FEMSA

CONSOLIDATED FINANCIAL STATEMENTS 2018

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ANNUAL REPORT OF THE AUDIT COMMITTEE

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

TO THE BOARD OF DIRECTORS
FOMENTO ECONÓMICO MEXICANO, 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, 2018. 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 2018, the cybersecurity risk continuous being a key risk area for the business, the Committee dedicated special attention to follow up the progress of the issues raised during the ongoing cybersecurity assessments and reviewing the information security initiatives presented to assure the confidentiality of information as well as the continuity of operations in information technology.

The Committee members visited the most important bottling plant, as well as one of its distribution centers, with the objective of strengthening its understanding of the business risks and related mitigating controls.

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 recommend to the Board of Directors the appointment of the Group's external auditors for the fiscal year 2018. For this purpose, we verified their independence and compliance with the requirements established in the Law and in the general provisions applicable to entities and issuers supervised by the National Banking and Securities Commission that require external audit services for basic financial statements, which came into effect on August 1, 2018. We analyze their approach and the work program with them, as well as their coordination with the Internal Audit function.

We modified and submitted our charter for the approval of the Board of Directors, in order to comply with the new provisions. We implemented the actions established in the aforementioned law, regarding the responsibilities of the Audit Committee and also, with regard to the requirements applicable to external auditors.

We reviewed the work program of the external audit and its coordination, with the Internal Audit function.

We were in permanent and direct communication with them to be timely informed of their progress and their observations, and 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 authorize the fees paid to external auditors for audit services and other permitted services, and verified that such services do not interfere with their independence from the Group.

Considering the opinion of the Management, we began the process of assessing the performance of the external auditors for the fiscal year 2018.

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, 2018.

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 2018, 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 by all employees and Board members, 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, cybersecurity 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 27, 2019

INDEPENDENT AUDITOR'S REPORT

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V.

OPINION

We have audited the accompanying consolidated financial statements of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and 2017 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for each of the three years in the period ended as of December 31, 2018, 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 at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended as of December 31, 2018, 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 for 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 to 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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole and in forming the auditor's 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 consolidated financial statements.

SALE OF COCA-COLA FEMSA PHILIPPINES

DESCRIPTION OF THE KEY AUDIT MATTER

As disclosed in Note 4 to the consolidated financial statements, on August 16, 2018, Coca-Cola FEMSA announced its decision to exercise the option of selling it's 51% interest in Coca-Cola FEMSA Philippines, Inc's ("CCFPI") stock to The Coca-Cola Company. Because of this transaction, since August 31, 2018, the Company classified the assets and liabilities related to CCFPI as held-for-sale until the sale was completed on December 13, 2018, in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Also, pursuant to IFRS 5, the results of operations of the CCFPI component have been deconsolidated and presented as discontinued operations, together with the corresponding information of the prior year. The proceed from the sale of CCFPI has been measured based on the terms and conditions negotiated in the shareholders agreement by the parties.

Due to the complexity resulting from the application of IFRS 5, including the requirement to recognize the assets and liabilities of the component held for sale at the lower of the net proceed expected from the transaction and the carrying value at the date the Company decided to sell the component, we have determined this to be a key audit matter.

HOW OUR AUDIT ADDRESSED THE MATTER

We evaluated management´s assessment regarding the accounting treatment of the sale of CCFPI and its classification as held for sale in accordance with IFRS by 1) reviewing the related share purchase agreement and the specific clauses regarding the put option and the determination of the selling prince used to established the net proceeds expected from sale and as the basis to compare to the carrying value of the investment, 2) auditing the calculation of the net proceeds expected from the sales and 3) verifying the proper presentation of the results of operations of CCFPI in the income statement in accordance with IFRS 5.

Finally, we evaluated the related disclosures made in the consolidated financial statements.

IMPAIRMENT TESTING OF DISTRIBUTION RIGHTS, TRADE MARKS AND GOODWILL

DESCRIPTION OF THE KEY AUDIT MATTER

As disclosed in Note 12 to the consolidated financial statements, distribution rights, trademarks and goodwill aggregated Ps. 145,610 million as of December 31, 2018. Given the significant judgments and estimation assumptions required by management when evaluating these accounts for impairment, we have determined this area to be a key audit matter.

HOW OUR AUDIT ADDRESSED THE MATTER

We evaluated management assumptions related to compound annual growth rates, projected costs and expenses among other key assumptions used in the impairment testing by 1) assessing the historical accuracy of management's budgetary estimates, 2) obtaining and analyzing management´s business strategies supporting the future cash flows estimates, and 3) evaluating the macroeconomic environment including comparisons to the performance of comparable companies for which relevant 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 in 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.

RECOVERABILITY OF DEFERRED TAX ASSETS

DESCRIPTION OF THE KEY AUDIT MATTER

As disclosed on Note 24 to the consolidated financial statements, the Group had recognized Ps.9,558 million in deferred tax assets relating to net operating loss carry-forwards as of December 31, 2018; such amount relates to the Brazilian and Mexican operations. Also, as disclosed on Note 24, the Company recognized deferred tax assets arising from tax credits for an amount Ps.1,855 million, mostly generated in Mexico in 2016.

We focused on this area because the recognition of deferred tax assets relies on the application of significant judgment 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.

Our audit procedures also focused on management´s projections of future taxable profits based on forecasts of anticipated cost savings, revenue growth rates, among other key assumptions. We also assessed the consistency of those assumptions with those used in other areas of the financial statements. We involved our internal specialists when performing these procedures.

We also evaluated the related disclosures made in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE GROUP'S 2018 ANNUAL REPORT

Other information consists of the information included in the Group's 2018 Annual Report to be presented to the stockholders and the Annual Report to be presented to the Comision Nacional Bancaria y de Valores ("CNBV"), other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The other information is expected to be made available to us after the date of this auditor's report.

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 identified above when it becomes available 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.

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 IFRS, and for such internal control as management determines is necessary to enable the preparation of the 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 to 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 our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 and 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 on 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to 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 financia! 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 about 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 benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report, is who signs it.

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

AMÉRICO DE LA PAZ DE LA GARZA

Monterrey, N.L. Mexico
March 8, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

As of December 31, 2018 and 2017.
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).

	Note	2018 [1]	2018	2017
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	5	$ 3,160	Ps. 62,047	Ps. 96,944
Investments	6	1,575	30,924	2,160
Trade accounts receivables, net	7	1,434	28,164	32,316
Inventories	8	1,817	35,686	34,840
Recoverable taxes	24	840	16,488	11,284
Other current financial assets	9	45	878	756
Other current assets	9	174	3,420	2,888
Total current assets		9,045	177,607	181,188
NON-CURRENT ASSETS				
Equity accounted investees	10	4,803	94,315	96,097
Property, plant and equipment, net	11	5,531	108,602	116,712
Intangible assets, net	12	7,416	145,610	154,093
Deferred tax assets	24	843	16,543	15,853
Other non-current financial assets	13	1,191	23,387	12,073
Other non-current assets	13	526	10,317	12,525
Total non-current assets		20,310	398,774	407,353
TOTAL ASSETS		$ 29,355	Ps. 576,381	Ps. 588,541
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Bank loans and notes payable	18	$ 124	Ps. 2,436	Ps. 2,830
Current portion of non-current debt	18	572	11,238	10,760
Interest payable		49	964	976
Trade payable		2,653	52,101	48,625
Accounts payable		691	13,568	17,538
Taxes payable		625	12,264	11,214
Other current financial liabilities	25	453	8,893	13,079
Total current liabilities		5,167	101,464	105,022
NON-CURRENT LIABILITIES				
Bank loans and notes payable	18	5,856	114,990	117,758
Post-employment benefits	16	239	4,699	5,373
Deferred tax liabilities	24	300	5,886	6,133
Other non-current financial liabilities	25	114	2,232	2,797
Provisions and other non-current liabilities	25	590	11,568	14,546
Total non-current liabilities		7,099	139,375	146,607
TOTAL LIABILITIES		12,266	240,839	251,629
EQUITY				
Controlling interest:				
Capital stock		171	3,348	3,348
Additional paid-in capital		1,367	26,850	26,808
Retained earnings		11,093	217,802	201,868
Other comprehensive income		461	9,053	18,267
Total controlling interest		13,092	257,053	250,291
Non-controlling interest	21	3,997	78,489	86,621
TOTAL EQUITY		17,089	335,542	336,912
TOTAL LIABILITIES AND EQUITY		$ 29,355	Ps. 576,381	Ps. 588,541

[1] 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.

CONSOLIDATED INCOME STATEMENTS

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2018, 2017 and 2016. In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.), except for earnings per share amounts.	NOTE	2018 [1]	2018	2017 [2]	2016
Net sales		$ 23,881	Ps. 468,894	Ps. 439,239	Ps. 398,622
Other operating revenues		43	850	693	885
Total revenues		23,924	469,744	439,932	399,507
Cost of goods sold		15,002	294,574	277,842	251,303
Gross profit		8,922	175,170	162,090	148,204
Administrative expenses		882	17,313	15,222	14,730
Selling expenses		5,835	114,573	105,880	95,547
Other income	19	34	673	31,951	1,157
Other expenses	19	150	2,947	33,866	5,909
Interest expense	18	500	9,825	11,092	9,646
Interest income		144	2,832	1,470	1,299
Foreign exchange (loss) gain, net		(13)	(248)	4,934	1,131
Monetary position gain, net		11	216	1,590	2,411
Market value (loss) gain on financial instruments		(18)	(355)	(204)	186
Income before income taxes from continuing operations and share of profit in equity accounted investees		1,713	33,630	35,771	28,556
Income taxes	24	518	10,169	10,213	7,888
Share of the profit of equity accounted investees, net of tax	10	318	6,252	7,923	6,507
Net income from continuing operations		1,513	29,713	33,480	27,175
Net income from discontinued operations	4	171	3,366	3,726	–
CONSOLIDATED NET INCOME		1,684	33,079	37,206	27,175
Controlling interest from continuing operations		1,148	22,560	40,863	21,140
Controlling interest from discontinued operations		73	1,430	1,545	–
Non-controlling interest from continuing operations		364	7,153	(7,383)	6,035
Non-controlling interest from discontinued operations		99	1,936	2,181	–
CONSOLIDATED NET INCOME		$ 1,684	Ps. 33,079	Ps. 37,206	Ps. 27,175
Basic earnings per share of continuing operations					
Per series "B" share	23	$ 0.06	Ps. 1.13	Ps. 2.04	Ps. 1.05
Per series "D" share	23	0.07	1.41	2.55	1.32
Basic earnings per share of discontinued operations					
Per series "B" share	23	–	0.07	0.08	–
Per series "D" share	23	–	0.09	0.10	–
Diluted earnings per share of continuing operations					
Per series "B" share	23	0.06	1.13	2.04	1.05
Per series "D" share	23	0.07	1.41	2.55	1.32
Diluted earnings per share of discontinued operations					
Per series "B" share	23	–	0.07	0.08	–
Per series "D" share	23	–	0.09	0.10	–

[1] Convenience translation to U.S. dollars ($) – See Note 2.2.3
[2] Revised to reflect the discontinued Philippines operations of Coca-Cola FEMSA – See Note 4.2.1
The accompanying notes are an integral part of these consolidated income statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2018, 2017 and 2016. In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).	NOTE	2018 [1]	2018	2017 [2]	2016
CONSOLIDATED NET INCOME		$ 1,684	Ps. 33,079	Ps. 37,206	Ps. 27,175
Items that will be reclassified to consolidated net income, net of tax:					
Valuation of the effective portion of derivative financial instruments	20	(30)	(592)	(439)	1,732
Income (loss) on hedge of a net investment in foreign operations	18	37	724	(1,259)	(1,443)
Exchange differences on the translation of foreign operations and equity accounted investees		(671)	(13,174)	14,482	30,763
Share of other comprehensive loss of equity accounted investees	10	(18)	(360)	(2,013)	(2,228)
Total items that will be reclassified		(682)	(13,402)	10,771	28,824
Items that will not to be reclassified to consolidated net income in subsequent periods, net of tax:					
Loss due to changes in the fair value in equity financial instruments		(53)	(1,039)	–	–
Share of other comprehensive income (loss) of equity accounted investees		30	597	69	(1,004)
Remeasurements of the net defined benefit liability		28	551	(7)	(167)
Total items that will not be reclassified		5	109	62	(1,171)
Other items of comprehensive (loss) income, net of tax		(677)	(13,293)	10,833	27,653
Consolidated comprehensive income, net of tax		$ 1,007	Ps. 19,786	Ps. 48,039	Ps. 54,828
Controlling interest comprehensive income		753	14,776	46,052	39,330
Reattribution to non-controlling interest of other comprehensive income by acquisition of Vonpar		–	–	(51)	–
Controlling interest comprehensive income		$ 753	Ps. 14,776	Ps. 46,001	Ps. 39,330
Non-controlling interest comprehensive income		254	5,010	1,987	15,498
Reattribution from controlling interest of other comprehensive income by acquisition of Vonpar		–	–	51	–
Non-controlling interest comprehensive income		254	5,010	2,038	15,498
Consolidated comprehensive income, net of tax		$ 1,007	Ps. 19,786	Ps. 48,039	Ps. 54,828
Out of which:					
Controlling comprehensive income from continuing operations, net of tax		$ 231	Ps. 4,540	Ps. 20,895	Ps. 25,891
Controlling comprehensive income from discontinued operations, net of tax		245	4,804	1,790	–
Non-controlling comprehensive income from continuing operations, net of tax		521	10,236	25,106	28,937
Non-controlling comprehensive income from discontinued operations, net of tax		11	206	248	–

[1] Convenience translation to U.S. dollars ($) – See Note 2.2.3
[2] Revised to reflect the discontinued operations of Coca-Cola FEMSA Philippines– See Note 4.2.1
The accompanying notes are an integral part of these consolidated statements of comprehensive income.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2018, 2017 and 2016.
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).

	Notes	Capital Stock	Additional Paid-in Capital	Retained Earnings	Fair value in equity Financial Instrument
Balances as of January 1, 2016		Ps. 3,348	Ps. 25,807	Ps. 156,532	Ps. –
Consolidated net income		–	–	21,140	–
Other comprehensive income (loss), net		–	–	–	–
Total other comprehensive income (loss)		–	–	21,140	–
Dividends declared and paid	21, 22	–	–	(8,355)	–
Issuance (purchase) of share-based compensation plans	17	–	(74)	–	–
Other equity instruments from acquisition of Vonpar	4	–	–	–	–
Other acquisitions and remeasurements	4	–	–	–	–
Contributions from non-controlling interest	21	–	–	–	–
Other movements in equity accounted investees, net	14	–	–	(521)	–
Balances as of December 31, 2016		Ps. 3,348	Ps. 25,733	Ps. 168,796	Ps. –
Consolidated net income		–	–	42,408	–
Other comprehensive income (loss), net		–	–	–	–
Total other comprehensive income (loss)		–	–	42,408	–
Dividends declared and paid	21, 22	–	–	(8,636)	–
Issuance of share-based compensation plans	17	–	(89)	–	–
Capitalization of issued shares to former owners of Vonpar in Coca-Cola FEMSA	4	–	1,164	–	–
Acquisitions of non-controlling interest	4	–	–	–	–
Contribution from non-controlling interest	21	–	–	–	–
Recognition of non-controlling interest upon consolidation of CCFPI	4	–	–	–	–
Recycling from net defined benefit liability on partial disposal of equity accounted investees	14	–	–	(596)	–
Other movements in equity accounted investees, net	10	–	–	(104)	–
Balances as of December 31, 2017		Ps. 3,348	Ps. 26,808	Ps. 201,868	Ps. –
Balances as of January 1, 2018		3,348	26,808	201,868	–
Accounting standard adoption effects (IFRS 9), net of tax	2	–	–	(229)	–
Adoption of IAS 29 for Argentina		–	–	1,269	–
Adjusted balance at January 1, 2018		3,348	26,808	202,908	–
Consolidated net income		–	–	23,990	–
Other comprehensive income (loss), net		–	–	–	(491)
Total other comprehensive income (loss)		–	–	23,990	(491)
Dividends declared and paid	21,22	–	–	(9,220)	–
Issuance of share-based compensation plans	17	–	42	–	–
Contribution from non-controlling interest	21	–	–	–	–
Derecognition upon disposal of controlling interest in Philippines	4	–	–	–	–
Other movements in equity accounted investees, net of tax	10	–	–	124	–
Balances as of December 31, 2018		Ps. 3,348	Ps. 26,850	Ps. 217,802	Ps. (491)

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

Valuation of the Effective Portion of Derivative Financial	Exchange Differences on the Translation of Foreign Operations and Equity Accounted Investees	Remeasurements of the Net Defined Benefit Liability	Total Controlling Interest	Non-Controlling Interest	Total Equity
Ps. 606	Ps. (2,688)	Ps. (2,081)	Ps. 181,524	Ps. 60,332	Ps. 241,856
–	–	–	21,140	6,035	27,175
2,057	17,241	(1,108)	18,190	9,463	27,653
2,057	17,241	(1,108)	39,330	15,498	54,828
–	–	–	(8,355)	(3,690)	(12,045)
–	–	–	(74)	9	(65)
–	–	–	–	(485)	(485)
–	–	–	–	1,710	1,710
–	–	–	–	892	892
–	–	–	(521)	–	(521)
Ps. 2,663	Ps. 14,553	Ps. (3,189)	Ps. 211,904	Ps. 74,266	Ps. 286,170
–	–	–	42,408	(5,202)	37,206
(47)	3,607	33	3,593	7,240	10,833
(47)	3,607	33	46,001	2,038	48,039
–	–	–	(8,636)	(3,622)	(12,258)
–	–	–	(89)	50	(39)
2	47	2	1,215	2,867	4,082
–	–	–	–	(322)	(322)
–	–	–	–	272	272
–	–	–	–	11,072	11,072
–	–	596	–	–	–
–	–	–	(104)	–	(104)
Ps. 2,618	Ps. 18,207	Ps. (2,558)	Ps. 250,291	Ps. 86,621	Ps. 336,912
2,618	18,207	(2,558)	250,291	86,621	336,912
–	–	–	(229)	(150)	(379)
–	–	–	1,269	1,418	2,687
2,618	18,207	(2,558)	251,331	87,889	339,220
–	–	–	23,990	9,089	33,079
(727)	(8,988)	992	(9,214)	(4,079)	(13,293)
(727)	(8,988)	992	14,776	5,010	19,786
–	–	–	(9,220)	(3,713)	(12,933)
–	–	–	42	31	73
–	–	–	–	412	412
–	–	–	–	(11,140)	(11,140)
–	–	–	124	–	124
Ps. 1,891	Ps. 9,219	Ps. (1,566)	Ps. 257,053	Ps. 78,489	Ps. 335,542

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2018, 2017 and 2016.
In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).

	2018 (1)	2018	2017 (2)	2016
OPERATING ACTIVITIES				
Income before income taxes from discontinued operations	$ 67	Ps. 1,308	Ps. 1,265	Ps. –
Income before income taxes from continuing operations	$ 2,031	Ps. 39,882	Ps. 43,694	Ps. 35,063
Non-cash items adjustments:				
Operating expenses	111	2,171	3,166	4,111
Non-operating expenses	–	–	25,817	–
Depreciation	749	14,698	13,799	12,076
Amortization	129	2,539	1,841	1,633
Gain on sale of long-lived assets	(9)	(174)	(210)	(170)
(Gain) loss on sale of shares	–	–	(30,112)	8
Disposal of long-lived assets	26	518	451	238
Impairment of long-lived assets	22	432	2,063	–
Share of the profit of equity accounted investees, net of taxes	(318)	(6,252)	(7,923)	(6,507)
Interest income	(144)	(2,832)	(1,470)	(1,299)
Interest expense	500	9,825	11,092	9,646
Foreign exchange loss (gain), net	13	248	(4,934)	(1,131)
Monetary position (gain) loss, net	(11)	(216)	(1,590)	(2,411)
Market value loss (gain) on financial instruments	18	355	204	(186)
Net cash flow from operating activities before changes in operating accounts	3,117	61,194	55,888	51,071
Trade accounts receivable and other current assets	(124)	(2,426)	(11,182)	(1,889)
Other current financial assets	19	379	1,417	(1,395)
Inventories	(194)	(3,809)	(2,808)	(4,936)
Derivative financial instruments	(1)	(23)	18	130
Trade accounts payable and other accounts	250	4,906	7,344	15,337
Other non-current liabilities	38	752	309	968
Other current financial liabilities	(28)	(544)	1,769	2,642
Employee benefits paid	(21)	(412)	(661)	(476)
Net cash generated from operations	3,056	60,017	52,094	61,452
Income taxes paid	(642)	(12,603)	(18,659)	(11,321)
Net cash generated by operating activities from discontinued operations	33	654	5,435	–
Net cash generated by operating activities from continuing operations	2,414	47,414	33,435	50,131

(1) Convenience translation to U.S. dollars ($) – see Note 2.2.3
(2) Revised to reflect the discontinued Philippines operations of Coca-Cola FEMSA – See Note 4.2.1
The accompanying notes are an integral part of these consolidated statements of cash flows.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2018, 2017 and 2016. In millions of U.S. dollars ($) and in millions of Mexican pesos (Ps.).	2018 (1)	2018	2017 (2)	2016
INVESTING ACTIVITIES				
Proceeds from the sale of subsidiary, net of cash disposed	390	7,649	–	–
Acquisition of Coca-Cola FEMSA, net of cash acquired (see Note 4)	(290)	(5,692)	–	–
Deconsolidation in Coca-Cola FEMSA Venezuela (see Note 3.3)	–	–	(170)	–
Partial payment of Vonpar, net	–	–	–	(13,198)
Other acquisitions, net	(16)	(321)	–	(5,032)
Equity accounted investees	(5)	(98)	(889)	(2,189)
Partial disposal of investment in Heineken Group	–	–	50,790	–
Purchase of investments	(2,062)	(40,487)	(2,539)	(118)
Proceeds from investments	–	–	–	20
Interest received	139	2,736	1,470	1,299
Derivative financial instruments	5	99	(35)	(220)
Dividends received from equity accounted investees	124	2,443	3,277	3,276
Property, plant and equipment acquisitions	(1,099)	(21,584)	(19,484)	(19,083)
Disposal of property, plant and equipment	24	467	491	574
Acquisition of intangible assets	(91)	(1,793)	(3,003)	(2,309)
Investment in other assets	(60)	(1,182)	(1,222)	(1,709)
Collections of other assets	8	166	94	2
Investment in other financial assets	(3)	(65)	(184)	(23)
Collection in other financial assets	–	–	–	65
Net cash (used in) generated by investing activities from discontinued operations	(49)	(962)	2,820	–
Net cash (used in) generated by investing activities from continuing operations	(2,936)	(57,662)	28,596	(38,645)
FINANCING ACTIVITIES				
Proceeds from borrowings	823	16,155	13,599	26,629
Payments of bank loans	(875)	(17,182)	(18,130)	(5,458)
Interest paid	(346)	(6,799)	(6,547)	(5,470)
Derivative financial instruments	(117)	(2,288)	(1,579)	(3,471)
Dividends paid	(659)	(12,933)	(12,450)	(12,045)
Acquisition of non-controlling interest	–	–	(663)	892
Other financing activities	2	36	634	220
Financing from Vonpar's acquisition	–	–	4,082	–
Net cash used in financing activities from discontinued operations	(2)	(37)	(485)	–
Net cash (used) generated by financing activities from continuing operations	(1,172)	(23,011)	(21,054)	1,297
(Decrease) increase in cash and cash equivalents from continuing operations	(1,694)	(33,258)	40,977	12,783
Increase in cash and cash equivalents from discontinued operations	49	963	9,035	–
Cash and cash equivalents at the beginning of the period	4,937	96,944	43,637	29,396
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies	(132)	(2,602)	3,295	1,458
Cash and cash equivalents at the end of the period	$ 3,160	Ps. 62,047	Ps. 96,944	Ps. 43,637

(1) Convenience translation to U.S. dollars ($) – see Note 2.2.3
(2) Revised to reflect the discontinued Philippines operations of Coca-Cola FEMSA – See Note 4.2.1
The accompanying notes are an integral part of these consolidated statements of cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

For the years ended December 31, 2018, 2017 and 2016.
Amounts expressed in millions of U.S. dollars ($)
and in millions of Mexican pesos (Ps.).

Note 1. COMPANY BUSINESS

Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries ("FEMSA" or the Company), incorporated in 1936, is a public company established as a *sociedad anónima bursátil de capital variable* under the Mexican laws leading subsidiaries that are direct and indirect sub-holding companies in businesses in which the Company operates as beverage industry through Coca-Cola FEMSA; retail industry through FEMSA Comercio ("FEMCO") Proximity, Fuel and Health Divisions; beer industry through the Heineken investment and other businesses.

The following is a description of the Company's businesses, along with its interest ownership in each reportable segment:

Business	% Ownership 2018	% Ownership 2017	Activities
Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries ("Coca-Cola FEMSA")	47.2% [1] (63.0% of the voting shares)	47.2% [1] (63.0% of the voting shares)	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil, Argentina and Uruguay (see Note 4). As of December 31, 2018, The Coca-Cola Company ("TCCC") indirectly owns 27.8% of Coca-Cola FEMSA's capital stock. In addition, shares representing 25% of Coca-Cola FEMSA's capital stock are traded on the Bolsa Mexicana de Valores (Mexican Stock Exchange "BMV") and on the New York Stock Exchange, Inc. ("NYSE") in the form of American Depositary Shares ("ADS").
FEMCO – Proximity Division [3]	100%	100%	Small-box retail chain format operations in Mexico, Colombia, Peru, United States and Chile, mainly under the trade name "OXXO".
FEMCO – Fuel Division	100%	100%	Retail service stations for fuels, motor oils, lubricants and car care products under the trade name "OXXO GAS" with operations in Mexico.
FEMCO – Health Division	Various [2]	Various [2]	Drugstores operations in Chile and Colombia, mainly under the trademark "Cruz Verde" and Mexico under various brands such as YZA, La Moderna and Farmacon.
Heineken investment	14.8%	14.8%	Heineken N.V. and Heineken Holding N.V. shares, which represents an aggregate of 14.8% economic interest in both entities (Heineken Group).
Other businesses	100%	100%	Companies engaged in the production and distribution of coolers, commercial refrigeration equipment, plastic cases, food processing, preservation and weighing equipment; logistic transportation and maintenance services to FEMSA's subsidiaries and to third parties.

[1] The Company controls Coca-Cola FEMSA's relevant activities.

[2] The former shareholders of Farmacias YZA hold a 18.6% stake in Cadena Comercial de Farmacias, S.A.P.I. de C.V., a subsidiary of FEMSA that holds all pharmacy business in Mexico (which we refer to as "CCF"). In addition, FEMCO – Health Division through one of its subsidiaries, Cadena Comercial de Farmacias Sudamérica, S.P.A., holds a 60% stake in Grupo Socofar, see Note 4.1.2.

[3] In 2018, the Company made a change in its reporting segment previously named FEMCO – Retail Division in which the activities not directly related with FEMCO – Retail Division where eliminated from the Proximity stores, including restaurant and discount retail units, before including in this operating segment. The reclassified operations from this segments is now included in "Others".

Note 2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer Eduardo Padilla Silva and the Chief Corporate Financial Officer Gerardo Estrada Attolini on February 21, 2019. These consolidated financial statements and notes were then approved by the Company's Board of Directors on February 27, 2019 and subsequent events have been considered through that date (see Note 29). These consolidated financial statements and their accompanying notes will be presented at the Company's Shareholders meeting on March 22, 2019. The Company's shareholders have the power 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 historical cost basis, except for the following:

- Derivative financial instruments.
- Long-term notes payable on which fair value hedge accounting is applied.
- Trust assets of post-employment and other long-term employee benefit plans.

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

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

2.2.1 PRESENTATION OF CONSOLIDATED INCOME STATEMENT

The Company's consolidated income statement classifies its related costs and expenses by function accordingly within the industry practices in which the Company operates.

2.2.2 PRESENTATION OF CONSOLIDATED STATEMENTS OF CASH FLOWS

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

2.2.3 CONVENIENCE TRANSLATION TO U.S. DOLLARS ($)

The consolidated financial statements are stated in millions of Mexican pesos ("Ps.") and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position, as of December 31, 2018 the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2018 were converted into U.S. dollars at closing exchange rate of 19.6350 Mexican pesos per U.S. dollar as published by the Federal Reserve Bank of New York as of December 31, 2018. This arithmetic conversion should not be construed as representation that amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate.

As explained in Note 2.1 above, as of February 27, 2019 (the issuance date of these consolidated financial statements) the exchange rate was Ps. 19.1185 per U.S. dollar, a revaluation of 3% since December 31, 2018.

