity instruments

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

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

#### 3.18.3 Financial liabilities

##### Initial recognition and measurement

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

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

The Company's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments, see Note 3.7.

##### Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

#### 3.18.4 Loans and borrowings

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

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

##### Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

### 3.19 PROVISIONS

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

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

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

The Company recognizes a provision for a loss contingency when it is probable (i.e. the probability that the event will occur is greater than the probability that it will not) that certain effects related to past events, would materialize and can be reasonably quantified. These events and their financial impact are also disclosed as loss contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized, see Note 24.

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

### 3.20 POST-EMPLOYMENT AND OTHER NON-CURRENT EMPLOYEE BENEFITS

Post-employment and other non-current employee benefits, which are considered to be monetary items, include obligations for pension and post-employment plans and seniority premiums, all based on actuarial calculations, using the projected unit credit method.

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

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

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

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

- a. When it can no longer withdraw the offer of those benefits; and
- b. When it recognizes costs for a restructuring that is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits.

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

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



### 3.21 REVENUE RECOGNITION

Sales of products are recognized as revenue upon delivery to the customer, and once all the following conditions are satisfied:

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

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

Rendering of services and other

Revenue arising from services relating to sales of waste material and packing of raw materials are recognized in the other operating income caption in the consolidated income statement.

The Company recognized these transactions as revenues in accordance with the requirements established in the IAS 18, delivery of goods and rendering of services, which are:

- a) The amount of revenue can be measured reliably;
- b) It is probable that the economic benefits associated with the transaction will flow to the entity;
- c) The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest income revenue arising from the use by others of entity's assets yielding interest is recognized once all the following conditions are satisfied:

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

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

### 3.22 ADMINISTRATIVE AND SELLING EXPENSES

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

Selling expenses include:

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

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



### 3.23 INCOME TAXES

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

#### 3.23.1 Current income taxes

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

#### 3.23.2 Deferred income taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, including tax loss carryforwards and certain tax credits, to the extent that it is probable that future taxable profits, reversal of existing taxable temporary differences and future tax planning strategies will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes, the Company recognizes in connection with the acquisition accounting a deferred tax asset for the tax effect of the excess of the tax basis over the related carrying value.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

In Mexico, the income tax rate is 30% for 2017, 2016 and 2015. As a result of the Mexican Tax Reform discussed below, it will also be 30% for 2018

### 3.24 SHARE-BASED PAYMENTS TRANSACTIONS

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

Share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the share-based payments is expensed and recognized based on the graded vesting method over the vesting period.

### 3.25 EARNINGS PER SHARE

The Company presents basic and diluted earnings per share (EPS) data for its shares. As described in Note 22, the Company has potentially dilutive shares and therefore presents its basic and diluted earnings per share. Basic EPS is calculated by dividing the net income attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

### 3.26 ISSUANCE OF STOCK

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

## Note 4. MERGERS AND ACQUISITIONS

### 4.1 MERGERS AND ACQUISITIONS

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

While all of the acquired companies disclosed below are bottlers of Coca-Cola trademarked beverages, such acquired entities were not under common ownership or control prior to the acquisition.

#### 4.1.1 Acquisition of Vonpar

On December 6, 2016, the Company through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Vonpar S.A. (herein "Vonpar") for a consideration transferred of Ps. 20,992. Vonpar was a bottler of Coca-Cola trademark products which operated mainly in Rio Grande do Sul and Santa Catarina, Brazil. This acquisition was made to reinforce the Company's leadership position in Brazil.

Of the purchase price of approximately Ps. 20,992 (R\$3,508); Spal paid an amount of approximately Ps. 10,370 (R\$1,730) in cash on December 6, 2016.

On the same date Spal additionally paid Ps. 4,124 (R\$688) in cash, of which in a subsequent and separate transaction the sellers committed to capitalize for an amount of Ps. 4,082 into Coca-Cola FEMSA in exchange for approximately 27.9 million KOF series L shares at an implicit value of Ps. 146.27. In May 4, 2017, the Company merger with POA Eagle, S.A. de C.V., a Mexican company 100% owned by the sellers of Vonpar in Brazil, as per the announcement made on September 23, 2016. As a result of this merger, POA Eagle, S.A. de C.V. shareholders received 27.9 million newly issued KOF series L shares in exchange for cash accounts of POA Eagle, S.A. de C.V. for an amount of \$4,082 million Mexican pesos.

At Closing, Spal issued and delivered a three-year promissory note to the sellers, for the remaining balance of 1,090 million Brazilian reais (approximately Ps.6,534 million as of December 6, 2016). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into the Company in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to the Company having a sufficient number of Series L shares available for issuance.

As of December 6, 2016, the fair value of KOF series L (KL) shares was Ps. 128.88 per share, in addition the KL shares have not been issued, consequently as a result of this subsequent transaction an embedded financial instrument was originated and recorded into equity for an amount of Ps. 485. In accordance with IAS 32, in the consolidated financial statements the purchase price was also adjusted to recognize the fair value of the embedded derivative arising from the difference between the implicit value of KL shares and the fair value at acquisition date.

Transaction related costs of Ps. 35 were expensed by Spal as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Results of operation of Vonpar have been included in the Company's consolidated operating results from the acquisition date.

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

	Final
Total current assets, including cash acquired of Ps. 1,287	Ps. 4,390
Total non-current assets	11,344
Distribution rights	14,793
Total assets	30,527
Total liabilities	11,708
Net assets acquired	18,819
Goodwill	2,173
Total consideration transferred	Ps. 20,992
Amount to be paid through Promissory Notes	(6,992)
Cash acquired of Vonpar	(1,287)
Amount recognized as embedded financial instrument	485
Net cash paid	13,198

<sup>(1)</sup> As a result of the purchase price allocation which was finalized in 2017, additional fair value adjustments from those recognized in 2016 have been recognized as follow: Total non-current assets amounted of Ps. 490, distribution rights of Ps. 5,192 and goodwill of Ps. (5,681).

The Company expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to the Company's cash generating unit in Brazil. The goodwill recognized and expected to be deductible for income tax purposes according to Brazil tax law, is Ps. 1,667.

Selected income statement information of Vonpar for the period from the acquisition date through to December 31, 2016 is as follows:

Income statement	2016
Total revenues	Ps. 1,628
Income before taxes	380
Net income	252

#### Unaudited Pro Forma Financial Data.

The following unaudited 2016 consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Vonpar, as if the acquisition had occurred on January 1, 2016; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired group of companies.

	Unaudited Pro Forma Financial Information for the year ended December 31, 2017
Total revenues	Ps. 187,139
Income before taxes	15,819
Net income	11,539
Earnings per share	4.86

#### 4.1.2 Acquisition of Philippines

In January 2013, the Company acquired a 51.0% non-controlling majority stake in CCFPI from The Coca-Cola Company. As mentioned in Note 19.6, the Company has a Call Option to acquire the remaining 49.0% stake in CCFPI at any time during the seven years following the closing date. The Company also has a Put Option to sell its ownership in CCFPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Pursuant to the Company's shareholders' agreement with The Coca-Cola Company, during a four-year period that ended on January 25, 2017, all decisions relating to CCFPI were approved jointly with The Coca-Cola Company. Since January 25, 2017, the Company controls CCFPI's as all decisions relating to the day-to-day operation and management of CCFPI's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) CCFPI's chief financial officer. The Company has the right to appoint (and may remove) the chief executive officer and all other officers of CCFPI. Commencing on February 1, 2017, the Company started consolidating CCFPI's financial results in its financial statements.

## FINANCIAL SECTION

The Company fair value of CCFPI net assets acquired to the date of acquisition (February 2017) is as follows:

Total current assets, including cash acquired of Ps. 4,038	Ps. 9,645
Total non-current assets	18,909
Distribution rights	4,144
Total assets	32,698
Total liabilities	(10,101)
Net assets acquired	22,597
Net assets acquired attributable to the parent company (51%)	11,524
Non-controlling interest (49%)	(11,073)
Fair value of the equity of CCFPI at the acquisition date	22,110
Carrying value of CCFPI investment derecognized	11,690
Loss as a result of remeasuring to fair value the equity interest	166
Gain on recycling of other comprehensive income –translation effects	2,996
Total net effect in P&L	Ps. 2,830

As a result of taking control over CCFPI, during 2017, the accumulated effect corresponding to translation adjustments recorded in the other comprehensive income for an amount of Ps. 2,996 were recognized in the income statement.

### Unaudited Pro Forma Financial Data.

The following unaudited 2017 consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the consolidation of Philippines, as if the consolidation had occurred on January 1, 2017; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired group of companies.

Unaudited Pro  
Forma Financial  
Information for  
the year ended  
December 31, 2017

Total revenues	Ps. 205,436
Loss before taxes	(7,109)
Net loss	(11,559)

Selected income statement information of Philippines for the period from the acquisition date through to December 31, 2017 is as follows:

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

### Note 5. CASH AND CASH EQUIVALENTS

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

	2017	2016
Cash and bank balances	Ps. 9,497	Ps. 5,429
Cash equivalents (see Note 3.5)	9,270	5,047
	Ps. 18,767	Ps. 10,476

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

## Note 6. ACCOUNTS RECEIVABLE

	2017	2016
Trade receivables	Ps. 13,131	Ps. 11,769
The Coca-Cola Company (related party) (Note 13)	2,054	1,857
Loans to employees	96	145
FEMSA and subsidiaries (related parties) (Note 13)	402	549
Other related parties (Note 13)	317	368
Shareholders Vonpar (Note 13)	1,219	–
Other	825	768
Allowance for doubtful accounts on trade receivables	(468)	(451)
	Ps. 17,576	Ps. 15,005

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

During 2017, the Company took advantage of a Brazilian tax amnesty program. The settlement of certain outstanding matters under that amnesty program generated a benefit of Ps. 1,874 such benefit has been offset against the corresponding indemnifiable assets.

### 6.1 TRADE RECEIVABLES

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

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

Aging for trade receivables past due but not impaired		2017	2016
60-90 days	Ps.	89	Ps. 142
90-120 days		40	5
120 + days		5	25
Total	Ps.	134	Ps. 172

### 6.2 CHANGES IN THE ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2017	2016	2015
Balance at beginning of the year	Ps. 451	Ps. 283	Ps. 367
Allowance for the year	40	6	52
Charges and write-offs of uncollectible s	(62)	(3)	(62)
Added in business combinations	86	94	–
Effects of changes in foreign exchange rates	(45)	71	(74)
Effect Venezuela (Note 3.3)	(2)	–	–
Balance at end of the year	Ps. 468	Ps. 451	Ps. 283

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

Aging of impaired trade receivables		2017	2016
60-90 days	Ps.	5	Ps. 6
90-120 days		14	13
120+ days		451	432
Effect of Venezuela (Note 3.3)		(2)	–
Total	Ps.	468	Ps. 451

### 6.3 PAYMENTS FROM THE COCA-COLA COMPANY:

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

**Note 7. INVENTORIES**

	2017	2016
Finished products	Ps. 3,691	Ps. 3,209
Raw materials	4,092	3,974
Non strategic spare parts	1,838	2,113
Inventories in transit	1,208	1,207
Packing materials	490	171
Other	45	70
	Ps. 11,364	Ps. 10,744

For the years ended at 2017, 2016 and 2015, the Company recognized write-downs of its inventories for Ps. 185, Ps. 301 and Ps. 199, respectively to net realizable value.

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

	2017	2016	2015
Changes in inventories of finished goods and work in progress	Ps. 21,412	Ps. 18,154	Ps. 20,053
Raw materials and consumables used	80,318	62,534	51,904
Total	Ps. 101,730	Ps. 80,688	Ps. 71,957

**Note 8. OTHER CURRENT ASSETS AND OTHER CURRENT FINANCIAL ASSETS****8.1 OTHER CURRENT ASSETS:**

	2017	2016
Prepaid expenses	Ps. 1,849	Ps. 3,144
Agreements with customers	192	179
Other	-	21
	Ps. 2,041	Ps. 3,344

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

	2017	2016
Advances for inventories	Ps. 1,243	Ps. 2,704
Advertising and promotional expenses paid in advance	367	141
Advances to service suppliers	142	227
Prepaid insurance	39	49
Others	58	23
	Ps. 1,849	Ps. 3,144

Advertising and promotional expenses was recorded in the consolidated income statements for the years ended December 31, 2017, 2016 and 2015 amounted to Ps. 4,504, Ps. 5,030 and Ps. 3,447, respectively.

**8.2 OTHER CURRENT FINANCIAL ASSETS:**

	2017	2016
Restricted cash	Ps. 504	Ps. 774
Derivative financial instruments (See Note 19)	233	737
	Ps. 737	Ps. 1,511

As of December 31, 2017 and 2016, restricted cash were in the following currencies:

	2017	2016
Venezuelan bolivars	Ps. -	Ps. 183
Brazilian reais	65	73
Colombian pesos	439	518
Total restricted cash	Ps. 504	Ps. 774

Restricted cash in Brazil relates to short term deposits in order to fulfill the collateral requirements for accounts payable.

During 2016 due to a jurisdictional order with the municipal sewage system services, the Colombian authorities withheld all the cash that Company has in some specific bank account, such amount was reclassified as a restricted cash according with Company's accounting policy pending resolution of the order.

## Note 9. INVESTMENTS IN OTHER ENTITIES

As of December 31, 2017 and 2016 the investment in other entities is integrated as follows:

	2017	2016
Investment in Associates and Joint Ventures	Ps. 11,501	Ps. 22,357
Venezuela investment	1,039	-
	Ps. 12,540	Ps. 22,357

Effective December 31, 2017, the Company determined that deteriorating conditions in Venezuela had led the Company to not longer meet the accounting criteria to consolidate its Venezuelan operation, the impacts of such deconsolidation are discussed on Note 3.3 above.

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

Investee	Principal Activity	Place of Incorporation	Ownership Percentage		Carrying Amount		
			2017	2016	2017	2016	
<b>Joint ventures:</b>							
Compañía Panameña de Bebidas, S.A.P.I. de C.V.	Beverages	Mexico	50.0%	50.0%	Ps. 2,036	Ps. 1,911	
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	50.0%	50.0%	153	145	
Estancia Hidromineral Itabirito, LTDA	Bottling and Distribution	Brazil	50.0%	50.0%	-	96	
Fountain Agua Mineral, LTDA	Beverages	Brazil	50.0%	50.0%	784	765	
Coca-Cola FEMSA Philippines, Inc.	Bottling	Philippines	-	51.0%	-	11,460	
<b>Associates:</b>							
Promotora Industrial Azucarera, S.A. de C.V. ("PIASA") <sup>(1)</sup>	Sugar production	Mexico	36.4%	36.4%	2,933	2,657	
Jugos del Valle, S.A.P.I. de C.V. <sup>(1)</sup>	Beverages	Mexico	26.3%	26.3%	1,560	1,574	
Leao Alimentos e Bebidas, LTDA <sup>(1)</sup>	Beverages	Brazil	24.4%	27.7%	3,001	3,282	
UBI 3 Participacoes, LTDA <sup>(1)</sup>	Beverages	Brazil	26%	-	391	-	
Industria Envasadora de Querétaro, S.A. de C.V. ("IEQSA") <sup>(1)</sup>	Caned bottling	Mexico	26.5%	26.5%	177	177	
Industria Mexicana de Reciclaje, S.A. de C.V. ("IMER") <sup>(1)</sup>	Recycling	Mexico	35.0%	35.0%	121	100	
KSP Participacoes, LTDA <sup>(1)</sup>	Beverages	Brazil	38.7%	38.7%	117	126	
Other	Various	Various	Various	Various	228	64	
					Ps. 11,501	Ps. 22,357	

Accounting method:

<sup>(1)</sup> The Company has significant influence due to the fact that it has power to participate in the financial and operating policy decisions of the investee.

## FINANCIAL SECTION

During 2017 the Company received dividends from Industria Envasadora de Querétaro, S.A. de C.V. ("IEQSA") and Promotora Mexicana de Embotelladores, S.A. de C.V. in the amount of Ps. 16 and Ps. 17.

During 2017 the Company made capital contributions to Compañía Panameña de Bebidas, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 349 and Ps. 182, respectively, there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders. On June 25, 2017, the Company through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. sold 3.05% of their participation in Leao Alimentos e Bebidas, LTDA for an amount of Ps. 198.

On March 28, 2017 as part of AdeS acquisition the Company acquired an indirect participacion in equity method investees in Brazil and Argentina for an aggregate amount of Ps.587. During 2017, Itabirito merged with Spal this transaction did not generated any cash flow.

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

During 2016 the Company made capital contributions to Leao Alimentos e Bebidas, LTDA, Compañía Panameña de Bebidas, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 1,273, Ps. 419 and Ps. 376, respectively, there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders.

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

As disclosed in Note 4.1.2, commencing on February 1, 2017, the Company started consolidating CCFPI's financial results in its financial statements.

For the years ended December 31, 2017, 2016 and 2015 the equity method recognized for associates was Ps. 235, Ps. 31 and Ps. 185, respectively.

For the years ended December 31, 2017, 2016 and 2015 the equity method recognized for joint ventures was Ps. (175), Ps. 116 and Ps. (30), respectively.