2.3 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements most significant effects are included on consolidated financial statements.

2.3.1 KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the assumptions and other sources of estimation uncertainty as of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the subsequent financial period. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes would be included in the assumptions when they occur.

2.3.1.1 IMPAIRMENT OF INDEFINITE LIVED INTANGIBLE ASSETS, GOODWILL AND DEPRECIABLE LONG-LIVED ASSETS

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

The Company assesses at each reporting date whether there is an indication that a long-lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are expected to be generated from the use of the asset or CGU discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available.

If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The key assumptions used to determine the recoverable amount for the Company's CGUs, including a sensitivity analysis, are further explained in Notes 3.19 and 12.

2.3.1.2 USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH DEFINITE USEFUL LIVES

Property, plant and equipment, including returnable bottles which are expected to provide benefits over a period of more than one year, as well as intangible assets with definite useful lives are depreciated/amortized over their estimated useful lives. The Company bases its estimates on the experience of its technical personnel as well as its experience in the industry for similar assets, see Notes 3.15, 3.17, 11 and 12.

2.3.1.3 POST-EMPLOYMENT AND OTHER NON-CURRENT EMPLOYEE BENEFITS

The Company regularly evaluates the reasonableness of the assumptions used in its post-employment and other long-term employee benefit computations. Information about such assumptions is described in Note 16.

2.3.1.4 INCOME TAXES

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Company recognizes deferred tax assets for unused tax losses and other credits and regularly reviews them for recoverability, based on its judgment regarding the probability of the timing and level of future taxable income, the expected timing of the reversals of existing taxable temporary differences and future tax planning strategies, see Note 24.

2.3.1.5 TAX, LABOR AND LEGAL CONTINGENCIES AND PROVISIONS

The Company is subject to various claims and contingencies related to tax, labor and legal proceedings as described in Note 25. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a provision and/or discloses the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a provision for the estimated loss. Management's judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

2.3.1.6 VALUATION OF FINANCIAL INSTRUMENTS

The Company measures all derivative financial instruments at fair value.

The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient reliable and verifiable data, recognized in the financial sector. The Company bases its forward price curves upon market price quotations. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 20.

2.3.1.7 BUSINESS COMBINATIONS

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

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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes* and IAS 19, *Employee Benefits*, respectively;
- Liabilities or equity instruments related to share-based compensation arrangements of the acquiree or share-based compensation arrangements of the Company entered into to replace share-based compensation arrangements of the acquiree are measured in accordance with IFRS 2, *Share-based Payment* at the acquisition date, see Note 3.27;
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- Indemnifiable assets are recognized at the acquisition date on the same basis as the indemnifiable liability subject to any contractual limitations.

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

2.3.1.8 EQUITY ACCOUNTED INVESTEES

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

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the Company and the investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

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

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

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

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

a) Whether all the parties or a group of the parties, control the arrangement, considering definition of joint control, as described in Note 3.14; and

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

As mentioned in Note 4, until January 2017, Coca-Cola FEMSA accounted for its 51% investment in Coca-Cola FEMSA Philippines, Inc. (CCFPI) as a joint venture, this was based on the facts that Coca-Cola FEMSA and TCCC: (i) make all operating decisions jointly during the initial four-year period and (ii) potential voting rights to acquire the remaining 49% of CCFPI were not probable to be exercised in the foreseeable future and the fact that the call option remains "out of the money" as of December 31, 2017. In January 2017, the arrangement between Coca-Cola FEMSA and TCCC for joint control of CCFPI expired; therefore, Coca-Cola FEMSA started to consolidate the operations of CCFPI effective February 2017. On August 16, 2018, Coca-Cola FEMSA announced the exercise of the put option to sell its 51% stake in CCFPI back to TCCC. Therefore, its operations for the years ended December 31, 2018 and 2017 were reclassified as discontinued operations in the consolidated income statements.

2.3.1.9 VENEZUELA EXCHANGE RATES AND DECONSOLIDATION

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

As is also explained in Note 3.3 below, effective December 31, 2017, the Company deconsolidated its Coca-Cola FEMSA subsidiary's operations in Venezuela due to the political and economic environment in that country and began accounting for its investments under the fair value method. Consequently, beginning January 1, 2018, all changes in the fair value of the investment, including foreign currency translation differences will be recognized for Venezuela's operations in *"Other comprehensive income, net of tax."*

2.4 APPLICATION OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Company has applied the following amendments to IFRS during 2018:

2.4.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company adopted IFRS 15 *Revenue from contracts with customers* for its consolidated financial statements as of the effective date January 1, 2018.

IFRS 15 establishes a 5-step model approach to which the entity recognizes revenue to depict the transfer of control of promise goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. According to the standard, a performance obligation may be satisted over time (which better reflects the pattern of the which the Company fulfills its performance obligations for the exchange of those goods and services) or at a point in time that the control of good and services are totally transferred to the customers.

For the transition, the Company applied the modified retrospective method by determining the cumulative effect as of the date of the standard adoption on the consolidated financial information for the years ended December 31, 2017 and prior periods. In this manner, the prior periods financial statements were not restated, concluding the impacts of adoption are immaterial to the consolidated financial statements.

In contrast to the previous issued standard, IFRS 15 describes the accounting treatment for variable considerations that may result from incentives given to customers (rebates and promotional allowances) which are included (estimated) in the transaction price to the extent that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Sale of goods

It includes the sales of goods by all the subsidiaries of the Company in which the revenue is recognized in the point of time those products were sold to the customers. Applying IFRS 15 did not result in a significant change in the revenues recognition pattern for the sale of goods because the performance obligation of all the activities of the Company were satisfied at the moment that the product is sold and the Company becomes entitled to the consideration promised in the arrangement; that is the control of the products are transfers in a point of time.

Rendering of services

It includes the revenues of distribution services, maintenance services and packing of raw materials that the Company recognizes as revenues when performance obligation is satisfied, which generally occurs over time since the related benefits are consumed by the customers as control is transferred and the arrangements cover a short period of time.

Financial products

It includes interest generated for the purpose to obtain yields generated from related financial assets which includes accounts receivables recorded when the following conditions are accomplished:

- The amount of the financial products can be measured reliably; and
- Is probable that the economic benefits outflow to the Company; for all the financial instruments that are measured at amortized cost. Therefore, there is no change in the recognition of revenues from financial products of related financial assets, which mainly are trade receivables; because the adoption of IFRS 9 *Financial Instruments: Classification and measurement* does not impact the assignment of those financial assets in the different business models establishes by the standard and including the measurement of those related financial assets measured at its amortized cost and applying the effective interest rate, which is the rate that exactly discounts the collections of cash flows to the expected life of the related financial asset.

The adoption of IFRS 15 does not have any impact on the Company, however it modifies its accounting policies with the purpose to align those to the new 5-step model established by IFRS 15. Those changes did not result in additional impacts for the revenue recognition in contrast to the previous standard. See Notes 3.25 and 27.

2.4.2 IFRS 9, FINANCIAL INSTRUMENTS

Classification and measurement of financial assets and liabilities, and hedge accounting

The Company adopted IFRS 9 *Financial Instruments* issued in July 2014 at the adoption date of January 1, 2018. The requirements under IFRS 9 supersede entirely those of IAS 39 *Financial Instruments: Classification and Measurement*. The nature and key effects of the changes within the accounting policies of the Company as a result of the adoption of IFRS 9 are summarized below.

The classification of financial assets under IFRS 9 is based on the business model over which the financial asset is managed and also the characteristics of the contractual cash flows. IFRS 9 contains three classification categories for financial assets: measured at amortized cost, fair value with changes in other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). IFRS 9 also allows equity instruments in non-listed companies to be designed as FVOCI, if they are intended to be held for the foreseeable future. The standard eliminates the categories of IAS 39: investments held to maturity, loans and accounts receivable and available for sale. According to IFRS 9, the embedded derivatives in contracts where the host contract is a financial asset under the scope of the standard will never be separated. In contrast, the hybrid financial instrument is evaluated as a whole for the evaluation of its classification. The adoption of IFRS 9 has not had a significant effect on the accounting policies of the Company in terms of classification and measurement of financial assets and related profit or loss accounts.

The Company chose to adopt the new hedge accounting model under IFRS 9. This implies that the Company confirms that hedge accounting relationships are aligned with its risk management, objectives and strategy and to apply a more qualitative and prospective approach to evaluate the effectiveness of hedges.

For an explanation of how the Company applies hedge accounting under IFRS 9, see Note 20.

Activities carried out in the adoption

The Company conducted a qualitative and quantitative evaluation for the adoption of IFRS 9. The activities carried out are the following:

- The determination of the business model within which the financial assets are held.
- Review and documentation of the business models for managing financial assets, accounting policies, processes and internal controls related to financial instruments.
- Update of documentation of the hedging relationships, as well as the policies for hedge accounting, and internal controls.
- All hedge relationships designated in accordance with the criteria of IAS 39 as of December 31, 2017 fulfilled the criteria and requirements to be designated as accounting hedges in accordance with IFRS 9 as of January 1, 2018 and, therefore, it was considered that they continue to be hedging relationships.

For classification, measurement and accounting for hedges, no significant changes were determined, except those related to the documentation of the adoption of the standard, which include the tests of holding for Solely Payments of Principal and Interest ("SPPI"), and the update of the hedge files. Therefore, no significant adjustments from the adoption of IFRS 9 were recognized in the consolidated financial statements of the entity in relation to the classification, measurement and accounting for hedges.

Impairment of financial assets

IFRS 9 replaces the loss incurred model in IAS 39 with an expected credit loss model. The new impairment model is applicable to financial assets measured at amortized cost and debt investments measured at FVOCI and other contractual assets. Under IFRS 9, the provision for impairment loss is recognized earlier than under IAS 39.

An analysis was carried out to determine the impact of the new expected credit loss model of financial assets to calculate the provisions that should be registered. As of January 1, 2018, the effect of adopting the standard within the retained earnings was Ps. 379, equivalent to 1% of the total portfolio maintained at the adoption date. The impact for the provisions of the financial assets under the new standard is not significant because most of the accounts receivable are characterized by recovering in the short term, which results in estimates of expected credit loss that approximates the previous provisions for doubtful accounts under IAS 39.

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

The IASB issued amendments to IFRS 2 *Share-based Payments* that address three main areas: (i) the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; (ii) the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and (iii) accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Company has no cash-settled share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company's consolidated financial statements.

2.4.4 OTHER ADJUSTMENTS

In addition to the adjustments described above, upon adoption of IFRS 9, other items of the primary financial statements such as deferred taxes, investment in an associate and a joint venture (arising from the financial instruments held by these entities), income tax expense, non-controlling interests and retained earnings were adjusted as necessary.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on FEMSA's consolidated financial statements.

Note 3. SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF CONSOLIDATION

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

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

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

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

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

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the carrying amount of any non-controlling interests.
- Derecognizes the cumulative translation differences recorded in equity.
- Recognizes the fair value of the consideration received.
- Recognizes the fair value of any investment retained.
- Recognizes any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

3.1.1 ACQUISITIONS OF NON-CONTROLLING INTERESTS

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

3.2 BUSINESS COMBINATIONS

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

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

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

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

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

Sometimes obtaining control of an acquiree in which equity interest is held immediately before the acquisition date is considered as a business combination achieved in stages also referred to as a step acquisition. The Company remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss. Also, the changes in the value of equity interest in the acquiree recognized in other comprehensive income shall be recognized on the same basis as required if the Company had disposed directly of the previously held equity interest, see Note 3.14.

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

(a) The acquiree repurchases a sufficient number of its own shares for the Company to obtain control.

(b) Minority veto rights lapse that previously kept the Company from controlling an acquiree in which it held the majority voting rights.

(c) The Company and the acquiree agree to combine their businesses by contract alone in which it transfers no consideration in exchange for control and no equity interest is held in the acquiree, either on the acquisition date or previously.

3.3 FOREIGN CURRENCIES, CONSOLIDATION OF FOREIGN SUBSIDIARIES AND ACCOUNTING EQUITY ACCOUNTED INVESTEES

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

Exchange differences on monetary items are recognized in consolidated net income in the period in which they arise except for:

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

Foreign exchange differences on monetary items are recognized in profit or loss. Their classification in the income statement depends on their nature. Differences arising from fluctuations related to operating activities are presented in the "other expenses" line (see Note 19) while fluctuations related to non-operating activities such as financing activities are presented as part of "foreign exchange gain (loss)" line in the income statement.

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

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of equity accounted investees that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss. In September 2017, the Company sold shares equal to 5.2% of economic interest in Heineken Group, consequently it reclassified the proportionate share of the accumulated exchange differences, recognized previously in other comprehensive income, for a total profit of Ps. 6,632 to the consolidated income statement.

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

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

		Exchange Rates of Local Currencies Translated to Mexican Pesos [1]				
		Average Exchange Rate for			Exchange Rate as of	
Country or Zone	Functional / Recording Currency	2018	2017	2016	December 31, 2018	December 31, 2017
Guatemala	Quetzal	2.56	2.57	2.46	2.54	2.69
Costa Rica	Colon	0.03	0.03	0.03	0.03	0.03
Panama	U.S. dollar	19.24	18.93	18.66	19.68	19.74
Colombia	Colombian peso	0.01	0.01	0.01	0.01	0.01
Nicaragua	Cordoba	0.62	0.63	0.65	0.61	0.64
Argentina	Argentine peso	0.73	1.15	1.26	0.52	1.06
Venezuela a)	Bolivar	-	a)	a)	-	a)
Brazil	Reais	5.29	5.94	5.39	5.08	5.97
Chile	Chilean peso	0.03	0.03	0.03	0.03	0.03
Euro Zone	Euro (€)	22.71	21.32	20.66	22.54	23.57
Peru	Nuevo Sol	5.85	5.78	5.53	5.83	6.08
Ecuador	U.S. dollar	19.24	18.93	18.66	19.68	19.74
Philippines	Philippine peso	0.37	0.38	0.39	0.37	0.40
Uruguay	Uruguayan peso	0.63	0.66	0.71	0.61	0.69

[1] Exchange rates published by the Central Bank of each country where the Company operates.

A) VENEZUELA

Effective December 31, 2017, the Company determined that the deteriorating conditions in Venezuela had led Coca-Cola FEMSA to no longer meet the accounting criteria to consolidate its Venezuelan subsidiary. Such deteriorating conditions had significantly impacted Coca-Cola FEMSA's ability to manage its capital structure, its capacity to purchase raw materials and limitations of portfolio dynamics. In addition, certain government controls over pricing, restriction over labor practices, acquisition of U.S. dollars and imports, has affected the normal course of business. Therefore, and due to the fact that its Venezuelan subsidiary will continue doing operations in Venezuela, as of December 31, 2017, Coca-Cola FEMSA changed the method of accounting for its investment in Venezuela from consolidation to fair value measured using a Level 3 concept.

As a result of the deconsolidation, Coca-Cola FEMSA also recorded loss within other expenses for an amount of Ps. 28,177 for the year ended December 31, 2017. Such effect includes the reclassification of Ps. 26,123 previously recorded as exchange differences on translation of foreign subsidiaries and equity accounted investees in equity, impairment equal to Ps. 745 and Ps. 1,098 mainly from distribution rights and property, plant and equipment, respectively, and Ps. 210 for the remeasurement at fair-value of Venezuelan investment.

Prior to deconsolidation, during 2017, Coca-Cola FEMSA's Venezuelan operations contributed Ps. 4,005 to net sales, and losses of Ps. 2,223 to net income. Its total assets were Ps. 4,138 and the total liabilities were Ps. 2,889.

Beginning on January 1, 2018, Coca-Cola FEMSA recognizes its investment in Venezuela under the fair value through OCI method following the new IFRS 9 *Financial Instruments* standard.

Exchange rate

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

Step-one.- Transactions are first recorded in the stand-alone accounts of the Venezuelan subsidiary in its functional currency, which is bolivar. Any non-bolivar denominated monetary assets or liabilities are translated into bolivars at each balance sheet date using the exchange rate at which Coca-Cola FEMSA expects them to be settled, with the corresponding effect of such translation being recorded in the income statement. See 3.4 below.

As of December 31, 2016, Coca-Cola FEMSA had U.S. $629 million in monetary liabilities recorded using Divisa Protegida ("DIPRO") exchange rate at 10 bolivars per U.S. dollar, mainly because as of that date Coca-Cola FEMSA believed it continued to qualify for that rate to pay for the import of various products into Venezuela, and its ability to renegotiate with their main suppliers, if necessary, the settlement of such liabilities in bolivars. In addition, Coca-Cola FEMSA has U.S. $104 million recorded at Divisas Complementarias ("DICOM") exchange rate at 673.76 bolivars per U.S. dollar.

Step-two.- In order to integrate the results of the Venezuelan operations into the consolidated figures of Coca-Cola FEMSA, such Venezuelan results are translated from Venezuelan bolivars into Mexican pesos.

In December 2017, Coca-Cola FEMSA translated the Venezuela entity figures at an exchange rate of 22,793 bolivars per U.S. dollar, as such exchange rate better represents the economic conditions in Venezuela. Coca-Cola FEMSA considers that this exchange rate provides more useful and relevant information with respect to Venezuela's financial position, financial performance and cash flows. On January 30, 2018, a new auction of the DICOM celebrated by Venezuela's government resulted on an estimated exchange rate of 25,000 bolivar per U.S. dollar.

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

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

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

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

As disclosed in Note 3.3, Coca-Cola FEMSA deconsolidated its Venezuelan operations. Consequently, the Venezuelan investment is no longer consolidated by Coca-Cola FEMSA, however, Coca-Cola FEMSA's Venezuelan subsidiary will continue operating.

As of December 31, 2018, 2017, and 2016, the operations of the Company are classified as follows:

Country	Cumulative Inflation 2016- 2018	Type of Economy	Cumulative Inflation 2015- 2017	Type of Economy	Cumulative Inflation 2014- 2016	Type of Economy
Mexico	15.7%	Non-hyperinflationary	12.7%	Non-hyperinflationary	9.9%	Non-hyperinflationary
Guatemala	12.2%	Non-hyperinflationary	13.5%	Non-hyperinflationary	10.6%	Non-hyperinflationary
Costa Rica	5.7%	Non-hyperinflationary	2.5%	Non-hyperinflationary	5.1%	Non-hyperinflationary
Panama	2.1%	Non-hyperinflationary	2.3%	Non-hyperinflationary	2.8%	Non-hyperinflationary
Colombia	13.4%	Non-hyperinflationary	17.5%	Non-hyperinflationary	17.0%	Non-hyperinflationary
Nicaragua	13.1%	Non-hyperinflationary	12.3%	Non-hyperinflationary	13.1%	Non-hyperinflationary
Argentina (a)	158.4%	Hyperinflationary	101.5%	Non-hyperinflationary	99.7%	Non-hyperinflationary
Venezuela	–	Hyperinflationary	30,690.0%	Hyperinflationary	2,263.0%	Hyperinflationary
Brazil	25.0%	Non-hyperinflationary	21.1%	Non-hyperinflationary	25.2%	Non-hyperinflationary
Philippines	11.9%	Non-hyperinflationary	7.5%	Non-hyperinflationary	5.7%	Non-hyperinflationary
Euro Zone	2.7%	Non-hyperinflationary	2.7%	Non-hyperinflationary	1.2%	Non-hyperinflationary
Chile	9.7%	Non-hyperinflationary	9.7%	Non-hyperinflationary	12.2%	Non-hyperinflationary
Peru	9.3%	Non-hyperinflationary	9.3%	Non-hyperinflationary	11.2%	Non-hyperinflationary
Ecuador	30.3%	Non-hyperinflationary	30.3%	Non-hyperinflationary	8.4%	Non-hyperinflationary
Uruguay	25.3%	Non-hyperinflationary	–	Non-hyperinflationary	–	Non-hyperinflationary

A) ARGENTINA

As of December 2017 and 2016 there were multiple inflation indexes (including combination of indices in the case of CPI) or certain months without official available information in the case of National Wholesale Price Index ("WPI") which provide different inflation indexes for Argentina, therefore, there was different judgments about the criteria in the application of hyperinflation for this country.

Beginning on July 1, 2018, Argentina was classified as hyperinflationary economy based on several consumer price indexes of the country. Therefore, the financial statements of the subsidiary were remeasured in its functional currency (Argentine peso) but they were not restated in its presentation currency (Mexican pesos) as it is not stated as a hyperinflationary economy. In addition, the Company's financial statements for prior periods were not restated for comparative purposes. For being considered hyperinflationary, the financial information for our Argentine subsidiary has been adjusted to recognize the inflationary effects since January 1, 2018 through:

- Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, net, intangible assets, net, including related costs and expenses when such assets are consumed or depreciated.
- Recognize the monetary position gain or loss in consolidated net income.

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

The Federacion Argentina de Consejos Profesionales de Ciencias Económicas ("FACPCE") approved on September 29, 2018 and published on October 5, 2018, a resolution in which states that general index price must be computed by the inflation factor for non-monetary assets and by November and December 2015 CPI and CABA variation, respectively.

Because of multiple price indexes, the Company is required to use judgment in determining the most practical inflation factor to be applied in the Company in despite of the FACPCE's resolution. Therefore, it has decided to continue with the recognition of the inflationary effects for the Argentine subsidiary by applying the consumer price index, since the difference inflationary effects between such indexes does not represents a material effect in the results of the Company.

3.5 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash is comprised of deposits in bank accounts which generate an interest on the available balance. Cash equivalents are mainly represented by short-term bank deposits and fixed-income investments (overnight), both with maturities of three months or less and their carrying values approximate fair value.

The Company also maintains restricted cash which is insured as collateral to meet certain contractual obligations. Restricted cash is presented within other current financial assets given that, by their nature, the restrictions are short-term.

3.6 INVESTMENTS

The investments include debt securities and bank deposits with a maturity of more than three months as of the acquisition date. Management determines the appropriate classification of investments at the time of purchase and evaluates that classification at the date of each statement of financial position, see Notes 6 and 13.

3.7 FINANCIAL ASSETS

Financial assets are classified within the following business models depending on management's objective: (i) "held to maturity to recover cash flows", (ii) "held to maturity and to sell financial assets" and (iii) "others or held for trading", including derivatives assigned in hedging instruments with efficient hedge, as appropriate. The classification depends on the nature and purpose of holding the financial assets and is determined at the time of initial recognition.

The Company performs a portfolio – level assessment of the business model in which a financial asset is managed to accomplish with Company's risk management purposes. The information that is considered within the evaluation includes:

- The policies and objectives of the Company in relation to the portfolio and the practical implementation of policies;
- Performance and evaluation of the Company's portfolio including accounts receivable;
- Risks that affect the performance of the business model and how those risks are managed;
- Any compensation related to the performance of the portfolio; and
- Frequency, volume and timing of sales of financial assets in previous periods together with the reasons for said sales and expectations regarding future sales activities.

The Company's financial assets include cash, cash equivalents and restricted cash, investments with maturities of more than three months, loans and accounts receivable, derivative financial instruments and other financial assets.

For the initial recognition of a financial asset, the Company measures it at fair value plus the transaction costs that are directly attributable to the purchase thereof, in the event that said asset is not measured at fair value through profit or loss. Accounts receivable that do not have a significant financing component are measured and recognized at the transaction price when they are generated. The rest of the financial assets are recognized only when the Company is part of the contractual provisions of the instrument.

The fair value of an asset is measured using assumptions that would be used by market participants when valuing the asset, assuming that the transaction is orderly and takes place in the principal or the most advantageous market for the asset.

During the initial recognition, the financial asset is also classified as measured at: amortized cost, fair value with changes in other comprehensive income – debt or equity investments – and fair value through profit or loss. The classification depends on the objective by which the financial asset is acquired.

Financial assets are not reclassified after their initial recognition unless the Company changes the business model to manage the financial assets; in which case, all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

3.7.1 FINANCIAL ASSETS AT AMORTIZED COST

A financial asset is measured at amortized cost if it meets the following two conditions and is not designated as FVTPL:

- Its managed within a business model whose objective is to maintain financial assets to recover the contractual cash flows; and
- The contractual terms are only payments at specified dates of the principal and interest on the amount of the outstanding principal.

The amortized cost of a financial asset is the amount of the initial recognition less the principal payments, plus or less the accumulated amortization using the effective interest rate method of any difference between the initial amount and the amount as of the maturity and, for financial assets, adjusted for loss of impairment. The financial product, exchange fluctuation and impairment are recognized in results. Any profit or loss is also recognized in the same way in results.

3.7.2 EFFECTIVE INTEREST RATE METHOD (“ERR”)

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

3.7.3 FINANCIAL ASSETS AT FAIR VALUE WITH CHANGES IN OTHER COMPREHENSIVE INCOME

A financial asset is measured in FVOCI if it meets the following two conditions and is not designated as FVTPL:

- Its managed within a business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets; and
- The contractual terms are only payments of the principal and interest on the amount of the outstanding principal.

These assets are subsequently measured at fair value. The financial product calculated using the internal rate of return (“IRR”), the exchange fluctuation and the impairment are recognized in profit and loss. Other gains and losses, related to changes in fair value, are recognized in OCI. In case of disposals, the accumulated gains and losses in OCI are reclassified to profit and loss.

In the initial recognition of a capital instrument that is not held for trading, under the “other” business model, the Company may irrevocably choose to present changes in the fair value of the investment in OCI. This choice is made at the level of each investment. Equity instruments are subsequently measured at fair value. Dividends are recognized as profit in results unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses, related to changes in fair value, are recognized in OCI and are considered items that will not be reclassified to consolidated net income in subsequent periods.

3.7.4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated as fair value through profit and loss include financial assets held for trading and financial assets designated at initial recognition as fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the short term. Derivatives, including embedded derivatives are also classified as held for trading unless they are allocated as effective hedging instruments. Financial assets at fair value through profit or loss are recorded in the balance sheet with changes in fair value presented as financial costs (net negative changes in fair value) or financial products (net positive changes in fair value) in profit or loss, including any dividend income.

3.7.5 EVALUATION THAT CONTRACTUAL CASH FLOWS ARE SOLELY PRINCIPAL AND INTEREST PAYMENTS (“SPPI”)

In order to classify a financial asset within one of the three different categories, the Company determines whether the contractual cash flows of the asset are only principal and interest payments. The Company considers the contractual terms of the financial instrument and whether the financial asset contains any contractual term that could change the timing or amount of the contractual cash flows in such a way that it would not meet the SPPI criteria. In making this evaluation, the Company considers the following:

- Contingent events that would change the amount or timing of cash flows;
- Terms that can adjust the contractual coupon rate, including variable interest rate characteristics;
- Payment and extension features; and
- Characteristics that limit the Company’s right to obtain cash flows from certain assets.

A prepaid feature is consistent with the characteristics of only principal and interest payments if the prepayment amount substantially represents the amounts of the principal and interest pending payment, which could include reasonable compensation for early termination of the contract. Additionally, a financial asset acquired or originated with a premium or discount to its contractual amount and in the initial recognition the fair value of the prepaid characteristic is insignificant, the asset will pass the test of the contractual characteristics of cash flow if the amount of prepaid represents substantially the contractual amount and accrued interest (but not paid); which may include additional compensation for the early termination of the contract.

3.7.6 IMPAIRMENT OF FINANCIAL ASSETS

The Company recognizes impairment due to expected credit loss ("ECL") in:

- Financial assets measured at amortized cost;
- Debt investments measured at FVOCI; and
- Other contractual assets.

Impairment losses on accounts receivable, contractual assets and leasing receivables are measured at the amount that equals the lifetime expected loss of credit, whether or not it has a significant component. The Company applies the criteria to all accounts receivable, contractual assets and leasing credits, together or separately.

The Company measures impairment losses at an amount that equals to lifetime ECL, except for the following:

- Debt instruments classified as low credit risk; and
- Other debt instruments in which the credit risk (irrecoverability risk over the financial instrument expected life) has not increased significantly since the initial recognition.

In determining whether the credit risk of a financial asset has increased significantly since initial recognition and estimating the ECL, the Company considers reasonable and sustainable information that is relevant and available without undue cost or effort. It includes qualitative and quantitative analysis based on Company's experience and credit assessment.

The impairment loss is a weighted estimate of the probability of expected loss. The amount of impairment loss is measured as the present value of any lack of liquidity (the difference between the contractual cash flows that correspond to the Company and the cash flows that management expects to receive). The expected credit loss is discounted at the original effective interest rate of the financial asset.

The Company annually evaluates if there was evidence of an impairment. Some observable data that financial assets were impaired includes:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as default or past due event;
- Granting concessions due to the borrower's financial difficulties in which Company would not consider in other circumstances.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for a financial instrument because of financial difficulties; or
- Information indicating that there was a measurable decrease in the expected cash flows of a group of financial assets.

For a capital instrument, evidence of impairment includes a significant decrease in its fair value even lower than its carrying value.

The impairment loss on financial assets measured at amortized cost is reduced from the book value and for financial assets measured at FVOCI, the impairment loss is recognized as profit or loss within OCI.

3.7.7 DERECOGNITION

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

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

3.7.8 OFFSETTING OF FINANCIAL INSTRUMENTS

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

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

3.8 OTHER FINANCIAL ASSETS

Other financial assets include long term accounts receivable, derivative financial instruments and recoverable contingencies acquired from business combinations. Long term accounts receivable with a stated term are measured at amortized cost using the effective interest method, less any impairment.

3.9 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

3.9.1 HEDGE ACCOUNTING

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

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

3.9.2 CASH FLOW HEDGES

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

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

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

3.9.2.1 FAIR VALUE HEDGES

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

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

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

3.9.2.2 HEDGE OF NET INVESTMENT IN A FOREIGN BUSINESS

The Company designates debt securities as a hedge of certain net investment in foreign subsidiaries and applies hedge accounting to foreign currency differences arising between the functional currency of its investments abroad and the functional currency of the holding company (Mexican peso), regardless of whether the net investment is held directly or through a sub-holding company.

Differences in foreign currency that arise in the conversion of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income in the exchange differences on the translation of foreign operations and associates caption, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized as market value gain or loss on financial instruments within the consolidated income statements. When part of the hedge of a net investment is disposed, the corresponding accumulated foreign currency translation effect is recognized as part of the gain or loss on disposal within the consolidated income statement.

3.10 FAIR VALUE MEASUREMENT

The Company measures financial instruments, such as derivatives, and certain non-financial assets, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Notes 13 and 18.

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

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

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

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

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

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

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

The Company determines the policies and procedures for both recurring fair value measurements, such as those described in Note 20 and unquoted liabilities such as debt described in Note 18.

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

3.11 INVENTORIES AND COST OF GOODS SOLD

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

Inventories represent the acquisition or production cost which is incurred when purchasing or producing a product and are based on the weighted average cost formula. The operating segments of the Company use inventory costing methodologies to value their inventories, such as the weighted average cost method in Coca-Cola FEMSA, retail method (a method to estimate the average cost) in FEMCO – Proximity, FEMCO – Health Division; and acquisition method in FEMCO – Fuel Division, except for the distribution centers which are valued with average cost method.

Cost of goods sold includes expenses related to the purchase of raw materials used in the production process, as well as labor costs (wages and other benefits), depreciation of production facilities, equipment and other costs, including fuel, electricity, equipment maintenance and inspection; expenses related to the purchase of goods and services used in the sale process of the Company's products and expenses related to the purchase of gasoline, diesel and all engine lubricants used in the sale process of the Company.

3.12 LOANS AND RECEIVABLES

The instruments under this category includes loans, trade receivables, and other accounts receivables measured at amortized cost which represents future cash flows discounted at the effective interest rate of the transaction date.

In addition, an expected credit loss model is applied to this category, which is reported net of this impairment allowance in the financial statements. The allowance amount is not significant because the trade accounts receivable are usually recovered in the short term.

Interest income is recognized by applying the effective interest rate except for current receivables, considering that the recognition of interest is immaterial. For the years ended December 31, 2018 and 2017 there was no interest income on loans and receivables. For the year ended December 31, 2016 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements was Ps. 41.

3.13 OTHER CURRENT ASSETS

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

Prepaid assets principally consist of advances to suppliers of raw materials, advertising, promotional, leasing and insurance costs, and are recognized as other current assets at the time of the cash disbursement. Prepaid assets are carried to the appropriate caption in the income statement when inherent benefits and risks have already been transferred to the Company or services have been received, respectively.

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

Coca-Cola FEMSA has agreements with customers for the right to sell and promote Coca-Cola FEMSA's products over a certain period. The majority of these agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract, with amortization presented as a reduction of net sales. During the years ended December 31, 2018, 2017 and 2016, such amortization aggregated to Ps. 277, Ps. 759 and Ps. 582, respectively.

3.14 EQUITY ACCOUNTED INVESTEES

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

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

The consolidated financial statements include the Company's share of the consolidated net income and other comprehensive income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

Profits and losses resulting from 'upstream' and 'downstream' transactions between the Company (including its consolidated subsidiaries) and an associate are recognized in the consolidated financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the Company. 'Downstream' transactions are, for example, sales of assets from the Company to an associate. The Company's share in the associate's profits and losses resulting from these transactions is eliminated.

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

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

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

If an investment interest is reduced, but continues to be classified as an associate, the Company reclassifies to profits or losses the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to the reduction in ownership interest if the gain or loss would be required to be reclassified to consolidated net income on the disposal of the related investment.

The Company reclassifies in each case proportionate to the interest disposed of recognized in other comprehensive income: i) foreign exchange differences, ii) accumulated hedging gains and losses, iii) any other amount previously recognized that would had been recognized in net income if the associate had directly disposed of the asset to which it relates.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value.

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

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method. As of December 31, 2018 and 2017 the Company does not have an interest in joint operations.

If an investment interest is reduced, but continues to be classified as joint arrangement, the Company reclassifies to profits or losses the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to the reduction in ownership interest if the gain or loss would be required to be reclassified to consolidated net income on the partial disposal of the related investment.

The Company reclassifies the proportion to the interest disposed of in joint ventures investment interest reduction. During the years ended December 31, 2018 and 2017 the Company does not have a significant disposal or partial disposal in joint arrangements.

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

3.15 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

	Years
Buildings	25-50
Machinery and equipment	10-20
Distribution equipment	7-15
Refrigeration equipment	5-7
Returnable bottles	1.5-4
Leasehold improvements	The shorter of lease term or 15 years
Information technology equipment	3-5
Other equipment	3-10

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

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

Returnable and non-returnable bottles:

Coca-Cola FEMSA has two types of bottles: returnable and non-returnable.

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

There are two types of returnable bottles:

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

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

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

3.16 BORROWING COSTS

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

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

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

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

3.17 INTANGIBLE ASSETS

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

Intangible assets with finite useful lives are amortized and mainly consist of:

- Information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over their expected useful lives, with a range in useful lives from 3 to 10 years. Expenditures that do not fulfill the requirements for capitalization are expensed as incurred.
- Long-term alcohol licenses are amortized using the straight-line method over their estimated useful lives, which range between 12 and 15 years, and are presented as part of intangible assets with finite useful lives.

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

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

The Company's intangible assets with an indefinite life mainly consist of rights to produce and distribute Coca-Cola trademark products in the Company's territories. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers. Additionally, the Company's intangible assets with an indefinite life also consist of FEMCO – Health Division's trademark rights which consist of standalone beauty store retail banners, pharmaceutical distribution to third-party clients and the production of generic and bioequivalent pharmaceuticals.

As of December 31, 2018, and in regards to a joint restructure with TCCC for the bottling agreements, Coca-Cola FEMSA had four bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) one agreement for the Bajio territory, which is up for renewal in May 2025 and (iv) the agreement for the Golfo territory, which is up for renewal in May 2025.

As of December 31, 2018, and in regards to a joint restructure with TCCC for the bottling agreements, Coca-Cola FEMSA had two bottler agreements in Brazil which are up for renewal in October 2027; and three bottler agreements in Guatemala, which are up for renewal in March 2025 and April 2028 (two contracts).

In addition, Coca-Cola FEMSA had one bottler agreement in each country which are up for renewal as follows: Argentina, which is up for renewal in September 2024; Colombia which is up for renewal in June 2024; Panama which is up for renewal in November 2024; Venezuela which is up for renewal in August 2026; Costa Rica which is up for renewal in September 2027; Nicaragua which is up for renewal in May 2026; and Uruguay which is up for renewal in June 2028.

The bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent Coca-Cola FEMSA from selling Coca-Cola trademark beverages in the affected territory and would have an adverse effect on the Company´s business, financial conditions, results from operations and prospects.

3.18 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

- The appropriate level of management must be committed to a plan to sell the asset (or disposal group);
- An active programme to locate a buyer and complete the plan must have been initiated;
- The active (disposal group) must be actively marketed for sale at a price is reasonable in relation to its current fair value; and
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

The discontinued operations are operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity, that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the continuing operations and are also presented as a single entity as earnings (loss) after income taxes of discontinued operations in the income statement. For further information, please see Note 5. In addition, the information included elsewhere in this report, includes only continuing operations otherwise it would be indicated the opposite.

3.19 IMPAIRMENT OF LONG-LIVED ASSETS

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

For the purpose of impairment testing goodwill acquired in a business combination, from the acquisition date, is allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

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

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

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

For the year ended December 31, 2018 and December 31, 2017, the Company recognized impairment losses of Ps. 432 and Ps. 2,063, respectively (see Note 19).

3.20 LEASES

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

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

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are recognized immediately in consolidated net income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

3.21 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

3.21.1 CLASSIFICATION AS DEBT OR EQUITY

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

3.21.2 EQUITY INSTRUMENTS

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

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

3.21.3 FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at amortized cost, except for derivatives instruments designated as hedging instruments in an effective hedge, financial liabilities arising from transfer of a financial asset that does not qualify for derecognition, financial guarantee contracts and contingent consideration obligation in a business combination, as appropriate, which are recognized at FVTPL. The Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments, see Note 3.9.

Subsequent measurement

The subsequent measurement of the Company's financial liabilities depends on their classification as described below.

3.21.4 LOANS AND BORROWINGS

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. The effective interest method amortization is included in interest expense in the consolidated income statements, see Note 18.

3.21.5 DERECOGNITION

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

3.22 PROVISIONS

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

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

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

The Company recognizes a provision for a loss contingency when it is probable (i.e., the probability that the event will occur is greater than the probability that it will not) that certain effects related to past events, would materialize and can be reasonably quantified. These events and their financial impact are also disclosed as loss contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized, see Note 25.

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

3.23 POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFITS

Post-employment and other long-term employee benefits, which are considered to be monetary items, include obligations for pension and retirement plans, seniority premiums and postretirement medical services, are all based on actuarial calculations, using the projected unit credit method.

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

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

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

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

a) When it can no longer withdraw the offer of those benefits; or

b) When it recognizes costs for a restructuring that is within the scope of IAS 37 *"Provisions, Contingent Liabilities and Contingent Assets,"* and involves the payment of termination benefits.

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

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

3.24 REVENUE RECOGNITION

The Company recognizes revenue when the control of performance obligations included in the contract are transferred to the customer. Control refers to the ability that customer has to direct the use and also to obtain substantially all the benefits of the goods or services exchanged.

Management defined the following as indicators to analyze the timing and circumstances as well as the amount by which the revenues would be recognized:

- Identify the contract(s) with a customer (written, oral or any other according with business practices);
- Evaluating the goods and services committed in the contract and identify how each performance obligation in the contract will be transferred to the customer;
- Considering the contractual terms jointly with business practices to determinate the transaction price. The transaction price is the amount of the consideration the Company expects to receive in exchange for transferring the committed goods and services to the customer, excluding tax on sales. The expected consideration in a contract should include fixed or variable amounts, or both;
- Allocate the transaction price to each performance obligations in the contract (to each good and service) for an amount that represents the consideration to which the entity expects to receive in exchange to the goods and services arranged with the customer; and
- Recognise revenue when (or as) the entity satisfies a performance obligation in exchange for committed goods and services.

All of the above conditions are typically met at the point in time that goods are delivered to the customer at the customers' facilities. Net sales reflect units delivered at list prices reduced by promotional allowances and discounts.

The benefits granted from supplier to the Company as discounts and incentives are recognized as benefit in the cost of goods sold, because they do not represent an additional revenue by mean of which a separate performance obligation is to be satisfied, with a separate reasonable fair value to be identified by the Company.

The Company generates revenues for the following activities:

Sale of goods

It includes the sales of goods by all the subsidiaries of the Company, mainly the sale of beverages of the leading brand of Coca-Cola and the sale or consumption of goods in the small-format stores of the FEMCO – Proximity, FEMCO – Health and FEMCO – Fuel Divisions; in which the revenue is recognized in the point of time those products were sold to the customers. See Note 27.

Rendering of services

It includes the revenues of distribution services, maintenance services and packing of raw materials that the Company recognizes as revenues as the related performance obligation is satisfied. The Company recognizes revenues for rendering of services during the time period in which the performance obligation is satisfied according with the following conditions:

- The customer receives and consume simultaneously the benefits, as the Company satisfies the obligation;
- The customer controls related assets, even if the Company improve them;
- The revenues can be measured reliably; and
- Is probable that economic benefits will flow to the Company.

Financial products

It includes interest generated on related financial assets used by third parties which includes accounts receivables recorded when the following conditions are accomplished:

- The revenues can be measured reliably; and
- It is probable that economic benefits will flow to the Company.

In addition, the Company evaluates the revenue recognition based on the classification previously defined for the financial asset that generates the related financial product, according with the business models establishes for the financial instruments classified by the Company. See Note 3.9.

The main financial instruments of the Company that could generate a financial product are trade accounts receivables classified as financial assets held to maturity to cover cash flows which are measured at amortized cost through the effective interest rate method, applying EIR, which is the rate that exactly discounts the collections of cash flows to the expected life of the related financial asset.

Rewards programs

The Company recognizes a provision for the obligation to award additional benefits to its customers. Management considers for those effects, the expectation that some percentage of its customers would not redeem their rewards points in future based on previous experience.

Variable allowances granted to customers

The Company adjust the transaction price based on its estimated amount of rebates and promotional allowances, among others. Those estimations include commercial commitments with customers and previous expected performance. The variable allowances are assigned to each related performance obligation.

Contacts costs

The incremental costs to obtain a contract with a customer are recognized as an asset (capitalized) if the Company expect to recover those costs. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Company recognizes those costs as an expense in the income statement when the income associated with those costs is incurred for a period is equal to or less than a year. For any other cost that is related with the fulfillment of a contract with a customer, but it is not part of the own revenue recognition, then this will be considered as an asset including related costs, but only if those costs are related with a contract or with a contract that the Company expects to identify specifically and also, those costs generates or improves the resources of the Company that will be applied to satisfy, or continue satisfying; the performance obligations in the future and that is expected to recover those costs. The asset recognized is amortized progressively in the same manner as the exchange of the goods and services are transferred to the customer, accordingly, the asset is recognized in the income statement through its amortization in the same period of time in which the revenue is recognized.

3.25 ADMINISTRATIVE AND SELLING EXPENSES

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

Selling expenses include:

- Distribution: labor costs, outbound freight costs, warehousing costs of finished products, write off of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2018, 2017 and 2016, these distribution costs amounted to Ps. 23,421, Ps. 20,800 and Ps. 20,250, respectively;
- Sales: labor costs and sales commissions paid to sales personnel; and
- Marketing: promotional expenses and advertising costs.

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

3.26 INCOME TAXES

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

3.26.1 CURRENT INCOME TAXES

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

3.26.2 DEFERRED INCOME TAXES

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, including tax loss carryforwards and certain tax credits, to the extent that it is probable that future taxable profits, reversal of existing taxable temporary differences and future tax planning strategies will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from initial recognition of goodwill (no recognition of deferred tax liabilities) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes, the Company recognizes in connection with the acquisition accounting a deferred tax asset for the tax effect of the excess of the tax basis over the related carrying value.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

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

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

In Mexico, the income tax rate is 30%, for 2018, 2017 and 2016, and it will remain at 30% for the following years.

3.27 SHARE-BASED PAYMENTS ARRANGEMENTS

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

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed and recognized based on the graded vesting method over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in consolidated income statements such that the cumulative expense reflects the revised estimate.

3.28 EARNINGS PER SHARE

The Company presents basic and diluted earnings per share ("EPS") data for its shares. Basic EPS is calculated by dividing the net income attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the year. Diluted EPS is determined by adjusting the weighted average number of shares outstanding including the weighted average of own shares purchased in the year for the effects of all potentially dilutive securities, which comprise share rights granted to employees described above.

3.29 ISSUANCE OF SUBSIDIARY COMMON SHARES

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

Note 4. MERGERS, ACQUISITIONS AND DISPOSALS

4.1 MERGERS AND ACQUISITIONS

The Company has consummated certain mergers and acquisitions during 2018, 2017 and 2016; which were recorded using the acquisition method of accounting. The results of the acquired operations have been included in the consolidated financial statements since the date on which the Company obtained control of the business, as disclosed below. Therefore, the consolidated income statements and the consolidated statements of financial position in the year of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2018, 2017 and 2016 show the cash outflow and inflow for the merged and acquired operations net of the cash acquired related to those mergers and acquisitions.

4.1.1 OTHER ACQUISITIONS OF COCA-COLA FEMSA

During 2018, the Company completed acquisitions which in the aggregate amounted to Ps. 5,692. These acquisitions were primarily related to the following: 1) Acquisition of 100% of the Guatemalan Company Alimentos y Bebidas del Atlántico, S.A. ("ABASA"), which was a bottler of Cola-Cola Company products which operated in the north and orient zone of Guatemala, which is included in the Company results since May, 2018; (2) Acquisition of 100% of Comercializadora y Distribuidora Los Volcanes S.A. ("Los Volcanes") which was a bottler of Cola-Cola Company products which operated in the south and occident zone of Guatemala and which is included in the Company' consolidated results beginning on May, 2018; and (3) Acquisition of 100% of Montevideo Refrescos S.R.L. ("MONRESA") founded in 1943 and is the responsible of the production and distribution for the Coca-Cola Company brands portfolio in Uruguay, reaching a market of 3.4 millions of consumers through 26 thousand points of sale; which is included in the consolidated financial results beginning on July 2018.

The Company is in the process of finalizing the allocation of the purchase price to the fair values of the identifiable assets acquired and liabilities assumed. This process is expected to be completed for each acquisition within 12 months of the acquisition date.

The preliminary allocation on the purchase prices to the fair value of the net assets acquired is as follows:

		2018
Total current assets (including cash acquired of Ps. 860)	Ps.	1,846
Total non-current assets		3,795
Distribution rights		4,602
Total assets		10,243
Total liabilities		(3,691)
Net assets acquired		6,552
Total consideration transferred		6,552
Cash acquired		(860)
Net cash paid	Ps.	5,692

Coca-Cola FEMSA expects to recover the registered amounts recorded as goodwill through the synergies related to the available production capacity.

The income statement information of these acquisitions for the period from the acquisition date through to December 31, 2018 is as follows:

Income Statement		2018
Total revenues	Ps.	4,628
Income before income taxes		496
Net income	Ps.	413

4.1.2 ACQUISITION OF PHILIPPINES

In January 25, 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in CCFPI from The Coca-Cola Company. As mentioned in Note 20.7, Coca-Cola FEMSA has a call option to acquire the remaining 49.0% stake in CCFPI at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in CCFPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Pursuant to the Company's shareholders' agreement with The Coca-Cola Company, during a four-year period that ended on January 25, 2017, all decisions relating to CCFPI were approved jointly with The Coca-Cola Company.

Since January 25, 2017, Coca-Cola FEMSA controls CCFPI's as all decisions relating to the day-to-day operation and management of CCFPI's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) CCFPI's Chief Financial Officer. Coca-Cola FEMSA has the right to appoint (and may remove) the Chief Executive Officer and all other officers of CCFPI. Commencing on February 1, 2017, Coca-Cola FEMSA started consolidating CCFPI's financial results.

Coca-Cola FEMSA's fair value of CCFPI net assets acquired to the date of acquisition (February 2017) is as follows:

		2017 Final Purchase Price Allocation
Total current assets	Ps.	9,645
Total non-current assets		18,909
Distribution rights		4,144
Total assets		32,698
Total liabilities		(10,101)
Net assets acquired		22,597
Net assets acquired attributable to the parent company (51%)		11,524
Non-controlling interest		(11,073)
Fair value of the equity interest at the acquisition date		22,110
Carrying value of CCFPI investment derecognized		11,690
Loss as a result of remeasuring to fair value the equity interest		(166)
Gain on derecognition of other comprehensive income		2,996
Total profit from remeasurement of previously equity interest	Ps.	2,830

During 2017, the accumulated effect corresponding to translation adjustments recorded in the other comprehensive income for an amount of Ps. 2,996 was recognized in the income statement as a consequence of taking control over CCFPI. Coca-Cola FEMSA's selected income statement information of Philippines for the period form the acquisition date through December 31, 2017 is as follows:

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

4.1.3 ACQUISITION OF VONPAR

On December 6, 2016, Coca-Cola FEMSA through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Vonpar S.A. (herein "Vonpar") for a consideration transferred of Ps. 20,992. Vonpar was a bottler of Coca-Cola trademark products which operated mainly in Rio Grande do Sul and Santa Catarina, Brazil. This acquisition was made to reinforce the Company's leadership position in Brazil. Of the purchase price of approximately Ps. 20,992 (R$ 3,508), Spal paid an amount of approximately Ps. 10,370 (R$ 1,730) in cash on December 6, 2016.

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

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

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

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

Coca-Cola FEMSA's allocation of the purchase price to fair values of Vonpar's net assets acquired and the reconciliation of cash flows is as follows:

		2017 Final Purchase Price Allocation
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 [1]
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	Ps.	13,198

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

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

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

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

4.1.4 OTHER ACQUISITIONS

On May 22, 2018, the Company acquired an additional 10% its participation in Café del Pacífico, S.A.P.I. de C.V. ("Caffenio"), a Mexican company founded in 1941 whose main activities includes the production of coffee and beverages formulas, commercialization of beverages and whole foods and trading of commercial contracts, for an amount of Ps. 370 and reaching a controlling interest of 50% of ownership, through an agreement with other shareholders assuming control of the subsidiary.

During 2016, the Company completed a number of smaller acquisitions which in the aggregate amounted to Ps. 5,612. These acquisitions were primarily related to the following: (1) acquisition of 100% of Farmacias Acuña, a drugstore operator in Bogota, Colombia; at the acquisition date, Farmacias Acuña operated 51 drugstores; (2) acquisition of an additional 50% of Specialty's Café and Bakery Inc. ("Specialty's") shares, a small coffee and bakery restaurant, reaching an 80% of ownership, with 56 stores in California, Washington and Illinois in the United States; (3) acquisition of 100% of Comercial Big John Limitada "Big John", an operator of small-box retail format stores located in Santiago, Chile; at the acquisition date, Big John operated 49 stores; (4) acquisition of 100% of Operadora de Farmacias Generix, S.A.P.I. de C.V., a regional drugstore operator in Guadalajara, Guanajuato, Mexico City and Queretaro in Mexico; at the acquisition date, Farmacias Generix operated 70 drugstores and one distribution center; (5) acquisition of 100% of Grupo Torrey (which consist in many companies constituted as S.A. de C.V.), a Mexican company with 47 years of know-how in operation in the manufacture of equipment for the processing, conservation and weighing of foods, with corporate offices in Monterrey, Mexico; and (6) acquisition of 80% of Open Market, a specialized company in providing end-to-end integral logistics solutions to the local and international companies which operate in Colombia. Transactions related costs in the aggregate amounted of Ps. 46 were expensed as incurred and recorded as a component of administrative expenses in the accompanying consolidated income statements. The fair value of other acquisitions' net assets acquired in the aggregate is as follows:

		Final Purchase Price Allocation
Total current assets (including cash acquired of Ps. 211)	Ps.	1,125
Total non-current assets		3,316
Total assets		4,441
Total liabilities		(2,062)
Net assets acquired		2,379
Goodwill		3,204 [2]
Non-controlling interest [1]		35
Equity interest held previously		369
Total consideration transferred	Ps.	5,618

[1] In the case of the acquisition of Specialty's the non-controlling interest was measured at fair value at the acquisition date, and for Open Market the non-controlling interest was recognized at the proportionate share of the net assets acquired.

[2] As a result of the purchase price allocation which was finalized in 2017, additional fair value adjustments from those recognized in 2016 have been recognized as follow in property, plant and equipment of Ps. 32, trademark rights of Ps. 836, other intangible assets of Ps. 983, and other liabilities of Ps. 593.

During 2016, FEMSA Comercio has been allocated goodwill in the acquisitions in the FEMCO – Proximity Division in Chile and FEMCO – Health Division in Mexico and Colombia, to each one respectively. The Company expects to recover the amount recorded through synergies related to the adoption of the Company's economic current value proposition, the ability to apply the successful operational processes and expansion planning designed for each unit.

Other companies dedicated to the production, distribution of coolers and logistic transportation services have been allocated goodwill of Grupo Torrey and Open Market, respectively in Mexico and Colombia. The companies dedicated to the production and distribution expect to recover the goodwill through synergies related to operative improvements; in the case of logistic transportation services, through the know-how of specialized skills to attend pharmaceutical market and increasing new customers in the countries where the company operates.

Selected income statement information of other acquisitions in the aggregate amount for the period from the acquisition date through December 31, 2016 is as follows:

Income Statement		2016
Total revenues	Ps.	2,400
Income before income taxes		(66)
Net income	Ps.	(80)

Unaudited Pro Forma Financial Data

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisitions of Coca-Cola FEMSA and Caffenio as if these acquisitions has occurred on January 1, 2018; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired company.

Unaudited pro forma financial data for the acquisitions, is as follow:

		Unaudited pro forma financial information for the year ended December 31, 2018
Total revenues	Ps.	473,420
Income before income taxes and share of the profit of equity accounted investees		34,266
Net income		33,521
Basic net controlling interest income per share Series "B"	Ps.	1.22
Basic net controlling interest income per share Series "D"		1.52

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Coca-Cola FEMSA Philippines as if this acquisition has occurred on January 1, 2017; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired company.

Unaudited pro forma financial data for the acquisition included, is as follow:

		Unaudited pro forma financial information for the year ended December 31, 2017
Total revenues	Ps.	462,112
Income before income taxes and share of the profit of equity accounted investees		39,917
Net income		37,311
Basic net controlling interest income per share Series "B"	Ps.	2.12
Basic net controlling interest income per share Series "D"		2.65

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Vonpar, Farmacias Acuña, Specialty´s, Big John, Farmacias Generix, Grupo Torrey and Open Market as if these acquisitions have occurred on January 1, 2016; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired companies. Unaudited pro forma financial data for all acquisitions and merger included, are as follow.

		Unaudited pro forma financial information for the year ended December 31, 2016
Total revenues	Ps.	410,831
Income before income taxes and share of the profit of equity accounted investees		29,950
Net income		28,110
Basic net controlling interest income per share Series "B"	Ps.	1.08
Basic net controlling interest income per share Series "D"		1.35

4.2. DISPOSALS

4.2.1 DISCONTINUED OPERATIONS (COCA-COLA FEMSA PHILIPPINES)

On August 16, 2018, Coca-Cola FEMSA announced its decision to exercise the put option to sell its 51% stake in CCFPI to The Coca-Cola Company. Such decision was approved by the Company's board on August 6, 2018. Consequently beginning August 31, 2018 CCFPI had been classified as an asset held for sale and its operations as a discontinued operation in the financial statements for December 31, 2017 and 2018. Previously CCFPI represented the Asia division and was considered an independent segment until December 31, 2017. Coca-Cola FEMSA Philippines operations was sold on December 13, 2018. In addition, the income statement as of December 2017 was restated.

INCOME STATEMENT OF DISCONTINUED OPERATIONS

For the years ended December 31, 2018 and 2017, the income statement of discontinued operations was as follows:

		2018		2017
Total revenues	Ps.	24,167	Ps.	20,524
Cost of goods sold		17,360		12,346
Gross profit		6,807		8,178
Operating expenses		5,750		6,865
Other expenses, net		7		134
Financial income, net		(185)		(64)
Foreign exchange gain, net		(73)		(22)
Income before income taxes		1,308		1,265
Income taxes		466		370
Net income for discontinued operations	Ps.	842	Ps.	895
Less: non-controlling interest in discontinued operations		391		469
Controlling interest in discontinued operations	Ps.	451	Ps.	426
Accumulated currency translation effect for the subsidiary disposal		(811)		2,830
Gain from sale		3,335		–
Net income for subsidiary disposal – controlling interest		2,975		3,256
Net income for discontinued operations	Ps.	3,366	Ps.	3,725

4.2.2 HEINEKEN

During 2017, the Company sold a portion of its investment in Heineken Group, representing 5.2% of economic interest for Ps. 53,051 in an all cash transaction. With this transaction the Company took advantage of a Repatriation of Capital Decree issued by the Mexican government which was valid from January 19 until October 19, 2017; through this decree, a fiscal benefit was attributed to the Company due to repatriated resources obtained from the sale of shares. The Company recognized a gain of Ps. 29,989, as a result of the sales of shares within other income, which is the difference between the fair value of the consideration received and the book value of the net assets disposed. The gain is net of transaction related costs of Ps. 160 and includes reclassification from other comprehensive income of exchange differences on translation which amount to Ps. 6,632. Also, the Company reclassified from other comprehensive income to consolidated net income a total loss of Ps. 2,431, relating to the Company's share of hedging reserve and translation reserve of Heineken investment attributable to the portion of shares sold. None of the Company's other disposals was individually significant, see Note 19.