### Note 10. PROPERTY, PLANT AND EQUIPMENT, NET

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Cost as of January 1, 2015	Ps. 4,694	Ps. 12,550	Ps. 30,827	Ps. 14,127	Ps. 9,402	Ps. 6,485	Ps. 607	Ps. 1,062	Ps. 79,754,
Additions	358	1,201	1,121	1,175	1,655	4,524	-	511	10,545
Transfer of completed projects in progress	59	1,289	3,111	1,168	662	(6,338)	49	-	-
Disposals	(54)	(46)	(1,284)	(972)	(103)	-	(47)	(39)	(2,545)
Effects of changes in foreign exchange rates	(595)	(1,352)	(4,051)	(1,217)	(266)	(1,007)	(13)	(848)	(9,349)
Changes in value on the recognition of inflation effects	245	503	964	295	301	91	-	229	2,628
Capitalization of borrowing costs	-	-	-	-	-	57	-	-	57
Cost as of December 31, 2015	Ps. 4,707	Ps. 14,145	Ps. 30,688	Ps. 14,576	Ps. 11,651	Ps. 3,812	Ps. 596	Ps. 915	Ps. 81,090



Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Cost as of January 1, 2016	Ps. 4,707	Ps. 14,145	Ps. 30,688	Ps. 14,576	Ps. 11,651	Ps. 3,812	Ps. 596	Ps. 915	Ps. 81,090
Additions	7	204	1,415	337	2,236	5,737	4	367	10,307
Additions from business combinations	-	517	864	105	23	-	4	-	1,513
Transfer of completed projects in progress	46	1,031	2,403	1,978	779	(6,265)	28	-	-
Disposals	(43)	(17)	(1,647)	(574)	(139)	-	(43)	(18)	(2,481)
Effects of changes in foreign exchange rates	252	2,575	4,719	1,953	1,271	546	56	(132)	11,240
Changes in value on the recognition of inflation effects	853	1,470	2,710	851	122	415	-	942	7,363
Capitalization of borrowing costs	-	-	61	-	-	(37)	-	-	24
Cost as of December 31, 2016	Ps. 5,822	Ps. 19,925	Ps. 41,213	Ps. 19,226	Ps. 15,943	Ps. 4,208	Ps. 645	Ps. 2,074	Ps.109,056

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Cost as of January 1, 2017	Ps. 5,822	Ps. 19,925	Ps. 41,213	Ps. 19,226	Ps. 15,943	Ps. 4,208	Ps. 645	Ps. 2,074	Ps.109,056
Additions	110	775	275	758	3,202	5,762	11	176	11,069
Additions from business combinations	5,115	1,691	5,905	482	3,323	820	146	-	17,482
Impairment Venezuela	-	(257)	(841)	-	-	-	-	-	(1,098)
Transfer of completed projects in progress	5	653	2,964	1,968	558	(6,174)	28	(2)	-
Disposals	(115)	(527)	(1,227)	(800)	(193)	-	(3)	(11)	(2,876)
Effects of changes in foreign exchange rates	(1,046)	(1,993)	(2,740)	(1,523)	(1,216)	(747)	(52)	(1,233)	(10,550)
Changes in value on the recognition of inflation effects	518	1,022	2,056	689	(2)	226	-	638	5,147
Effects Venezuela (Note 3.3)	(544)	(817)	(1,300)	(717)	(83)	(221)	-	(646)	(4,328)
Cost as of December 31, 2017	Ps. 9,865	Ps. 20,472	Ps. 46,305	Ps. 20,083	Ps. 21,532	Ps. 3,874	Ps. 775	Ps. 996	Ps.123,902

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Accumulated depreciation as of January 1, 2015	Ps. -	Ps. (2,744)	Ps. (13,229)	Ps. (7,541)	Ps. (5,205)	Ps. -	Ps. (122)	Ps. (386)	Ps. (29,227)
Depreciation for the year	-	(341)	(2,369)	(1,432)	(1,984)	-	(41)	(143)	(6,310)
Disposals	-	70	1,093	946	80	-	7	2	2,198
Effects of changes in foreign exchange rates	-	498	2,142	1,041	167	-	21	212	4,081
Changes in value on the recognition of inflation effects	-	(187)	(425)	(166)	(436)	-	-	(86)	(1,300)
Accumulated depreciation as of December 31, 2015	Ps. -	Ps. (2,704)	Ps. (12,788)	Ps. (7,152)	Ps. (7,378)	Ps. -	Ps. (135)	Ps. (401)	Ps.(30,558)

## FINANCIAL SECTION

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Accumulated depreciation as of January 1, 2016	Ps. –	Ps. (2,704)	Ps. (12,788)	Ps. (7,152)	Ps. (7,378)	Ps. –	Ps. (135)	Ps. (401)	Ps. (30,558)
Depreciation for the year	–	(455)	(2,638)	(2,008)	(2,235)	–	(43)	(200)	(7,579)
Disposals	–	11	1,210	672	227	–	8	9	2,137
Effects of changes in foreign exchange rates	–	(595)	(2,615)	(1,148)	(845)	–	(65)	39	(5,229)
Changes in value on the recognition of inflation effects	–	(592)	(1,087)	(521)	(33)	–	–	(306)	(2,539)
Accumulated depreciation as of December 31, 2016	Ps. –	Ps. (4,335)	Ps. (17,918)	Ps. (10,157)	Ps. (10,264)	Ps. –	Ps. (235)	Ps. (859)	Ps. (43,768)

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
Accumulated depreciation as of January 1, 2017	Ps. –	Ps. (4,335)	Ps. (17,918)	Ps. (10,157)	Ps. (10,264)	Ps. –	Ps. (235)	Ps. (859)	Ps. (43,768)
Depreciation for the year	–	(626)	(3,007)	(2,490)	(3,365)	–	(43)	(685)	(10,216)
Disposals	–	12	1,555	729	103	–	2	5	2,406
Effects of changes in foreign exchange rates	–	548	447	1,157	94	–	(54)	940	3,132
Changes in value on the recognition of inflation effects	–	(439)	(1,042)	(553)	(46)	–	–	(233)	(2,313)
Effect Venezuela	–	481	1,186	626	56	–	–	335	2,684
Accumulated depreciation as of December 31, 2017	Ps. –	Ps. (4,359)	Ps. (18,779)	Ps. (10,688)	Ps. (13,422)	Ps. –	Ps. (330)	Ps. (497)	Ps. (48,075)

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
As of December 31, 2015	Ps. 4,707	Ps. 11,441	Ps. 17,900	Ps. 7,424	Ps. 4,273	Ps. 3,812	Ps. 461	Ps. 514	Ps. 50,532
As of December 31, 2016	Ps. 5,822	Ps. 15,590	Ps. 23,295	Ps. 9,069	Ps. 5,679	Ps. 4,208	Ps. 410	Ps. 1,215	Ps. 65,288
As of December 31, 2017	Ps. 9,865	Ps. 16,113	Ps. 27,526	Ps. 9,395	Ps. 8,110	Ps. 3,874	Ps. 445	Ps. 499	Ps. 75,827

During the years ended December 31, 2017, 2016 and 2015 the Company capitalized Ps. –, Ps. 61 and Ps. 57, respectively of borrowing costs in relation to Ps. –, Ps. 99 and Ps. 993 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were –%, 4.5% and 4.1% respectively.

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

	2017	2016	2015
Interest expense and foreign exchange, net	Ps. –	Ps. 6,149	Ps. 7,358
Amount capitalized <sup>(1)</sup>	–	69	85
Net amount in consolidated income statements	Ps. –	Ps. 6,080	Ps. 7,273

<sup>(1)</sup> Amount of interest capitalized in property, plant and equipment and amortized intangible assets. Commitments related to acquisitions of property, plant and equipment are disclosed in Note 24.

During the year ended December 31, 2017 and due to the economic and operational conditions worsened in Venezuela, the Company has recognized an impairment in the property plan and equipment for an amount of Ps 1,098, such charge has been recorded in other expenses line in the consolidated income statement

## Note 11. INTANGIBLE ASSETS

	Rights to produce and distribute Coca-Cola trademark	Goodwill	Other indefinite lived intangible assets	Technology costs and management systems	Development systems	Other amortizables	Total
Balance as of January 1, 2015	Ps. 70,263	Ps. 23,593	Ps. 139	Ps. 2,882	Ps. 1,312	Ps. 345	Ps. 98,534
Purchases	-	-	-	73	458	29	560
Transfer of completed development systems	-	-	-	1,085	(1,085)	-	-
Effect of movements in exchange rates	(4,992)	(2,556)	(19)	(218)	(2)	(44)	(7,831)
Changes in value on the recognition of inflation effects	1,121	-	-	-	-	-	1,121
Capitalization of borrowing cost	-	-	-	28	-	-	28
Cost as of December 31, 2015	Ps. 66,392	Ps. 21,037	Ps. 120	Ps. 3,850	Ps. 683	Ps. 330	Ps. 92,412
Balance as of January 1, 2016	Ps. 66,392	Ps. 21,037	Ps. 120	Ps. 3,850	Ps. 683	Ps. 330	Ps. 92,412
Purchases	-	-	-	127	609	2	738
Acquisition from business combinations	9,602	7,856	1,067	247	3	109	18,884
Transfer of completed development systems	-	-	-	304	(304)	-	-
Disposals	-	-	-	(323)	-	(2)	(325)
Effect of movements in exchange rates	8,124	4,689	61	363	(193)	36	13,080
Changes in value on the recognition of inflation effects	1,220	-	-	-	-	-	1,220
Capitalization of borrowing cost	-	-	-	11	-	-	11
Cost as of December 31, 2016	Ps. 85,338	Ps. 33,582	Ps. 1,248	Ps. 4,579	Ps. 798	Ps. 475	Ps. 126,020
Balance as of January 1, 2017	Ps. 85,338	Ps. 33,582	Ps. 1,248	Ps. 4,579	Ps. 798	Ps. 475	Ps. 126,020
Purchases	1,288	-	7	179	920	446	2,840
Acquisition from business combinations	9,041	(6,139)	-	6	-	64	2,972
Transfer of completed development systems	-	-	-	412	(412)	-	-
Disposals	-	-	-	-	-	-	-
Effect of movements in exchange rates	(2,293)	(1,215)	101	(86)	(15)	(52)	(3,560)
Changes in value on the recognition of inflation effects	(727)	-	-	-	-	175	(552)
Impairment Venezuela	(745)	-	-	-	-	-	(745)
Effect Venezuela (Note 3.3)	-	-	-	-	-	(139)	(139)
Cost as of December 31, 2017	Ps. 91,902	Ps. 26,228	Ps. 1,356	Ps. 5,090	Ps. 1,291	Ps. 969	Ps. 126,836
Accumulated amortization							
Balances as of January 1, 2015	Ps. -	Ps. -	Ps. -	Ps. (1,273)	Ps. -	Ps. (237)	Ps. (1,510)
Amortization expense	-	-	-	(339)	-	(35)	(374)
Effect of movements in exchange rate	-	-	-	174	-	52	226
Balances as of December 31, 2015	-	-	-	(1,438)	-	(220)	(1,658)
Amortization expense	-	-	-	(427)	-	(35)	(462)
Disposals	-	-	-	249	-	-	249
Effect of movements in exchange rate	-	-	-	(148)	-	(37)	(185)
Balances as of December 31, 2016	-	-	-	(1,764)	-	(292)	(2,056)
Amortization expense	-	-	-	(605)	-	(42)	(647)
Disposals	-	-	-	-	-	-	-
Effect of movements in exchange rate	-	-	-	46	-	184	230
Effect Venezuela (Note 3.3)	-	-	-	-	-	(120)	(120)
Balances as of December 31, 2017	Ps. -	Ps. -	Ps. -	Ps. (2,323)	Ps. -	Ps. (270)	Ps. (2,593)
Balance as of December 31, 2015	Ps. 66,392	Ps. 21,037	Ps. 120	Ps. 2,412	Ps. 683	Ps. 110	Ps. 90,754
Balance as of December 31, 2016	Ps. 85,338	Ps. 33,582	Ps. 1,248	Ps. 2,815	Ps. 798	Ps. 183	Ps. 123,964
Balance as of December 31, 2017	Ps. 91,902	Ps. 26,228	Ps. 1,356	Ps. 2,767	Ps. 1,291	Ps. 699	Ps. 124,243

During the years ended December 31, 2017, 2016 and 2015 the Company capitalized Ps. —, Ps. 8 and Ps. 28, respectively of borrowing costs in relation to Ps. —, Ps. 28 and Ps. 410 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were —%, 4.1% and 4.1%.

On March 28, 2017 the Company acquired distribution rights and other intangibles of AdeS soy-based beverages in its territories in Mexico and Colombia for an aggregate amount of Ps. 1,664. This acquisition was made to reinforce the Company's leadership position

For the year ended December 31, 2017, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 22, Ps. 83 and Ps. 544, respectively.

For the year ended December 31, 2016, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 8, Ps. 106 and Ps. 358, respectively.

For the year ended December 31, 2015, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 5, Ps. 60 and Ps. 309, respectively.

The Company's intangible assets such as technology costs and management systems are subject to amortization with a range in useful lives from 3 to 10 years.

### IMPAIRMENT TESTS FOR CASH-GENERATING UNITS CONTAINING GOODWILL AND DISTRIBUTION RIGHTS

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

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

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

Goodwill and distribution rights are tested for impairments annually. The recoverable amounts of the CGUs are based on value-in-use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU.

The foregoing forecasts could differ from the results obtained over time; however, the Company prepares its estimates based on the current situation of each of the CGUs.

The recoverable amounts are based on value in use. The value in use of CGUs is determined based on the method of discounted cash flows. The key assumptions used in projecting cash flows are: volume, expected annual long-term inflation, and the weighted average cost of capital ("WACC") used to discount the projected flows.

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

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

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

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

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

- Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. The Company believes that this forecasted period is justified due to the non-current nature of the business and past experiences.
- Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.
- A per CGU-specific Weighted Average Cost of Capital ("WACC") was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjustment.

The key assumptions by CGU for impairment test as of December 31, 2017 were as follows:

CGU	Pre-tax WACC	Post -tax WACC	Expected Annual Long-Term Inflation 2018-2027	Expected Volume Growth Rates 2018-2027
Mexico	7.3%	5.3%	3.7%	2.2%
Guatemala	13.9%	10.7%	4.7%	7.1%
Nicaragua	16.6%	10.6%	5.0%	4.9%
Costa Rica	11.5%	7.8%	3.3%	2.7%
Panama	8.3%	6.5%	2.3%	3.4%
Colombia	9.1%	6.6%	3.1%	3.2%
Brazil	9.7%	6.2%	4.1%	1.3%
Argentina	11.0%	7.3%	10.7%	3.1%
Philippines	9.7%	5.9%	3.6%	3.4%

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

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

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

During the year ended December 31, 2017 and due to the economic and operational conditions worsened in Venezuela, the Company has recognized an impairment of the distribution rights in such country for an amount of Ps 745, such charge has been recorded in other expenses line in the consolidated income statement

**Sensitivity to Changes in Assumptions**

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

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

<sup>(1)</sup> Compound Annual Growth Rate (CAGR)

**Note 12. OTHER NON-CURRENT ASSETS AND OTHER NON-CURRENT FINANCIAL ASSETS**

**12.1 OTHER NON-CURRENT ASSETS:**

	2017	2016
Non-current prepaid advertising expenses	Ps. 376	Ps. 392
Guarantee deposits <sup>(1)</sup>	1,835	1,829
Prepaid bonuses	195	150
Advances to acquire property, plant and equipment	266	173
Shared based payment	151	168
Indemnifiable contingencies from business combinations <sup>(2)</sup>	4,510	8,081
Recoverable tax added in business combinations	459	488
Other	329	199
	Ps. 8,121	Ps. 11,480

<sup>(1)</sup> As it is customary in Brazil, the Company is required to collateralize tax, legal and labor contingencies by guarantee deposits.

<sup>(2)</sup> Corresponds to indemnifiable assets that are warranted by former Vonpar owners as per the share purchase agreement.

**12.2 OTHER NON-CURRENT FINANCIAL ASSETS:**

	2017	2016
Other non-current financial assets	Ps. 322	Ps. 118
Derivative financial instruments (See Note 19)	955	4,615
	Ps. 1,277	Ps. 4,733

As of December 31, 2017 and 2016 there are no significant variances between the fair value and the carrying value of long term receivables. The fair value is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for receivable of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy.

## Note 13. BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND AFFILIATED COMPANIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note.

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

	2017	2016
<b>Balances:</b>		
<b>Assets (current included in accounts receivable)</b>		
Due from FEMSA and Subsidiaries (see Note 6) <sup>(1) (4)</sup>	Ps. 402	Ps. 549
Due from The Coca-Cola Company (see Note 6) <sup>(1) (4)</sup>	2,054	1,857
Due from Heineken Group <sup>(1)</sup>	290	304
Other receivables <sup>(1)</sup>	27	64
Shareholders Vonpar (see Note 6)	1,219	–
	Ps. 3,992	Ps. 2,774
<b>Liabilities (current included in suppliers and other liabilities and loans)</b>		
Due to FEMSA and Subsidiaries <sup>(3) (4)</sup>	Ps. 1,038	Ps. 905
Due to The Coca-Cola Company <sup>(2) (3) (4)</sup>	3,731	4,454
Due to Heineken Group <sup>(3)</sup>	1,348	1,414
Other payables <sup>(3)</sup>	330	654
	Ps. 6,447	Ps. 7,427

<sup>(1)</sup> Presented within accounts receivable.

<sup>(2)</sup> Recorded within bank loans.

<sup>(3)</sup> Recorded within accounts payable and suppliers.

<sup>(4)</sup> Parent

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

Details of transactions between the Company and other related parties are disclosed as follows:

Transactions	2017	2016	2015
<b>Income:</b>			
Sales to affiliated parties	Ps. 4,761	Ps. 4,274	Ps. 3,803
Interest income received from Compañía Panameña de Bebidas, S.A.P.I. de C.V.	–	1	–
Interest income received from BBVA Bancomer, S.A. de C.V.	138	17	13
<b>Expenses:</b>			
Purchases and other expenses of FEMSA	7,773	8,328	7,720
Purchases of concentrate from The Coca-Cola Company	33,898	38,146	27,330
Purchases of raw material, beer and operating expenses from Heineken	13,608	8,823	6,944
Advertisement expense paid to The Coca-Cola Company	1,392	2,354	1,316
Purchases from Jugos del Valle	2,604	2,428	2,135
Purchase of sugar to Promotora Industrial Azucarera, S.A. de C.V.	1,885	1,765	1,236
Purchase of sugar from Beta San Miguel	1,827	1,349	1,264
Purchase of sugar, cans and aluminum lids to Promotora Mexicana de Embotelladores, S.A. de C.V.	839	759	587
Purchase of canned products to Industria Envasadora de Queretaro, S.A. de C.V..	804	798	731
Purchase of inventories to Leao Alimentos e Bebidas, LTDA	4,010	3,448	3,359
Purchase of resin from Industria Mexicana de Reciclaje, S.A. de C.V.	267	265	220
Donations to Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. <sup>(1)</sup>	1	1	–
Donations to Fundación Femsa, A.C.	2	92	–
Interest expense paid to The Coca-Cola Company	11	–	1
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. <sup>(1)</sup>	–	1	22
Other expenses with related parties	202	185	24

<sup>(1)</sup> One or more members of the Board of Directors or senior management of the Company are also members of the Board of Directors or senior management of the counterparties to these transactions.