Note 5. CASH AND CASH EQUIVALENTS

Includes cash on hand and in bank deposits and cash equivalents, which are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, with a maturity date of three months or less at their acquisition date. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statements of financial position and cash flows is comprised of the following:

		December 31, 2018		December 31, 2017
Cash and bank balances	Ps.	31,768	Ps.	73,774
Cash equivalents (see Note 3.5)		30,279		23,170
	Ps.	62,047	Ps.	96,944

As explained in Note 3.3, the cash and cash equivalents balances of the Company included cash held by deconsolidated entity in Venezuela. As of December 31, 2017, the cash and cash equivalents balances in the Venezuela subsidiaries were Ps. 170.

Note 6. INVESTMENTS

As of December 31, 2018 and 2017, current investments with maturity greater than three-month period but less than twelve-month period are classified as held to maturity, and their carrying value is similar to their fair value. The following is a detail of such investments:

Fixed rate				
GOVERNMENT DEBT SECURITIES		2018		2017
Acquisition cost	Ps.	–	Ps.	1,934
Accrued interest		–		–
CORPORATE DEBT SECURITIES				
Acquisition cost		906		222
Accrued interest		4		4
Total fixed rate		910		2,160
Variable rate				
GOVERNMENT DEBT SECURITIES				
Acquisition cost		8,660		–
Accrued interest		28		–
CORPORATE DEBT SECURITIES				
Acquisition cost		21,259		–
Accrued interest		67		–
Total variable rate		30,014		–
Total investments	Ps.	30,924	Ps.	2,160

Note 7. TRADE ACCOUNTS RECEIVABLE, NET

		December 31, 2018		December 31, 2017
Trade accounts receivables	Ps.	25,615	Ps.	26,856
The Coca-Cola Company (see Note 14)		1,173		2,054
Loans to employees		108		128
Heineken Group (see Note 14)		768		999
Former shareholders of Vonpar (see Note 14)		–		1,219
Others		2,614		2,435
Allowance for expected credit losses		(2,114)		(1,375)
	Ps.	28,164	Ps.	32,316

7.1 TRADE RECEIVABLES

Trade receivables representing rights arising from sales and loans to employees or any other similar concept, are presented net of discounts and the allowance for expected credit losses.

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

Because less than 10% of the trade accounts receivables is unrecoverable, the Company does not have customers classified as "high risk", which would be eligible to have special management conditions for the credit risk.

As of December 31, 2018, the main customers of the Company represent, in aggregate form, the expected loss on 5%.

The allowance is calculated under an expected loss model that recognizes the impairment losses throughout the life of the contract. For this particular case, because the accounts receivable is generally less than one year, the Company defined an impairment estimation model under a simplified approach of expected loss through a parametric model.

The parameters used within the model are:

- Breach probability;
- Losses severity;
- Financing rate;
- Special recovery rate; and
- Breach exposure.

Aging of accounts receivable (days current or outstanding)

	December 31, 2018	December 31, 2017
Current	Ps. 22,789	Ps. 25,537
0-30 days	4,081	5,009
31-60 days	869	838
61-90 days	598	398
91-120 days	241	383
120+ days	1,700	1,527
Total	Ps. 30,278	Ps. 33,691

7.2 CHANGES IN THE ALLOWANCE FOR EXPECTED CREDIT LOSSES

	2018	2017	2016
Balance at the beginning of the period	Ps. 1,375	Ps. 1,193	Ps. 849
Effect of adoption of IFRS 9	468	–	–
Adjusted balance at the beginning of the period	1,843	1,193	849
Allowance for the period	348	530	467
Additions (write-offs) of uncollectible accounts [1]	(402)	(400)	(418)
Addition from business combinations	1	86	94
Effects of changes in foreign exchange rates	324	(32)	201
Effect of Venezuela deconsolidation	–	(2)	–
Balance at the end of the period	Ps. 2,114	Ps. 1,375	Ps. 1,193

[1] In 2018, includes the effect of Coca-Cola FEMSA Philippines, Inc. sale for an aggregate amount of $ 82.

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

7.3 RECEIVABLE FROM THE COCA-COLA COMPANY

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Coca-Cola FEMSA's refrigeration equipment and returnable bottles investment program. Contributions received by Coca-Cola FEMSA for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the carrying amount of refrigeration equipment and returnable bottles items. For the years ended December 31, 2018, 2017 and 2016 contributions due were Ps. 3,542, Ps. 3,436 and Ps. 4,518, respectively.

Note 8. INVENTORIES

	December 31, 2018	December 31, 2017
Finished products	Ps. 27,145	Ps. 25,864
Raw materials	5,363	5,194
Spare parts	1,362	2,102
Work in process	225	198
Inventories in transit	1,591	1,437
Other	–	45
	Ps. 35,686	Ps. 34,840

For the years ended 2018, 2017 and 2016, the Company recognized write-downs of its inventories for Ps. 2,006, Ps. 308, and Ps. 1,832 to net realizable value, respectively.

For the years ended 2018, 2017 and 2016, changes in inventories are comprised as follows and included in the consolidated income statement under the cost of goods sold caption:

	2018	2017	2016
Changes in inventories of finished goods and work in progress	Ps. 204,688	Ps. 188,022	Ps. 172,554
Raw materials and consumables used	79,825	85,568	63,285
Total	Ps. 284,513	Ps. 273,590	Ps. 235,839

Note 9. OTHER CURRENT ASSETS AND OTHER CURRENT FINANCIAL ASSETS

9.1 OTHER CURRENT ASSETS

	December 31, 2018	December 31, 2017
Prepaid expenses	Ps. 2,714	Ps. 2,425
Recoverable taxes	316	–
Agreements with customers	146	192
Licenses	146	224
Other	98	47
	Ps. 3,420	Ps. 2,888

As of December 31, 2018 and 2017, Company's prepaid expenses are as follows:

	December 31, 2018	December 31, 2017
Advances for inventories	Ps. 1,500	Ps. 1,260
Advertising and promotional expenses paid in advance	510	370
Advances to service suppliers	236	268
Prepaid leases	211	218
Prepaid insurance	117	103
Others	140	206
	Ps. 2,714	Ps. 2,425

For the years ended December 31, 2018, 2017 and 2016, Company's advertising and promotional expenses amounted to Ps. 7,695, Ps. 6,148 and Ps. 6,578, respectively.

9.2 OTHER CURRENT FINANCIAL ASSETS

	December 31, 2018	December 31, 2017
Restricted cash	Ps. 101	Ps. 504
Derivative financial instruments (see Note 20)	735	233
Note receivables [1]	42	19
	Ps. 878	Ps. 756

[1] The carrying value approximates its fair value as of December 31, 2018 and 2017.

The Company has pledged part of its cash in order to fulfill the collateral requirements for the accounts payable in different currencies. As of December 31, 2018 and 2017, the carrying of restricted cash pledged were:

	December 31, 2018	December 31, 2017
Brazilian reais	98	65
Chilean pesos	3	–
Colombian pesos	–	439
	Ps. 101	Ps. 504

The restricted cash in Brazil consist in non-current deposits as requirements to guarantee the notes payable.

As of December 21, 2017 due to a jurisdictional order with the municipal sewage system services, the Colombian authorities withheld all the cash that Coca-Cola FEMSA has in some specific back account, such amount was reclassified as restricted cash according with Coca-Cola FEMSA accounting policy pending resolution of the order. As of December 31, 2018 this restricted cash has been released.

Note 10. EQUITY ACCOUNTED INVESTEES

As of December 31, 2018 and 2017, Company's equity accounted investees are as follows:

Investee	Principal Activity	Place of Incorporation	Ownership Percentage December 31, 2018	Ownership Percentage December 31, 2017	Carrying Value December 31, 2018	Carrying Value December 31, 2017
Heineken [1] [2]	Beverages	The Netherlands	14.8%	14.8%	Ps. 83,461	Ps. 83,720
Coca-Cola FEMSA:						
Joint ventures:						
Compañía Panameña de Bebidas, S.A.P.I. de C.V.	Beverages	Mexico	50.0%	50.0%	1,550	2,036
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	50.0%	50.0%	162	153
Fountain Agua Mineral, L.T.D.A	Beverages	Brazil	50.0%	50.0%	826	784
Associates:						
Promotora Industrial Azucarera, S.A. de C.V. ("PIASA")	Sugar production	Mexico	36.4%	36.4%	3,120	2,933
Industria Envasadora de Querétaro, S.A. de C.V. ("IEQSA")	Canned bottling	Mexico	26.5%	26.5%	179	177
Industria Mexicana de Reciclaje, S.A. de C.V. ("IMER")	Recycling	Mexico	35.0%	35.0%	129	121
Jugos del Valle, S.A.P.I. de C.V.	Beverages	Mexico	26.3%	26.3%	1,571	1,560
KSP Participações, L.T.D.A.	Beverages	Brazil	31.4%	38.7%	104	117
Leao Alimentos e Bebidas, L.T.D.A.	Beverages	Brazil	24.7%	24.7%	2,084	3,001
UBI 3 Participações, L.T.D.A. ("ADES")	Beverages	Brazil	26.0%	26.0%	7	391
Other investments in Coca-Cola FEMSA's companies	Various	Various	Various	Various	786	228
FEMSA Comercio:						
Café del Pacífico, S.A.P.I. de C.V. ("CAFFENIO") [4]	Coffee	Mexico	–	40.0%	–	539
Other investments [1] [3]	Various	Various	Various	Various	336	337
					Ps. 94,315	Ps. 96,097

[1] Associate.

[2] As of December 31, 2018 comprised of 8.63% of Heineken, N.V. and 12.26% of Heineken Holding, N.V., which represents an economic interest of 14.76% in Heineken Group. The Company has significant influence, mainly, due to the fact that it participates in the Board of Directors of Heineken Holding, N.V. and the Supervisory Board of Heineken N.V.; and for the material transactions between the Company and Heineken Group.

[3] Joint ventures.

[4] Associate until May 22, 2018, date in which the Company acquired an additional 10% of participation in Caffenio reaching an amount of 50% of ownership and, through an agreement with other shareholders the Company assumed control of the subsidiary.

During 2018, Coca-Cola FEMSA received dividends from Industria Envasadora de Queretaro, S.A. de C.V. for the amount of Ps. 8. During 2017, the Coca-Cola FEMSA received dividends from Industria Envasadora de Queretaro, S.A. de C.V., and Promotora Mexicana de Embotelladores, S.A. de C.V. in the amount of Ps. 16 and Ps. 17, respectively.

During 2018, the Company made capital contributions to Jugos del Valle, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 73 and Ps. 146, respectively, there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders. During 2018, there was a spin-off for our investment in UBI 3 resulted in Ps. 333 capitalized.

As of December 31, 2018, Coca-Cola FEMSA recognized an impairment, in their investment Compañía Panameña de Bebidas, S.A.P.I. de C.V., for an amount of Ps. 432 million charged as other expenses line. The Company will continue to monitor the results of this investment in conjunction with its partner The Coca-Cola Company, looking for alternatives to improve the business profitability in the near future.

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

On March 28, 2017, as part of AdeS acquisition the Coca-Cola FEMSA acquired indirect participations in equity method investees in Brazil and Argentina for an aggregate amount of Ps. 587. During 2017, Itabirito merged with Spal in a transaction did not generate any cash flow.

On April 30, 2010, the Company acquired an economic interest of 20% of Heineken Group. Heineken's main activities are the production, distribution and marketing of beer worldwide. On September 18, 2017, the Company concluded the sale of a portion of its investment, representing 5.2% combined economic interest, consisting of 22,485,000 Heineken N.V. shares and 7,700,000 Heineken Holding N.V. shares at the price of €. 84.50 and €. 78.00 per share, respectively, see Note 4.2. The Company recognized an equity income of Ps. 6,478, Ps. 7,847 and Ps. 6,342 net of taxes based on its economic interest in Heineken Group for the years ended December 31, 2018, 2017 and 2016, respectively. The economic interest for the year 2018 was 14.8%, for the year 2017 was 20% for the first eight months and 14.8% for the last four months and for the year 2016 was 20%. The Company's share of the net income attributable to equity holders of Heineken Group exclusive of amortization of adjustments amounted to Ps. 6,320 (€. 281 million), Ps. 7,656 (€. 357 million) and Ps. 6,430 (€. 308 million), for the years ended December 31, 2018, 2017 and 2016, respectively. Summarized financial information in respect of the associate Heineken Group accounted for under the equity method is set out below.

	December 31, 2018		December 31, 2017	
Amounts in millions	Peso	Euro	Peso	Euro
Total current assets	Ps. 204,422	€. 9,070	Ps. 194,429	€. 8,248
Total non-current assets	741,195	32,886	772,861	32,786
Total current liabilities	235,525	10,450	246,525	10,458
Total non-current liabilities	359,846	15,966	378,463	16,055
Total equity	350,245	15,540	342,302	14,521
Equity attributable to equity holders	323,605	14,358	314,017	13,321
Total revenue and other income	Ps. 517,115	€. 22,546	Ps. 493,488	€. 21,750
Total cost and expenses	445,165	19,409	417,434	18,398
Net income	Ps. 48,051	€. 2,095	Ps. 48,850	€. 2,153
Net income attributable to equity holders	43,647	1,903	43,903	1,935
Other comprehensive income	(1,170)	(51)	(26,524)	(1,169)
Total comprehensive income	Ps. 46,881	€. 2,044	Ps. 22,326	€. 984
Total comprehensive income attributable to equity holders	42,386	1,848	19,989	881

Reconciliation from the equity of the associate Heineken Group to the investment of the Company.

	December 31, 2018		December 31, 2017	
Amounts in millions	Peso	Euro	Peso	Euro
Equity attributable to equity holders of Heineken	Ps. 323,608	€. 14,358	Ps. 314,018	€. 13,321
Economic ownership percentage	14.76%	14.76%	14.76%	14.76%
Investment in Heineken investment exclusive of goodwill and other adjustments	Ps. 47,765	€. 2,119	Ps. 46,349	€. 1,966
Effects of fair value determined by purchase price allocation	15,846	703	16,610	705
Goodwill	19,850	881	20,761	881
Heineken investment	Ps. 83,461	€. 3,703	Ps. 83,720	€. 3,552

As of December 31, 2018 and 2017, the fair value of Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 14.8% of its outstanding shares amounted to Ps. 145,177 (€. 6,441 million) and Ps. 170,517 (€. 7,234 million) based on quoted market prices of those dates. As of February 27, 2019, issuance date of these consolidated financial statements, fair value amounted to €. 7,328 million.

During the years ended December 31, 2018, 2017 and 2016, the Company received dividends distributions from Heineken Group, amounting to Ps. 2,388, Ps. 3,250 and Ps. 3,263, respectively.

For the years ended December 31, 2018, 2017 and 2016 the total net income corresponding to the immaterial associates of Coca-Cola FEMSA was Ps. 44, Ps. 235 and Ps. 31, respectively.

For the years ended December 31, 2018, 2017 and 2016 the total net income or loss corresponding to the immaterial joint ventures of Coca-Cola FEMSA was a loss of Ps. 270, a loss of Ps. 175, and a gain of Ps. 116, respectively.

For the year ended December 31, 2018, 2017 and 2016, the Company's share of other comprehensive income from equity investees, net of taxes are as follows:

	2018	2017	2016
Items that may be reclassified to consolidated net income:			
Valuation of the effective portion of derivative financial instruments	Ps. (355)	Ps. 252	Ps. 614
Exchange differences on translating foreign operations	(6)	(2,265)	(2,842)
Total	Ps. (361)	Ps. (2,013)	Ps. (2,228)
Items that may not be reclassified to consolidated net income in subsequent periods:			
Remeasurements of the net defined benefit liability	Ps. 597	Ps. 69	Ps. (1,004)

Note 11. 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, 2016	Ps. 7,569	Ps. 17,951	Ps. 53,685	Ps. 12,592	Ps. 11,651	Ps. 5,815	Ps. 14,488	Ps. 927	Ps. 124,678
Additions	328	877	6,499	73	2,236	8,667	36	367	19,083
Additions from business acquisitions	163	763	1,521	105	23	45	668	–	3,288
Changes in fair value of past acquisitions	50	–	85	–	–	–	115	–	250
Transfer of completed projects in progress	46	1,039	2,445	1,978	779	(8,493)	2,206	–	–
Transfer (to)/from assets classified as held for sale	–	–	(36)	–	–	–	–	–	(36)
Disposals	(88)	(202)	(2,461)	(574)	(139)	(2)	(474)	(19)	(3,959)
Effects of changes in foreign exchange rates	260	2,643	5,858	1,953	1,271	569	329	(132)	12,751
Changes in value on the recognition of inflation effects	854	1,470	2,710	851	122	415	–	942	7,364
Capitalization of borrowing costs	–	–	61	–	–	(38)	–	1	24
Cost as of December 31, 2016	Ps. 9,182	Ps. 24,541	Ps. 70,367	Ps. 16,978	Ps. 15,943	Ps. 6,978	Ps. 17,368	Ps. 2,086	Ps. 163,443
Cost as of January 1, 2017	Ps. 9,182	Ps. 24,541	Ps. 70,367	Ps. 16,978	Ps. 15,943	Ps. 6,978	Ps. 17,368	Ps. 2,086	Ps. 163,443
Additions	465	1,474	6,150	389	3,201	8,878	57	224	20,838
Additions from business acquisitions	5,115	1,634	5,988	482	3,324	821	145	–	17,509
Transfer of completed projects in progress	6	676	3,073	1,967	558	(8,572)	2,295	(3)	–
Transfer (to)/from assets classified as held for sale	–	–	(42)	–	–	–	–	(58)	(100)
Disposals	(144)	(588)	(3,147)	(800)	(193)	–	(352)	(12)	(5,236)
Effects of changes in foreign exchange rates	(1,018)	(1,964)	(2,817)	(1,523)	(1,216)	(720)	153	(1,201)	(10,306)
Changes in value on the recognition of inflation effects	527	1,016	2,030	689	(2)	226	–	638	5,124
Venezuela deconsolidation effect (see Note 3.3)	(544)	(817)	(1,300)	(717)	(83)	(221)	–	(646)	(4,328)
Cost as of December 31, 2017	Ps.13,589	Ps. 25,972	Ps. 80,302	Ps. 17,465	Ps. 21,532	Ps. 7,390	Ps. 19,666	Ps. 1,028	Ps. 186,944
Cost as of January 1, 2018	Ps.13,589	Ps. 25,972	Ps. 80,302	Ps. 17,465	Ps. 21,532	Ps. 7,390	Ps. 19,666	Ps. 1,028	Ps. 186,944
Additions	334	877	6,926	644	2,888	6,482	3,322	111	21,584
Additions from business acquisitions	25	451	4,128	537	393	290	2	41	5,867
Transfer of completed projects in progress	526	567	2,193	1,711	3	(4,927)	(93)	20	–
Transfer (to)/from assets classified as held for sale	–	–	(127)	–	–	–	–	–	(127)
Disposals	(93)	(152)	(4,623)	(614)	(312)	(633)	(748)	(21)	(7,196)
Philippines disposal	(4,654)	(2,371)	(11,621)	(2,415)	(10,116)	(489)	(236)	–	(31,902)
Effects of changes in foreign exchange rates	(401)	(1,079)	(3,526)	(759)	(251)	(330)	(354)	(293)	(6,993)
Effects on the recognition of inflation effects	242	816	2,552	465	612	66	–	9	4,762
Capitalization of borrowing costs	–	–	–	–	–	–	–	–	–
Cost as of December 31, 2018	Ps. 9,568	Ps. 25,081	Ps. 76,204	Ps. 17,034	Ps. 14,749	Ps. 7,849	Ps. 21,559	Ps. 895	Ps. 172,939

Accumulated Depreciation	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. (3,758)	Ps. (22,449)	Ps. (6,004)	Ps. (7,378)	Ps. –	Ps. (4,392)	Ps. (401)	Ps. (44,382)
Depreciation for the year	–	(734)	(5,737)	(1,723)	(2,235)	–	(1,447)	(200)	(12,076)
Transfer to/(from) assets classified as held for sale	–	–	16	–	–	–	–	–	16
Disposals	–	132	2,101	672	227	–	364	9	3,505
Effects of changes in foreign exchange rates	–	(600)	(3,093)	(1,147)	(847)	–	(81)	39	(5,729)
Changes in value on the recognition of inflation effects	–	(593)	(1,101)	(521)	(33)	–	–	(306)	(2,554)
Accumulated Depreciation as of December 31, 2016	Ps. –	Ps. (5,553)	Ps. (30,263)	Ps. (8,723)	Ps. (10,266)	Ps. –	Ps. (5,556)	Ps. (859)	Ps. (61,220)
Accumulated Depreciation as of January 1, 2017	Ps. –	Ps. (5,553)	Ps. (30,263)	Ps. (8,723)	Ps. (10,266)	Ps. –	Ps. (5,556)	Ps. (859)	Ps. (61,220)
Depreciation for the year	–	(887)	(6,928)	(2,186)	(3,365)	–	(1,562)	(685)	(15,613)
Transfer to/(from) assets classified as held for sale	–	44	7	–	–	–	–	–	51
Disposals	–	40	3,125	683	103	–	300	5	4,256
Effects of changes in foreign exchange rates	–	518	437	1,157	93	–	(138)	940	3,007
Venezuela deconsolidation effect	–	481	1,186	626	56	–	–	335	2,684
Venezuela impairment	–	(257)	(841)	–	–	–	–	–	(1,098)
Changes in value on the recognition of inflation effects	–	(437)	(1,031)	(553)	(44)	–	–	(234)	(2,299)
Accumulated Depreciation as of December 31, 2017	Ps. –	Ps. (6,051)	Ps. (34,308)	Ps. (8,996)	Ps. (13,423)	Ps. –	Ps. (6,956)	Ps. (498)	Ps. (70,232)
Accumulated Depreciation as of January 1, 2018	Ps. –	Ps. (6,051)	Ps. (34,308)	Ps. (8,996)	Ps. (13,423)	Ps. –	Ps. (6,956)	Ps. (498)	Ps. (70,232)
Depreciation for the year	–	(786)	(7,437)	(1,752)	(2,827)	–	(1,763)	(133)	(14,698)
Transfer to/(from) assets classified as held for sale	–	–	78	–	–	–	–	–	78
Disposals	–	69	4,970	579	204	–	571	–	6,393
Philippines disposal	–	700	6,125	2,083	7,225	–	77	–	16,210
Effects of changes in foreign exchange rates	–	112	404	250	631	–	141	143	1,681
Changes in value on the recognition of inflation effects	–	(223)	(2,692)	(338)	(516)	–	–	–	(3,769)
Accumulated Depreciation as of December 31, 2018	Ps. –	Ps. (6,179)	Ps. (32,860)	Ps. (8,174)	Ps. (8,706)	Ps. –	Ps. (7,930)	Ps. (488)	Ps. (64,337)

Carrying Amount	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Progress	Leasehold Improvements	Other	Total
As of December 31, 2016	Ps. 9,182	Ps. 18,988	Ps. 40,104	Ps. 8,255	Ps. 5,677	Ps. 6,978	Ps. 11,812	Ps. 1,227	Ps. 102,223
As of December 31, 2017	Ps.13,589	Ps. 19,921	Ps. 45,994	Ps. 8,469	Ps. 8,109	Ps. 7,390	Ps. 12,710	Ps. 530	Ps. 116,712
As of December 31, 2018	Ps. 9,568	Ps. 18,902	Ps. 43,344	Ps. 8,860	Ps. 6,043	Ps. 7,849	Ps. 13,629	Ps. 407	Ps. 108,602

During the year ended December 31, 2016 the Company capitalized Ps. 61 of borrowing costs in relation to Ps. 99 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization was 4.5%. For the years ended December 31, 2018 and 2017, the Company did not recognize any capitalization of borrowing costs.

For the years ended December 31, 2018, 2017 and 2016 interest expense, interest income and net foreign exchange losses and gains are analyzed as follows:

	2018	2017	2016
Interest expense, interest income and net foreign exchange	Ps. 7,241	Ps. 4,688	Ps. 7,285
Amount capitalized [(1)]	–	–	69
Net amount in consolidated income statements	Ps. 7,241	Ps. 4,688	Ps. 7,216

[(1)] Amount of interest capitalized in property, plant and equipment and intangible assets.

Commitments related to acquisitions of property, plant and equipment are disclosed in Note 25.8

Note 12. INTANGIBLE ASSETS

	Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Assets
Cost as of January 1, 2016	Ps. 66,392	Ps. 33,850	Ps. 1,481	Ps. 1,246	Ps.102,969	Ps. 4,890	Ps. 683	Ps. 1,225	Ps. 860	Ps. 7,658	Ps.110,627
Additions	–	–	3	–	3	345	609	191	146	1,291	1,294
Acquisitions from business combinations (see Note 4)	9,602	12,276	239	1,067	23,184	318	3	–	174	495	23,679
Changes in fair value of past acquisitions	–	(2,385)	4,315	(554)	1,376	–	–	–	1,078	1,078	2,454
Transfer of completed development systems	–	–	–	–	–	304	(304)	–	–	–	–
Disposals	–	–	–	–	–	(336)	–	–	(24)	(360)	(360)
Effect of movements in exchange rates	8,124	8,116	187	392	16,819	451	(193)	–	104	362	17,181
Changes in value on the recognition of inflation effects	1,220	–	–	–	1,220	141	–	–	–	141	1,361
Capitalization of borrowing costs	–	–	–	–	–	11	–	–	–	11	11
Cost as of December 31, 2016	Ps. 85,338	Ps. 51,857	Ps. 6,225	Ps. 2,151	Ps.145,571	Ps. 6,124	Ps. 798	Ps. 1,416	Ps. 2,338	Ps.10,676	Ps.156,247
Cost as of January 1, 2017	Ps. 85,338	Ps. 51,857	Ps. 6,225	Ps. 2,151	Ps.145,571	Ps. 6,124	Ps. 798	Ps. 1,416	Ps. 2,338	Ps.10,676	Ps.156,247
Additions	1,288	–	–	6	1,294	464	920	221	445	2,050	3,344
Acquisitions from business combinations (see Note 4)	4,144	140	5	–	4,289	6	–	–	80	86	4,375
Changes in fair value of past acquisitions	5,167	(7,022)	836	9	(1,010)	(188)	–	–	892	704	(306)
Transfer of completed development systems	–	–	–	–	–	412	(412)	–	–	–	–
Disposals	–	–	–	–	–	110	–	–	–	110	110
Effect of movements in exchange rates	(2,563)	(1,526)	119	91	(3,879)	175	(15)	–	52	212	(3,667)
Changes in value on the recognition of inflation effects	(727)	–	–	–	(727)	–	–	–	175	175	(552)
Venezuela deconsolidation effect	(745)	–	–	–	(745)	–	–	–	(139)	(139)	(884)
Cost as of December 31, 2017	Ps. 91,902	Ps. 43,449	Ps. 7,185	Ps. 2,257	Ps.144,793	Ps. 7,103	Ps. 1,291	Ps. 1,637	Ps. 3,843	Ps.13,874	Ps.158,667

	Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Assets
Cost as of January 1, 2018	Ps. 91,902	Ps. 43,449	Ps. 7,185	Ps. 2,257	Ps.144,793	Ps. 7,103	Ps. 1,291	Ps. 1,637	Ps. 3,843	Ps.13,874	Ps.158,667
Additions	–	75	–	71	146	1,051	371	131	94	1,647	1,793
Acquisitions from business combinations (see Note 4)	4,602	842	170	–	5,614	35	57	–	291	383	5,997
Changes in fair value of past acquisitions	–	272	–	–	272	–	–	–	–	–	272
Internal development	–	–	–	–	–	–	–	–	41	41	41
Transfer of completed development systems	–	–	–	–	–	904	(904)	–	–	–	–
Disposals	–	–	–	(2)	(2)	(43)	–	–	(146)	(189)	(191)
Philippines disposal	(3,882)	–	–	–	(3,882)	–	–	–	(596)	(596)	(4,478)
Effect of movements in exchange rates	(5,005)	(4,108)	(656)	(349)	(10,118)	(343)	(38)	–	(311)	(692)	(10,810)
Changes in value on the recognition of inflation effects	–	–	–	–	–	–	–	–	57	57	57
Cost as of December 31, 2018	Ps. 87,617	Ps. 40,530	Ps. 6,699	Ps. 1,977	Ps.136,823	Ps. 8,707	Ps. 777	Ps. 1,768	Ps. 3,273	Ps.14,525	Ps.151,348

Amortization and Impairment Losses	Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Assets
Amortization as of January 1, 2016	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. (1,619)	Ps. –	Ps. (302)	Ps. (365)	Ps.(2,286)	Ps. (2,286)
Amortization expense	–	–	–	–	–	(630)	–	(74)	(302)	(1,006)	(1,006)
Impairment losses	–	–	–	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	313	–	–	36	349	349
Effect of movements in exchange rates	–	–	–	–	–	(1)	–	–	(35)	(36)	(36)
Amortization as of December 31, 2016	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. (1,937)	Ps. –	Ps. (376)	Ps. (666)	Ps. (2,979)	Ps. (2,979)
Amortization as of January 1, 2017	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. (1,937)	Ps. –	Ps. (376)	Ps. (666)	Ps.(2,979)	Ps. (2,979)
Amortization expense	–	–	–	–	–	(961)	–	(81)	(217)	(1,259)	(1,259)
Impairment losses	–	–	–	–	–	(110)	–	–	–	(110)	(110)
Disposals	–	–	–	–	–	–	–	–	–	–	–
Venezuela deconsolidation effect	–	–	–	–	–	–	–	–	(120)	(120)	(120)
Venezuela impairment	–	–	–	–	–	–	–	–	–	–	–
Effect of movements in exchange rates	–	–	–	–	–	(254)	–	–	148	(106)	(106)
Amortization as of December 31, 2017	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. (3,262)	Ps. –	Ps. (457)	Ps. (855)	Ps. (4,574)	Ps. (4,574)
Amortization as of January 1, 2018	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. (3,262)	Ps. –	Ps. (457)	Ps. (855)	Ps. (4,574)	Ps. (4,574)
Amortization expense	–	–	–	–	–	(1,453)	–	(87)	(373)	(1,913)	(1,913)
Disposals	–	–	–	–	–	93	–	–	98	191	191
Philippines disposal	–	–	–	–	–	–	–	–	375	375	375
Effect of movements in exchange rates	–	–	–	–	–	236	–	–	(1)	235	235
Changes in value on the recognition of inflation effects	–	–	–	–	–	(51)	–	–	(1)	(52)	(52)
Amortization as of December 31, 2018	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. (4,437)	Ps. –	Ps. (544)	Ps. (757)	Ps. (5,738)	Ps. (5,738)

Carrying Amount	Rights to Produce and Distribute Coca-Cola Trademark Products	Goodwill	Trademark Rights	Other Indefinite Lived Intangible Assets	Total Unamortized Intangible Assets	Technology Costs and Management Systems	Systems in Development	Alcohol Licenses	Other	Total Amortized Intangible Assets	Total Intangible Assets
As of December 31, 2016	Ps. 85,338	Ps. 51,857	Ps. 6,225	Ps. 2,151	Ps.145,571	Ps. 4,187	Ps. 798	Ps. 1,040	Ps. 1,672	Ps. 7,697	Ps.153,268
As of December 31, 2017	Ps. 91,902	Ps. 43,449	Ps. 7,185	Ps. 2,257	Ps.144,793	Ps. 3,841	Ps. 1,291	Ps. 1,180	Ps. 2,988	Ps. 9,300	Ps.154,093
As of December 31, 2018	Ps. 87,617	Ps. 40,530	Ps. 6,699	Ps. 1,977	Ps.136,823	Ps. 4,270	Ps. 777	Ps. 1,224	Ps. 2,516	Ps. 8,787	Ps.145,610

During the year ended December 31, 2016 the Company capitalized Ps. 8 of borrowing costs in relation to Ps. 28 in qualifying assets. The effective interest rate used to determine the amount of borrowing costs eligible for capitalization was 4.1%. For the years ended December 31, 2018 and 2017, the Company did not recognize any capitalization of borrowing costs.

On March 28, 2017 Coca-Cola FEMSA acquired distribution rights and other intangibles of AdeS soy-based beverages in its territories in Mexico and Colombia for an aggregate amount of Ps. 1,287. This acquisition was made to reinforce Coca-Cola FEMSA leadership position. For the years ended 2018, 2017 and 2016, allocation for amortization expense is as follows:

	2018	2017	2016
Cost of goods sold	Ps. 399	Ps. 132	Ps. 82
Administrative expenses	858	627	727
Selling expenses	656	500	207
	Ps. 1,913	Ps. 1,259	Ps. 1,016

The average remaining period for the Company's intangible assets that are subject to amortization is as follows:

	Years
Technology Costs and Management Systems	3 - 10
Alcohol Licenses	12 - 15

Coca-Cola FEMSA Impairment Tests for Cash-Generating Units Containing Goodwill and Distribution Rights

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

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

	December 31, 2018	December 31, 2017
Mexico	Ps. 56,352	Ps. 56,352
Guatemala	1,853	488
Nicaragua	460	484
Costa Rica	1,417	1,520
Panama	1,182	1,185
Colombia	4,600	5,824
Brazil	42,153	48,345
Argentina	327	50
Uruguay	3,003	–
Philippines	–	3,882
Total	Ps. 111,347	Ps. 118,130

Goodwill and distribution rights are tested for impairments annually.

The recoverable amounts are based on value in use. The value in use of a CGU is determined based on the discounted cash flows method. The key assumptions used in projecting cash flows are: volume, expected annual long-term inflation, and the weighted average cost of capital (WACC) used to discount the projected cash flows. The cash flow forecasts could differ from the results obtained over time; however, Coca-Cola FEMSA prepares its estimates based on the current situation of each of the CGUs.

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

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

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

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

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

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

The key assumptions by CGU for impairment test as of December 31, 2018 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2019-2028	Expected Volume Growth Rates 2019-2028
Mexico	7.4%	5.3%	4.0%	1.4%
Colombia	7.8%	5.2%	3.1%	4.0%
Costa Rica	13.9%	9.2%	4.0%	1.6%
Guatemala	9.4%	7.5%	3.2%	7.3%
Nicaragua	21.2%	11.0%	6.2%	3.8%
Panama	9.2%	7.0%	2.4%	3.0%
Argentina	19.6%	11.3%	21.9%	2.7%
Brazil	10.7%	6.6%	3.8%	1.7%

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

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

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

During the year ended December 31, 2017 and due to the worsened economic and operational conditions in Venezuela, Coca-Cola FEMSA has recognized an impairment for distribution rights in such country for an amount of Ps. 745, such effect has been recorded in other expenses in the consolidated financial statements.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

At December 31, 2018, Coca-Cola FEMSA performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and an additional sensitivity to the volume of 100 basis points and concluded that no impairment would be recorded.

CGU	Change in WACC	Change in Volume Growth CAGR [1]	Effect on Valuation
Mexico	+0.3%	-1.0%	Passes by 5.0x
Colombia	+0.6%	-1.0%	Passes by 3.9x
Costa Rica	+1.7%	-1.0%	Passes by 1.9x
Guatemala	+0.7%	-1.0%	Passes by 18.4x
Nicaragua	+0.3%	-0.3%	Passes by 1.0x
Panama	+0.3%	-1.0%	Passes by 6.9x
Argentina	+6.1%	-1.0%	Passes by 8.9x
Brazil	+1.1%	-1.0%	Passes by 1.3x

[1] Compound Annual Growth Rate ("CAGR").

FEMCO – PROXIMITY DIVISION, FEMCO – HEALTH DIVISION AND FEMCO – FUEL DIVISION IMPAIRMENT TEST FOR CASH-GENERATING UNITS CONTAINING GOODWILL

For the purpose of impairment testing, goodwill is allocated and monitored on an individual country basis by operating segment. The Company has integrated its cash generating units as follow: (i) FEMCO – Proximity Division and (ii) FEMCO – Health Division are integrated as Mexico, for each of them and (iii) FEMCO – Fuel Division includes only Mexico.

As of December 31, 2018 in FEMCO – Health Division there is a significant carrying amount of goodwill allocated in Chile and Colombia as a group of cash generating (South America) with a total carrying amount of Ps. 6,048.

The recoverable amounts are based on value in use. The value in use of CGUs is determined based on the method of discounted cash flows. The key assumptions used in projecting cash flows are: sales, expected annual long-term inflation, and the weighted average cost of capital ("WACC") used to discount the projected cash flows. The cash flow forecasts could differ from the results obtained over time; however, the Company prepares its estimates based on the current situation of each of the CGUs or group of CGUs.

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

The estimated discount rates to perform the IAS 36 *"Impairment of assets"*, impairment test for each CGU or group of CGUs consider market participants' assumptions. Market participants were selected taking into consideration the size, operations and characteristics of the businesses that are similar to those of FEMCO – Proximity, Health and Fuel Divisions.

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

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

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

- Cash flows were projected based on actual operating results and the five-year business plan. The Company believes that this forecasted period is justified due to the non-current nature of the business and past experiences.
- Cash flows projected based on actual operating results and five-year business plan were calculated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.
- A per CGU-specific Weighted Average Cost of Capital ("WACC") was applied by FEMCO – Health Division as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes size premium adjustments.

The key assumptions by CGU for impairment test as of December 31, 2018 were as follows:

CGU	Pre-tax WACC	Post-tax WACC	Expected Annual Long-Term Inflation 2019-2028	Expected Volume Growth Rates 2019-2028
South America (FEMCO – Health Division)	9.0%	6.3%	3.0%	0.4%

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
South America (FEMCO – Health Division)	6.9%	6.2%	3.0%	2.0%

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

SENSITIVITY TO CHANGES IN ASSUMPTIONS

At December 31, 2018, the Company performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and a sensitivity analysis of sales that would be affected considering a contraction in economic conditions as a result of lower purchasing power of customers, which based on management estimation considered to be reasonably possible an effect of 100 basis points in the sale's compound annual growth rate ("CAGR"), concluding that no impairment would be recognized.

CGU	Change in WACC	Change in Sales Growth CAGR [1]	Effect on Valuation
FEMCO – Health Division (South America)	+0.3%	-0.5%	Passes by 1.15x

[1] Compound Annual Growth Rate.

Note 13. OTHER ASSETS AND OTHER FINANCIAL ASSETS

13.1 OTHER NON-CURRENT ASSETS

	December 31, 2018	December 31, 2017
Agreement with customers	Ps. 897	Ps. 849
Long term prepaid advertising expenses	388	298
Guarantee deposits [1]	2,910	3,491
Prepaid bonuses	248	151
Advances to acquire property, plant and equipment	233	266
Recoverable taxes	1,289	1,674
Indemnifiable assets from business combinations [2]	3,336	4,510
Recoverable taxes from business combinations	395	458
Others	621	828
	Ps. 10,317	Ps. 12,525

[1] As it is customary in Brazil, the Company is required to guarantee tax, legal and labor contingencies by guarantee deposits including those related to business acquisitions. See Note 25.7.

[2] Corresponds to indemnifiable assets that are warranted by former Vonpar owners as per the share purchase agreement. See Note 4.1.3.

13.2 OTHER NON-CURRENT FINANCIAL ASSETS

		December 31, 2018		December 31, 2017
Non-current accounts receivable	Ps.	724	Ps.	733
Derivative financial instruments (see Note 20)		10,752		10,137
Investments [2]		11,810		–
Investments in other entities [1]		–		1,039
Others		101		164
	Ps.	23,387	Ps.	12,073

[1] In 2017, Coca-Cola FEMSA determined that deteriorating conditions in its Venezuela's investment subsidiary had led the Company to no longer meet the accounting criteria to continue consolidating its operations. For further information about the impacts of such deconsolidation, see Note 3.3 above.

[2] It represents an investment in corporate debt securities with variable interest rates, measured at amortized cost. The carrying value approximates its fair value as of December 31, 2018.

As of December 31, 2018 and 2017, the fair value of non-current accounts receivable amounted to Ps. 740 and Ps. 707, respectively. The fair value is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for receivable of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy.

Note 14. BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND AFFILIATED COMPANIES

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

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

		December 31, 2018		December 31, 2017
Balances				
Due from The Coca-Cola Company (see Note 7) [1] [8]	Ps.	1,173	Ps.	2,054
Balance with BBVA Bancomer, S.A. de C.V. [2]		11,093		1,496
Balance with JP Morgan Chase & Co. [2]		27		6,907
Balance with Banco Mercantil del Norte S.A. [3]		–		806
Grupo Industrial Saltillo S.A.B. de C.V. [3]		169		141
Due from Heineken Group [1] [3] [7]		2,572		2,673
Former shareholders of Vonpar		–		1,219
Other receivables [1] [4]		565		209
Due to The Coca-Cola Company [5] [6] [8]	Ps.	3,893	Ps.	3,731
Due to BBVA Bancomer, S.A. de C.V. [5]		2,947		352
Due to Caffenio [9]		–		293
Due to Heineken Group [6] [7]		4,753		4,403
Other payables [6]		1,402		1,508

[1] Presented within accounts receivable.

[2] Presented within cash and cash equivalents.

[3] Presented within other financial assets.

[4] Presented within other current financial assets.

[5] Recorded within bank loans and notes payable.

[6] Recorded within accounts payable.

[7] Associates.

[8] Non-controlling interest.

[9] On May 22, 2018 the Company completed the acquisition of an additional 10% of non-controlling interest of Café del Pacífico S.A.P.I. de C.V. (Caffenio).

Balances due from related parties are considered to be recoverable. Accordingly, for the years ended December 31, 2018 and 2017, there was no expense resulting from uncollectible balances due from related parties.

Transactions	2018	2017	2016
Income:			
Services to Heineken Group [(1)]	Ps. 3,265	Ps. 3,570	Ps. 3,153
Logistic services to Grupo Industrial Saltillo, S.A. de C.V. [(3)]	255	457	427
Logistic services to Jugos del Valle [(1)]	369	587	555
Other revenues from related parties	762	620	857
Expenses:			
Purchase of concentrate from The Coca-Cola Company [(2)]	Ps. 32,379	Ps. 30,758	Ps. 38,146
Purchases of beer from Heineken Group [(1)]	27,999	24,942	16,436
Purchase of coffee from Caffenio [(5)]	–	2,397	2,064
Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. [(3)]	5,763	4,802	4,184
Advertisement expense paid to The Coca-Cola Company [(2)(4)]	2,193	1,392	2,354
Purchase of juices from Jugos del Valle, S.A.P.I. de C.V. [(1)]	4,537	3,905	3,310
Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V. [(1)]	2,604	1,885	1,765
Interest expense and fees paid to BBVA Bancomer, S.A. de C.V. [(3)]	220	40	26
Purchase of sugar from Beta San Miguel [(3)]	651	1,827	1,349
Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V. [(3)]	739	839	759
Purchase of canned products from IEQSA [(1)]	596	804	798
Purchase of inventories to Leao Alimentos e Bebidas, L.T.D.A. [(1)]	2,654	4,010	3,448
Advertising paid to Grupo Televisa, S.A.B. [(3)]	113	107	193
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. [(3)]	12	32	63
Donations to Fundación FEMSA, A.C. [(3)]	113	23	62
Donations to Difusión y Fomento Cultural, A.C. [(3)]	63	44	49
Donations to ITESM [(3)]	192	108	–
Other expenses with related parties	602	742	618

[(1)] Associates.

[(2)] Non-controlling interest.

[(3)] Members of the board of directors in FEMSA participate in board of directors of this entity.

[(4)] Net of the contributions from The Coca-Cola Company of Ps. 3,542, Ps. 4,023 and Ps. 4,518, for the years ended in 2018, 2017 and 2016, respectively.

[(5)] On May 22, 2018 the Company completed the acquisition of an additional 10% of non-controlling interest of Café del Pacífico S.A.P.I. de C.V. (Caffenio).

Commitments with related parties

Related Party	Commitment	Conditions
Heineken Group	Supply	Supply of all beer products in Mexico's OXXO stores. The contract may be renewed for five years or additional periods. At the end of the contract OXXO will not hold exclusive contract with another supplier of beer for the next 3 years. Commitment term, Jan 1st, 2010 to Jun 30, 2020.

The benefits and aggregate compensation paid to executive officers and senior management of the Company were as follows:

	2018	2017	2016
Short-term employee benefits paid	Ps. 1,885	Ps. 1,699	Ps. 1,510
Postemployment benefits	37	48	39
Termination benefits	88	74	192
Share based payments	401	351	468

Note 15. BALANCES AND TRANSACTIONS IN FOREIGN CURRENCIES

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different than the functional currency of the Company. As of December 31, 2018 and for each of the three years ended on December 31, 2018, 2017 and 2016, respectively; the assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

	Assets		Liabilities	
Balances	Short-Term	Long-Term	Short-Term	Long- Term
As of December 31, 2018				
U.S. dollars	Ps. 69,281	Ps. 12,026	Ps. 4,625	Ps. 63,112
Euros	749	–	417	22,538
Other currencies	46	1,605	24	1
Total	Ps. 70,076	Ps. 13,631	Ps. 5,066	Ps. 85,651
As of December 31, 2017				
U.S. dollars	Ps. 69,772	Ps. 148	Ps. 4,241	Ps. 73,115
Euros	25	–	1,881	23,573
Other currencies	46	1,674	340	1
Total	Ps. 69,843	Ps. 1,822	Ps. 6,462	Ps. 96,689

Transactions	Revenues	Other Operating Revenues	Purchases of Raw Materials	Interest Expense	Consulting Fees	Asset Acquisitions	Other
For the year ended December 31, 2018							
U.S. dollars	Ps. 7,228	Ps. 130	Ps. 21,460	Ps. 2,309	Ps. 752	Ps. 2,166	Ps. 2,676
Euros	–	–	63	434	20	–	1
Other currencies	–	9	–	–	2	–	–
Total	Ps. 7,228	Ps. 139	Ps. 21,523	Ps. 2,743	Ps. 774	Ps. 2,166	Ps. 2,677
For the year ended December 31, 2017							
U.S. dollars	Ps. 1,909	Ps. 1,677	Ps. 16,320	Ps. 2,534	Ps. 267	Ps. 272	Ps. 4,052
Euros	–	2	87	452	23	4	20
Other currencies	–	–	–	–	12	–	–
Total	Ps. 1,909	Ps. 1,679	Ps. 16,407	Ps. 2,986	Ps. 302	Ps. 276	Ps. 4,072
For the year ended December 31, 2016							
U.S. dollars	Ps. 4,068	Ps. 1,281	Ps. 14,961	Ps. 3,173	Ps. 182	Ps. 407	Ps. 3,339
Euros	6	–	104	355	43	–	5
Other currencies	29	150	–	150	185	–	4
Total	Ps. 4,103	Ps. 1,431	Ps. 15,065	Ps. 3,678	Ps. 410	Ps. 407	Ps. 3,348

Mexican peso exchange rates effective at the dates of the consolidated statements of financial position and at the issuance date of the Company's consolidated financial statements were as follows:

	December 31,		February 27,
	2018	2017	2019
U.S. dollar	19.6829	19.7354	19.1185
Euro	22.5383	23.5729	21.9013

Note 16. EMPLOYEE BENEFITS

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

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

16.1 ASSUMPTIONS

The Company annually evaluates the reasonableness of the assumptions used in its labor liability for post-employment and other non-current employee benefits computations.

Actuarial calculations for pension and retirement plans, seniority premiums and post-retirement medical benefits, as well as the associated cost for the period, were determined using the following long-term assumptions for Mexico:

Mexico	December 31, 2018	December 31, 2017	December 31, 2016
Financial:			
Discount rate used to calculate the defined benefit obligation	9.40%	7.60%	7.60%
Salary increase	4.60%	4.50%	4.50%
Future pension increases	3.60%	3.50%	3.50%
Healthcare cost increase rate	5.10%	5.10%	5.10%
Biometric:			
Mortality (1)	EMSSA 2009	EMSSA 2009	EMSSA 2009
Disability (2)	IMSS-97	IMSS-97	IMSS-97
Normal retirement age	60 years	60 years	60 years
Employee turnover table (3)	BMAR 2007	BMAR 2007	BMAR 2007

Measurement date December:

(1) EMSSA. Mexican Experience of social security.

(2) IMSS. Mexican Experience of Instituto Mexicano del Seguro Social.

(3) BMAR. Actuary experience.

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

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

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

	Pension and Retirement Plans	Seniority Premiums	Post-Retirement Medical Services	Total
2019	Ps. 630	Ps. 101	Ps. 22	Ps. 753
2020	340	71	23	434
2021	284	63	24	371
2022	286	56	24	366
2023	345	53	25	423
2024 to 2028	2,000	257	165	2,422

16.2 BALANCES OF THE LIABILITIES FOR EMPLOYEE BENEFITS

		December 31, 2018		December 31, 2017
Pension and Retirement Plans:				
Defined benefit obligation	Ps.	6,189	Ps.	7,370
Pension plan funds at fair value		(2,501)		(3,131)
Net defined benefit liability	Ps.	3,688	Ps.	4,239
Seniority Premiums:				
Defined benefit obligation	Ps.	772	Ps.	783
Seniority premium plan funds at fair value		(111)		(109)
Net defined benefit liability	Ps.	661	Ps.	674
Postretirement Medical Services:				
Defined benefit obligation	Ps.	418	Ps.	524
Medical services funds at fair value		(68)		(64)
Net defined benefit liability	Ps.	350	Ps.	460
Total Employee Benefits	Ps.	4,699	Ps.	5,373

16.3 TRUST ASSETS

Trust assets consist of fixed and variable return financial instruments recorded at fair value (Level 1), which are invested as follows:

	December 31, 2018	December 31, 2017
Fixed return:		
Traded securities	19%	18%
Bank instruments	6%	5%
Federal government instruments of the respective countries	60%	62%
Variable return:		
Publicly traded shares	15%	15%
	100%	100%

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

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

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

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

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

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

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

		December 31, 2018		December 31, 2017
Debt:				
Grupo Televisa, S.A.B. de C.V.	Ps.	45	Ps.	28
El Puerto de Liverpool, S.A.B. de C.V.		30		30
Grupo Financiero Banorte, S.A.B. de C.V.		8		–
Gentera, S.A.B. de C.V.		4		–
Grupo Industrial Bimbo, S.A.B. de C. V.		27		5
BBVA Bancomer, S.A. de C.V.		19		10
Equity:				
Grupo Televisa, S.A.B. de C.V.		1		–
El Puerto de Liverpool, S.A.B. de C.V.		3		–
Grupo Aeroportuario del Sureste, S.A.B. de C.V.		2		–
CEMEX, S.A.B. de C.V.		3		–

For the years ended December 31, 2018 and 2017, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during the following fiscal year. There are no restrictions placed on the trustee's ability to sell those securities. As of December 31, 2018 and 2017, the plan assets did not include securities of the Company in portfolio funds.

16.4 AMOUNTS RECOGNIZED IN THE CONSOLIDATED INCOME STATEMENTS AND THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Income Statement								AOCI [1]	
		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
December 31, 2018										
Pension and retirement plans	Ps.	318	Ps.	–	Ps.	(5)	Ps.	304	Ps.	668
Seniority premiums		125		–		(8)		49		(63)
Postretirement medical services		25		–		(1)		34		41
Total	Ps.	468	Ps.	–	Ps.	(14)	Ps.	387	Ps.	646
December 31, 2017										
Pension and retirement plans	Ps.	244	Ps.	10	Ps.	(2)	Ps.	248	Ps.	1,061
Seniority premiums		106		–		(1)		41		46
Postretirement medical services		24		–		–		30		184
Total	Ps.	374	Ps.	10	Ps.	(3)	Ps.	319	Ps.	1,291
December 31, 2016										
Pension and retirement plans	Ps.	245	Ps.	45	Ps.	(61)	Ps.	224	Ps.	1,102
Seniority premiums		93		1		–		34		18
Postretirement medical services		21		–		–		24		151
Total	Ps.	359	Ps.	46	Ps.	(61)	Ps.	282	Ps.	1,271

[1] Amounts accumulated in other comprehensive income as of the end of the period.

Remeasurements of the net defined benefit liability recognized in accumulated other comprehensive income are as follows:

		December 31, 2018		December 31, 2017		December 31, 2016
Amount accumulated in other comprehensive income as of the beginning of the period, net of tax	Ps.	892	Ps.	966	Ps.	810
Actuarial losses arising from exchange rates		(21)		(2)		123
Remeasurements during the year, net of tax		221		295		288
Actuarial gains and (losses) arising from changes in financial assumptions		(617)		(367)		(255)
Amount accumulated in other comprehensive income as of the end of the period, net of tax	Ps.	475	Ps.	892	Ps.	966

Remeasurements of the net defined benefit liability include the following:

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

16.5 CHANGES IN THE BALANCE OF THE DEFINED BENEFIT OBLIGATION FOR POST-EMPLOYMENT

	December 31, 2018	December 31, 2017	December 31, 2016
Pension and Retirement Plans:			
Initial balance	Ps. 7,370	Ps. 5,702	Ps. 5,308
Current service cost	318	341	245
Past service cost	–	10	45
Interest expense	484	491	369
Effect on curtailment	–	(2)	(61)
Settlement	(5)	–	–
Remeasurements of the net defined benefit obligation	(740)	263	(67)
Foreign exchange loss (gain)	(86)	(79)	150
Benefits paid	(450)	(550)	(287)
(Derecognition) acquisitions	(702)	1,194	–
Ending balance	Ps. 6,189	Ps. 7,370	Ps. 5,702
Seniority Premiums:			
Initial balance	Ps. 783	Ps. 663	Ps. 610
Current service cost	125	106	93
Interest expense	57	49	41
Settlement	(8)	(1)	–
Effect on curtailment	–	–	–
Remeasurements of the net defined benefit obligation	(115)	28	(43)
Benefits paid	(77)	(68)	(55)
Acquisitions	7	6	17
Ending balance	Ps. 772	Ps. 783	Ps. 663
Postretirement Medical Services:			
Initial balance	Ps. 524	Ps. 460	Ps. 404
Current service cost	25	24	22
Interest expense	39	34	27
Curtailment / Settlement	(1)	–	–
Remeasurements of the net defined benefit obligation	(143)	32	30
Benefits paid	(26)	(26)	(23)
Ending balance	Ps. 418	Ps. 524	Ps. 460
Post-employment:			
Initial balance	Ps. –	Ps. –	Ps. 135
Reclassification to certain liability cost	–	–	(135)
Ending balance	Ps. –	Ps. –	Ps. –

16.6 CHANGES IN THE BALANCE OF PLAN ASSETS

	December 31, 2018	December 31, 2017	December 31, 2016
Total Plan Assets:			
Initial balance	Ps. 3,304	Ps. 2,378	Ps. 2,228
Actual return on trust assets	47	213	40
Foreign exchange loss (gain)	(1)	86	4
Life annuities	35	65	107
Benefits paid	(1)	(136)	(1)
(Derecognition) acquisitions	(704)	698	–
Ending balance	Ps. 2,680	Ps. 3,304	Ps. 2,378

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

16.7 VARIATION IN ASSUMPTIONS

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

- Discount rate: The rate that determines the value of the obligations over time.
- Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable.
- Healthcare cost increase rate: The rate that considers the trends of health care costs which implies an impact on the postretirement medical service obligations and the cost for the year.

The following table presents the amount of defined benefit plan expense and OCI impact in absolute terms of a variation of 1% in the assumptions on the net defined benefit liability associated with the Company's defined benefit plans. The sensitivity of this 1% on the significant actuarial assumptions is based on a projected long-term discount rates for Mexico and a yield curve projections of long-term sovereign bonds:

+1%:	Income Statement						OCI (1)	
Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability		Current Service Cost		Gain or Loss on Settlement or Curtailment		Effect of Net Interest on the Net Defined Benefit Liability (Asset)		Remeasurements of the Net Defined Benefit Liability (Asset)
Pension and retirement plans	Ps.	284	Ps.	(4)	Ps.	291	Ps.	391
Seniority premiums		121		(7)		53		(79)
Postretirement medical services		24		(1)		38		20
Post-employment		–		–		–		–
Total	Ps.	429	Ps.	(12)	Ps.	382	Ps.	332
Expected salary increase								
Pension and retirement plans	Ps.	309	Ps.	(6)	Ps.	296	Ps.	610
Seniority premiums		131		(8)		53		(67)
Postretirement medical services		–		–		–		–
Post-employment		–		–		–		–
Total	Ps.	440	Ps.	(14)	Ps.	349	Ps.	543
Assumed rate of increase in healthcare costs								
Postretirement medical services	Ps.	29	Ps.	(1)	Ps.	41	Ps.	33

-1%:	Income Statement						OCI (1)	
Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability		Current Service Cost		Gain or Loss on Settlement or Curtailment		Effect of Net Interest on the Net Defined Benefit Liability (Asset)		Remeasurements of the Net Defined Benefit Liability (Asset)
Pension and retirement plans	Ps.	324	Ps.	(6)	Ps.	261	Ps.	571
Seniority premiums		129		(8)		46		(61)
Postretirement medical services		28		(1)		35		37
Post-employment		–		–		–		–
Total	Ps.	481	Ps.	(15)	Ps.	342	Ps.	547
Expected salary increase								
Pension and retirement plans	Ps.	284	Ps.	(3)	Ps.	239	Ps.	444
Seniority premiums		120		(7)		47		(72)
Postretirement medical services		–		–		–		–
Post-employment		–		–		–		–
Total	Ps.	404	Ps.	(10)	Ps.	286	Ps.	372
Assumed rate of increase in healthcare costs								
Postretirement medical services	Ps.	24	Ps.	(1)	Ps.	34	Ps.	23

(1) Amounts accumulated in other comprehensive income as of the end of the period.