The benefits and aggregate compensation paid to executive officers and senior management of the Company, recognized as an expense during the reporting period were as follows:

	2017		2016		2015	
Current employee benefits	Ps.	621	Ps.	652	Ps.	552
Termination benefits		27		154		32
Shared based payments		316		258		138

### Note 14. BALANCES AND TRANSACTIONS IN FOREIGN CURRENCIES

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different from the functional currency of the Company. As of December 31, 2017 and 2016, assets and liabilities denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

Balances	Assets		Liabilities	
	Current	Non-current	Current	Non-current
As of December 31, 2017				
U.S. dollars	5,852	–	2,783	53,093
Euros	–	–	1,547	–
As of December 31, 2016				
U.S. dollars	2,097	686	3,544	66,995
Euros	–	–	19	–

As of year ended December 31, 2017, 2016 and 2015 transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

Transactions	Revenues	Purchases of Raw Materials	Interest Expense	Other
Year ended December 31, 2017 U.S. dollars	653	13,381	2,454	1,544
Year ended December 31, 2017 Euros	–	18	–	–
Year ended December 31, 2016 U.S. dollars	736	13,242	2,235	1,796
Year ended December 31, 2015 U.S. dollars	569	11,458	1,965	1,301

### Note 15. POST-EMPLOYMENT AND OTHER NON-CURRENT EMPLOYEE BENEFITS

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

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



## 15.1 ASSUMPTIONS

The Company annually evaluates the reasonableness of the assumptions used in its labor liability for post-employment and other non-current employee benefits computations. In Mexico, actuarial calculations for pension and retirement plans and seniority premiums, as well as the associated cost for the period, were determined using the following long-term assumptions:

Mexico	2017	2016	2015
<b>Financial:</b>			
Discount rate used to calculate the defined benefit obligation	7.60%	7.60%	7.00%
Salary increase	4.60%	4.50%	4.50%
Future pension increases	3.50%	3.50%	3.50%
<b>Biometric:</b>			
Mortality	EMSSA 2009 <sup>(1)</sup>	EMSSA 2009 <sup>(1)</sup>	EMSSA 2009 <sup>(1)</sup>
Disability	IMSS-97 <sup>(2)</sup>	IMSS-97 <sup>(2)</sup>	IMSS-97 <sup>(2)</sup>
Normal retirement age	60 years	60 years	60 years
Rest of employee turnover	BMAR2007 <sup>(3)</sup>	BMAR2007 <sup>(3)</sup>	BMAR2007 <sup>(3)</sup>

<sup>(1)</sup> EMSSA. Mexican Experience of Social Security (for its initials in Spanish)

<sup>(2)</sup> IMSS. Mexican Experience of Instituto Mexicano del Seguro Social (for its initials in Spanish)

<sup>(3)</sup> BMAR. Actuary experience

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

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

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

	Pension and Retirement Plans	Seniority Premiums
2018	324	22
2019	160	21
2020	243	21
2021	169	21
2022	170	23
2023 to 2027	1,639	139

## 15.2 BALANCES OF THE LIABILITIES FOR POST-EMPLOYMENT AND OTHER NON-CURRENT EMPLOYEE BENEFITS

	2017	2016
<b>Pension and Retirement Plans:</b>		
Vested benefit obligation	Ps. 389	Ps. 656
Non-vested benefit obligation	1,398	1,318
Accumulated benefit obligation	1,787	1,974
Excess of projected defined benefit obligation over accumulated benefit obligation	2,582	941
Defined benefit obligation	4,369	2,915
Pension plan funds at fair value	(1,692)	(910)
Net defined benefit liability	Ps. 2,677	Ps. 2,005
<b>Seniority Premiums:</b>		
Vested benefit obligation	Ps. 36	Ps. 18
Non-vested benefit obligation	267	175
Accumulated benefit obligation	303	193
Excess of projected defined benefit obligation over accumulated benefit obligation	158	223
Defined benefit obligation	461	416
Seniority premium plan funds at fair value	(109)	(102)
Net defined benefit liability	Ps. 352	Ps. 314
Total post-employment and other non-current employee benefits	Ps. 3,029	Ps. 2,319

## 15.3 TRUST ASSETS

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

Type of instrument	2017	2016
<b>Fixed return:</b>		
Traded securities	14%	24%
Life annuities	12%	18%
Bank instruments	6%	1%
Federal government instruments	50%	39%
<b>Variable return:</b>		
Publicly traded shares	18%	18%
	100%	100%

In Mexico, the regulatory framework for pension plans is established in the Income Tax Law and its Regulations, the Federal Labor Law and the Mexican Social Security Institute Law. None of these laws establish minimum funding levels or a minimum required level of contributions.

In Mexico, the Income Tax Law requires that, in the case of private plans, certain notifications must be submitted to the authorities and a certain level of instruments must be invested in the Federal Government, among others.

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

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

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

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

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

	2017	2016
<b>Mexico</b>		
<b>Portfolio:</b>		
<b>Debt:</b>		
Grupo Televisa, S.A.B. de C.V.	Ps. 17	Ps. 17
Grupo Financiero Banorte, S.A.B. de C.V.	7	7
Grupo Industrial Bimbo, S.A.B. de C. V.	24	14
Gentera, S.A.B. de C.V.	8	8
El Puerto de Liverpool, S.A.B. de C.V.	–	5
<b>Capital:</b>		
Fomento Económico Mexicano, S.A.B de C.V.	8	7
Gruma, S.A.B. de C.V.	3	–
Grupo Industrial Bimbo, S.A.B. de C.V.	–	6
Gentera, S.A.B. de C.V.	4	–
El Puerto de Liverpool, S.A.B. de C.V.	5	–

During the years ended December 31, 2017, 2016 and 2015, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during the following fiscal year.

## 15.4 AMOUNTS RECOGNIZED IN THE CONSOLIDATED INCOME STATEMENTS AND THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Income statement				Accumulated OCI	
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability net of taxes	
<b>2017</b>						
Pension and retirement plans	Ps. 241	Ps. 10	Ps. –	Ps. 159	Ps. 539	
Seniority premiums	44	–	–	23	28	
Total	Ps. 285	Ps. 10	Ps. –	Ps. 182	Ps. 567	

	Income statement				Accumulated OCI	
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability net of taxes	
<b>2016</b>						
Pension and retirement plans	Ps. 145	Ps. 43	Ps. (61)	Ps. 134	Ps. 558	
Seniority premiums	45	–	–	20	27	
Total	Ps. 190	Ps. 43	Ps. (61)	Ps. 154	Ps. 585	

	Income statement				Accumulated OCI	
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability net of taxes	
<b>2015</b>						
Pension and retirement plans	Ps. 142	Ps. –	Ps. (120)	Ps. 124	Ps. 429	
Seniority premiums	45	–	(9)	20	33	
Post-employment	5	–	–	9	–	
Total	Ps. 192	Ps. –	Ps. (129)	Ps. 153	Ps. 462	

For the years ended December 31, 2017, 2016 and 2015, service costs of Ps. 285, Ps. 190 and Ps. 192 have been included in the consolidated statements of income as cost of goods sold, administration and selling expenses.

Remeasurements of the net defined benefit liability recognized in other comprehensive income are as follows (amounts are net of tax):

	2017		2016		2015	
Amount accumulated in other comprehensive income as of the beginning of the periods	Ps. 585	Ps. 462	Ps. 600			
Recognized during the year (obligation liability and plan assets)	(169)	75	(49)			
Actuarial gains and losses arising from changes in financial assumptions	165	(29)	(77)			
Foreign exchange rate valuation (gain)	(14)	77	(12)			
Amount accumulated in other comprehensive income as of the end of the period, net of tax	Ps. 567	Ps. 585	Ps. 462			

Remeasurements of the net defined benefit liability include the following:

- The return on plan assets, excluding amounts included in net interest expense.
- Actuarial gains and losses arising from changes in demographic assumptions.
- Actuarial gains and losses arising from changes in financial assumptions.

**15.5 CHANGES IN THE BALANCE OF THE DEFINED BENEFIT OBLIGATION FOR POST-EMPLOYMENT AND OTHER NON-CURRENT EMPLOYEE BENEFITS**

	2017	2016	2015
<b>Pension and Retirement Plans:</b>			
Initial balance	Ps. 2,915	Ps. 2,687	Ps. 2,701
Current service cost	241	145	142
Effect on curtailment	–	(61)	(120)
Interest expense	258	194	185
Actuarial gains or losses	190	(7)	(58)
Foreign exchange loss	(69)	141	39
Benefits paid	(385)	(192)	(202)
Acquisitions	1,209	–	–
Past service cost	10	8	–
	Ps. 4,369	Ps. 2,915	Ps. 2,687
<b>Seniority Premiums:</b>			
Initial balance	Ps. 416	Ps. 404	Ps. 393
Current service cost	44	45	45
Effect on curtailment	–	–	(9)
Interest expense	29	27	26
Actuarial losses	12	(22)	(21)
Benefits paid	(40)	(38)	(30)
	Ps. 461	Ps. 416	Ps. 404
<b>Post-employment:</b>			
Initial balance	Ps. –	Ps. 135	Ps. 194
Current service cost	–	–	5
Certain liability cost	–	–	73
Interest expense	–	–	–
Reclassification to certain liability cost	–	(135)	–
Actuarial losses	–	–	–
Foreign exchange gain	–	–	(137)
Benefits paid	–	–	–
	Ps. –	Ps. –	Ps. 135

**15.6 CHANGES IN THE BALANCE OF TRUST ASSETS**

	2017	2016	2015
<b>Pension and retirement plans:</b>			
Balance at beginning of year	Ps. 910	Ps. 864	Ps. 872
Actual return on trust assets	113	15	26
Foreign exchange gain	86	4	2
Life annuities	21	28	27
Benefits paid	(136)	(1)	(63)
Acquisitions	698	–	–
Balance at end of year	Ps. 1,692	Ps. 910	Ps. 864
<b>Seniority premiums</b>			
Balance at beginning of year	Ps. 102	Ps. 101	Ps. 92
Actual return on trust assets	7	1	9
Balance at end of year	Ps. 109	Ps. 102	Ps. 101

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

## 15.7 VARIATION IN ASSUMPTIONS

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

- Discount rate: The rate that determines the value of the obligations over time.
- Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable.

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

Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability (asset)	Income Statement					OCI
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability	
Pension and retirement plans	Ps. 228	Ps. 10	Ps. –	Ps. 157	Ps. 535	
Seniority premiums	42	–	–	23	36	
Total	Ps. 270	Ps. 10	Ps. –	Ps. 180	Ps. 571	

Expected salary increase	Income Statement					OCI
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability	
Pension and retirement plans	Ps. 255	Ps. 45	Ps. (66)	Ps. 275	Ps. 711	
Seniority premiums	46	–	–	32	38	
Total	Ps. 301	Ps. 45	Ps. (66)	Ps. 307	Ps. 749	

Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability (asset)	Income Statement					OCI
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability	
Pension and retirement plans	Ps. 254	Ps. 11	Ps. –	Ps. 162	Ps. 569	
Seniority premiums	46	–	–	23	40	
Total	Ps. 300	Ps. 11	Ps. –	Ps. 185	Ps. 609	

Expected salary increase	Income Statement					OCI
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability	
Pension and retirement plans	Ps. 227	Ps. 11	Ps. –	Ps. 249	Ps. 692	
Seniority premiums	41	–	–	29	44	
Total	Ps. 268	Ps. 11	Ps. –	Ps. 278	Ps. 736	

### 15.8 EMPLOYEE BENEFITS EXPENSE

For the years ended December 31, 2017, 2016 and 2015, employee benefits expenses recognized in the consolidated income statements are as follows:

	2017	2016	2015
<b>Included in cost of goods sold:</b>			
Wages and salaries	Ps. 4,639	Ps. 4,827	Ps. 4,106
Social security costs	1,467	1,234	799
Employee profit sharing	75	142	125
Pension and seniority premium costs (Note 15.4)	53	57	56
Share-based payment expense (Note 16.2)	6	11	4
<b>Included in selling and distribution expenses:</b>			
Wages and salaries	12,695	13,526	11,513
Social security costs	4,456	4,571	2,911
Employee profit sharing	484	485	453
Pension and seniority premium costs (Note 15.4)	183	65	65
Share-based payment expense (Note 16.2)	7	18	6
<b>Included in administrative expenses:</b>			
Wages and salaries	2,625	2,839	2,551
Social security costs	588	472	337
Employee profit sharing	31	56	30
Pension and seniority premium costs (Note 15.4)	56	66	66
Post-employment benefits other (Note 15.4)	312	5	5
Share-based payment expense (Note 16.2)	161	177	254
<b>Total employee benefits expense</b>	<b>Ps. 27,838</b>	<b>Ps. 28,551</b>	<b>Ps. 23,281</b>

## Note 16. BONUS PROGRAMS

### 16.1 QUANTITATIVE AND QUALITATIVE OBJECTIVES

The bonus program for executives is based on achieving certain goals established annually by management, which include quantitative and qualitative objectives and special projects.

The quantitative objectives represent approximately 50% of the bonus, and are based on the Economic Value Added ("EVA") methodology. The objective established for the executives at each entity is based on a combination of the EVA generated per entity and by our Company and the EVA generated by our parent Company FEMSA. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

The bonus amount is determined based on each eligible participant's level of responsibility and based on the EVA generated by the applicable business unit the employee works for. This formula is established by considering the level of responsibility within the organization, the employees' evaluation and competitive compensation in the market.

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of achievement of the goals established every year. The bonuses are recorded as a part of the income statement and are paid in cash the following year. During the years ended December 31, 2017, 2016 and 2015 the bonus expense recorded amounted to Ps. 701, Ps. 706 and Ps. 549, respectively.

## 16.2 SHARE-BASED PAYMENT BONUS PLAN

The Company has a stock incentive plan for the benefit of its senior executives. This plan uses as its main evaluation metric the EVA. Under the EVA stock incentive plan, eligible employees are entitled to receive a special annual bonus (fixed amount), to purchase FEMSA and Coca-Cola FEMSA shares or options, based on the executive's responsibility in the organization, their business' EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 33% per year. The 50% of Coca-Cola FEMSA's annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options. For the years ended December 31, 2017, 2016 and 2015, no stock options have been granted to employees. Until 2015 the shares were vested ratably over a five year period. Beginning with January 1, 2016 onwards they will ratably vest over a three year period.

The special bonus is granted to the eligible employee on an annual basis and after withholding applicable taxes. The Company contributes the individual employee's special bonus (after taxes) in cash to the Administrative Trust (which is controlled and consolidated by FEMSA), which then uses the funds to purchase FEMSA and Coca-Cola FEMSA shares (as instructed by the Corporate Practices Committee), which are then allocated to such employee.

Coca-Cola FEMSA accounts for its share-based payment bonus plan as an equity-settled share based payment transaction, since it is its parent company, FEMSA, who ultimately grants and settles with shares these obligations due to executives.

At December 31, the shares granted under the Company's executive incentive plans are as follows:

Incentive Plan	Number of shares		Vesting period
	FEMSA	KOF	
2013	539,020	370,200	2014-2016
2014	489,345	331,165	2015-2017
2015	457,925	415,375	2016-2018
2016	567,671	719,132	2017-2019
<b>2017</b>	326,561	369,791	2018-2020
Total	2,380,522	2,205,663	

For the years ended December 31, 2017, 2016 and 2015, the total expense recognized for the period arising from share-based payment transactions, using the grant date model, was of Ps. 174, Ps. 206 and Ps. 264, respectively.

As of December 31, 2017 and 2016, the asset recorded by Coca-Cola FEMSA in its consolidated statements of financial position amounted to Ps. 151 and Ps. 168, respectively, see Note 12.

## FINANCIAL SECTION

### Note 17. BANK LOANS AND NOTES PAYABLES

(In millions of Mexican pesos)	2018	2019	2020	2021	2022	2023 and Thereafter	Carrying Value December 31, 2017	Fair Value at December 31, 2017	Carrying Value December 31, 2016
<b>Short-term debt:</b>									
<b>Fixed rate debt:</b>									
<b>Argentine pesos</b>									
Bank loans	Ps. 106	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. 106	Ps. 107	Ps. 644
Interest rate	22.40%	–	–	–	–	–	22.40%	–	31.98%
<b>U.S. dollars</b>									
Bank loans	–	–	–	–	–	–	–	–	206
Interest rate	–	–	–	–	–	–	–	–	3.40%
Subtotal	Ps. 106	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. 106	Ps. 107	Ps. 850
<b>Variable rate debt:</b>									
<b>Colombian peso</b>									
Bank loans	1,951	–	–	–	–	–	1,951	1,949	723
Interest rate	7.28%	–	–	–	–	–	7.28%	–	9.14%
Subtotal	1,951	–	–	–	–	–	1,951	1,949	723
Short-term debt	Ps. 2,057	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. 2,057	Ps. 2,056	Ps. 1,573
<b>Long-term debt:</b>									
<b>Fixed rate debt:</b>									
<b>Brazilian reais</b>									
Bank loans	319	220	152	92	78	73	934	957	508
Interest rate	5.78%	5.78%	5.78%	5.78%	5.78%	5.78%	5.78%	–	5.06%
Notes payable <sup>(2)</sup>	–	6,707	–	–	–	–	6,707	6,430	7,022
Interest rate	–	0.38%	–	–	–	–	0.38%	–	0.38%
<b>U.S. dollars</b>									
Yankee Bond	8,774	–	9,844	–	–	29,425	48,043	51,938	61,703
Interest rate	2.38%	–	4.63%	–	–	4.43%	4.09%	–	3.78%
<b>Notes payable</b>									
<b>Interest rate</b>									
<b>Colombian peso</b>									
Bank loans	728	–	–	–	–	–	728	741	758
Interest rate	9.63%	–	–	–	–	–	9.63%	–	9.63%
<b>Mexican pesos</b>									
Senior notes	–	–	–	2,498	–	15,981	18,479	17,035	9,991
Interest rate	–	–	–	8.27%	–	6.74%	6.95%	–	6.16%
Subtotal	Ps. 9,821	Ps. 6,927	Ps. 9,996	Ps. 2,590	Ps. 78	Ps. 45,479	Ps. 74,891	Ps. 77,101	Ps. 79,982
<b>Variable rate debt:</b>									
<b>U.S. dollars</b>									
Bank loans	–	–	–	4,032	–	–	4,032	4,313	4,218
Interest rate	–	–	–	2.12%	–	–	2.12%	–	1.60%
<b>Mexican pesos</b>									
Senior notes	–	–	–	–	1,496	–	1,496	1,500	–
Interest rate	–	–	–	–	7.70%	–	7.70%	–	–
<b>Argentine pesos</b>									
Bank Loans	–	–	–	–	–	–	–	–	40
Interest rate	–	–	–	–	–	–	–	–	27.84%
<b>Brazilian reais</b>									
Bank Loans	283	284	229	66	7	–	869	883	1,864
Interest rate	8.50%	8.50%	8.50%	8.50%	8.50%	–	8.50%	–	5.49%
Notes payable	10	5	–	–	–	–	15	14	26
Interest rate	0.44%	0.44%	–	–	–	–	0.44%	–	0.44%
<b>Colombian pesos</b>									
Bank Loans <sup>(3)</sup>	–	–	–	–	–	–	–	–	1,206
Interest rate	–	–	–	–	–	–	–	–	10.47%
Subtotal	293	289	229	4,098	1,503	–	6,412	6,710	7,354
Long-term debt	10,114	7,216	10,225	6,688	1,581	45,479	81,303	83,811	87,336
<b>Current portion of long term debt</b>									
Long-term debt	Ps. 10,114	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. 10,114	Ps. –	Ps. 1,479
Long-term debt	Ps. –	Ps. 7,216	Ps. 10,225	Ps. 6,688	Ps. 1,581	Ps. 45,479	Ps. 71,189	Ps. 83,811	Ps. 85,857

(1) All interest rates shown in this table are weighted average contractual annual rates.

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

(3) During 2017 a long term variable bank loan was refinanced for a 1-year term, therefore it was reclassified as short term variable bank loan.



For the years ended December 31, 2017, 2016 and 2015, the interest expense related to the bank loans and notes payable is comprised as follows and included in the consolidated income statement under the interest expense caption:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Interest on debts and borrowings	Ps. 4,369	Ps. 4,099	Ps. 3,540
Capitalized interest		(32)	(60)
Finance charges for employee benefits	182	154	155
Derivative instruments	4,161	3,082	2,619
Finance operating charges	97	168	83
	Ps. 8,809	Ps. 7,471	Ps. 6,337

Coca-Cola FEMSA has the following debt bonds: a) registered with the Mexican stock exchange: i) Ps. 2,500 (nominal amount) with a maturity date in 2021 and fixed interest rate of 8.27% and ii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46% iii) Ps. 1,500 (nominal amount) with a maturity date in 2022 and floating interest rate of TIE + 0.25% iv) Ps. 8,500 (nominal amount) with a maturity date in 2027 and fixed interest rate of 7.87% and b) registered with the SEC : i) Senior notes of US. \$ 500 with interest at a fixed rate of 4.63% and maturity date on February 15, 2020, ii) Senior notes of US. \$445 with interest at a fixed rate of 2.38% and maturity date on November 26, 2018, iii) Senior notes of US. \$ 900 with interest at a fixed rate of 3.88% and maturity date on November 26, 2023 and iv) Senior notes of US. \$ 600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043 all of which are guaranteed by our subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V. (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R.L. de C.V. ("Guarantors"). In Note 27 we present supplemental guarantors consolidating financial information.

In August 18th, 2017, Coca-Cola FEMSA, partially prepaid US \$555 of a dollar denominated bond due in 2018, reducing the outstanding Senior note to US \$445 with interest at a fix rate of 2.38%

The Company has financing from different financial institutions under agreements that stipulate different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

**17.1 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES.**

	Carrying Value at December 31 2016	Cash flows		Non-cash flows		Carrying Value at December 31, 2017
		Repayments	Proceeds	Foreign Exchange movement	Translation Effect	
Short-term bank loans	Ps. 1,573	Ps. (1,013)	Ps. 489	Ps. –	Ps. 1,008	Ps. 2,057
Short-term notes payable	–	–	–	–	–	–
<b>Total short-term from financing activities</b>	Ps. 1,573	Ps. (1,013)	Ps. 489	Ps. –	Ps. 1,008	Ps. 2,057
Long-term bank loans	8,594	(2,264)	1,999	190	(1,956)	6,563
Long-term notes payable	78,742	(9,832)	10,000	4,015	(8,185)	74,740
<b>Total long-term from financing activities</b>	Ps. 87,336	Ps. (12,096)	Ps. 11,999	Ps. 4,205	Ps. (10,141)	Ps. 81,303
Current portion of long-term debt <sup>(1) (2)</sup>	Ps. 1,479	–	–	–	–	Ps. 10,114
<b>Total from financing activities</b>	Ps. 88,909	Ps. (13,109)	Ps. 12,488	Ps. 4,205	Ps. (9,133)	Ps. 83,360

<sup>(1)</sup> Current portion of long term debt at December 31, 2016 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 636, b) bank loans denominated in argentine pesos for an equivalent amount in Ps. 40, c) notes payable denominated in brazilian reais for an equivalent amount in Ps. 10 and d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 793.

<sup>(2)</sup> Current portion of long term debt at December 31, 2017 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 602, b) senior notes denominated in US dollars for an equivalent amount in Ps. 8,774, c) notes payable denominated in brazilian reais for an equivalent amount in Ps. 10 and d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 728.

	Carrying Value at December 31 2016	Cash flows		Non-cash flows		Carrying Value at December 31, 2017
		Repayments	Proceeds	Foreign Exchange movement	Translation Effect	
Short-term bank loans	Ps. 384	Ps. –	Ps. 851	Ps. –	Ps. 338	Ps. 1,573
Short-term notes payable	–	–	–	–	–	–
<b>Total short-term from financing activities</b>	Ps. 384	Ps. –	Ps. 851	Ps. –	Ps. 338	Ps. 1,573
Long-term bank loans	2,068	(1,988)	141	(50)	8,423	8,594
Long-term notes payable	63,818	(2,500)	7,048	10,346	30	78,742
Long-term lease liabilities	460	(460)	–	–	–	–
<b>Total long-term from financing activities</b>	Ps. 66,346	Ps. (4,948)	Ps. 7,189	Ps. 10,296	Ps. 8,453	Ps. 87,336
Current portion of long-term debt <sup>(1) (2)</sup>	Ps. 3,086	–	–	–	–	Ps. 1,479
<b>Total from financing activities</b>	Ps. 66,730	Ps. (4,948)	Ps. 8,040	Ps. 10,296	Ps. 8,791	Ps. 88,909

<sup>(1)</sup> Current portion of long term debt at December 31, 2015 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 177, b) bank loans denominated in argentine pesos for an equivalent amount in Ps. 100, c) leases denominated in brazilian reais for an equivalent amount in Ps. 67, d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 246 and e) senior notes denominated in Ps. 2,496.

<sup>(2)</sup> Current portion of long term debt at December 31, 2016 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 636, b) bank loans denominated in argentine pesos for an equivalent amount in Ps. 40, c) notes payable denominated in brazilian reais for an equivalent amount in Ps. 10 and d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 793.

## Note 18. OTHER INCOME AND EXPENSES

	2017		2016		2015	
<b>Other income:</b>						
Gain on sale of long-lived assets	Ps.	322	Ps.	324	Ps.	233
Cancellation of contingencies		268		329		255
Tax Recovery from previous year		597		603		20
Philippines consolidation impact (Note 4)		2,996		–		–
Other		188		25		112
	Ps.	4,371	Ps.	1,281	Ps.	620
<b>Other expenses:</b>						
Provisions for contingencies	Ps.	943	Ps.	819	Ps.	334
Loss on the retirement of long-lived assets		174		321		332
Loss on sale of long-lived assets		368		358		16
Non-income taxes from Colombia		–		48		55
Severance payments		302		13		285
Donations		83		54		221
Foreign exchange losses related to operating activities		2,646		2,799		871
Venezuela impact (Note 3.3)		28,176		–		–
Other		340		681		254
	Ps.	33,032	Ps.	5,093	Ps.	2,368

## Note 19. FINANCIAL INSTRUMENTS

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses a three-level fair value hierarchy to prioritize the inputs used to measure the fair value of its financial instruments. The three input levels are described as follows:

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

The Company measures the fair value of its financial assets and liabilities classified as level 1 and 2, applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes the Company's financial assets and liabilities measured at fair value, as of December 31, 2017 and 2016:

	2017		2016	
	Level 1	Level 2	Level 1	Level 2
Derivative financial instruments asset	Ps. 22	Ps. 1,183	Ps. 375	Ps. 4,977
Derivative financial instruments liability	26	4,468	–	5,680
Trust assets of labor obligations	1,801	–	1,012	–

### 19.1 TOTAL DEBT

The fair value of bank loans is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for debt of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy. The fair value of the Company's publicly traded debt is based on quoted market prices as of December 31, 2017 and 2016, which is considered to be level 1 in the fair value hierarchy (See Note 17).

### 19.2 FORWARD AGREEMENTS TO PURCHASE FOREIGN CURRENCY

The Company has entered into forward agreements to reduce its exposure to the risk of exchange rate fluctuations among the Mexican peso and other currencies.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these forwards are recorded as part of "cumulative other comprehensive income". Net gain/loss on expired contracts is recognized as part of foreign exchange or cost of goods sold, depending on the nature of the hedge in the consolidated income statements.

Net changes in the fair value of forward agreements that do not meet hedging criteria for hedge accounting are recorded in the consolidated income statements under the caption "market value gain/(loss) on financial instruments".

At December 31, 2017, the Company has the following outstanding forward agreements to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value	
		(Liability) Dec.31, 2017	Asset
2018	Ps. 6,882	Ps. (22)	Ps. 190

At December 31, 2016, the Company had the following outstanding forward agreements to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value	
		(Liability) Dec.31, 2016	Asset
2017	Ps. 6,559	Ps. (194)	Ps. 362

### 19.3 OPTIONS TO PURCHASE FOREIGN CURRENCY

The Company has executed call option and collar strategies to reduce its exposure to the risk of exchange rate fluctuations. A call option is an instrument that limits the loss in case of foreign currency depreciation. A collar is a strategy that combines call and put options, limiting the exposure to the risk of exchange rate fluctuations in a similar way as a forward agreement.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these options, corresponding to the intrinsic value, are initially recorded as part of "cumulative other comprehensive income". Changes in the fair value, corresponding to the extrinsic value, are recorded in the consolidated income statements under the caption "market value gain/ (loss) on financial instruments," as part of the consolidated net income. Net gain/(loss) on expired contracts including the net premium paid, is recognized as part of cost of goods sold when the hedged item is recorded in the consolidated income statements.

At December 31, 2017, the Company paid a net premium of Ps. 7 millions for the following outstanding collar options to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value	
		(Liability) Dec.31, 2017	Asset
2018	Ps. 266	Ps. (5)	Ps. 17

### 19.4 CROSS-CURRENCY SWAPS

The Company has contracted a number of cross-currency swaps to reduce its exposure to risks of exchange rate and interest rate fluctuations associated with its borrowings denominated in U.S. dollars. The fair value is estimated using market prices that would apply to terminate the contracts at the end of the period. For accounting purposes, the cross currency swaps are recorded as both, Cash Flow Hedges in regards to the foreign exchange risk, and Fair Value Hedges in regards to the interest rate risk and foreign exchange risk. The fair value changes related to exchange rate fluctuations of the notional of those cross currency swaps and the accrued interest are recorded in the consolidated income statements. The remaining portion of the fair value changes, when designated as Cash Flow Hedges, are recorded in the consolidated balance sheet in "cumulative other comprehensive income". If they are designated as Fair Value Hedges the changes in this remaining portion are recorded in the income statements as "market value (gain) loss on financial instruments".

At December 31, 2017, the Company had the following outstanding cross currency swap agreements:

Maturity Date	Notional Amount	Fair Value	
		(Liability) Dec.31, 2017	Asset
2018	Ps. 24,748	Ps. (3,863)	Ps. –
2019	6,707	(205)	–
2020	14,439	(163)	605
2021	4,046	–	24
2023	1,776	–	139
2027	6,907	(129)	179

At December 31, 2016, the Company had the following outstanding cross currency swap agreements:

Maturity Date	Notional Amount	Fair Value	
		(Liability) Dec.31, 2016	Asset
<b>2017</b>	Ps. 207	Ps. (10)	Ps. –
2018	39,262	(4,837)	3,688
2019	7,022	(265)	–
2020	15,118	(246)	798
2021	4,236	(128)	–
2027	5,476	–	125

### 19.5 INTEREST RATE SWAPS

The Company has contracted a number of interest rate swaps to reduce its exposure to interest rate fluctuations associated with its debt denominated in BRL. These interest rate swaps, for accounting purposes are recorded as *Fair Value Hedges* and the interest rate variation is recorded in the consolidated income statement as "market value (gain) loss on financial instruments".

At December 31, 2017, the Company had the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value	
		(Liability) Dec.31, 2017	Asset
2019	Ps. 4,024	Ps. (32)	–
2020	3,669	(16)	–
2021	3,059	(33)	–

### 19.6 COMMODITY PRICE CONTRACTS

The Company has entered into various commodity price contracts to reduce its exposure to the risk of fluctuation in the costs of certain raw material. The fair value is estimated based on the market valuations to terminate the contracts at the end of the period. These instruments are designated as Cash Flow Hedges and the changes in their fair value are recorded as part of "cumulative other comprehensive income".

The fair value of expired or sold commodity contracts are recorded in cost of goods sold with the hedged items.

At December 31, 2017, the Company had the following sugar price contracts:

Maturity Date	Notional Amount	Fair Value	
		(Liability) Dec.31, 2017	Asset
2018	Ps. 992	Ps. (26)	Ps. 19
2019	150	–	3

## FINANCIAL SECTION

At December 31, 2016, the Company had the following sugar price contracts:

Maturity Date		Notional Amount		Fair Value Asset Dec. 31, 2016
2017	Ps.	572	Ps.	370

At December 31, 2016, the Company has the following aluminum price contracts:

Maturity Date		Notional Amount		Fair Value Asset Dec. 31, 2017
2016	Ps.	74	Ps.	5

### 19.7 OPTION EMBEDDED IN THE PROMISSORY NOTE TO FUND THE VONPAR'S ACQUISITION

As disclosed in Note 4.1.1, on December 6, 2016, as part of the purchase price paid for the Company's acquisition of Vonpar, Spal issued and delivered a three-year promissory note to the sellers, for a total amount of 1,090 million Brazilian reais (approximately Ps.6,503 and Ps. 7,022 million as of December 31, 2017 and 2016, respectively). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into the Company in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to the Company having a sufficient number of Series L shares available for issuance.

The Company uses Black & Scholes valuation technique to measure call option at fair value. The call option had an estimated fair value of Ps. 343 million at inception of the option and Ps. 242 million and 368 million as of December 31, 2017 and 2016, respectively. The option is as part of the Promisory Note disclosed in Note 17.

The Company estimates that the call option is "out of the money" as of December 31, 2017 and 2016 by approximately 30.4% and 35.9% or US\$ 82 million and US\$ 93 million, respectively, with respect to the strike price.

### 19.8 NET EFFECTS OF EXPIRED CONTRACTS THAT MET HEDGING CRITERIA

Type of Derivatives	Impact in Consolidated Income Statement	2017	2016	2015
Cross-currency swaps <sup>(1) (2)</sup>	Interest expense	Ps. 2,102	Ps. –	Ps. 2,595
Cross-currency swaps <sup>(1) (2)</sup>	Foreign exchange	–	–	(10,911)
Interest rate swaps	Interest expense	–	–	–
Option to purchase foreign currency	Cost of goods sold	–	–	(21)
Forward agreements to purchase foreign currency	Cost of goods sold	89	(45)	(523)
Commodity price contracts	Cost of goods sold	(6)	(241)	619

<sup>(1)</sup> The amount corresponds to the settlement of cross currency swaps portfolio in Mexico presented as part of the other financial activities. and

<sup>(2)</sup> The amount in 2015 figures corresponds to the settlement of cross currency swaps portfolio in Brazil presented as part of the other financial activities.