16.8 EMPLOYEE BENEFITS EXPENSE

For the years ended December 31, 2018, 2017 and 2016, employee benefits expenses recognized in the consolidated income statements as cost of goods sold, administrative and selling expenses are as follows:

	2018	2017	2016
Wages and salaries	Ps. 58,745	Ps. 51,874	Ps. 49,393
Social security costs	10,486	9,800	8,814
Employee profit sharing	1,294	1,209	1,506
Post-employment benefits	842	700	625
Share-based payments	405	351	468
Termination benefits	132	159	325
	Ps. 71,904	Ps. 64,093	Ps. 61,131

Note 17. BONUS PROGRAMS

17.1 QUANTITATIVE AND QUALITATIVE OBJECTIVES

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

The quantitative objectives represent approximately 50% of the bonus and are based on the Economic Value Added ("EVA") methodology. The objective established for the executives at each entity is based on a combination of the EVA generated per entity and the EVA generated by the Company, calculated at approximately 70% and 30%, respectively. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

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

17.2 SHARE-BASED PAYMENT BONUS PLAN

The Company has implemented a stock incentive plan for the benefit of its senior executives. As discussed above, this plan uses as its main evaluation metric the EVA. Under the EVA stock incentive plan, eligible employees are entitled to receive a special annual bonus (fixed amount), to be paid in shares of FEMSA or Coca-Cola FEMSA, as applicable or stock options (the plan considers providing stock options to employees; however, since inception only shares of FEMSA or Coca-Cola FEMSA have been granted).

The plan is managed by FEMSA's chief executive officer ("CEO"), with the support of the board of directors, together with the CEO of the respective sub-holding company. FEMSA's Board of Directors is responsible for approving the plan's structure, and the annual amount of the bonus. Each year, FEMSA's CEO in conjunction with the Evaluation and Compensation Committee of the board of directors and the CEO of the respective sub-holding company determine the employees eligible to participate in the plan and the bonus formula to determine the number of shares to be received. Until 2015 the shares were vested ratably over a six-year period, beginning with January 1, 2016 onwards they were ratably vest over a four-year period, with retrospective effects, on existing grants recognized in 2016. FEMSA accounts for its share-based payment bonus plan as an equity-settled share-based payment transaction as it will ultimately settle its obligations with its employees by issuing its own shares or those of its subsidiary Coca-Cola FEMSA.

The Company contributes the individual employee's special bonus (after taxes) in cash to the Administrative Trust (which is controlled and consolidated by FEMSA), who then uses the funds to purchase FEMSA or Coca-Cola FEMSA shares (as instructed by the Administrative Trust's Technical Committee), which are then allocated to such employee. The Administrative Trust tracks the individual employees' account balance. FEMSA created the Administrative Trust with the objective of conducting the purchase of FEMSA and Coca-Cola FEMSA shares by each of its subsidiaries with eligible executives participating in the stock incentive plan. The Administrative Trust's objectives are to acquire FEMSA shares or shares of Coca-Cola FEMSA and to manage the shares granted to the individual employees based on instructions set forth by the Technical Committee. Once the shares are acquired following the Technical Committee's instructions, the Administrative Trust assigns to each participant their respective rights. As the trust is controlled and therefore consolidated by FEMSA, shares purchased in the market and held within the Administrative Trust are presented as treasury stock (as it relates to FEMSA's shares) or as a reduction of the noncontrolling interest (as it relates to Coca-Cola FEMSA's shares) in the consolidated statement of changes in equity, on the line issuance (purchase) of shares associated with share-based payment plans. Should an employee leave prior to their shares vesting, they would lose the rights to such shares, which would then remain within the Administrative Trust and be able to be reallocated to other eligible employees as determined by the Company. The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. For the years ended December 31, 2018, 2017 and 2016, the compensation expense recorded in the consolidated income statement amounted to Ps. 401, Ps. 351 and Ps. 468, respectively.

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

As of December 31, 2018 and 2017, the number of shares held by the trust associated with the Company's share-based payment plans are as follows:

	Number of Shares			
	FEMSA UBD		KOFL	
	2018	2017	**2018**	2017
Beginning balance	2,945,209	3,625,171	935,899	1,068,327
Shares acquired by the administrative trust to employees	913,846	1,311,599	262,909	344,770
Shares released from administrative trust to employees upon vesting	(1,580,595)	(1,991,561)	(501,582)	(477,198)
Forfeitures	–	–	–	–
Ending balance	2,278,460	2,945,209	697,226	935,899

The fair value of the shares held by the trust as of the end of December 31, 2018 and 2017 was Ps. 468 and Ps. 673, respectively, based on quoted market prices of those dates.

Note 18. BANK LOANS AND NOTES PAYABLE

(in millions of Mexican pesos)	At December 31, [1] 2019	2020	2021	2022	2023	2024 and Thereafter	Carrying Value at December 31, **2018**	Fair Value at December 31, **2018**	Carrying Value at December 31, 2017 [1]
Short-term debt:									
Fixed rate debt:									
Argentine pesos									
Bank loans	Ps. 157	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. 157	Ps. 141	Ps. 106
Interest rate	36.8%	–	–	–	–	–	36.8%	–	22.4%
Chilean pesos									
Bank loans	594	–	–	–	–	–	594	594	770
Interest rate	3.2%	–	–	–	–	–	3.2%	–	3.1%
U.S. dollars									
Bank loans	–	–	–	–	–	–	–	–	–
Interest rate	–	–	–	–	–	–	–	–	–
Capital leases	10	–	–	–	–	–	10	10	–
Interest rate	3.3%	–	–	–	–	–	3.3%	–	–
Uruguayan pesos									
Bank loans	771	–	–	–	–	–	771	771	–
Interest rate	10%	–	–	–	–	–	10%	–	–
Variable rate debt:									
Mexican pesos									
Bank loans	450	–	–	–	–	–	450	450	–
Interest rate	9.2%	–	–	–	–	–	9.2%	–	–
Colombian pesos									
Bank loans	454	–	–	–	–	–	454	454	1,951
Interest rate	5.6%	–	–	–	–	–	5.6%	–	7.3%
Chilean pesos									
Bank loans	–	–	–	–	–	–	–	–	3
Interest rate	–	–	–	–	–	–	–	–	6.1%
Total short-term debt	Ps. 2,436	Ps. –	Ps. –	Ps. –	Ps. –	Ps. –	Ps. 2,436	Ps. 2,420	Ps. 2,830

[1] All interest rates shown in this table are weighted average contractual annual rates.

(in millions of Mexican pesos)	At December 31, [1] 2019	2020	2021	2022	2023	2024 and Thereafter	Carrying Value at December 31, 2018	Fair Value at December 31, 2018	Carrying Value at December 31, 2017 [1]
Long-term debt:									
Fixed rate debt:									
Euro									
Senior unsecured notes	Ps. –	Ps. –	Ps. –	Ps. –	Ps. 22,439	Ps. –	Ps. 22,439	Ps. 23,063	Ps.23,449
Interest rate	–	–	–	–	1.7%	–	1.7%	–	1.8%
U.S. dollars									
Yankee bond	–	9,829	–	–	17,557	11,818	39,204	40,716	48,043
Interest rate	–	4.6%	–	–	3.9%	5.3%	4.5%	–	4.1%
U.S. dollars Promissory Note	4,652	–	–	–	–	–	4,652	4,516	–
Interest rate [1]	0.4%	–	–	–	–	–	0.4%	–	–
Bank of NY (FEMSA USD 2023)	–	–	–	–	5,849	–	5,849	5,657	5,852
Interest rate [1]	–	–	–	–	2.9%	–	2.9%	–	2.9%
Bank of NY (FEMSA USD 2043)	–	–	–	–	–	13,504	13,504	13,229	13,510
Interest rate [1]	–	–	–	–	–	4.4%	4.4%	–	4.4%
Capital leases	5	2	–	–	–	–	7	7	13
Interest rate [1]	17.8%	8.1%	–	–	–	–	14.7%	–	3.8%
Mexican pesos									
Domestic senior notes	–	–	2,498	–	7,495	8,488	18,481	17,218	18,479
Interest rate	–	–	8.3%	–	5.5%	7.9%	6.9%	–	6.9%
Bank loans	33	32	12	–	–	–	77	77	–
Interest rate	–	–	8.3%	–	–	–	6.4%	–	–
Brazilian reais									
Bank loans	209	129	78	67	38	24	545	531	1,033
Interest rate	5.8%	5.9%	6.0%	6.1%	6.4%	6.6%	6.0%	–	5.7%
Notes payable [2]	–	–	–	–	–	–	–	–	6,707
Interest rate	–	–	–	–	–	–	–	–	0.4%
Chilean pesos									
Bank loans	–	–	–	–	–	–	–	–	40
Interest rate	–	–	–	–	–	–	–	–	7.9%
Capital leases	31	26	17	–	–	–	74	74	98
Interest rate	3.7%	3.5%	3.2%	–	–	–	3.5%	–	3.5%
Colombian pesos									
Bank loans	–	–	–	–	–	–	–	–	728
Interest rate	–	–	–	–	–	–	–	–	9.6%
Capital leases	–	–	–	–	–	–	–	–	17
Interest rate	–	–	–	–	–	–	–	–	4.2%
Uruguayan pesos									
Bank loans	–	573	–	–	–	–	573	573	–
Interest rate	–	10.2%	–	–	–	–	10.2%	–	–
Subtotal	Ps.4,930	Ps.10,591	Ps. 2,605	Ps. 67	Ps. 53,378	Ps. 33,834	Ps.105,405	Ps.105,661	Ps.117,969

[1] All interest rates shown in this table are weighted average contractual annual rates.

(in millions of Mexican pesos)	At December 31, [1] 2019	2020	2021	2022	2023	2024 and Thereafter	Carrying Value at December 31, 2018	Fair Value at December 31, 2018	Carrying Value at December 31, 2017 [1]
Variable rate debt:									
U.S. dollars									
Bank loans	Ps. –	Ps. 4,025	Ps. –	Ps. –	Ps. –	Ps. –	Ps. 4,025	Ps. 4,062	Ps. 4,032
Interest rate [1]	–	3.3%	–	–	–	–	3.3%	–	2.1%
Mexican pesos									
Domestic senior notes	–	–	–	1,497	–	–	1,497	1,276	1,496
Interest rate [1]	–	–	–	8.6%	–	–	8.6%	–	7.7%
Bank loans	5,049	145	5,492	38	7	–	10,731	10,731	–
Interest rate [1]	8.6%	10.1%	8.6%	10.1%	10.1%	–	8.6%	–	–
Brazilian reais									
Bank loans	244	198	57	6	–	–	505	527	870
Interest rate	9.4%	9.5%	10.4%	10.4%	–	–	9.5%	–	8.5%
Notes payable	5	–	–	–	–	–	5	5	15
Interest rate	0.4%	–	–	–	–	–	0.4%	–	0.4%
Colombian pesos									
Bank loans	424	424	–	–	–	–	848	848	–
Interest rate	5.6%	5.7%	–	–	–	–	5.7%	–	–
Chilean pesos									
Bank loans	586	978	645	663	340	–	3,212	3,211	4,136
Interest rate	4.3%	4.1%	4.0%	4.1%	3.9%	–	4.1%	–	4.1%
Subtotal	Ps. 6,308	Ps. 5,770	Ps. 6,194	Ps. 2,204	Ps. 347	Ps. –	Ps. 20,823	Ps. 20,660	Ps. 10,549
Total long-term debt	Ps. 11,238	Ps. 16,361	Ps. 8,799	Ps. 2,271	Ps. 53,725	Ps. 33,834	Ps. 126,228	Ps. 126,321	Ps. 128,518
Current portion of long term debt							(11,238)		(10,760)
							Ps. 114,990		Ps. 117,758

[1] All interest rates shown in this table are weighted average contractual annual rates.

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

Hedging Derivative Financial Instruments [1]	2019	2020	2021	2022	2023	2024 and Thereafter	Total 2018	Total 2017
	(notional amounts in millions of Mexican pesos)							
Cross currency swaps:								
U.S. dollars to Mexican pesos								
Fixed to variable [2]	Ps. –	Ps. –	Ps. –	Ps. –	Ps. 11,403	Ps. –	Ps. 11,403	Ps. 11,403
Interest pay rate	–	–	–	–	9.8%	–	9.8%	8.9%
Interest receive rate	–	–	–	–	4.0%	–	4.0%	4.0%
Fixed to fixed	–	9,841	–	–	3,038	6,889	19,768	19,818
Interest pay rate	–	9.0%	–	–	7.7%	9.7%	9.1%	9.1%
Interest receive rate	–	3.9%	–	–	3.9%	4.0%	3.9%	3.9%
U.S. dollars to Brazilian reais								
Fixed to variable	4,652	–	–	–	–	–	4,652	19,617
Interest pay rate	4.7%	–	–	–	–	–	4.7%	6.0%
Interest receive rate	0.4%	–	–	–	–	–	0.4%	2.0%
Variable to variable	–	–	–	–	–	–	–	19,617
Interest pay rate	–	–	–	–	–	–	–	6.6%
Interest receive rate	–	–	–	–	–	–	–	2.5%
Fixed to fixed	–	4,559	–	–	–	–	4,559	–
Interest pay rate	–	8.3%	–	–	–	–	8.3%	–
Interest receive rate	–	2.9%	–	–	–	–	2.9%	–
Variable to fixed	–	–	4,035	–	9,448	–	13,483	–
Interest pay rate	–	–	7.9%	–	9.5%	–	9.0%	–
Interest receive rate	–	–	2.9%	–	3.9%	–	3.6%	–
Chilean pesos								
Variable to fixed	–	364	–	–	–	–	364	620
Interest pay rate	–	6.9%	–	–	–	–	6.9%	6.9%
Interest receive rate	–	4.6%	–	–	–	–	4.6%	3.9%
Interest rate swap:								
Mexican pesos								
Variable to fixed rate:	19	–	513	617	1,698	–	2,847	3,515
Interest pay rate	6.5%	–	7.6%	6.6%	5.8%	–	6.3%	5.8%
Interest receive rate	3.8%	–	3.8%	4.5%	3.9%	–	4.0%	4.5%
Variable to fixed rate [2]:								
Interest pay rate	–	–	–	–	7.2%	–	7.2%	7.2%
Interest receive rate	–	–	–	–	9.8%	–	9.8%	8.9%

[1] All interest rates shown in this table are weighted average contractual annual rates.

[2] Interest rate swaps with a notional amount of Ps. 11,403 that receive a variable rate of 9.8% and pay a fixed rate of 7.2%; joined with a cross currency swap, which covers U.S. dollars to Mexican pesos, that receives a fixed rate of 4.0% and pay a variable rate of 9.8%.

For the years ended December 31, 2018, 2017 and 2016, the interest expense is comprised as follows:

	2018	2017	2016
Interest on debts and borrowings	Ps. 6,760	Ps. 6,377	Ps. 5,694
Capitalized interest	(5)	(10)	(32)
Finance charges for employee benefits	373	317	282
Derivative instruments	2,649	4,339	3,519
Finance operating charges	47	69	183
	Ps. 9,825	Ps. 11,092	Ps. 9,646

In March 14, 2016, the Company issued long-term debt on the Irish Stock Exchange ("ISE") in the amount of €. 1,000, which was made up of senior notes with a maturity of 7 years, a fixed interest rate of 1.75% and a spread of 155 basis points over the relevant benchmark mid-swap, for a total yield of 1.824%. The Company has designated this non-derivative financial liability as a hedge on the net investment in Heineken. For the year ended December 31, 2018, a foreign exchange gain, net of tax, has been recognized as part of the exchange differences on translation of foreign operations within the cumulative other comprehensive income of Ps. 724.

In August 18, 2017, Coca-Cola FEMSA partially prepaid U.S. $555 of a dollar denominated bond due in 2018, reducing the outstanding senior note to U.S. $445 with interest at a fixed rate of 2.38%.

Coca-Cola FEMSA has the following 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%; 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 2022 and floating interest rate of TIIE + 0.25%; and iv) Ps. 8,500 (nominal amount) with a maturity date 2027 and fixed interest rate of 7.87%.

B) REGISTERED WITH THE SEC:

i) Senior notes of U.S. $500 with interest at a fixed rate of 4.63% and maturity date on February 15, 2020; ii) Senior notes of U.S. $445 with interest at a fixed rate of 2.38% and maturity date on November 26, 2018; iii) Senior notes of U.S. $900 with interest at a fixed rate of 3.88% and maturity date on November 26, 2023; and iv) Senior notes of U.S. $600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043.

The mentioned bonds are guaranteed by Coca-Cola FEMSA subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R.L. de C.V. ("Guarantors").

The Company has financing from different 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.

18.1 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

			Non-Cash Flows			
	Carrying Value at December 31, 2017	Cash Flows	Acquisition	Foreign Exchange Movement	Others	Carrying Value at December 31, 2018
Bank loans	Ps. 13,669	Ps. 8,313	Ps. 1,147	Ps. 417	Ps. (602)	Ps. 22,944
Notes payable	117,551	(9,314)	–	(769)	(1,840)	105,628
Lease liabilities	128	(26)	–	(10)	–	92
Total liabilities from financing activities	Ps. 131,348	Ps. (1,027)	Ps. 1,147	Ps. (362)	Ps. (2,442)	Ps. 128,664

			Non-Cash Flows			
	Carrying Value at December 31, 2016	Cash Flows	Acquisition	Foreign Exchange Movement	Others	Carrying Value at December 31, 2017
Bank loans	Ps. 14,497	Ps. (949)	Ps. –	Ps. 190	Ps. (69)	Ps. 13,669
Notes payable	123,859	(3,574)	–	4,954	(7,688)	117,551
Lease liabilities	892	(8)	–	–	(756)	128
Total liabilities from financing activities	Ps. 139,248	Ps. (4,531)	Ps. –	Ps. 5,144	Ps. (8,513)	Ps. 131,348

Note 19. OTHER INCOME AND EXPENSES

		2018		2017		2016
Gain on sale of shares (see Note 4.2)	Ps.	–	Ps.	123	Ps.	–
Gain on sale of Heineken Group shares		–		29,989		–
Gain on sale of other assets		344		–		–
Gain on sale of long-lived assets		174		210		170
Sale of waste material		13		3		50
Write off-contingencies (see Note 25.5)		–		–		329
Recoveries from previous years		–		–		466
Insurance rebates		10		6		10
Foreign exchange gain		123		–		–
Others		9		1,621		132
Other income	Ps.	673	Ps.	31,952	Ps.	1,157
Contingencies associated with prior acquisitions or disposals	Ps.	138	Ps.	39	Ps.	1,582
Loss on sale of equity financial assets		–		–		8
Loss on sale of other assets		–		148		159
Recoveries of prior years		116		35		–
Impairment of long-lived assets [2]		432		2,063		–
Disposal of long-lived assets [1]		518		451		238
Suppliers provisions		–		398		–
Foreign exchange losses related to operating activities		–		2,524		2,370
Non-income taxes from Colombia		–		–		53
Contingencies		518		636		–
Severance payments		264		243		98
Donations		528		242		203
Legal fees and other expenses from past acquisitions		149		612		241
Venezuela deconsolidation effect		–		26,123		–
Other		284		352		957
Other expenses	Ps.	2,947	Ps.	33,866	Ps.	5,909

[1] Charges related to fixed assets retirement from ordinary operations and other long-lived assets.

[2] Includes Venezuela impairment of Ps. 2,053 (see Note 3.3).

Note 20. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities that are measured at fair value are based on level 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, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Level 1	Level 2	Level 1	Level 2
Derivative financial instrument (current asset)	–	735	22	211
Derivative financial instrument (non-current asset)	–	10,752	–	10,137
Derivative financial instrument (current liability)	236	147	26	3,921
Derivative financial instrument (non-current liability)	–	1,262	–	1,769

20.1 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, 2018 and 2017, which is considered to be level 1 in the fair value hierarchy.

		2018		2017
Carrying value	Ps.	128,664	Ps.	131,348
Fair value		128,741		136,147

20.2 INTEREST RATE SWAPS

The Company uses interest rate swaps to offset the interest rate risk associated with its borrowings, pursuant to which it pays amounts based on a fixed rate and receives amounts based on a floating rate. These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value. The fair value is estimated using formal technical models. The valuation method involves discounting to present value the expected cash flows of interest, calculated from the rate curve of the cash flow currency, and expresses the net result in the reporting currency. Changes in fair value are recorded in cumulative other comprehensive income, net of taxes until such time as the hedged amount is recorded in the consolidated income statements.

At December 31, 2018, the Company has the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2018	Fair Value Asset December 31, 2018
2019	Ps. 4,032	Ps. (49)	Ps. –
2020	4,559	(112)	–
2021	4,548	(151)	–
2022	617	(18)	–
2023	13,101	(49)	1,143

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

Maturity Date	Notional Amount	Fair Value Liability December 31, 2017	Fair Value Asset December 31, 2017
2019	Ps. 4,089	Ps. (35)	Ps. –
2020	3,669	(17)	–
2021	3,709	(103)	–
2022	875	(34)	–
2023	13,328	(77)	984

The net effect of expired contracts treated as hedges are recognized as interest expense within the consolidated income statements.

20.3 FORWARD AGREEMENTS TO PURCHASE FOREIGN CURRENCY

The Company has entered into forward agreements to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies. Foreign exchange forward contracts measured at fair value are designated hedging instruments in cash flow hedges of forecast inflows in Euros and forecast purchases of raw materials in U.S. dollars. These forecast transactions are highly probable.

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. The price agreed in the instrument is compared to the current price of the market forward currency and is discounted to present value of the rate curve of the relevant currency. Changes in the fair value of these forwards are recorded as part of cumulative other comprehensive income, net of taxes. Net gain/loss on expired contracts is recognized as part of cost of goods sold when the raw material is included in sale transaction, and as a part of foreign exchange when the inflow in Euros are received.

At December 31, 2018, the Company had the following outstanding forward agreements to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2018	Fair Value Asset December 31, 2018
2019	Ps. 5,808	Ps. (65)	Ps. 133

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

Maturity Date	Notional Amount	Fair Value Liability December 31, 2017	Fair Value Asset December 31, 2017
2018	Ps. 7,739	Ps. (20)	Ps. 172

20.4 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, 2018, the Company paid a net premium of Ps. 43 million for the following outstanding collar options to purchase foreign currency:

Maturity Date	Notional Amount	Fair Value Liability December 31, 2018	Fair Value Asset December 31, 2018
2019	Ps. 1,734	Ps. (33)	Ps. 57

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

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

20.5 CROSS-CURRENCY SWAPS

The Company has contracted for 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 and other foreign currencies. Cross-Currency swaps contracts are designated as hedging instruments through which the Company changes the debt profile to its functional currency to reduce exchange exposure.

These instruments are recognized in the consolidated statement of financial position at their estimated fair value which is estimated using formal technical models. The valuation method involves discounting to present value the expected cash flows of interest, calculated from the rate curve of the cash foreign currency, and expresses the net result in the reporting currency. These contracts are designated as financial instruments at fair value through profit or loss. The fair values changes related to those cross-currency swaps are recorded under the caption "market value gain (loss) on financial instruments," net of changes related to the long-term liability, within the consolidated income statements.

The Company has cross-currency contracts designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value. Changes in fair value are recorded in cumulative other comprehensive income, net of taxes until such time as the hedge amount is recorded in the consolidated income statement.

At December 31, 2018, the Company had the following outstanding cross-currency swap agreements:

Maturity Date	Notional Amount	Fair Value Liability 2018	Fair Value Asset December 31, 2018
2019	Ps. 4,738	Ps. –	Ps. 502
2020	18,126	(378)	1,015
2021	4,774	–	615
2023	396	(7)	–
2026	23,948	(396)	7,818
2027	813	(154)	–
2028	6,889	(42)	202

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

Maturity Date	Notional Amount	Fair Value Liability 2017	Fair Value Asset December 31, 2017
2018	Ps. 24,760	Ps. (3,878)	Ps. –
2019	6,263	(205)	–
2020	18,428	(927)	567
2021	4,853	(12)	24
2023	14,446	–	8,336
2026	888	(192)	–
2027	6,907	–	51

20.6 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 the fair value are recorded as part of "cumulative other comprehensive income."

The fair value of expired commodity price contract was recorded in cost of goods sold where the hedged item was recorded also in cost of goods sold.

At December 31, 2018, Coca-Cola FEMSA had the following sugar price contracts:

Maturity Date		Notional Amount		Fair Value Asset December 31, 2018
2019	Ps.	1,223	Ps.	(88)

At December 31, 2017, Coca-Cola FEMSA had the following sugar price contracts:

Maturity Date		Notional Amount		Fair Value Asset (Liability) December 31, 2017
2018	Ps.	992	Ps.	(7)
2019		150		3

At December 31, 2018, Coca-Cola FEMSA had the following aluminum price contracts:

Maturity Date		Notional Amount		Fair Value Liability December 31, 2018
2019	Ps.	265	Ps.	(17)

At December 31, 2018, Coca-Cola FEMSA had the following PX+MEG contracts:

Maturity Date		Notional Amount		Fair Value Liability December 31, 2018
2019	Ps.	1,303	Ps.	(131)

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

As disclosed in Note 4.1.3, on December 6, 2016, as part of the purchase price paid for the Coca-Cola FEMSA's acquisition of Vonpar, Spal issued and delivered a three-year promissory note to the sellers, for a total amount of 1,166 million Brazilian reais. On November 14, 2018 Coca-Cola FEMSA prepaid an amount for 393 million of Brazilian real (Ps. 2,079) and the amount left as of December 31, 2018 is 916 million of Brazilian reais (approximately Ps. 4,652). 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 Coca-Cola FEMSA in exchange for Series L shares at a strike price of Ps. 178.5 per share. Such capitalization and issuance of new Series L shares is subject to Coca-Cola FEMSA having a sufficient number of Series L shares available for issuance

Coca-Cola FEMSA uses Black & Scholes valuation technique to measure the call option at fair value. The call option had an estimated fair value of Ps. 343 million at inception of the option and Ps. 14 and Ps. 242 million as of December 31, 2018 and 2017, respectively. The option is recorded as part of the Promissory Note disclosed in Note 18.

Coca-Cola FEMSA estimates that the call option is "out of the money" as of December 31, 2018 and 2017 by approximately 49.8% and 30.4% or U.S. $111 million and U.S. $82 million with respect to the strike price.

20.8 NET EFFECTS OF EXPIRED CONTRACTS THAT MET HEDGING CRITERIA

	Impact in Consolidated Income Statement		2018		2017		2016
Cross currency swap [1]	Interest expense	Ps.	157	Ps.	2,102	Ps.	–
Cross currency swap [1]	Foreign exchange		642		–		–
Forward agreements to purchase foreign currency	Foreign exchange		(87)		(40)		160
Commodity price contracts	Cost of goods sold		(258)		(6)		(241)
Options to purchase foreign currency	Cost of goods sold		(8)		–		–
Forward agreements to purchase foreign currency	Cost of goods sold		240		89		(45)

[1] This amount corresponds to the settlement of cross currency swaps portfolio in Brazil presented as part of the other financial activities.

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

As of December 31, 2018 The Company does not have net effects of changes in fair value of derivative financial instruments that did not meet the hedging criteria for accounting purposes.

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

	Impact in Consolidated Income Statement		2018		2017
Cross-currency swaps	Market value gain on financial instruments	Ps.	–	Ps.	(438)

20.11 RISK MANAGEMENT

The Company has exposure to the following financial risks:

- Market risk;
- Interest rate risk;
- Liquidity risk; and
- Credit risk.

The Company determines the existence of an economic relationship between the hedging instruments and the hedged item based on the currency, amount and timing of their respective cash flows. The Company evaluates whether the derivative designated in each hedging relationship is expected to be effective and that it has been effective to offset changes in the cash flows of the hedged item using the hypothetical derivative method.