### 19.9 NET EFFECT OF CHANGES IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS THAT DID NOT MEET THE HEDGING CRITERIA FOR ACCOUNTING PURPOSES

Type of Derivatives	Impact in Consolidated Income Statement	2017	2016	2015
Forward agreements to purchase foreign currency	Market value gain (loss) on financial instruments	Ps. 12	Ps. (56)	Ps. 52
Cross-currency swaps	Market value gain (loss) on financial instruments	337	236	(20)

## 19.10 NET EFFECT OF EXPIRED CONTRACTS THAT DID NOT MEET THE HEDGING CRITERIA FOR ACCOUNTING PURPOSES

Type of Derivatives	Impact in Consolidated Income Statement	2017		2016		2015	
Cross-currency swaps	Market value (loss) gain on financial instruments		(104)		(129)		105
Embedded derivatives	Market value gain on financial instruments	Ps.	1	Ps.	–	Ps.	5

## 19.11 MARKET RISK

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, interest rates risk and commodity prices risk including:

- Forward Agreements to Purchase Foreign Currency in order to reduce its exposure to the risk of exchange rate fluctuations.
- Options to purchase foreign currency in order to reduce its exposure to the risk of exchange rate fluctuations.
- Cross-Currency Swaps in order to reduce its exposure to the risk of exchange rate fluctuations and interest rate changes.
- Commodity price contracts in order to reduce its exposure to the risk of fluctuation in the costs of certain raw materials.

The Company tracks the fair value (mark to market) of its derivative financial instruments and its possible changes using scenario analyses. The following disclosures provide a sensitivity analysis of the market risks, which the Company is exposed to as it relates to foreign exchange rates, interests rates and commodity prices, which it considers in its existing hedging strategy:

Forward Agreements to Purchase USD (MXN/USD)	Change in U.S.\$ Rate	Effect on Equity	Effect on Profit or Loss
<b>2017</b>	(12%)	Ps. (602)	Ps. –
2016	(17%)	(916)	–
2015	(11%)	(197)	–
Forward Agreements to Purchase USD (BRL/USD)	Change in U.S.\$ Rate	Effect on Equity	Effect on Profit or Loss
<b>2017</b>	(14%)	Ps. (234)	Ps. –
2016	(18%)	(203)	–
2015	(21%)	(387)	–
Forward Agreements to Purchase USD (COP/USD)	Change in U.S.\$ Rate	Effect on Equity	Effect on Profit or Loss
<b>2017</b>	(9%)	Ps. (73)	Ps. –
2016	(18%)	(255)	–
2015	(17%)	(113)	–
Forward Agreements to Purchase USD (ARD/USD)	Change in U.S.\$ Rate	Effect on Equity	Effect on Profit or Loss
<b>2017</b>	(10%)	Ps. (29)	Ps. –
2015	(36%)	(231)	–
Cross Currency Swaps (USD into MXN)	Change in U.S.\$ Rate	Effect on Equity	Effect on Profit or Loss
<b>2017</b>	(12%)	Ps. (3,540)	Ps. –
2016	(17%)	(3,687)	(1,790)
2015	(11%)	–	(938)

## FINANCIAL SECTION

	Change in BRL Rate	Effect on Equity	Effect on Profit or Loss
<b>Cross Currency Swaps (USD into BRL)</b>			
<b>2017</b>	(14%)	Ps. (7,483)	Ps. –
2016	(18%)	(9,559)	–
2015	(21%)	(4,517)	(1,086)
<b>Interest Rate Swaps (Float into Fix Rates)</b>			
<b>2017</b>	(100 bps)	Ps. (234)	Ps. –
<b>Sugar Price Contracts</b>			
<b>2017</b>	(30%)	Ps. (32)	Ps. –
2016	(33%)	(310)	–
2015	(31%)	(406)	–
<b>Aluminum Price Contracts</b>			
2016	(16%)	Ps. (13)	Ps. –
2015	(18%)	(58)	–
<b>Options to Purchase Foreign Currency (MXN/USD)</b>			
<b>2017</b>	(12%)	Ps. (24)	Ps. –

### 19.12 INTEREST RATE RISK

The Company is exposed to interest rate risk because it and its subsidiaries borrow funds at both fixed and variable interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and variable rate borrowings, and by the use of the different derivative financial instruments. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The following disclosures provide a sensitivity analysis of the interest rate risks, management considered to be reasonably possible at the end of the reporting period, which the Company is exposed to as it relates to its fixed and floating rate borrowings, which considers its existing hedging strategy:

	Change in U.S.\$ Rate	Effect on Profit or Loss
<b>Interest Rate Risk</b>		
<b>2017</b>	+100 bps	Ps. (251)
2016	+100 bps	Ps. (211)
2015	+100 bps	(175)

### 19.13 LIQUIDITY RISK

The Company's principal source of liquidity has generally been cash generated from its operations. A significant majority of the Company's sales are on a short-term credit basis. The Company has traditionally been able to rely on cash generated from operations to fund its capital requirements and its capital expenditures. The Company's working capital benefits from the fact that most of its sales are made on a cash basis, while it's generally pays its suppliers on credit. In recent periods, the Company has mainly used cash generated from operations to fund acquisitions. The Company has also used a combination of borrowings from Mexican and international banks and issuances in the Mexican and international capital markets to fund acquisitions.

Ultimate responsibility for liquidity risk management rests with the Company's board of directors, which has established an appropriate liquidity risk management framework for the evaluation of the Company's short-, medium- and long-term funding and liquidity requirements. The Company manages liquidity risk by maintaining adequate reserves, and continuously monitoring forecasted and actual cash flows and by maintaining a conservative debt maturity profile.

The Company has access to credit from national and international banking institutions in order to face treasury needs; besides, the Company has the highest rating for Mexican companies (AAA) given by independent rating agencies, allowing the Company to evaluate capital markets in case it needs resources.



As part of the Company's financing policy, management expects to continue financing its liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which the Company operates, it may not be beneficial or, practicable to remit cash generated in local operations to fund cash requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, management may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In the future management may finance our working capital and capital expenditure needs with short-term or other borrowings.

The Company's management continuously evaluates opportunities to pursue acquisitions or engage in strategic transactions. The Company would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock.

See Note 17 for a disclosure of the Company's maturity dates associated with its non-current financial liabilities as of December 31, 2017.

The following table reflects all contractually fixed and variable pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected gross cash outflows from derivative financial liabilities that are in place as of December 31, 2017.

Such expected net cash outflows are determined based on each particular settlement date of an instrument. The amounts disclosed are undiscounted net cash outflows for the respective upcoming fiscal years, based on the earliest date on which the Company could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on economic conditions (like interest rates and foreign exchange rates) existing at December 31, 2017.

(In millions of Ps)	2018	2019	2020	2021	2022	2023 and thereafter
Non-derivative financial liabilities:						
Notes and bonds	Ps. 8,784	Ps. 6,712	Ps. 9,844	Ps. 2,498	Ps. 1,496	Ps. 45,406
Loans from banks	3,387	504	381	4,190	85	73
Derivatives financial liabilities	(3,687)	(237)	425	(9)	–	190

The Company generally makes payments associated with its financial liabilities with cash generated from its operations.

#### 19.14 CREDIT RISK

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions is spread amongst approved counterparties.

The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in cash.

The Company manages the credit risk related to its derivative portfolio by only entering into transactions with reputable and creditworthy counterparties as well as by maintaining a Credit Support Annex (CSA) that establishes margin requirements. As of December 31, 2017 the Company concluded that the maximum exposure to credit risk related with derivative financial instruments is not significant given the high credit rating of its counterparties.

## Note 20. NON-CONTROLLING INTEREST IN CONSOLIDATED SUBSIDIARIES

An analysis of Coca-Cola FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Mexico	Ps. 5,994	Ps. 5,879	Ps. 3,342
Colombia	23	22	12
Brazil	1,224	1,195	632
Philippines	10,900	–	–
	Ps. 18,141	Ps. 7,096	Ps. 3,986

Non-controlling interests in Mexico primarily represent the individual results of a Mexican holding company Kristine Overseas, S.A.P.I. de C.V. This entity also has non-controlling stakes in certain Brazilian subsidiaries.

As disclosed in Note 4.1.2, commencing on February 1, 2017, the Company started consolidating CCFPI's financial results in its financial statements. Summarised financial information of CCFPI is disclosed in Note 26 of the consolidated financial statements as part of the Asia Segment.

The changes in the Coca-Cola FEMSA's non-controlling interest were as follows:

	2017	2016	2015
Balance at beginning of the year	Ps. 7,096	Ps. 3,986	Ps. 4,401
Effects of business combination	11,072	–	–
Net income of non controlling interest	1,148	457	94
Exchange differences on translation of foreign operations	(1,138)	1,845	(554)
Remeasurements of the net defined employee benefit liability	38	–	6
Valuation of the effective portion of derivative financial instruments, net of taxes	(74)	51	50
Increase in shares of non-controlling interest	–	826	–
Dividends paid	(1)	(69)	(11)
Balance at end of the year	Ps. 18,141	Ps. 7,096	Ps. 3,986

## Note 21. EQUITY

### 21.1 EQUITY ACCOUNTS

As of December 31, 2017, the capital stock of Coca-Cola FEMSA is represented by 2,100,832,262 common shares, with no par value. Fixed capital stock is Ps. 934 (nominal value) and variable capital is unlimited.

The characteristics of the common shares are as follows:

- Series "A" and series "D" shares are ordinary, have all voting rights and are subject to transfer restrictions;
- Series "A" shares may only be acquired by Mexican individuals and may not represent less than 51% of the ordinary shares.
- Series "D" shares have no foreign ownership restrictions and may not represent more than 49% of the ordinary shares.
- Series "L" shares have no foreign ownership restrictions and have limited voting rights.

As of December 31, 2017, 2016 and 2015, the number of each share series representing Coca-Cola FEMSA's capital stock is comprised as follows:

Series of shares	2017	Thousands of Shares 2016	2015
"A"	992,078	992,078	992,078
"D"	583,546	583,546	583,546
"L"	525,208	497,298	497,298
	2,100,832	2,072,922	2,072,922

The changes in the share are as follows:

Series of shares	2017	Thousands of Shares 2016	2015
Initial shares	2,072,922	2,072,922	2,072,922
Shares issuance (Note 4.1.1)	27,910	–	–
Final shares	2,100,832	2,072,922	2,072,922

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve amounts to 20% of capital stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company. As of December 31, 2017, 2016 and 2015, this reserve was Ps. 164.

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect at the date of distribution, except for restated shareholder contributions and distributions made from net consolidated taxable income, denominated "Cuenta de Utilidad Fiscal Neta" ("CUFIN").

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. The Company's balances of CUFIN amounted to Ps. 7,506, not subjected withholding tax.

For the years ended December 31, 2017, 2016 and 2015 the dividends declared and paid per share by the Company are as follows:

Series of shares	2017 <sup>(1)</sup>		2016		2015	
"A"	Ps.	3,323	Ps.	3,323	Ps.	3,065
"D"		1,955		1,955		1,803
"L"		1,713		1,667		1,537
	Ps.	6,991	Ps.	6,945	Ps.	6,405

<sup>(1)</sup> At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 14, 2017, the shareholders declared a dividend of Ps. 6,991 that was paid in May 3, 2017 and November 1, 2017. Represents a dividend of Ps. 3.35 per each ordinary share.

## 21.2 CAPITAL MANAGEMENT

The Company manages its capital to ensure that its subsidiaries will be able to continue as going concerns while maximizing the return to shareholders through the optimization of its debt and equity balance in order to obtain the lowest cost of capital available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2017 and 2016.

The Company is not subject to any externally imposed capital requirements, other than the legal reserve and debt covenants (see Note 17 and Note 21.1).

The Company's finance committee reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In conjunction with this objective, the Company seeks to maintain the highest credit rating both national and international, currently rated AAA and A-/A2/A- respectively, which requires us to comply, among others, to the financial metrics that each rating agency considers. For example, some rating agencies maintain a debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio lower than 2.0x. As a result, prior to entering into new business ventures, acquisitions or divestures, management evaluates the impact that these transactions can have in its credit rating.

## Note 22. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing consolidated net income for the year attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the period.

Diluted earnings per share amounts are calculated by dividing consolidated net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the period plus the weighted average number of shares for the effects of dilutive potential shares (originated by the Company's commitment to capitalize 27.9 million KOF series L shares described in Note 4.1.1). During the years ended December 31, 2017 and 2015, the Company had no dilutive securities.

Basic and diluted earnings per share amounts are as follows:

	2017		
	Per Series "A" Shares	Per Series "D" Shares	Per Series "L" Shares
Consolidated net income	Ps. (5,503)	Ps. (3,237)	Ps. (2,914)
Consolidated net income attributable to equity holders of the parent	(6,046)	(3,556)	(3,200)
Weighted average number of shares for basic earnings per share (millions of shares)	992	584	515

## FINANCIAL SECTION

	2016		
	Per Series "A" Shares	Per Series "D" Shares	Per Series "L" Shares
Consolidated net income	Ps. 5,038	Ps. 2,963	Ps. 2,526
Consolidated net income attributable to equity holders of the parent	4,819	2,835	2,416
Weighted average number of shares for basic earnings per share (millions of shares)	992	584	497
Effect of dilution associated with commitment to deliver 27.9 million KOF L shares	–	–	2
Weighted average number of shares adjusted for the effect of dilution (Shares outstanding)	992	584	499

	2015		
	Per Series "A" Shares	Per Series "D" Shares	Per Series "L" Shares
Consolidated net income attributable to equity holders of the parent	5,045	2,968	2,529
Weighted average number of shares for basic earnings per share (millions of shares)	992	584	497

### Note 23. INCOME TAXES

#### 23.1 INCOME TAX

The major components of income tax expense for the years ended December 31, 2017, 2016 and 2015 are:

	2017	2016	2015
Current tax expense:			
Current year	Ps. 6,317	Ps. 8,574	Ps. 6,060
Deferred tax expense:			
Origination and reversal of temporary differences	(1,698)	(2,812)	721
Benefit of tax losses recognized	(65)	(1,834)	(2,230)
Total deferred tax expense	(1,763)	(4,646)	(1,509)
Total income tax expense in consolidated net income	Ps. 4,554	Ps. 3,928	Ps. 4,551

2017	Mexico	Foreign	Total
Current tax expense:			
Current year	Ps. 3,874	Ps. 2,443	Ps. 6,317
Deferred tax expense:			
Origination and reversal of temporary differences	(1,798)	100	(1,698)
Benefit (utilization) of tax losses recognized	179	(244)	(65)
Total deferred tax (benefit)	(1,619)	(144)	(1,763)
Total income tax expense in consolidated net income	Ps. 2,255	Ps. 2,299	Ps. 4,554

2016	Mexico	Foreign	Total
Current tax expense:			
Current year	Ps. 4,035	Ps. 4,539	Ps. 8,574
Deferred tax expense:			
Origination and reversal of temporary differences	(1,117)	(1,695)	(2,812)
Benefit of tax losses recognized	(1,285)	(549)	(1,834)
Total deferred tax (benefit)	(2,402)	(2,244)	(4,646)
Total income tax expense in consolidated net income	Ps. 1,633	Ps. 2,295	Ps. 3,928

2015		Mexico	Foreign	Total
Current tax expense:				
Current year	Ps.	3,887	Ps. 2,173	Ps. 6,060
Deferred tax expense:				
Origination and reversal of temporary differences		427	294	721
Benefit of tax losses recognized		(997)	(1,233)	(2,230)
Total deferred tax expense (benefit)		(570)	(939)	(1,509)
Total income tax expense in consolidated net income	Ps.	3,317	Ps. 1,234	Ps. 4,551

#### Recognized in Consolidated Statement of Other Comprehensive Income (OCI)

Income tax related to items charged or recognized directly in OCI during the year:		2017	2016	2015
Unrealized (gain) loss on cash flow hedges	Ps.	(160)	Ps. 324	Ps. (19)
Remeasurements of the net defined benefit liability		(61)	12	32
Total income tax recognized in OCI	Ps.	(221)	Ps. 336	Ps. 13

#### Balance of income tax included in Accumulated Other Comprehensive Income (AOCI) as of:

Income tax related to items charged or recognized directly in OCI as of year end:		2017	2016	2015
Unrealized loss (gain) on derivative financial instruments	Ps.	59	Ps. 227	Ps. (91)
Comprehensive income to be reclassified to profit or loss in subsequent periods		59	227	(91)
Re-measurements of the net defined benefit liability		(199)	(143)	(112)
Balance of income tax in OCI	Ps.	(140)	Ps. 84	Ps. (203)

A reconciliation between tax expense and income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method multiplied by the Mexican domestic tax rate for the years ended December 31, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Mexican statutory income tax rate	30%	30%	30%
Income tax from prior years	4.98	1.33	0.50
Income (loss) on monetary position for subsidiaries in hyperinflationary economies	6.72	(2.20)	0.07
Annual inflation tax adjustment	(5.75)	0.15	(2.22)
Non-deductible expenses	(8.84)	2.38	2.92
Non-taxable income	1.87	(0.90)	(0.41)
Income taxed at a rate other than the Mexican statutory rate	(3.5)	2.06	0.75
Effect of restatement of tax values	8.72	(2.29)	(1.16)
Effect of change in statutory rate	0.31	–	0.11
Effect of changes in Venezuela Tax Law	–	7.74	–
Income tax credits	12.7	(7.84)	–
Effect Venezuela (Note 3.3)	(119.13)	–	–
Consolidation Profit Philippines	11.95	–	–
Tax Loss	(9.45)	–	–
Other	5.28	(2.98)	0.35
	(64.14)%	27.45%	30.91%

In 2017, the Venezuela's deconsolidation and Philippines' consolidation impacted significantly the effective tax rate. Had those two effects would not occur effective tax rate would have been 28.12%

## FINANCIAL SECTION

### Deferred income tax

An analysis of the temporary differences giving rise to deferred income tax liabilities (assets) is as follows:

Consolidated Statement of Financial Position	Consolidated Statement of Financial Position as of		Consolidated Income Statement		
	2017	2016	2017	2016	2015
Allowance for doubtful accounts	Ps. (119)	Ps. (148)	Ps. 16	Ps. (8)	Ps. 2
Inventories	(4)	(14)	10	(163)	(15)
Prepaid expenses	17	13	5	(71)	7
Property, plant and equipment, net <sup>(1)</sup>	(244)	1,599	(2,071)	1,439	(96)
Other assets	(569)	(403)	(166)	167	41
Finite useful lived intangible assets	820	56	761	(289)	112
Indefinite lived intangible assets	2,143	1,458	743	5,280	(26)
Post-employment and other non-current employee benefits	(474)	(229)	(196)	(1)	115
Derivative financial instruments	42	86	(44)	62	22
Contingencies	(2,629)	(1,822)	(807)	(96)	(7)
Employee profit sharing payable	(159)	(166)	6	(14)	(3)
Tax loss carryforwards	(8,088)	(8,101)	(13)	(1,834)	(2,230)
Tax credits to recover <sup>(2)</sup>	(2,308)	(1,150)	(705)	(1,150)	-
Cumulative other comprehensive income	(141)	84	(224)	-	-
Deductible tax goodwill of business acquisition	-	160	(160)	(1,921)	1,378
Liabilities of amortization of goodwill of business acquisition	5,527	5,921	(394)	45	(32)
Other liabilities	(112)	(2,120)	1,476	(6,092)	(777)
Deferred tax (income)			Ps. (1,763)	Ps. (4,646)	Ps. (1,509)
Deferred tax, asset	Ps. (8,012)	Ps. (5,981)			
Deferred tax, liability	1,714	1,205			
Deferred income taxes, net	Ps. (6,298)	Ps. (4,776)			

<sup>(1)</sup> As a result of the change of Venezuelan tax regulations, on December 31, 2016 the Company recognized a deferred tax liability for an amount of Ps. 1,107 with their corresponding impact on the income tax of the year. Such amount was derecognized during 2017 as a result of the deconsolidation of Venezuela.