In these hedging relationships, the main sources of inefficiency are:

- The effect of the credit risk of the counterparty and the Company on the fair value of foreign currency forward contracts which is not reflected in the change in the fair value of the hedged cash flows attributable to change in the types of change; and
- Changes in the periodicity of covered.

20.11.1 MARKET RISK

Market risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market prices. Market prices include currency risk and commodity price risk.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and commodity prices. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency 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.
- Cross-Currency Swaps in order to reduce its exposure to the risk of exchange rate fluctuations.
- 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 management considered to be reasonably possible at the end of the reporting period based on a stress test of the exchange rates according to an annualized volatility estimated with historic prices obtained for the underlying asset over a period of time, in the cases of derivative financial instruments related to foreign currency risk, which the Company is exposed to as it relates to in its existing hedging strategy:

Foreign Currency Risk	Change in Exchange Rate	Effect on Equity	
2018			
FEMSA [1]	+12 MXN/EUR	Ps.	(116)
	-12% MXN/EUR		116
Coca-Cola FEMSA	+13% MXN/USD		668
	-13% MXN/USD		(668)
	+16% BRL/USD		413
	-16% BRL/USD		(413)
	+8% UYU/USD		46
	-8% UYU/USD		(46)
	+12% COP/USD		2
	-12% COP/USD		(2)
	+27% ARS/USD		522
	-27% ARS/USD		(522)
2017			
FEMSA [1]	+13% MXN/EUR	Ps.	(141)
	-13% MXN/EUR		141
	+8% CLP/USD		2
	-8% CLP/USD		(2)
Coca-Cola FEMSA	+12% MXN/USD		626
	-12% MXN/USD		(625)
	+14% BRL/USD		234
	-14% BRL/USD		(234)
	+9% COP/USD		73
	-9% COP/USD		(73)
	+10% ARS/USD		29
	-10% ARS/USD		(29)
2016			
FEMSA [1]	+17% MXN/EUR	Ps.	(293)
	-17% MXN/EUR		293
	+11% CLP/USD		12
	-11% CLP/USD		(12)
Coca-Cola FEMSA	+18% BRL/USD		203
	-18% BRL/USD		(203)
	+17% MXN/USD		916
	-17% MXN/USD		(916)
	+18% COP/USD		255
	-18% COP/USD		(255)

[1] Does not include Coca-Cola FEMSA.

Cross Currency Swaps [1] [2]	Change in Exchange Rate	Effect on Equity	Effect on Profit or Loss
2018			
FEMSA [3]	+10% CLP/USD	Ps. –	Ps. 368
	-10% CLP/USD	–	(368)
	+13% MXN/USD	–	2,706
	-13% MXN/USD	–	(2,706)
	+12% COP/USD	–	283
	-12% COP/USD	–	(283)
	+15% MXN/BRL	–	27
	-15% MXN/BRL	–	(27)
Coca-Cola FEMSA	+13% MXN/USD	3,130	–
	-13% MXN/USD	(3,130)	–
	+16% BRL/USD	9,068	–
	-16% BRL/USD	(9,068)	–
2017			
FEMSA [3]	+8% CLP/USD	Ps. –	Ps. 373
	-8% CLP/USD	–	(373)
	+12% MXN/USD	–	3,651
	-12% MXN/USD	–	(3,651)
	+9% COP/USD	–	304
	-9% COP/USD	–	(304)
	+14% MXN/BRL	–	23
	-14% MXN/BRL	–	(23)
Coca-Cola FEMSA	+12% MXN/USD	3,540	–
	-12% MXN/USD	(3,540)	–
	+14% BRL/USD	7,483	–
	-14% BRL/USD	(7,483)	–
2016			
	+11% CLP/USD	Ps. –	Ps. 549
	-11% CLP/USD	–	(549)
	+17% MXN/USD	–	3,836
FEMSA [3]	-17% MXN/USD	–	(3,836)
	+18% COP/USD	–	448
	-18% COP/USD	–	(448)
Coca-Cola FEMSA	+17% MXN/USD	3,687	1,790
	-17% MXN/USD	(3,687)	(1,790)
	+18% BRL/USD	9,559	–
	-18% BRL/USD	(9,559)	–

[1] The sensitivity analysis effects include all subsidiaries of the Company.

[2] Includes the sensitivity analysis effects of all derivative financial instruments related to foreign exchange risk.

[3] Does not include Coca-Cola FEMSA.

Net Cash in Foreign Currency [1]	Change in Exchange Rate		Effect on Profit or Loss
2018			
FEMSA [2]	+12% EUR/ +13 % USD	Ps.	8,596
	-12% EUR/ -13 % USD		(8,596)
Coca-Cola FEMSA	+13% USD		1,868
	-13% USD		(1,868)
2017			
FEMSA [2]	+13% EUR/ +12% USD	Ps.	8,077
	-13% EUR/ -12% USD		(8,077)
Coca-Cola FEMSA	+12% USD		(553)
	-12% USD		553
2016			
FEMSA [2]	+17% EUR/ +17% USD	Ps.	3,176
	-17% EUR/ -17% USD		(3,176)
Coca-Cola FEMSA	+17% USD		(105)
	-17% USD		105

[1] The sensitivity analysis effects include all subsidiaries of the Company.
[2] Does not include Coca-Cola FEMSA.

Commodity Price Contracts [1]	Change in U.S.$ Rate		Effect on Equity
2018			
Coca-Cola FEMSA	Sugar - 30%	Ps.	(341)
	Aluminum - 22%		(55)
2017			
Coca-Cola FEMSA	Sugar - 30%	Ps.	(32)
2016			
Coca-Cola FEMSA	Sugar - 33%	Ps.	(310)
	Aluminum - 16%		(13)

[1] Effects on commodity price contracts are only in Coca-Cola FEMSA.

20.11.2 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

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 it considers in its existing hedging strategy:

Interest Rate Swap [1]	Change in Bps.		Effect on Equity
2018			
FEMSA [2]	(100 Bps.)	Ps.	(359)
Coca-Cola FEMSA	(100 Bps.)		(1,976)
2017			
FEMSA [2]	(100 Bps.)	Ps.	(452)
Coca-Cola FEMSA	(100 Bps.)		(234)
2016			
FEMSA [2]	(100 Bps.)	Ps.	(550)

[1] The sensitivity analysis effects include all subsidiaries of the Company.

[2] Does not include Coca-Cola FEMSA.

Interest Effect of Unhedged Portion Bank Loans		**2018**		2017		2016
Change in interest rate		+100 Bps.		+100 Bps.		+100 Bps.
Effect on profit loss	Ps.	145	Ps.	(251)	Ps.	(354)

20.11.3 LIQUIDITY RISK

Each of the Company's sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2018 and 2017, 68.2% and 64.3%, respectively of the Company's outstanding consolidated total indebtedness was at the level of its sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA. Currently, the Company's management expects to continue financing its operations and capital requirements when it is considering domestic funding at the level of its sub-holding companies, otherwise; it is generally more convenient that its foreign operations would be financed directly through the Company because of better market conditions obtained by itself. Nonetheless, sub-holdings companies may decide to incur indebtedness in the future to finance their own operations and capital requirements of the Company's subsidiaries or significant acquisitions, investments or capital expenditures. As a holding company, the Company depends on dividends and other distributions from its subsidiaries to service the Company's indebtedness.

The Company's principal source of liquidity has generally been cash generated from its operations. The Company has traditionally been able to rely on cash generated from operations because a significant majority of the sales of Coca-Cola FEMSA and FEMCO – Proximity, FEMCO – Health and FEMCO – Fuel Divisions are on a cash or short-term credit basis, and FEMSA Comercio's OXXO stores are able to finance a significant portion of their initial and ongoing inventories with supplier credit. The Company's principal use of cash has generally been for capital expenditure programs, acquisitions, debt repayment and dividend payments.

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 management of the Company's short-, medium- and long-term funding and liquidity requirements. The Company manages liquidity risk by maintaining adequate cash reserves and continuously monitoring forecast and actual cash flows, and with a low concentration of maturities per year.

The Company has access to credit from national and international banking institutions in order to meet 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 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 the Company management may finance its 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 joint ventures or other transactions. We would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock.

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

The Company presents the maturity dates associated with its long-term financial liabilities as of December 31, 2018, see Note 18. The Company generally makes payments associated with its long-term financial liabilities with cash generated from its operations.

The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected net cash outflows from derivative financial liabilities that are in place as of December 31, 2018. 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, 2018.

	2019	2020	2021	2022	2023	2024 AND THEREAFTER
Non-derivative financial liabilities:						
Notes and bonds	Ps. 5,859	Ps. 11,105	Ps. 3,812	Ps. 2,867	Ps. 63,086	Ps. 50,681
Loans from banks	9,373	2,885	10,619	1,075	541	24
Obligations under finance leases	152	135	70	16	–	–
Derivative financial liabilities	633	913	554	34	(11,709)	160

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

20.11.4 CREDIT RISK

Credit risk refers to the risk that a 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 concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee.

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's maximum exposure to credit risk for the components of the statement of financial position at December 31, 2018 and 2017 is the carrying amounts, see Note 7.

The Company manages the credit risk related to its derivative portfolio by only entering into transactions with reputable and credit-worthy counterparties as well as by maintaining in some cases a Credit Support Annex ("CSA") that establishes margin requirements, which could change upon changes to the credit ratings given to the Company by independent rating agencies. As of December 31, 2018, 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.

20.12 CASH FLOWS HEDGES

As of December 31, 2018, the Company's financial instruments used to hedge its exposure to foreign exchange rates and interest rates as follows:

	Maturity		
	1-6 months	6-12 months	More than 12
Foreign exchange currency risk			
Foreign exchange currency forward contracts			
Net exposure	Ps. 1,022	Ps. –	Ps. –
Average exchange rate MXN/EUR	23.78	–	–
Net exposure	3,484	683	–
Average exchange rate MXN/USD	20.19	20.75	–
Net exposure	805	337	–
Average exchange rate BRL/USD	3.75	3.83	–
Net exposure	429	63	–
Average exchange rate COP/USD	2,851	2,976	–
Net exposure	339	–	–
Average exchange rate ARS/USD	43.31	–	–
Net exposure	196	159	–
Average exchange rate URY/USD	32.9	33.97	–
Foreign exchange currency swap contracts			
Net exposure	–	–	31,172
Average exchange rate MXN/USD	–	–	16.08
Net exposure	–	4,652	18,042
Average exchange rate BRL/USD	–	3.36	3.59
Net exposure	–	86	79
Average exchange rate BRL/MXN	–	0.18	0.19
Net exposure	–	–	1,928
Average exchange rate COP/USD	–	–	3,043.59
Net exposure	–	–	3,725
Average exchange rate CLP/USD	–	–	693.10
Interest rate risk			
Interest rate swaps			
Net exposure	–	4,013	8,594
Interest rate average BRL	–	6.29%	8.15%
Net exposure	–	–	11,403
Interest rate average MXN	–	–	7.17%
Net exposure	19	–	2,828
Average exchange rate CLP	6.45%	–	5.56%
Commodities risk			
Aluminum	189	75,250	–
Average price (USD/Ton)	1,975	1,986	–
Sugar	725	498	–
Average price (USD cent/Lb)	12.86	13.11	–
PX+MEG	739	565	–
Average price (USD /Ton)	1,077	1,040	–

As of December 31, 2017, the Company financial instruments used to hedge its exposure to foreign exchange rates and interest rates were as follows:

	Maturity		
	1-6 months	6-12 months	More than 12
Foreign exchange currency risk			
Foreign exchange currency forward contracts			
Net exposure	Ps. 833	Ps. –	Ps. –
Average exchange rate MXN/EUR	23.81	–	–
Net exposure	3,391	978	–
Average exchange rate MXN/USD	19.62	19.42	–
Net exposure	1,332	136	–
Average exchange rate BRL/USD	3.22	3.25	–
Net exposure	647	116	–
Average exchange rate COP/USD	3,017	3,014	–
Net exposure	280	–	–
Average exchange rate ARS/USD	18.56	–	–
Net exposure	23	–	–
Average exchange rate CLP/USD	640.12	–	–
Foreign exchange currency swap contracts			
Net exposure	–	–	31,222
Average exchange rate MXN/USD	–	–	16.08
Net exposure	6,414	17,389	14,880
Average exchange rate BRL/USD	3.82	3.83	3.37
Net exposure	64	95	–
Average exchange rate BRL/MXN	–	–	–
Net exposure	–	249	1,695
Average exchange rate COP/USD	–	3,034.35	2,999.60
Net exposure	–	–	3,989
Average exchange rate CLP/USD	–	–	691.85
Interest rate risk			
Interest rate swaps			
Net exposure	–	–	11,025
Interest rate average BRL	–	–	7.58%
Net exposure	–	–	11,403
Interest rate average MXN	–	–	7.17%
Net exposure	–	–	3,515
Interest rate average CLP	–	–	5.35%
Commodities risk			
Sugar	710	428	–
Average price (USD cent/Lb)	14.79	15.23	–

As of December 31, 2018, the Company maintained the following cash flows hedge exposures:

	Cash flow hedge reserve	Cash flow hedge costs	Remained balances of cash flow hedge reserve from which hedging accounting is not applied
Foreign exchange currency risk			
Purchase of stock	1	22	–

As of December 31, 2017, the Company maintained the following cash flows hedge exposures:

	Cash flow hedge reserve	Cash flow hedge costs	Remained balances of cash flow hedge reserve from which hedging accounting is not applied
Foreign exchange currency risk			
Purchase of stock	–	11	–

As of December 31, 2018, cash flows financial instruments amounts and its related non-effective portion is included were follows:

	Notional	Assets	Liabilities	Financial position name in which is included the cash flow hedge
Foreign exchange currency risk				
Forward contracts: Net sales, trade receivables and borrowings	1,022	Ps. 24	Ps. –	Other investments including financial derivatives (assets), trade payable (liabilities)
Purchase of stock	4,786	109	(66)	
Exchange rate swaps	36,990	8,564	(587)	
Interest rate risk				
Swap interest rate	14,250	1,143	(109)	Other investments including financial derivatives (assets), trade payable (liabilities) trade payable
Commodities risk				
Aluminum	265	–	(17)	
Sugar	1,223	–	(88)	
PX+MEG	1,303	–	(131)	

	Changes in value of the financial instrument recognized in OCI	Non-effective portion recognized in profit and loss	Profit and loss category in which is included the non- effective portion	Hedging costs included in the OCI	Amount of hedging reserve transferred to the cost of inventory	Amount of hedging reserve costs transferred to the cost of inventory	Hedging reserve amount reclassified to profit and loss	Profit and loss category impacted due to the reclassification
Foreign exchange currency risk								
Forward contracts: Net sales, trade receivables and borrowings	40	–	–	–	–	–	(87)	Foreign exchange
Purchase of stock	113	–	–	22,069	23,862	(7,575)	–	–
Exchange rate swaps	45	42	Other financial costs	–	–	133	–	Other financial costs
Interest rate risk								
Swap interest rate	(189)	–	–	–	–	–	–	–
Commodities risk								
Aluminum	(17)	–	–	–	(5,396)	–	–	–
Sugar	(84)	–	–	–	(277,439)	–	–	–
PX+MEG	(131)	–	–	–	25,091	–	–	–

As of December 31, 2018, a reconciliation per category of equity components and an analysis of OCI components, net of tax; generated by the cash flow hedges were as follows:

	Hedging reserve	Costs of hedging reserve
Balances at beginning of the period	Ps. 1,384	Ps. 12
Cash flows hedges		
Fair value changes:		
Foreign exchange currency risk – Purchase of stock	(132)	12
Foreign exchange currency risk – Other stock	(462)	–
Interest rate risk	(273)	–
The amounts included in non-financial costs:		
Taxes due to changes in reserves during the period	294	–
Balances at the end of the period	Ps. 812	Ps. 24

Note 21. NON-CONTROLLING INTEREST IN CONSOLIDATED SUBSIDIARIES

An analysis of FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
Coca-Cola FEMSA	Ps. 73,776	Ps. 82,366
Other	4,713	4,255
	Ps. 78,489	Ps. 86,621

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

	2018	2017	2016
Balance at beginning of the period	Ps. 86,621	Ps. 74,266	Ps. 60,332
Net income of non-controlling interest	9,089	(5,202)	6,035
Other comprehensive income (loss):	(4,080)	7,240	9,463
Exchange differences on translation of foreign operation	(4,016)	7,349	9,238
Remeasurements of the net defined benefits liability	155	30	(63)
Valuation of the effective portion of derivative financial instruments	(219)	(139)	288
Adoption of IAS 29 for Argentina	1,418	–	–
Capitalization of issued shares to former owners of Vonpar in Coca-Cola FEMSA	–	2,867	–
Other acquisitions and remeasurements	413	(50)	1,710
(Derecognition) contribution from non-controlling interest	(11,140)	11,072	892
Equity instruments	–	–	(485)
Dividends	(3,713)	(3,622)	(3,690)
Share based payment	31	50	9
Accounting standard adoption effects ("IFRS 9")	(150)	–	–
Balance at end of the period	Ps. 78,489	Ps. 86,621	Ps. 74,266

Non-controlling interest's accumulated other comprehensive income is comprised as follows:

	December 31, 2018	December 31, 2017
Exchange differences on translation foreign operation	Ps. 3,134	Ps. 7,150
Remeasurements of the net defined benefits liability	(119)	(274)
Valuation of the effective portion of derivative financial instruments	(163)	56
Accumulated other comprehensive income	Ps. 2,852	Ps. 6,932

Coca-Cola FEMSA shareholders, especially the Coca-Cola Company which hold Series D shares, have some protective rights about investing in or disposing of significant businesses. However, these rights do not limit the continued normal operations of Coca-Cola FEMSA.

Summarized financial information in respect of Coca-Cola FEMSA is set out below:

	December 31, 2018	December 31, 2017
Total current assets	Ps. 56,992	Ps. 55,657
Total non-current assets	206,795	230,020
Total current liabilities	45,455	55,594
Total non-current liabilities	86,562	89,373
Total revenue	Ps. 182,342	Ps. 183,256
Consolidated net (loss) income for continuing operations	11,704	(12,549)
Consolidated net income from discontinued operations	3,366	895
Consolidated comprehensive income for continuing operations	Ps. 6,544	Ps. 2,300
Consolidated comprehensive income from discontinued operations	2,944	1,041
Net cash flow generated from operating activities for continuing operations	29,366	32,446
Net cash flow generated from operating activities from discontinued operations	1,308	1,265
Net cash flow from used in investing activities for continuing operations	(8,291)	(13,710)
Net cash flow from used in investing activities from discontinued operations	(962)	(2,820)
Net cash flow from used in financing activities for continuing operations	(14,379)	(10,290)
Net cash flow from used in financing activities from discontinued operations	(37)	(485)

21.1 OPTIONS EMBEDDED FROM PAST ACQUISITIONS

FEMCO – Health Division entered into option transactions regarding the remaining 40% non-controlling interest not held by FEMCO – Health Division. The non-controlling shareholders of Socofar may be able to exercise the option even partial or total of the remaining interest beginning (i) 42-months after the acquisition date, upon the occurrence of certain events and (ii) 60 months after the acquisition date, in any event, FEMCO – Health Division can call the remaining 40% non-controlling interest beginning on the seventh anniversary of the acquisition date. Both of these options would be exercisable at the then fair value of the interest and shall remain indefinitely.

The former controlling shareholders of Open Market retain a put for their remaining 20% non-controlling interest that can be exercised (i) at any time after the acquisition date upon the occurrence of certain events and (ii) annually from January through April, after the third anniversary of the acquisition date. In any event, the Company through one of its subsidiaries can call the remaining 20% non-controlling interest annually from January through April, after the fifth anniversary of the acquisition date. Both options would be exercisable at the then fair value of the interest and shall remain indefinitely. Given that these options are exercisable at the then fair value on exercise date, their value is not significant at the acquisition date and at December 31, 2018.

Note 22. EQUITY

22.1 EQUITY ACCOUNTS

The capital stock of FEMSA is comprised of 2,161,177,770 BD units and 1,417,048,500 B units.

As of December 31, 2018 and 2017, the common stock of FEMSA was comprised of 17,891,131,350 common shares, without par value and with no foreign ownership restrictions. Fixed capital stock amounts to Ps. 300 (nominal value) and the variable capital may not exceed 10 times the minimum fixed capital stock amount.

The characteristics of the common shares are as follows:

- Series "B" shares, with unlimited voting rights, which at all times must represent a minimum of 51% of total capital stock;
- Series "L" shares, with limited voting rights, which may represent up to 25% of total capital stock; and
- Series "D" shares, with limited voting rights, which individually or jointly with series "L" shares may represent up to 49% of total capital stock.

The Series "D" shares are comprised as follows:

- Subseries "D-L" shares may represent up to 25% of the series "D" shares;
- Subseries "D-B" shares may comprise the remainder of outstanding series "D" shares; and
- The non-cumulative premium dividend to be paid to series "D" shareholders will be 125% of any dividend paid to series "B" shareholders.

The Series "B" and "D" shares are linked together in related units as follows:

- "B units" each of which represents five series "B" shares, and which are traded on the BMV; and
- "BD units" each of which represents one series "B" share, two subseries "D-B" shares and two subseries "D-L" shares, and which are traded both on the BMV and the NYSE.

As of December 31, 2018 and 2017, FEMSA's capital stock is comprised as follows:

	"B" Units	"BD" Units	Total
Units	1,417,048,500	2,161,177,770	3,578,226,270
Shares:			
Series "B"	7,085,242,500	2,161,177,770	9,246,420,270
Series "D"	–	8,644,711,080	8,644,711,080
Subseries "D-B"	–	4,322,355,540	4,322,355,540
Subseries "D-L"	–	4,322,355,540	4,322,355,540
Total shares	7,085,242,500	10,805,888,850	17,891,131,350

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve equals 20% of common stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company, except as a stock dividend. As of December 31, 2018 and 2017, this reserve amounted to Ps. 596.

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 when capital reductions come from restated shareholder contributions ("CUCA") and when the distributions of dividends come from net 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. A new Income Tax Law ("LISR") went into effect on January 1, 2014; such law no longer includes the tax consolidation regime which allowed calculating the CUFIN on a consolidated basis; therefore, beginning in 2014, distributed dividends must be taken from the individual CUFIN balance of FEMSA, which can be increased with the subsidiary companies' individual CUFINES through the transfers of dividends. The sum of the individual CUFIN balances of FEMSA and its subsidiaries as of December 31, 2018 amounted to Ps. 207,670. Dividends distributed to its stockholders who are individuals and foreign residents must withhold 10% for LISR purposes, which will be paid in Mexico. The foregoing will not be applicable when distributed dividends arise from the accumulated CUFIN balances as December 31, 2013.

At an ordinary shareholders' meeting of FEMSA held on March 8, 2016, the shareholders approved a dividend of Ps. 8,355 that was paid 50% on May 5, 2016 and other 50% on November 3, 2016; and a reserve for share repurchase of a maximum of Ps. 7,000. As of December 31, 2016, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 17.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 7, 2016, the shareholders approved a dividend of Ps. 6,945 that was paid 50% on May 3, 2016 and other 50% on November 1, 2016. The corresponding payment to the non-controlling interest was Ps. 3,621.

At an ordinary shareholders' meeting of FEMSA held on March 16, 2017, the shareholders approved a dividend of Ps. 8,636 that was paid 50% on May 5, 2017 and other 50% on November 3, 2017; and a reserve for share repurchase of a maximum of Ps. 7,000. As of December 31, 2017, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 17.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 16, 2017, the shareholders approved a dividend of Ps. 6,991 that was paid 50% on May 3, 2017 and other 50% on November 1, 2017. The corresponding payment to the non-controlling interest was Ps. 3,622.

At an ordinary shareholders' meeting of FEMSA held on March 16, 2018, the shareholders approved a dividend of Ps. 9,220 that was paid 50% on May 4, 2018 and other 50% on November 6, 2018; and a reserve for share repurchase of a maximum of Ps. 7,000. As of December 31, 2018, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 17.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 9, 2018, the shareholders approved a dividend of Ps. 7,038 that was paid 50% on May 3, 2018 and other 50% on November 1, 2018. The corresponding payment to the non-controlling interest was Ps. 3,713.

For the years ended December 31, 2018, 2017 and 2016 the dividends declared and paid by the Company and Coca-Cola FEMSA were as follows:

	2018	2017	2016
FEMSA	Ps. 9,220	Ps. 8,636	Ps. 8,355
Coca-Cola FEMSA (100% of dividend)	7,038	6,991	6,945

For the years ended December 31, 2018 and 2017 the dividends declared and paid per share by the Company are as follows:

Series of Shares	2018	2017
"B"	Ps. 0.45980	Ps. 0.43067
"D"	0.57480	0.53833

22.2 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, 2018 and 2017.

The Company is not subject to any externally imposed capital requirements, other than the legal reserve (see Note 22.1) and debt covenants (see Note 18).

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- respectively, which requires it to have a debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio lower than 1.5. As a result, prior to entering into new business ventures, acquisitions or divestures, management evaluates the optimal ratio of debt to EBITDA in order to maintain its credit rating.

Note 23. 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 controlling interest by the weighted average number of shares outstanding during the period adjusted for the effects of dilutive potential shares (originated by the Company's share-based payment program).

	2018		2017		2016	
	Per Series "B" Shares	Per Series "D" Shares	Per Series "B" Shares	Per Series "D" Shares	Per Series "B" Shares	Per Series "D" Shares
(in millions of shares)						
Weighted average number of shares for basic earnings per share	9,243.81	8,634.26	9,243.14	8,631.57	9,242.48	8,628.97
Effect of dilution associated with non-vested shares for share based payment plans	2.61	10.45	3.29	13.14	3.94	15.74
Weighted average number of shares adjusted for the effect of dilution (Shares outstanding)	9,246.42	8,644.71	9,246.42	8,644.71	9,246.42	8,644.71
Dividend rights per series (see Note 22.1)	100%	125%	100%	125%	100%	125%
Weighted average number of shares further adjusted to reflect dividend rights	9,246.42	10,805.89	9,246.42	10,805.89	9,246.42	10,805.89
Basic earnings per share from continuing operations	1.13	1.41	2.04	2.55	1.05	1.32
Basic earnings per share from discontinued operations	0.07	0.09	0.08	0.10	–	–
Diluted earnings per share from continuing operations	1.13	1.41	2.04	2.55	1.05	1.32
Diluted earnings per share from discontinued operations	0.07	0.09	0.08	0.10	–	–
Allocation of earnings, weighted	46.11%	53.89%	46.11%	53.89%	46.11%	53.89%
Net controlling interest income allocated from continuing operations	Ps. 10,403	Ps. 12,157	Ps. 18,842	Ps. 22,021	Ps. 9,748	Ps. 11,392
Net controlling interest income allocated from discontinued operations	Ps. 660	Ps. 770	Ps. 713	Ps. 832	Ps. –	Ps. –

Note 24. INCOME TAXES

On January 1, 2019, the Mexican government eliminated the right to offset any tax credit against any payable tax (general offset or *compensación universal*). As of such date, the right to offset any tax credit will be against taxes of the same nature and payable by the same person (not being able to offset tax credits against taxes payable by third parties).

On January 1, 2019, a new tax reform became effective in Colombia. This reform reduced the income tax rate from 33.0% to 32.0% for 2020, to 31.0% for 2021 and to 30.0% for 2022. The minimum assumed income tax (*renta presuntiva sobre el patrimonio*) was also reduced from 3.5% to 1.5% for 2019 and 2020, and to null for 2021. In addition, the capitalization ratio was adjusted from 3:1 to 2:1 for operations with related parties only. As mentioned above, as of January 1, 2019, the value-added tax will be calculated at each sale instead of applied only to the first sale (being able to transfer the value-added tax throughout the entire supply chain). For the companies located in the free trade zone, the value-added tax will be calculated based on the cost of production instead of the cost of the imported raw materials (therefore, we will be able to credit the value added-tax on goods and services against the value added-tax on the sales price of our products). The municipality sales tax will be 50.0% credited against payable income tax for 2019 and 100.0% credited for 2020. Finally, the value-added tax paid on acquired fixed assets will be credited against income tax or the minimum assumed income tax.

The Tax Reform increases the dividend tax on distributions to foreign nonresidents entities and individuals from 5% to 7.5%. In addition, the tax reform establishes a 7.5% dividend tax on distributions between Colombian companies. The tax will be charged only on the first distribution of dividends between Colombian entities and may be credited against the dividend tax due once the ultimate Colombian company makes a distribution to its shareholders nonresident shareholders (individuals or entities) or to Colombian individual residents.