<sup>(2)</sup> Correspond to income tax credits arising from dividends received from foreign subsidiaries to be recovered within the next ten years accordingly to the Mexican Income Tax law as well as effects of the exchange of foreign currencies with Related and Non-Related Parties.

The changes in the balance of the net deferred income tax liability are as follows:

	2017	2016	2015
Balance at beginning of the year	Ps. (4,776)	Ps. (2,975)	Ps. (1,871)
Deferred tax provision for the year	(1,763)	(4,381)	(1,526)
Change in the statutory rate	-	-	16
Acquisition of subsidiaries, see Note 4	(563)	150	-
Venezuela effect	261	-	-
Effects in equity:			
Unrealized loss (gain) on derivative financial instruments	(160)	324	(19)
Unrealized gain on available for sale securities	-	-	-
Cumulative translation adjustment	221	1,766	350
Remeasurements of the net defined benefit liability	(61)	12	32
Inflation adjustment	543	328	43
Balance at end of the year	Ps. (6,298)	Ps. (4,776)	Ps. (2,975)

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes levied by the same tax authority.

The Company has determined that undistributed profits of its subsidiaries, will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which deferred tax liabilities that have not been recognized, aggregate to December 31, 2017: Ps. 5,847 December 31, 2016: Ps. 5,136 and, December 31, 2015: Ps. 8,014.

### Tax Loss Carryforwards

The subsidiaries in Mexico, Colombia and Brazil have tax loss carryforwards. Unused tax loss carryforwards, for which a deferred income tax asset has been recognized, may be recovered provided certain requirements are fulfilled. The tax losses carryforwards and their years of expiration are as follows:

	Tax Loss Carryforwards
2021	Ps. 15
2022	–
2023	–
2024	2
2025	4
2026 and thereafter	8,732
No expiration (Brazil and Colombia (until 2016))	16,064
	Ps. 24,817

During 2013, the Company completed certain acquisitions in Brazil. In connection with the acquisitions in Brazil the Company recorded certain goodwill balances that are deductible for Brazilian income tax reporting purposes. The deduction of such goodwill amortization has resulted in the creation of Net Operating Losses (NOLs) in Brazil. NOLs in Brazil have no expiration, but their usage is limited to 30% of Brazilian taxable income in any given year. As of December 31, 2017 and 2016 the Company believes that it is more likely than not that it will ultimately recover such NOLs through the reversal of temporary differences and future taxable income. Accordingly, the related deferred tax assets have been fully recognized.

The changes in the balance of tax loss carryforwards are as follows:

	2017	2016	2015
Balance at beginning of the year	Ps. 24,791	Ps. 14,900	Ps. 9,400
Increase (see sources above)	3,334	5,616	7,001
Usage of tax losses	(2,723)	(4)	(37)
Effect of foreign currency exchange rates	(585)	4,279	(1,464)
Balance at end of the year	Ps. 24,817	Ps. 24,791	Ps. 14,900

There were no withholding taxes associated with the payment of dividends in 2017, 2016 or 2015 by the Company to its shareholders.

### 23.2 RECOVERABLE TAXES

Recoverable taxes are mainly integrated by higher provisional payments of income tax during 2017 in comparison to prior year, which will be compensated in future years.

The operations in Guatemala, Panama, Philippines and Colombia are subject to a minimum tax, which is based primary on a percentage of assets and gross margin. Except in the case of Panama. Any payments are recoverable in future years, under certain conditions.

### 23.3 TAX REFORM

On January 1, 2015, a general tax reform became effective in Colombia. This reform included the imposition of a new temporary tax on net equity through 2017 to Colombian residents and non-residents who own property in Colombia directly or indirectly through branches or permanent establishments. The relevant taxable base will be determined annually based on a formula. For net equity that exceeds 5.0 billion Colombian pesos (approximately US\$2.1 million) the rate will be 1.15% in 2015, 1.00% in 2016 and 0.40% in 2017. In addition, the tax reform in Colombia imposed that the supplementary income tax at a rate of 9.0% as contributions to social programs, which was previously scheduled to decrease to 8.0% by 2015, will remain indefinitely. Additionally, this tax reform included the imposition of a temporary contribution to social programs at a rate of 5.0%, 6.0%, 8.0% and 9.0% for the years 2015, 2016, 2017 and 2018, respectively. Finally, this reform established an income tax deduction of 2.0% of value-added tax paid in the acquisition or import of hard assets, such as tangible and amortizable assets that are not sold or transferred in the ordinary course of business and that are used for the production of goods or services.

On April 1, 2015, the Brazilian government issued Decree No. 8.426/15 to impose, as of July 2015, PIS/COFINS (Social Contributions on Gross Revenues) of 4.65% on financial income (except for foreign exchange variations). In addition, starting in 2016, the Brazilian federal production tax rates were reduced and the federal sales tax rates were increased. These rates continued to increase in 2017. However, the Supreme Court decided in early 2017 that the value-added tax will not be used as the basis for calculating the federal sales tax, which resulted in a reduction of the federal sales tax. Nevertheless, the Supreme Court is still reviewing the appeal of the tax authorities. In 2017 the federal production and sales taxes together resulted in an average of 15.6% tax over net sales. For 2018, these taxes will continue to increase, and we expect the average of these taxes will range between 16.0% and 17.5% over the net sales.

On December 30, 2015, the Venezuelan government enacted a new package of tax reforms that became effective in January 2016. This reform mainly (i) eliminated the inflationary adjustments for the calculation of income tax as well as the new investment tax deduction, and (ii) imposed a new tax on financial transactions effective as of February 1, 2016, for entities identified as "special taxpayers," at a rate of 0.75% over certain financial transactions, such as bank withdrawals, transfer of bonds and securities, payment of indebtedness without intervention of the financial system and debits on bank accounts for cross-border payments. Banks operating in Venezuela are required to withhold this new tax on financial transactions. Given the inherent uncertainty as to how the Venezuelan government will require that the inflationary adjustments for the calculation of income tax be applied, starting 2016 our Venezuelan subsidiary decided to recognize the effects of the elimination of such inflationary adjustments, at December 31, 2017 this balance was derecognized as a result of the deconsolidation of Venezuela.

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

On January 1, 2017, a new general tax reform became effective in Colombia. This reform reduced the income tax rate from 35.0% to 34.0% for 2017 and then to 33.0% for the following years. In addition, for entities located outside the free trade zone, this reform imposed an extra income tax rate of 6.0% for 2017 and 4.0% for 2018. For taxpayers located in the free trade zone, the special income tax rate increased from 15.0% to 20.0% for 2017. Additionally, the reform eliminated the temporary tax on net equity, the supplementary income tax at a rate of 9.0% as contributions to social programs and the temporary contribution to social programs at a rate of 5.0%, 6.0%, 8.0% and 9.0% for the years 2015, 2016, 2017 and 2018, respectively. For 2017, the dividends paid to individuals that are Colombian residents will be subject to a withholding of 35.0%, and the dividends paid to foreign individuals or entities non-residents in Colombia will be subject to a withholding of 5.0%. This reform increased the rate of the minimum assumed income tax (renta presuntiva sobre el patrimonio), from 3.0% to 3.5% for 2017. Finally, starting in 2017, the Colombian general value-added tax rate increased from 16.0% to 19.0%.

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

On January 1, 2018, a new tax reform became effective in the Philippines. This reform mainly (i) reduced the income tax rate imposed on individuals in approximately 65.0%, (ii) increased the income tax rate from 5.0% on net capital gains from the sale of shares traded on or outside the stock exchange that do not exceed \$100,000 Philippine pesos and 10.0% when the sale of shares exceeded \$100,000 Philippine pesos, to a general tax rate of 15.0% on net capital gains from the sale of shares traded outside of the stock exchange by companies and individuals that are resident and non-resident, (iii) imposed an excise tax of 6.00 Philippine pesos per liter for sweetened beverages using caloric and non-caloric sweeteners, except for high fructose corn syrup (HFCS), and 12.00 Philippine pesos per liter for sweetened beverages using HFCS, (iv) imposed the obligation to issue electronic invoices and electronic sales reports, and (v) reduced the time period for keeping books and accounting records from 10 years to three years.

## Note 24. OTHER LIABILITIES, PROVISIONS AND COMMITMENTS

### 24.1 OTHER CURRENT FINANCIAL LIABILITIES

	2017		2016	
Sundry creditors	Ps.	593	Ps.	688
Derivative financial instruments		3,916		204
Total	Ps.	4,509	Ps.	892

### 24.2 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

	2017		2016	
Provisions	Ps.	11,067	Ps.	13,628
Taxes payable		355		337
Other		850		1,064
Total	Ps.	12,272	Ps.	15,029

### 24.3 OTHER NON-CURRENT FINANCIAL LIABILITIES

	2017		2016	
Derivative financial instruments	Ps.	578	Ps.	5,476
Security deposits		591		269
Total	Ps.	1,169	Ps.	5,745



## 24.4 PROVISIONS RECORDED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Company has various loss contingencies, and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2017 and 2016:

	2017	2016
Taxes	Ps. 6,717	Ps. 10,223
Labor	2,365	2,356
Legal	1,985	1,049
Total	Ps. 11,067	Ps. 13,628

## 24.5. CHANGES IN THE BALANCE OF PROVISIONS RECORDED

### 24.5.1 Taxes

	2017	2016	2015
Balance at beginning of the year	Ps. 10,223	Ps. 1,658	Ps. 2,198
Penalties and other charges	148	173	21
New contingencies	4	3	84
Cancellation and expiration	(98)	(106)	(205)
Contingencies added in business combinations <sup>(1)</sup>	861	7,840	–
Payments	(944)	(6)	(214)
Brazil tax amnesty	(3,069)	–	–
Effect of foreign currency exchange rates	(408)	661	(226)
Balance at end of the year	Ps. 6,717	Ps. 10,223	Ps. 1,658

### 24.5.2 Labor

	2017	2016	2015
Balance at beginning of the year	Ps. 2,356	Ps. 1,340	Ps. 1,543
Penalties and other charges	56	203	209
New contingencies	115	211	44
Cancellation and expiration	(33)	(177)	(102)
Contingencies added in business combinations	–	500	–
Payments	(76)	(336)	(111)
Effects of foreign currency exchange rates	(52)	615	(243)
Effect Venezuela (Note 3.3)	(1)	–	–
Balance at end of the year	Ps. 2,365	Ps. 2,356	Ps. 1,340

### 24.5.3 Legal

	2017	2016	2015
Balance at beginning of the year	Ps. 1,049	Ps. 319	Ps. 427
Penalties and other charges	121	33	–
New contingencies	170	196	–
Cancellation and expiration	(16)	(46)	(33)
Contingencies added in business combinations	783	496	–
Payments	(80)	(81)	–
Brazil tax amnesty	7	–	–
Effects of foreign currency exchange rates	(47)	132	(75)
Effects Venezuela	(2)	–	–
Balance at end of the year	Ps. 1,985	Ps. 1,049	Ps. 319

<sup>(1)</sup> At December 31, 2016, an amount of Ps. 7,840 correspond to tax claims with local Brazil IRS (including a contingency of Ps. 5,321 related to the deductibility of a tax goodwill balance). The remaining contingencies relates to multiple claims with loss expectations assessed by management and supported by the analysis of legal counsels as possible, the total amount of contingencies guaranteed agreements amounts to Ps. 8,081. During 2017, the Company took advantage of a Brazilian tax amnesty program. The settlement of certain outstanding matters under that amnesty program generated a benefit of Ps. 1,874 such benefit has been offset against the corresponding indemnifiable assets.

While provision for all claims has already been made, the actual outcome of the disputes and the timing of the resolution cannot be estimated by the Company at this time.

## 24.6 UNSETTLED LAWSUITS

The Company has entered into several proceedings with its labor unions, tax authorities and other parties that primarily involve Coca-Cola FEMSA and its subsidiaries. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. Such contingencies were classified by the Company as less than probable but not remote, the estimated amount as of December 31, 2017 of these lawsuits is Ps. 64,558, however, the Company believes that the ultimate resolution of such proceedings will not have a material effect on its consolidated financial position or result of operations.

The Company has tax contingencies, most of which are related to its Brazilian operations, amounting to approximately Ps. 51,014 with loss expectations assessed by management and supported by the analysis of legal counsel consider as possible. Among these possible contingencies, are Ps. 12,346 in various tax disputes related primarily to credits for ICMS (VAT) and Ps. 33,217 related to tax credits of IPI over raw materials acquired from Free Trade Zone Manaus. Possible claims also include Ps. 4,787 related to compensation of federal taxes not approved by the IRS (Tax authorities), and Ps. 664 related to the requirement by the Tax Authorities of State of São Paulo for ICMS (VAT), interest and penalty due to the alleged underpayment of tax arrears for the period 1994-1996. The Company is defending its position in these matters and final decision is pending in court.

In recent years in its Mexican and Brazilian territories, Coca-Cola FEMSA has been requested to present certain information regarding possible monopolistic practices. These requests are commonly generated in the ordinary course of business in the soft drink industry where this subsidiary operates. The Company does not expect any material liability to arise from these contingencies.

## 24.7 COLLATERALIZED CONTINGENCIES

As is customary in Brazil, the Company has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 9,433, Ps. 8,093 and Ps. 3,569 as of December 31, 2017, 2016 and 2015, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies.

## 24.8 COMMITMENTS

As of December 31, 2017, the Company has contractual commitments for operating leases for the rental of production machinery and equipment, distribution and computer equipment.

The contractual maturities of the operating leases commitments by currency, expressed in Mexican pesos as of December 31, 2017, are as follows:

	Mexican pesos	U.S. dollars	Other
Not later than 1 year	Ps. 106	Ps. 103	Ps. 1
Later than 1 year and not later than 5 years	423	682	–
Later than 5 years	211	205	–
Total	Ps. 740	Ps. 990	Ps. 1

Rental expense charged to consolidated net income was Ps. 1,420, Ps. 1,232 and Ps. 1,044 for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company has firm commitments for the purchase of property, plant and equipment of Ps. 933 as December 31, 2017.

## Note 25. INFORMATION BY SEGMENT

The Company's chief operating decision maker ("CODM") is the Chief Executive Officer, who periodically reviews financial information at the country level. Thus, each of the separate countries in which the Company operates is considered and operating segments, with the exception of the countries in Central America which represent a single operating segment.

The Company has aggregated operating segments into the following reporting segments for the purposes of its consolidated financial statements: (i) Mexico and Central America division (comprising the following countries: Mexico (including corporate operations), Guatemala, Nicaragua, Costa Rica and Panama), (ii) the South America division (comprising the following countries: Brazil, Argentina, Colombia and Venezuela); Venezuela operates in an economy with exchange control and hyper-inflation; and as a result, IAS 29, "Financial Reporting in Hyperinflationary Economies" does not allow its aggregation into the South America segment and (iii) the Asian division comprised of Philippines commencing on February 1, 2017, started to be consolidated in the Company's financial statements. The Company's results for 2017 reflect a reduction in the share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, as a result of this consolidation (see note 4.1.2). As disclosed in Note 3.3 the Company deconsolidated their operations in Venezuela, consequently there will not be financial information for this segment in future financial statements.

The Company is of the view that the quantitative and qualitative aspects of the aggregated operating segments are similar in nature for all periods presented. In evaluating the appropriateness of aggregating operating segments, the key indicators considered included but were not limited to: (i) similarities of customer base, products, production processes and distribution processes, (ii) similarities of governments, (iii) inflation trends, since hyper-inflationary economy has different characteristics that carry out to making decision on how to deal with the cost of the production and distribution, Venezuela has been separated as a separate segment, (iv) currency trends and (v) historical and projected financial and operating statistics, historically and according to our estimates the financial trends of the countries aggregated into an operating segment have behaved in similar ways and are expected to continue to do so.

Segment disclosure for the Company's consolidated operations is as follows:

<b>2017</b>	Mexico and Central America <sup>(1)</sup>	South America <sup>(2)</sup>	Venezuela	Asia	Consolidated
Total revenues	Ps. 92,643	Ps. 86,608	Ps. 4,005	Ps. 20,524	Ps. 203,780
Intercompany revenue	4,661	18	–	–	4,679
Gross profit	45,106	37,756	646	8,178	91,686
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method	(15,431)	8,792	(1,786)	1,265	(7,160)
Depreciation and amortization	4,801	3,442	807	1,814	10,864
Non cash items other than depreciation and amortization <sup>(3)</sup>	1,011	213	1,021	262	2,507
Equity in earnings (loss) of associated companies and joint ventures	(63)	123	–	–	60
Total assets	135,363	122,042	–	28,272	285,677
Investments in associate companies and joint ventures	7,046	4,455	–	–	11,501
Total liabilities	91,385	43,637	–	9,945	144,967
Capital expenditures, net <sup>(4)</sup>	8,231	4,686	–	1,695	14,612

<b>2016</b>	Mexico and Central America <sup>(1)</sup>	South America <sup>(2)</sup>	Venezuela	Consolidated
Total revenues	Ps. 87,557	Ps. 71,293	Ps. 18,868	Ps. 177,718
Intercompany revenue	4,266	3	–	4,269
Gross profit	43,569	29,263	6,830	79,662
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method	8,642	4,784	882	14,308
Depreciation and amortization	4,750	3,078	838	8,666
Non cash items other than depreciation and amortization <sup>(3)</sup>	424	61	2,423	2,908
Equity in earnings (loss) of associated companies and joint ventures	149	(2)	–	147
Total assets	136,252	130,019	12,985	279,256
Investments in associate companies and joint ventures	18,088	4,269	–	22,357
Total liabilities	95,342	48,391	6,290	150,023
Capital expenditures, net <sup>(4)</sup>	6,597	4,240	1,554	12,391

## FINANCIAL SECTION

2015	Mexico and Central America <sup>(1)</sup>	South America <sup>(2)</sup>	Venezuela	Consolidated
Total revenues	Ps. 78,709	Ps. 64,752	Ps. 8,899	Ps. 152,360
Intercompany revenue	3,791	3	–	3,794
Gross profit	40,130	27,532	4,368	72,030
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method	10,614	3,220	891	14,725
Depreciation and amortization	4,404	2,489	251	7,144
Non-cash items other than depreciation and amortization <sup>(3)</sup>	685	130	1,352	2,167
Equity in earnings of associated companies and joint ventures	97	58	–	155
Total assets	133,941	69,281	7,027	210,249
Investments in associate companies and joint ventures	15,779	2,094	–	17,873
Total liabilities	80,963	17,528	3,023	101,514
Capital expenditures, net <sup>(4)</sup>	4,672	5,686	1,126	11,484

<sup>(1)</sup> Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 79,836, Ps. 74,413 and Ps. 67,772 during the years ended December 31, 2017, 2016 and 2015, respectively. Domestic (Mexico only) total assets were Ps. 133,315, Ps. 122,552 and Ps. 123,585 as of December 31, 2017, 2016 and 2015, respectively. Domestic (Mexico only) total liabilities were Ps. 88,283 Ps. 92,303 and Ps. 78,834 as of December 31, 2017, 2016 and 2015, respectively.

<sup>(2)</sup> South America includes Brazil, Argentina, Colombia and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 58,518, Ps. 43,900 and Ps. 37,825 during the years ended December 31, 2017, 2016 and 2015, respectively. Brazilian total assets were Ps. 95,713, Ps. 104,092 and Ps. 49,448 as of December 31, 2017, 2016 and 2015, respectively. Brazilian total liabilities Ps. 31,580, Ps. 39,600 and Ps. 10,753 as of December 31, 2017, 2016 and 2015, respectively. South America revenues also include Colombian revenues of Ps. 14,222, Ps. 15,120 and Ps. 12,984 during the years ended December 31, 2017, 2016 and 2015, respectively. Colombian total assets were Ps. 14,180, Ps. 20,581 and Ps. 15,182 as of December 31, 2017, 2016 and 2015, respectively. Colombian total liabilities were Ps.7,993, Ps. 5,547 and Ps. 3,977 as of December 31, 2017, 2016 and 2015, respectively. South America revenues also include Argentine revenues of Ps. 13,869, Ps. 12,273 and Ps. 13,943 during the years ended December 31, 2017, 2016 and 2015, respectively. Argentine total assets were Ps. 5,301, Ps. 5,346 and Ps. 4,651 as of December 31, 2017, 2016 and 2015, respectively. Argentine total liabilities were Ps.3,660, Ps. 3,244 and Ps. 2,798 as of December 31, 2017, 2016 and 2015, respectively.

<sup>(3)</sup> Includes foreign exchange loss, net; gain on monetary position, net; and market value (gain) loss on financial instruments.

<sup>(4)</sup> Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

<sup>(5)</sup> The Asian division includes CCFPI (Philippines) which investment was acquired in 2013, and the Company started consolidating in February 1, 2017, see Note 9. The equity in earnings of the Asian division were, Ps. 93 and Ps. 86 in 2016 and 2015, respectively and are presented as part of the Company's corporate operations in 2016 and 2015 and thus disclosed net in the table above as part of the "equity in earnings of associated companies" in the Mexico & Central America division, as is the equity method investment in CCFPI of Ps. 11,460 and 9,996, respectively. However, the Asian division represents a separate reporting segment under IFRS 8 and is represented by the following investee level amounts, prior to consolidation as of and for the years ended December 2016 and 2015, respectively: revenues Ps. 22,768 and Ps. 19,576, gross profit Ps. 7,678 and Ps. 5,325, income before income taxes Ps. 486 and Ps. 334, depreciation and amortization Ps. 2,163 and Ps. 2,369, total assets Ps. 28,066 and Ps. 22,002, total liabilities Ps. 9,634 and Ps. 6,493, capital expenditures Ps. 3,342 and Ps. 1,778.

### Note 26. FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET IN EFFECT:

The Company has not applied the following standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

#### IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued the IFRS 15 Revenue from Contracts with Customers, which establishes a 5-step model to determine the timing and amount to be applied accounted for as in the revenue recognition. The new standard replaces existing revenue recognition guidelines, including the IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The standard is effective for annual periods beginning on January 1, 2018 and its early adoption is permitted. The standard permits to elect between the retrospective method and modified retrospective approach. The Company plans to adopt the IFRS 15 in its consolidated financial statements on January 1, 2018 using modified retrospective approach (prospective method).

The transition considerations that the company take into account by applying the modified retrospective approach (prospective method) in the adoption of the IFRS 15 involve the recognition of the cumulative effect of the adoption of the IFRS 15 as of January 1, 2018; consequently, there is no obligation under this method to restate the comparative financial information for the years ended December 31, 2016 and 2017, nor to adjust the amounts that arise as a result of the accounting differences between the current accounting standard "IAS 18" and the new standard, IFRS 15.

The Company has conducted a qualitative and quantitative evaluation of the impacts that the adoption of the IFRS 15 will have in its consolidated financial statements. The evaluation includes, among others, the following activities:

- Analysis of contracts with customers and their main characteristics;
- Identification of the performance obligations included in such contracts;
- Determination of the transaction price and the effects derived from by the variable consideration;
- Allocation of the transaction price to each performance obligation;
- Analysis of the timing when the revenue should be recognized, either at a point in time or over time, as appropriate;
- Analysis of the disclosures required by the IFRS 15 and their impacts on internal processes and controls; and
- Analysis of the potential costs of obtaining and fulfilling contracts with customers that should be capitalized in accordance with the requirements of the new IFRS 15.

As of today, the Company has completed the analysis of the new standard. The Company has concluded that there will be no significant impacts on the consolidated financial statements derived from the adoption of the IFRS 15. However, IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the consolidated financial statements. In 2017 the Company developed and started testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

As of December 31st, 2017, the consolidated and business unit level accounting policies in regards to the income revenue recognition have been modified and submitted for approval of the Company's Audit Committee of the Company, with the objective that these are fully implemented as of January 1, 2018, which will establish the new bases of accounting for revenues from contracts with customers under the IFRS 15. Similarly, the Company has analyzed and evaluated the aspects related to internal control derived from IFRS 15 adoption, with the objective of ensuring that the Company's internal control environment is appropriate for the effects of the process of financial reporting.

### IFRS 16, LEASES

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

The standard is effective for the annual periods started on January 1st, 2019. Early adoption is permitted for entities applying IFRS 15 on the initial application date. The Company plans to adopt the new IFRS 16 in its consolidated financial statements on January 1st, 2019, using the modified retrospective approach.

The transition considerations required to be taken into account by the Company by the modified retrospective approach that it will use to adopt the new IFRS 16 involve recognizing the cumulative effect of the adoption of the new standard as from January 1st, 2019. For this reason, the financial information will not be reestablished by the exercises to be presented (exercises completed as of December 31, 2017 and 2018). Likewise, as of the transition date to IFRS 16 (January 1st 2019), the Company may elect to apply the new definition of "leasing" to all contracts, or to apply the practical dossier of "Grandfather" and continue to consider as contracts for Leasing those who qualified as such under the previous accounting rules "IAS 17 – Leases" and "IFRIC 4 – Determination of whether a contract contains a lease".

Currently, the Company is conducting a qualitative and quantitative assessment of the impacts that the adoption of IFRS 16 will originate in its consolidated financial statements. The evaluation includes, among others, the following activities:

- Detailed analysis of the leasing contracts and the characteristics of the same that would cause an impact in the determination of the right of use and the financial liabilities.
- Identification of the exceptions provided by IFRS 16 that may apply to the Company;
- Identification and determination of costs associated with leasing contracts;
- Identification of currencies in which lease contracts are denominated;
- Analysis of renewal options and improvements to leased assets, as well as amortization periods;
- Analysis of the revelations required by the IFRS 16 and the impacts of the same in internal processes and controls; and
- Analysis of the interest rate used in determining the present value of the lease payments of the different assets for which a right of use must be recognized.

The main impacts at a consolidated level, as well as the business unit level are derived from the recognition of leased assets as rights of use and liabilities for the obligation to make such payments. In addition, the linear operating lease expense is replaced by a depreciation expense for the right to use the assets and the interest expense of the lease liabilities that will be recognized at present value.

Based on the analysis carried out by the Company, the operations of Mexico, Brazil and Colombia are those that would particularly be significantly affected on the consolidated financial statements of the Company due to the number of leases that will be in force at the date of adoption of the IFRS 16, as well as, in the natural growth of the business.

At the date of issuance of these consolidated financial statements, Coca-Cola FEMSA still has not decided whether or not to use the optional exemptions or practical solutions that the new standard allows, so it is still in the process of quantifying the impact of the adoption of IFRS 16 on consolidated financial statements of the Company.

### IFRS 9, FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets and cash flow are managed. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost fair value through OCI (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost and FVOCI, except for investments in equity instruments, and to contract assets.

Furthermore, IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

This standard is effective for annual periods beginning on or after 1 January 2018 and the Company plans to adopt IFRS 9 in its consolidated financial statements on January 1, 2018. For Hedge Accounting, IFRS 9 was adopted prospectively. Regarding Classification and Measurement, the Company will not reestablish financial information for the comparative year given that the business models of financial assets will not originate any accounting difference between the adoption and comparative year. Therefore the comparative figures under IFRS 9 and IAS 39 will be consistent. In relation to Impairment, the adoption approach will be prospective; however, financial information will not be reestablished for comparative periods (year ended December 31, 2017 and 2016).

The Company performed a qualitative and quantitative assessment of the impacts of IFRS 9. The activities that have been carried out are:

- Review and documentation of the business models for financial assets, accounting policies, processes and internal controls related to financial instruments.
- Analysis of financial assets and their impact in the expected loss model required under IFRS 9.
- Update of documentation of the hedging relationships, as well as the policies for hedge accounting, and internal controls.
- Determination of the model to compute the loss allowances based on the Expected Loss model.
- Analysis of the new disclosures required by IFRS 9 and its impacts on internal processes and controls for the Company.

The Company has carried out an analysis for the business models that best suit the current management of its financial assets.

For classification and measurement and hedge accounting there were no significant changes identified, except those related to the documentation of the business model and their cash flow characteristics. There was also a need to update the hedge relationships documentation. Therefore, no significant impacts are expected in the financial information that require adjustments for the adoption of IFRS 9 in the consolidated financial statements in relation to the Classification, Measurement and Hedge Accounting.

An analysis was carried out to determine of the impact of the new Expected Loss model of financial assets to calculate the provisions that should be recorded. An increase is not expected for the provisions of financial assets under the new standard because the accounts receivable are characterized by recovering in the short term, which results in estimates of expected loss that converge to the provisions under IAS 39.

As of December 31, 2017, the Company has defined policies and procedures to the adoption of the new standard, strengthening the control information, and has prepared Manuals and Processes for Operation, Management and Risk Management.

## IFRS 2 CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS – AMENDMENTS TO IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company does not expect the effect of the amendments to be significant to its consolidated financial statements.

## ANNUAL IMPROVEMENTS 2014-2016 CYCLE (ISSUED IN DECEMBER 2016)

These improvements include:

### IFRIC INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- i) The beginning of the reporting period in which the entity first applies the interpretation. Or
- ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

### IFRIC INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENT

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

- i) Whether an entity considers uncertain tax treatments separately
- ii) The assumptions an entity makes about the examination of tax treatments by taxation authorities
- iii) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- iv) How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company is still in the process of quantifying the impact of the adoption of the IFRIC 23 in the consolidated financial statements.

## **Note 27. SUPPLEMENTAL GUARANTOR INFORMATION** CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The following consolidating information presents condensed consolidating statements of financial position as of December 31, 2017 and 2016 and condensed consolidating statements of income, other comprehensive income and cash flows for each of the three years in the period ended December 31, 2017, 2016 and 2015 of the Company and Propimex, S. de R.L. de C.V., Comercializadora la Pureza de Bebidas, S. de R.L. de C.V., Controladora 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).



## FINANCIAL SECTION

These statements are prepared in accordance with IFRS, as issued by the IASB, with the exception that the subsidiaries are accounted for as investments under the equity method rather than being consolidated. The guarantees of the Guarantors are full and unconditional.

The accounting policies applied in the preparation of the condensed financial statements are the same as those used in the preparation of the consolidated financial statements (see Note 3).

The Company's consolidating condensed financial information for the (i) Company; (ii) its 100% owned guarantors subsidiaries (on standalone basis), which are wholly and unconditional guarantors under both prior years debt and current year debt referred to as "Senior Notes" in Note 17; (iii) the combined non-guarantor subsidiaries; iv) eliminations and v) the Company's consolidated financial statements are as follows:

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
<b>Consolidated Statement of Financial Position</b>					
As of December 31, <b>2017</b>					
<b>Assets:</b>					
<b>Current assets:</b>					
Cash and cash equivalents	Ps. 7,017	Ps. 926	Ps. 10,824	Ps. –	Ps. 18,767
Accounts receivable, net	27,420	7,417	56,643	(73,904)	17,576
Inventories	–	2,529	8,835	–	11,364
Recoverable taxes	54	427	4,691	–	5,172
Other current assets and financial assets	1	299	2,478	–	2,778
<b>Total current assets</b>	<b>34,492</b>	<b>11,598</b>	<b>83,471</b>	<b>(73,904)</b>	<b>55,657</b>
<b>Non-current assets:</b>					
Investments in other entities	140,799	92,691	5,527	(226,477)	12,540
Property, plant and equipment, net	–	17,819	58,008	–	75,827
Intangible assets, net	28,863	37,366	58,014	–	124,243
Deferred tax assets	2,277	1,649	4,086	–	8,012
Other non-current assets and financial assets	929	8,653	9,411	(9,595)	9,398
<b>Total non-current assets</b>	<b>172,868</b>	<b>158,178</b>	<b>135,046</b>	<b>(236,072)</b>	<b>230,020</b>
<b>Total assets</b>	<b>Ps.207,360</b>	<b>Ps. 169,776</b>	<b>Ps. 218,517</b>	<b>Ps.(309,976)</b>	<b>Ps. 285,677</b>
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Short-term bank loans and notes payable and current portion of non-current debt	Ps. 8,774	Ps. –	Ps. 3,397	Ps. –	Ps. 12,171
Interest Payable	434	–	53	–	487
Suppliers	11	2,847	17,098	–	19,956
Other current financial liabilities	12,090	55,860	28,934	(73,904)	22,980
<b>Total current liabilities</b>	<b>21,309</b>	<b>58,707</b>	<b>49,482</b>	<b>(73,904)</b>	<b>55,594</b>
<b>Non-current liabilities:</b>					
Bank loans and notes payable	63,277	–	7,912	–	71,189
Other non-current financial liabilities	205	594	26,980	(9,595)	18,184
<b>Total non-current liabilities</b>	<b>63,482</b>	<b>594</b>	<b>34,892</b>	<b>(9,595)</b>	<b>89,373</b>
<b>Total liabilities</b>	<b>84,791</b>	<b>59,301</b>	<b>84,374</b>	<b>(83,499)</b>	<b>144,967</b>
<b>Equity:</b>					
Equity attributable to equity holders of the parent	122,569	110,475	116,002	(226,477)	122,569
Non-controlling interest in consolidated subsidiaries	–	–	18,141	–	18,141
<b>Total equity</b>	<b>122,569</b>	<b>110,475</b>	<b>134,143</b>	<b>(226,477)</b>	<b>140,710</b>
<b>Total liabilities and equity</b>	<b>Ps.207,360</b>	<b>Ps. 169,776</b>	<b>Ps. 218,517</b>	<b>Ps.(309,976)</b>	<b>Ps. 285,677</b>



	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
<b>Consolidated Statement of Financial Position</b> As of December 31, 2016					
<b>Assets:</b>					
Current assets:					
Cash and cash equivalents	Ps. 1,106	Ps. 1,119	Ps. 8,251	Ps. –	Ps. 10,476
Accounts receivable, net	33,733	6,243	49,535	(74,506)	15,005
Inventories	–	3,880	6,864	–	10,744
Recoverable taxes	42	654	3,677	–	4,373
Other current assets and financial assets	617	1,799	2,439	–	4,855
<b>Total current assets</b>	<b>35,498</b>	<b>13,695</b>	<b>70,766</b>	<b>(74,506)</b>	<b>45,453</b>
Non-current assets:					
Investments in associates and joint ventures	137,304	74,332	15,760	(205,039)	22,357
Property, plant and equipment, net	–	18,815	46,473	–	65,288
Intangible assets, net	28,863	38,313	56,788	–	123,964
Other non-current assets and financial assets	7,240	10,560	14,905	(10,511)	22,194
<b>Total non-current assets</b>	<b>173,407</b>	<b>142,020</b>	<b>133,926</b>	<b>(215,550)</b>	<b>233,803</b>
<b>Total assets</b>	<b>Ps.208,905</b>	<b>Ps. 155,715</b>	<b>Ps. 204,692</b>	<b>Ps. (290,056 )</b>	<b>Ps. 279,256</b>
<b>Liabilities:</b>					
Current liabilities:					
Short-term bank loans and notes payable and current portion of non-current debt	Ps. 468	Ps. –	Ps. 3,104	Ps. –	Ps. 3,572
Suppliers	29	4,644	16,816	–	21,489
Other current liabilities	10,320	57,359	21,634	(74,506)	14,807
<b>Total current liabilities</b>	<b>10,817</b>	<b>62,003</b>	<b>41,554</b>	<b>(74,506)</b>	<b>39,868</b>
Non-current liabilities:					
Bank loans and notes payable	75,913	–	9,944	–	85,857
Other non-current liabilities	38	633	34,138	(10,511)	24,298
<b>Total non-current liabilities</b>	<b>75,951</b>	<b>633</b>	<b>44,082</b>	<b>(10,511)</b>	<b>110,155</b>
<b>Total liabilities</b>	<b>86,768</b>	<b>62,636</b>	<b>85,636</b>	<b>(85,017)</b>	<b>150,023</b>
<b>Equity:</b>					
Equity attributable to equity holders of the parent	122,137	93,079	111,960	(205,039)	122,137
Non-controlling interest in consolidated subsidiaries	–	–	7,096	–	7,096
<b>Total equity</b>	<b>122,137</b>	<b>93,079</b>	<b>119,056</b>	<b>(205,039)</b>	<b>129,233</b>
<b>Total liabilities and equity</b>	<b>Ps.208,905</b>	<b>Ps. 155,715</b>	<b>Ps. 204,692</b>	<b>Ps.(290,056)</b>	<b>Ps. 279,256</b>

## FINANCIAL SECTION

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
Condensed consolidating income statements: For the year ended December 31, 2017					
Total revenues	Ps. 1	Ps. 80,179	Ps. 146,555	Ps. (22,955)	Ps. 203,780
Cost of goods sold	–	40,870	83,748	(12,524)	112,094
Gross profit	1	39,309	62,807	(10,431)	91,686
Administrative expenses	140	5,598	8,293	(5,048)	8,983
Selling expenses	–	22,589	38,722	(5,384)	55,927
Other (income) expenses, net	(314)	(330)	29,304	1	28,661
Interest expense, net	3,717	3,210	994	1	7,922
Foreign exchange gain (loss), net	846	255	(291)	–	810
Other financing (expense) income, net	(104)	–	1,941	–	1,837
Income taxes	238	2,270	2,046	–	4,554
Share of the profit of subsidiaries, associates and joint ventures accounted for using the equity method, net of taxes	(9,765)	9,647	148	30	60
<b>Consolidated net income</b>	Ps. (12,803)	Ps. 15,874	Ps. (14,754)	Ps. 29	Ps. (11,654)

Attributable to:					
Equity holders of the parent	(12,803)	15,874	(15,902)	29	(12,802)
Non-controlling interest	–	–	1,148	–	1,148
<b>Consolidated net income</b>	Ps. (12,803)	Ps. 15,874	Ps. (14,754)	Ps. 29	Ps. (11,654)

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
Condensed consolidating income statements: For the year ended December 31, 2016					
Total revenues	Ps. 1	Ps. 74,718	Ps. 114,767	Ps. (11,768)	Ps. 177,718
Cost of goods sold	–	36,595	63,011	(1,550)	98,056
Gross profit	1	38,123	51,756	(10,218)	79,662
Administrative expenses	185	5,344	6,741	(4,847)	7,423
Selling expenses	–	21,243	32,167	(5,371)	48,039
Other (expenses) income, net	(27)	(25)	(3,760)	–	(3,812)
Interest expense, net	2,140	2,623	1,992	1	6,756
Foreign exchange (loss) gain, net	(3,112)	76	1,244	–	(1,792)
Other financing (expense) income, net	(129)	(50)	2,647	–	2,468
Income taxes	(1,222)	3,010	2,140	–	3,928
Share of the profit of subsidiaries, associates and joint ventures accounted for using the equity method, net of taxes	14,440	9,547	93	(23,933)	147
<b>Net income</b>	Ps. 10,070	Ps. 15,451	Ps. 8,940	Ps. (23,934)	Ps. 10,527

Attributable to:					
Equity holders of the parent	Ps. 10,070	Ps. 15,451	Ps. 8,483	Ps. (23,934)	Ps. 10,070
Non-controlling interest	–	–	457	–	457
<b>Net income</b>	Ps. 10,070	Ps. 15,451	Ps. 8,940	Ps. (23,934)	Ps. 10,527

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
Condensed consolidating income statements: For the year ended December 31, 2015					
Total revenues	Ps. 1	Ps. 66,740	Ps. 97,855	Ps. (12,236)	Ps. 152,360
Cost of goods sold	–	32,008	50,629	(2,307)	80,330
Gross profit	1	34,732	47,226	(9,929)	72,030
Administrative expenses	96	4,711	6,124	(4,526)	6,405
Selling expenses	–	19,853	27,429	(5,403)	41,879
Other (expenses) income, net	12	(336)	(1,424)	–	(1,748)
Interest expense, net	1,198	2,916	1,809	–	5,923
Foreign exchange (loss) gain, net	(2,597)	(305)	1,443	–	(1,459)
Other financing (expense) income, net	105	49	(45)	–	109
Income taxes	(984)	2,035	3,500	–	4,551
Share of the profit of subsidiaries, associates and joint ventures accounted for using the equity method, net of taxes	13,024	3,977	150	(16,996)	155
<b>Net income</b>	Ps. 10,235	Ps. 8,602	Ps. 8,488	Ps. (16,996)	Ps. 10,329
Attributable to:					
Equity holders of the parent	Ps. 10,235	Ps. 8,602	Ps. 8,394	Ps. (16,996)	Ps. 10,235
Non-controlling interest	–	–	94	–	94
<b>Net income</b>	Ps. 10,235	Ps. 8,602	Ps. 8,488	Ps. (16,996)	Ps. 10,329

## FINANCIAL SECTION

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
Condensed consolidating statements of comprehensive income For the year ended December 31, 2017					
Consolidated net income	Ps. (12,803)	Ps. 15,874	Ps. (14,754)	Ps. 29	Ps. (11,654)
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Valuation of the effective portion of derivative financial instruments, net of taxes	(192)	(554)	(266)	746	(266)
Exchange differences on translation of foreign operations	16,345	5,245	15,293	(21,676)	15,207
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of the net defined benefit liability, net of taxes	(10)	171	32	(165)	28
Total comprehensive (loss) income, net of tax	16,143	Ps. 4,862	Ps. 15,059	Ps. (21,095)	Ps. 14,969
Consolidated comprehensive income for the year, net of tax	Ps. 3,340	Ps. 20,736	Ps. 305	Ps. (21,066)	Ps. 3,315
Attributable to:					
Equity holders of the parent	Ps. 3,340	Ps. 20,736	Ps. 331	Ps. (21,066)	Ps. 3,341
Non-controlling interest	-	-	(26)	-	(26)
Consolidated comprehensive income for the year, net of tax	Ps. 3,340	Ps. 20,736	Ps. 305	Ps. (21,066)	Ps. 3,315

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
Condensed consolidating statements of comprehensive income For the year ended December 31, 2016					
Consolidated net income	Ps. 10,070	Ps. 15,451	Ps. 8,940	Ps. (23,934)	Ps. 10,527
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Unrealized gain on available-for sale securities, net of taxes	-	-	-	-	-
Valuation of the effective portion of derivative financial instruments, net of taxes	664	371	(202)	(118)	715
Exchange differences on translation of foreign operations	14,207	(8,756)	15,871	(5,270)	16,052
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:	14,871	(8,385)	15,669	(5,388)	16,767
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of the net defined benefit, liability net of taxes	(123)	(117)	(144)	261	(123)
Net other comprehensive income not being reclassified to profit or loss in subsequent periods:	(123)	(117)	(144)	261	(123)
Total comprehensive (loss) income, net of tax	14,748	(8,502)	15,525	(5,127)	16,644
Consolidated comprehensive income for the year, net of tax	Ps. 24,818	Ps. 6,949	Ps. 24,465	Ps. (29,061)	Ps. 27,171
Attributable to:					
Equity holders of the parent	Ps. 24,818	Ps. 6,949	Ps. 22,112	Ps. (29,061)	Ps. 24,818
Non-controlling interest	-	-	2,353	-	2,353
Consolidated comprehensive income for the year, net of tax	Ps. 24,818	Ps. 6,949	Ps. 24,465	Ps. (29,061)	Ps. 27,171

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
Condensed consolidating statements of comprehensive income For the year ended December 31, 2015					
Consolidated net income	Ps. 10,235	Ps. 8,602	Ps. 8,488	Ps. (16,996)	Ps. 10,329
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Unrealized gain on available-for sale securities, net of taxes	-	-	-	-	-
Valuation of the effective portion of derivative financial instruments, net of taxes	(77)	304	4	(258)	(27)
Exchange differences on translation of foreign operations	(4,853)	(4,585)	(5,536)	397	(5,407)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:	(4,930)	4,889	(5,532)	139	(5,434)
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of the net defined benefit liability, net of taxes	132	21	117	(132)	138
Net other comprehensive income not being reclassified to profit or loss in subsequent periods:	132	21	117	(132)	138
Total comprehensive (loss) income, net of tax	(4,798)	4,910	(5,415)	7	(5,296)
Consolidated comprehensive income for the year, net of tax	Ps. 5,437	Ps. 13,512	Ps. 3,073	Ps. (16,989)	Ps. 5,033
Attributable to:					
Equity holders of the parent	Ps. 5,437	Ps. 13,512	Ps. 3,477	Ps. (16,989)	Ps. 5,437
Non-controlling interest	-	-	(404)	-	(404)
Consolidated comprehensive income for the year, net of tax	Ps. 5,437	Ps. 13,512	Ps. 3,073	Ps. (16,989)	Ps. 5,033

## FINANCIAL SECTION

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
Condensed Consolidated Statements of Cash Flows For the year ended December 31, 2017					
<b>Cash flows from operating activities:</b>					
Income before income taxes	Ps. (12,565)	Ps. 18,144	Ps. (12,708)	Ps. 29	Ps. (7,100)
Non-cash items	10,474	(4,564)	41,487	(29)	47,368
Changes in working capital	118	1,803	(8,953)	–	(7,032)
<b>Net cash flows (used in)/from operating activities</b>	<b>(1,973)</b>	<b>15,383</b>	<b>19,826</b>	<b>–</b>	<b>33,236</b>
<b>Investing activities:</b>					
Acquisition and mergers, net of cash acquired	–	–	4,038	–	4,038
Deconsolidation of Venezuela	–	–	(170)	–	(170)
Interest received	4,753	1,693	1,567	(7,126)	887
Acquisition of long-lived assets, net	–	(2,646)	(8,101)	–	(10,747)
Acquisition of intangible assets and other investing activities	4,902	(996)	(7,917)	–	(4,011)
Investments in shares	(118)	(420)	861	(1,242)	(920)
Dividends received	3,204	16	–	(3,187)	33
<b>Net cash flows (used in)/from investing activities</b>	<b>12,741</b>	<b>(2,353)</b>	<b>(9,723)</b>	<b>(11,555)</b>	<b>(10,890)</b>
<b>Financing activities:</b>					
Proceeds from borrowings	10,200	–	2,288	–	12,488
Repayment of borrowings	(9,926)	–	(3,183)	–	(13,109)
Interest paid	(5,169)	(4,740)	(1,806)	7,126	(4,589)
Dividends paid	(6,991)	(3,187)	(1)	3,187	(6,992)
Proceeds from issuing shares	4,082	–	–	–	4,082
Other financing activities	2,730	(5,293)	(1,334)	1,242	(2,655)
<b>Net cash flows (used in)/from financing activities</b>	<b>(5,074)</b>	<b>(13,220)</b>	<b>(4,036)</b>	<b>11,555</b>	<b>(10,775)</b>
Net (decrease) increase in cash and cash equivalents	5,694	(190)	6,067	–	11,571
Initial balance of cash and cash equivalents	1,106	1,119	8,251	–	10,476
Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign currencies	217	(3)	(3,494)	–	(3,280)
<b>Ending balance of cash and cash equivalents</b>	<b>Ps. 7,017</b>	<b>Ps. 926</b>	<b>Ps. 10,824</b>	<b>Ps. –</b>	<b>Ps. 18,767</b>

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
--	--------	--	---	--------------	-----------------------

Condensed Consolidated Statements of  
Cash Flows For the year ended December 31, 2016

**Cash flows from operating activities:**

Income before income taxes	Ps. 8,848	Ps. 18,461	Ps. 11,080	Ps. (23,934)	Ps. 14,455
Non-cash items	(11,495)	(3,557)	8,429	23,934	17,311
Changes in working capital	(100)	(2,279)	3,059	–	680
<b>Net cash flows (used in)/from operating activities</b>	<b>(2,747)</b>	<b>12,625</b>	<b>22,568</b>	<b>–</b>	<b>32,446</b>

**Investing activities:**

Payment related to acquisition of Vonpar	–	–	(13,198)	–	(13,198)
Interest received	1,711	671	3,504	(5,171)	715
Acquisition of long-lived assets, net	–	(3,810)	(6,174)	–	(9,984)
Acquisition of intangible assets and other investing activities	(12,079)	(6,577)	16,271	–	(2,385)
Investments in shares	(707)	(1,021)	6,834	(7,169)	(2,063)
Dividends received	5,868	1	–	(5,869)	–
<b>Net cash flows (used in)/from investing activities</b>	<b>(5,207)</b>	<b>(10,736)</b>	<b>7,237</b>	<b>(18,209)</b>	<b>(26,915)</b>

**Financing activities:**

Proceeds from borrowings	4,236	–	4,026	–	8,262
Repayment of borrowings	(2,625)	–	(2,545)	–	(5,170)
Interest paid	(1,360)	(3,727)	(4,206)	5,171	(4,122)
Dividends paid	(6,944)	(5,868)	(70)	5,869	(7,013)
Increase in non-controlling interest	–	–	826	–	826
Other financing activities	3,024	8,005	(20,715)	7,169	(2,517)
<b>Net cash flows (used in)/from financing activities</b>	<b>(3,669)</b>	<b>(1,590)</b>	<b>(22,684)</b>	<b>18,209</b>	<b>(9,734)</b>
Net (decrease) increase in cash and cash equivalents	(11,623)	299	7,121	–	(4,203)
Initial balance of cash and cash equivalents	10,991	810	4,188	–	15,989
Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign currencies	1,738	9	(3,057)	–	(1,310)
<b>Ending balance of cash and cash equivalents</b>	<b>Ps. 1,106</b>	<b>Ps. 1,118</b>	<b>Ps. 8,252</b>	<b>Ps. –</b>	<b>Ps. 10,476</b>

## FINANCIAL SECTION

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
Condensed Consolidated Statements of Cash Flows For the year ended December 31, 2015					
<b>Cash flows from operating activities:</b>					
Income before income taxes	Ps. 9,251	Ps. 10,637	Ps. 11,988	Ps. (16,996)	Ps. 14,880
Non-cash items	(11,920)	2,308	9,115	16,996	16,499
Changes in working capital	17	1,362	(9,556)	–	(8,177)
<b>Net cash flows (used in)/from operating activities</b>	<b>(2,652)</b>	<b>14,307</b>	<b>11,547</b>	<b>–</b>	<b>23,202</b>
<b>Investing activities:</b>					
Interest received	2,055	238	2,347	(4,226)	414
Acquisition of long-lived assets, net	–	(2,911)	(7,401)	–	(10,312)
Acquisition of intangible assets and other investing activities	65	(62)	(1,031)	–	(1,028)
Investments in shares	(10,929)	(9,352)	(5,681)	25,930	(32)
Dividends received	–	17	13	(17)	13
<b>Net cash flows (used in)/from investing activities</b>	<b>(8,809)</b>	<b>(12,070)</b>	<b>(11,753)</b>	<b>21,687</b>	<b>(10,945)</b>
<b>Financing activities:</b>					
Proceeds from borrowings	–	–	1,907	–	1,907
Repayment of borrowings	(7,681)	–	(1,250)	–	(8,931)
Interest paid	(609)	(3,491)	(3,694)	4,226	(3,568)
Dividends paid	(6,405)	–	(28)	17	(6,416)
Other financing activities	28,770	1,300	4,301	(25,930)	8,441
<b>Net cash flows (used in)/from financing activities</b>	<b>14,075</b>	<b>(2,191)</b>	<b>1,236</b>	<b>(21,687)</b>	<b>(8,567)</b>
Net (decrease) increase in cash and cash equivalents	2,614	46	1,030	–	3,690
Initial balance of cash and cash equivalents	7,282	755	4,921	–	12,958
Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign currencies	1,095	9	(1,763)	–	(659)
<b>Ending balance of cash and cash equivalents</b>	<b>Ps. 10,991</b>	<b>Ps. 810</b>	<b>Ps. 4,188</b>	<b>Ps. –</b>	<b>Ps. 15,989</b>