On January 1, 2019 a tax reform became effective in Costa Rica. This reform will allow that tax on sales not only be applied to the first sale, but also to be applied and transferred at each sale; therefore, the tax credits on tax on sales will be recorded not only on goods related to production and on administrative services, but on a greater number of goods and services. Value-added tax on services provided within Costa Rica will be charged at tax rate of 13.0% if provided by local suppliers or withheld at the same rate if provided by foreigner suppliers. Although a territorial principle is still applicable in Costa Rica for operations abroad, a tax rate of 15.0% has been imposed on capital gains from the sale of assets located in Costa Rica. New income tax withholding rates were imposed on salaries and compensations of employees, at the rates of 25.0% and 20.0% (which will be applicable depending on the employee's salary), respectively. Finally, the thin capitalization rules were adjusted to provide that the interest expenses (generated with non-members of the financial system) that exceed 20.0% of the company's EBITDA will not be deductible for tax purposes.

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 null in 2022.

In addition, the excise tax on concentrate in Brazil was reduced from 20.0% to 4.0% from September 1, 2018 to December 31, 2018. Temporarily the excise tax rate on concentrate increased from 4.0% to 12.0% from January 1, 2019 to June 30, 2019, then it will be reduced to 8.0% from July 1, 2019 to January 1, 2020. On January 1, 2020 the excise tax rate will be reduced back to 4.0%.

On January 1, 2017, a general tax reform became effective in Colombia. This reform reduced the income tax rate from 35.0% to 34% for 2017 and then to 33% for the following years. In addition, this reform includes an extra income tax rate of 6.0% for 2017 and 4.0% for 2018, for entities located outside free trade zone. Regarding taxpayers located in free trade zone, the special income tax rate increase to from 15% to 20% for 2017. Additionally, the reform eliminated the temporary tax on net equity, the supplementary income tax (9.0 %) as contribution to social programs and the temporary contributions 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 received by individuals that are Colombian residents will be subject to a withholding of 10.0%; the dividends received by foreign individuals or entities non-residents in Colombia will be subject to a withholding of 5.0%. Finally, regarding the presumptive income on patrimony, the rate increased to a 3.5% for 2017 instead of 3.0% in 2016. Starting in 2017, the Colombian general rate of value-added tax ("VAT") increased to 19.0%, replacing the 16.0% rate in effect till 2016.

During 2017, the Mexican government issued the Repatriation of Capital Decree which was valid from January 19 until October 19, 2017. Through this decree, a fiscal benefit was attributed to residents in Mexico by applying an income tax of 8% (instead of the statutory rate of 30% normally applicable) to the total amount of income returned to the country resulting from foreign investments held until December 2016.

Additionally, the Repatriation of Capital Decree sustains that the benefit will solely apply to income and investments returned to the country throughout the period of the decree. The resources repatriated must be invested during the fiscal year of 2017 and remain in national territory for a period of at least two years from the return date.

Also in Brazil, starting 2016 the rates of value-added tax in certain states will be changed as follows: Mato Grosso do Sul – from 17.0% to 20.0%; Rio Grande do Sul from 18.0% to 20.0%; Minas Gerais - the tax rate will remain at 18.0% but there will be an additional 2.0% as a contribution to poverty eradication just for the sales to non-taxpayer (final consumers); Rio de Janeiro - the contribution related to poverty eradication fund will be increased from 1.0% to 2.0% effectively in April; Paraná - the rate will be reduced to 16.0% but a rate of 2.0% as a contribution to poverty eradication will be charged on sales to non-taxpayers.

Additionally in Brazil, starting on January 1, 2016, the rates of federal production tax were reduced, and the rates of the federal sales tax were increased. These rates continued to increase in 2017 and 2018. However, the Supreme Court decided in early 2017 that the value-added tax will not be used as the basis for calculating the federal sales tax, which resulted in a reduction of the federal sales tax. Notwithstanding the above, the tax authorities appealed the Supreme Court's decision and are still waiting for a final resolution. In 2018, the federal production and sales taxes together resulted in an average of 16.5% tax over net sales for Coca-Cola FEMSA.

24.1 INCOME TAX

The major components of income tax expense for the years ended December 31, 2018, 2017 and 2016 are:

	2018	2017	2016
Current tax expense	Ps. 10,480	Ps. 18,592	Ps. 13,548
Deferred tax expense:			
Origination and reversal of temporary differences	491	(7,546)	(3,947)
(Recognition) of tax losses, net	(927)	(823)	(1,693)
Change in the statutory rate	125	(10)	(20)
Total deferred tax income	(311)	(8,379)	(5,660)
	Ps. 10,169	Ps. 10,213	Ps. 7,888

RECOGNIZED IN CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME ("OCI")

Income tax related to items charged or recognized directly in OCI during the period:	2018	2017	2016
Unrealized loss on cash flow hedges	Ps. (293)	Ps. (191)	Ps. 745
Exchange differences on translation of foreign operations	(2,647)	387	4,478
Remeasurements of the net defined benefit liability	287	(154)	(49)
Share of the other comprehensive income of equity accounted investees	989	(1,465)	(1,385)
Total income tax cost recognized in OCI	Ps. (1,664)	Ps. (1,423)	Ps. 3,789

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, 2018, 2017 and 2016 is as follows:

	2018	2017	2016
Mexican statutory income tax rate	30.0%	30.0%	30.0%
Difference between book and tax inflationary values and translation effects	(4.0%)	(5.7%)	(2.4%)
Annual inflation tax adjustment	(1.2%)	0.5%	0.6%
Difference between statutory income tax rates	1.8%	1.2%	1.2%
Repatriation of capital benefit decree	–	(22.6%)	–
Non-deductible expenses	3.2%	2.6%	2.8%
Non-taxable income	(0.5%)	–	(0.4%)
Effect of changes in Argentina tax law	(0.9%)	–	–
Income tax credits	–	(2.0%)	(3.9%)
Venezuela deconsolidation effect	–	28.6%	–
Others	1.8%	(4.1%)	(0.3%)
	30.2%	28.6%	27.6%

DEFERRED INCOME TAX RELATED TO:

	Consolidated Statement of Financial Position as of		Consolidated Statement of Income		
	December 31, 2018	December 31, 2017	2018	2017	2016
Allowance for doubtful accounts	Ps. (416)	Ps. (152)	Ps. 93	Ps. 16	Ps. (17)
Inventories	80	(151)	(27)	(71)	(151)
Other current assets	75	101	(31)	34	(80)
Property, plant and equipment, net [3]	(3,841)	(2,733)	(851)	(2,349)	670
Investments in equity accounted investees	(5,979)	(6,989)	40	(5,094)	75
Other assets	212	254	(82)	(155)	234
Finite useful lived intangible assets	271	894	627	207	(1,506)
Indefinite lived intangible assets	10,331	9,957	758	968	7,391
Post-employment and other long-term employee benefits	(1,058)	(965)	(148)	(77)	(34)
Derivative financial instruments	21	84	(63)	(171)	128
Provisions	(2,761)	(3,500)	1,122	(636)	(411)
Temporary non-deductible provision	(1,400)	(222)	(293)	(144)	(9,118)
Employee profit sharing payable	(403)	(351)	(27)	(11)	(29)
Tax loss carryforwards	(9,558)	(10,218)	(927)	(547)	(1,693)
Tax credits to recover [2]	(1,855)	(2,308)	(109)	(1,059)	(1,150)
Other comprehensive income [1]	229	239	(54)	(224)	–
Exchange differences on translation of foreign operations in OCI	5,202	7,168	–	–	–
Other liabilities	193	(828)	(324)	948	102
Deferred tax income			Ps. (296)	Ps. (8,355)	Ps. (5,589)
Deferred tax income net recorded in share of the profit of equity accounted investees			(15)	(24)	(71)
Deferred tax income, net			Ps. (311)	Ps. (8,379)	Ps. (5,660)
Deferred income taxes, net	(10,657)	(9,720)			
Deferred tax asset	(16,543)	(15,853)			
Deferred tax liability	Ps. 5,886	Ps. 6,133			

(1) Deferred tax related to derivative financial instruments and remeasurements of the net defined benefit liability.

(2) Correspond to income tax credits arising from dividends received from foreign subsidiaries to be recovered within the next ten years accordingly to the Mexican Income Tax law as well as effects of the exchange of foreign currencies with a related and non-related parties.

(3) As a result of the change in the application of the law, the Company recognized a deferred tax liability in Venezuela for an amount of Ps. 1,107 with their corresponding impact on the income tax of the year as disclosed in the effective tax rate reconciliation. The liability was recognized in 2017 upon deconsolidation of Coca-Cola FEMSA's Venezuelan operations.

DEFERRED TAX RELATED TO OTHER COMPREHENSIVE INCOME ("AOCI")

Income tax related to items charged or recognized directly in AOCI as of the year:	2018	2017
Unrealized loss on derivative financial instruments	Ps. 361	Ps. 641
Remeasurements of the net defined benefit liability	(132)	(402)
Total deferred tax loss related to AOCI	Ps. 229	Ps. 239

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

	2018	2017	2016
Balance at the beginning of the period	Ps. (9,720)	Ps. (1,016)	Ps. (2,063)
Deferred tax provision for the period	(311)	(8,218)	(5,660)
Deferred tax income net recorded in share of the profit of equity accounted investees	165	(67)	71
Acquisition of subsidiaries (see Note 4)	(316)	(367)	1,375
Effects in equity:			
Unrealized loss on cash flow hedges	(445)	(83)	1,008
Exchange differences on translation of foreign operations	(1,762)	(1,472)	3,260
Remeasurements of the net defined benefit liability	543	131	(479)
Retained earnings of equity accounted investees	54	(38)	(224)
Cash flow hedges in foreign investments	310	(540)	(618)
Restatement effect of the period and beginning balances associated with hyperinflationary economies	438	1,689	2,314
Disposal of subsidiaries	387	–	–
Deconsolidation of subsidiaries	–	261	–
Balance at the end of the period	Ps. (10,657)	Ps. (9,720)	Ps. (1,016)

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 are levied by the same tax authority.

TAX LOSS CARRYFORWARDS

The subsidiaries in Mexico, Colombia and Brazil have tax loss carryforwards. The tax losses carryforwards and corresponding years of expiration are as follows:

Year	Tax Loss Carryforwards
2019	Ps. 716
2020	301
2021	338
2022	370
2023	288
2024	744
2025	4,029
2026	4,483
2027	728
2028 and thereafter	3,023
No expiration (Brazil and Colombia)	14,921
	Ps. 29,941

The Company recorded certain goodwill balances due to acquisitions that are deductible for Brazilian income tax reporting purposes. The deduction of such goodwill amortization has resulted in the creation of 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, 2018, 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:

	2018	2017
Balance at beginning of the period	Ps. 29,487	Ps. 27,452
Reserved	(306)	–
Additions	4,124	5,673
Usage of tax losses	(1,385)	(3,157)
Translation effect of beginning balances	(1,979)	(481)
Balance at end of the period	Ps. 29,941	Ps. 29,487

There were no withholding taxes associated with the payment of dividends in either 2018, 2017 or 2016 by the Company to its shareholders.

The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of December 31, 2018, 2017 and 2016, the temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized aggregate to Ps. 45,305, Ps. 41,915 and Ps. 41,204, respectively.

24.2 RECOVERABLE TAXES

Recoverable taxes are mainly integrated by higher provisional payments of income tax during 2018 in comparison to prior year, which will be compensated during 2019.

The operations in Guatemala, Panama 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.

Note 25. OTHER LIABILITIES, PROVISIONS, CONTINGENCIES AND COMMITMENTS

25.1 OTHER CURRENT FINANCIAL LIABILITIES

		December 31, 2018		December 31, 2017
Sundry creditors	Ps.	8,489	Ps.	9,116
Derivative financial instruments (see Note 20)		384		3,947
Others		20		16
Total	Ps.	8,893	Ps.	13,079

The carrying value of current accounts payables approximates its fair value as of December 31, 2018 and 2017.

25.2 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

		December 31, 2018		December 31, 2017
Contingencies	Ps.	9,928	Ps.	12,855
Payable taxes		873		458
Others		767		1,233
Total	Ps.	11,568	Ps.	14,546

25.3 OTHER FINANCIAL LIABILITIES

		December 31, 2018		December 31, 2017
Derivative financial instruments (see Note 20)	Ps.	1,262	Ps.	1,769
Security deposits		970		1,028
Total	Ps.	2,232	Ps.	2,797

25.4 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. Most of these contingencies are the result of the Company's business acquisitions. The following table presents the nature and amount of the contingencies recorded as of December 31, 2018 and 2017:

		December 31, 2018		December 31, 2017
Indirect taxes	Ps.	5,421	Ps.	6,836
Labor		2,601		2,723
Legal		1,906		3,296
Total	Ps.	9,928	Ps.	12,855

25.5 CHANGES IN THE BALANCE OF PROVISIONS RECORDED

25.5.1 INDIRECT TAXES

	December 31, 2018	December 31, 2017	December 31, 2016
Balance at beginning of the period	Ps. 6,836	Ps. 11,065	Ps. 1,725
Penalties and other charges	123	362	173
New contingencies (see Note 19)	178	91	768
Contingencies added in business combination [1]	104	861	7,840
Cancellation and expiration	106	(796)	(106)
Payments	(112)	(947)	(6)
Brazil amnesty adoption	–	(3,321)	–
Effects of changes in foreign exchange rates	(951)	(479)	671
Effects due to derecognition of Philippines	(863)	–	–
Balance at end of the period	Ps. 5,421	Ps. 6,836	Ps. 11,065

[1] During 2016, Coca-Cola FEMSA recognized an amount of Ps. 7,840 corresponding 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 relate 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, Coca-Cola FEMSA 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 which has been offset against the corresponding indemnifiable assets.

25.5.2 LABOR

	December 31, 2018	December 31, 2017	December 31, 2016
Balance at beginning of the period	Ps. 2,723	Ps. 2,578	Ps. 1,372
Penalties and other charges	310	56	203
New contingencies	330	283	397
Contingencies added in business combination	289	–	500
Cancellation and expiration	(133)	(32)	(186)
Payments	(193)	(92)	(336)
Effects of changes in foreign exchange rates	(725)	(69)	628
Venezuela deconsolidation effect	–	(1)	–
Balance at end of the period	Ps. 2,601	Ps. 2,723	Ps. 2,578

25.5.3 LEGAL

	December 31, 2018	December 31, 2017	December 31, 2016
Balance at beginning of the period	Ps. 3,296	Ps. 2,785	Ps. 318
Penalties and other charges	86	121	34
New contingencies	72	186	196
Contingencies added in business combination	67	783	2,231
Cancellation and expiration	(146)	(16)	(46)
Payments	(251)	(417)	(81)
Brazil amnesty adoption	–	7	–
Effects of changes in foreign exchange rates	(335)	(151)	133
Venezuela deconsolidation effect	–	(2)	–
Effects due to derecognition of Philippines	(883)	–	–
Balance at end of the period	Ps. 1,906	Ps. 3,296	Ps. 2,785

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.

25.6 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. The aggregate amount being claimed against the Company resulting from such proceedings as of December 31, 2018 is Ps. 57,446. Such contingencies were classified by legal counsel as less than probable but more than remote of being settled against the Company. However, the Company believes that the ultimate resolution of such several proceedings will not have a material effect on its consolidated financial position or result of operations.

Included in this amount Coca-Cola FEMSA has tax contingencies, most of which are related to its Brazilian operations, amounting to approximately Ps. 51,104, 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. Coca-Cola FEMSA is defending its position in these matters and final decision is pending in court. In addition, the Company has Ps. 4,113 in unsettled indirect tax contingencies regarding indemnification accorded with Heineken Group over FEMSA Cerveza. These matters are related to different Brazilian federal taxes which are pending final decision.

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.

25.7 COLLATERALIZED CONTINGENCIES

As is customary in Brazil, Coca-Cola FEMSA has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 7,739, Ps. 9,433 and Ps. 8,093 as of December 31, 2018, 2017 and 2016, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies (see Note 13).

25.8 COMMITMENTS

As of December 31, 2018, the Company has contractual commitments for finance leases for computer equipment and operating leases for the rental of production machinery and equipment, distribution and computer equipment, and land for FEMCO – Proximity, FEMCO – Fuel and FEMCO – Health Division.

The contractual maturities of the operating lease commitments by currency, expressed in Mexican pesos as of December 31, 2018, are as follows:

	Mexican Pesos	U.S. Dollars	Others
Not later than 1 year	Ps. 7,467	Ps. 565	Ps. 2,085
Later than 1 year and not later than 5 years	30,691	1,485	6,196
Later than 5 years	30,884	200	2,361
Total	Ps. 69,042	Ps. 2,250	Ps. 10,642

Rental expense charged to consolidated net income was Ps. 10,621, Ps. 9,468 and Ps. 8,202 for the years ended December 31, 2018, 2017 and 2016, respectively.

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows:

	2018 Minimum Payments	Present Value of Payments	2017 Minimum Payments	Present Value of Payments
Not later than 1 year	Ps. 38	Ps. 33	Ps. 41	Ps. 34
Later than 1 year and not later than 5 years	62	59	91	82
Later than 5 years	–	–	–	–
Total minimum lease payments	100	92	132	116
Less amount representing finance charges	8	–	16	–
Present value of minimum lease payments	92	92	116	116

Note 26. INFORMATION BY SEGMENT

The information by segment is presented considering the Company's business units (as defined in Note 1) based on its products and services, which is consistent with the internal reporting presented to the Chief Operating Decision Maker. A segment is a component of the Company that engages in business activities from which it earns revenues, and incurs the related costs and expenses, including revenues, costs and expenses that relate to transactions with any of Company's other components. All segments' operating results are reviewed regularly by the Chief Operating Decision Maker, which makes decisions about the resources that would be allocated to the segment and to assess its performance, and for which financial information is available.

In 2018, FEMSA made a change to the disclosure related to the businesses segments formerly named as FEMSA Comercio's "Retail Division" by removing those operations that are not directly related to Proximity store business, including restaurant and discount retail units, from this segment. The business segment is now named the FEMCO – "Proximity Division" and will only include Proximity and Proximity-related operations, most of which operate today under the OXXO brand across markets. The removed operations are included in "Other." The financial information by operating segment reported below for the years ended December 31, 2017 and 2016, respectively; has been restated in order to give effect to business units' reorganization described above.

Inter-segment transfers or transactions are entered into and presented under accounting policies of each segment, which are the same to those applied by the Company. Intercompany operations are eliminated and presented within the consolidation adjustment column included in the tables below.

A) BY BUSINESS UNIT:

2018	Coca-Cola FEMSA	FEMCO – Proximity Division	FEMCO – Health Division	FEMCO – Fuel Division	Heineken Investment	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 182,342	Ps. 167,458	Ps. 51,739	Ps. 46,936	Ps. –	Ps. 42,293	Ps. (21,024)	Ps. 469,744
Intercompany revenue	5,160	290	–	–	–	15,574	(21,024)	–
Gross profit	83,938	65,529	15,865	4,231	–	10,233	(4,626)	175,170
Administrative expenses	–	–	–	–	–	–	–	17,313
Selling expenses	–	–	–	–	–	–	–	114,573
Other income	–	–	–	–	–	–	–	673
Other expenses	–	–	–	–	–	–	–	2,947
Interest expense	7,568	1,806	678	211	1	2,057	(2,496)	9,825
Interest income	1,004	372	14	159	22	3,757	(2,496)	2,832
Other net finance income [3]	–	–	–	–	–	–	–	(387)
Income before income taxes and share of the profit of equity accounted investees	17,190	13,335	1,438	407	11	1,219	30	33,630
Income taxes	5,260	1,124	652	123	4	3,006	–	10,169
Share of the profit of equity accounted investees, net of tax	(226)	(17)	–	–	6,478	17	–	6,252
Net income from continuing operations	–	–	–	–	–	–	–	29,713
Net income from discontinued operations	–	–	–	–	–	–	–	3,366
Consolidated net income	–	–	–	–	–	–	–	33,079
Depreciation and amortization [2]	10,028	4,971	983	152	–	1,103	–	17,237
Non–cash items other than depreciation and amortization	755	367	22	11	–	490	–	1,645
Investments in equity accounted investees	10,518	84	–	–	83,461	252	–	94,315
Total assets	263,787	75,146	35,881	7,015	86,340	150,674	(42,462)	576,381
Total liabilities	132,037	56,468	23,357	6,142	4,054	61,340	(42,559)	240,839
Investments in fixed assets [4]	11,069	9,441	1,162	520	–	2,391	(317)	24,266

[1] Includes other companies and corporate (see Note 1).

[2] Includes bottle breakage.

[3] Includes foreign exchange loss, net; gain on monetary position for subsidiaries in hyperinflationary economies; and market value loss on financial instruments.

[4] Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

2017 (Revised) [5]	Coca-Cola FEMSA	FEMCO – Proximity Division	FEMCO – Health Division	FEMCO – Fuel Division	Heineken Investment	Other [1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 183,256	Ps. 149,833	Ps. 47,421	Ps. 38,388	Ps. –	Ps. 39,732	Ps. (18,698)	Ps. 439,932
Intercompany revenue	4,679	202	–	–	–	13,817	(18,698)	–
Gross profit	83,508	56,127	14,213	2,767	–	9,307	(3,832)	162,090
Administrative expenses	–	–	–	–	–	–	–	15,222
Selling expenses	–	–	–	–	–	–	–	105,880
Other income	–	–	–	–	–	–	–	31,951
Other expenses	–	–	–	–	–	–	–	33,866
Interest expense	8,778	1,313	685	156	–	2,372	(2,212)	11,092
Interest income	791	306	23	47	23	2,492	(2,212)	1,470
Other net finance expenses [3]	–	–	–	–	–	–	–	6,320
Income before income taxes and share of the profit of equity accounted investees	(11,255)	11,723	956	146	30,000	4,265	(64)	35,771
Income taxes	4,184	762	434	23	(5,132)	9,942	–	10,213
Share of the profit of equity accounted investees, net of tax	60	5	–	–	7,847	11	–	7,923
Net income from continuing operations	–	–	–	–	–	–	–	33,480
Net income from discontinued operations	–	–	–	–	–	–	–	3,726
Consolidated net income	–	–	–	–	–	–	–	37,206
Depreciation and amortization [2]	9,632	4,144	942	118	–	804	–	15,640
Non-cash items other than depreciation and amortization	1,663	285	31	18	–	267	–	2,264
Investments in equity accounted investees	11,501	642	–	–	83,720	234	–	96,097
Total assets	285,677	64,717	38,496	4,678	76,555	154,930	(36,512)	588,541
Total liabilities	144,967	49,101	25,885	4,091	1,343	62,754	(36,512)	251,629
Investments in fixed assets [4]	12,917	8,396	774	291	–	1,479	(371)	23,486

[1] Includes other companies and corporate (see Note 1).

[2] Includes bottle breakage.

[3] Includes foreign exchange gain, net; gain on monetary position for subsidiaries in hyperinflationary economies; and market value loss on financial instruments.

[4] Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

[5] Disclosure has been revised for the restructuring of FEMCO – Proximity Division and for 2017 the discontinued Philippines operations of Coca-Cola FEMSA Philippines. The assets (Ps. 28,272) and liabilities (Ps. 9,945) for the discontinued operation for 2017 of Philippines segment are included in Mexico and Central America.

2016 (Revised)[5]	Coca-Cola FEMSA	FEMCO – Proximity Division	FEMCO – Health Division	FEMCO – Fuel Division	Heineken Investment	Other[1]	Consolidation Adjustments	Consolidated
Total revenues	Ps. 177,718	Ps. 133,228	Ps. 43,411	Ps. 28,616	Ps. –	Ps. 33,406	Ps. (16,872)	Ps. 399,507
Intercompany revenue	4,269	4	–	–	–	12,599	(16,872)	–
Gross profit	79,662	49,046	12,738	2,248	–	8,062	(3,552)	148,204
Administrative expenses	–	–	–	–	–	–	–	14,730
Selling expenses	–	33	–	–	–	–	–	95,547
Other income	–	(13)	–	–	–	–	–	1,157
Other expenses	–	–	–	–	–	–	–	5,909
Interest expense	7,473	789	654	109	–	1,613	(992)	9,646
Interest income	715	259	31	37	20	1,229	(992)	1,299
Other net finance expenses[3]	–	–	–	–	–	–	–	3,728
Income before income taxes and share of the profit of equity accounted investees	14,308	11,203	914	182	9	2,061	(121)	28,556
Income taxes	3,928	729	371	16	3	2,841	–	7,888
Share of the profit of equity accounted investees, net of tax	147	22	–	–	6,342	(4)	–	6,507
Consolidated net income	–	–	–	–	–	–	–	27,175
Depreciation and amortization[2]	8,666	3,510	855	92	–	586	–	13,709
Non-cash items other than depreciation and amortization	2,908	270	8	17	–	648	–	3,851
Investments in equity accounted investees	22,357	611	–	–	105,229	404	–	128,601
Total assets	279,256	55,453	35,862	3,649	108,976	94,716	(32,289)	545,623
Total liabilities	150,023	40,857	24,368	3,132	7,132	66,230	(32,289)	259,453
Investments in fixed assets[4]	12,391	7,598	474	299	–	1,705	(312)	22,155

[1] Includes other companies and corporate (see Note 1).
[2] Includes bottle breakage.
[3] Includes foreign exchange gain, net; gain on monetary position for subsidiaries in hyperinflationary economies; and market value gain on financial instruments.
[4] Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.
[5] Disclosure has been revised for the restructuring of FEMCO – Proximity Division.

B) BY GEOGRAPHIC AREA:

The Company aggregates geographic areas into the following for the purposes of its consolidated financial statements: (i) Mexico and Central America division (comprising the following countries: Mexico, Guatemala, Nicaragua, Costa Rica and Panama) and (ii) the South America division (comprising the following countries: Brazil, Argentina, Colombia, Chile, Ecuador, Peru and Uruguay). (iii) Europe (comprised of the Company's equity method investment in Heineken Group). For further information related with aggregates geographic areas see Note 27.2 Disaggregation of revenue.

Geographic disclosure for the Company non-current assets is as follow:

	2018	2017
Mexico and Central America[1]	Ps. 195,310	Ps. 176,174
Asia	–	17,233
South America[2]	120,003	130,226
Europe	83,461	83,720
Consolidated	Ps. 398,774	Ps. 407,353

[1] Domestic (Mexico only) non-current assets were Ps. 185,857 and Ps. 170,547, as of December 31, 2018, and December 31, 2017, respectively.
[2] South America non-current assets includes Brazil, Argentina, Colombia, Chile and Uruguay. Brazilian non-current assets were Ps. 76,869 and Ps. 89,137, as of December 31, 2018 and December 31, 2017, respectively. Colombia non-current assets were Ps. 16,664 and Ps. 18,396, as of December 31, 2018 and December 31, 2017, respectively. Argentina non-current assets were Ps. 4,538 and Ps. 3,052, as of December 31, 2018 and December 31, 2017, respectively. Chile non-current assets were Ps. 16,787 and Ps. 19,590, as of December 31, 2018 and December 31, 2017, respectively. Uruguay non-current assets were Ps. 5,145, as of December 31, 2018, respectively.

Note 27. REVENUES

27.1 NATURE OF GOODS SOLD AND SERVICES

The information sets below described the core activities of the business units from which the Company generates its revenues. According to the standard, the performance obligation for the Company's business units are satisfied in a point in time that the control of good and services are totally transferred to the customers. For detail information about business segments, see Note 26.

Segment	Product or Service	Nature, timing to fulfill the performance obligation and significant payment terms
Coca-Cola FEMSA	Beverages sales	Includes the delivery of beverages to customers and wholesalers. The transaction prices are assigned to each product on sale based on its own sale price separately, net of promotions and discounts. The performance obligation is satisfied at the point in time the product on sale is delivered to the customer.
	Services revenues	Includes the rendering of manufacturing services, logistic and administrative services. The transaction prices are assigned to each product on sale based on its own sale price if sold separately. The performance obligation is satisfied at the point in time the product on sale is delivered to the customer.
FEMCO – Proximity Division	Products sales	Operates the largest chain of small-format stores in Mexico and Latin America including as some of its principal products as beers, cigarettes, sodas, other beverages and snacks. The performance obligation is satisfied at the time of the sale or at the moment the control of the product is transferred and the payment is made by the customer.
	Commercial revenues	Includes mainly the commercialization of spaces into within stores, and revenues related to promotions and financial services. The performance obligation is satisfied at the point in time the service is render to the customer.
FEMCO – Health Division	Product sales	The core products include patent and generic formulas of medicines, beauty products, medical supplements, housing and personnel care products. The performance obligation is satisfied at the point in time of the sale or at the moment the control of the product is transferred to the customer.
	Services revenues	Rending of services adding value as financial institutions, medical consultation and some financial services. The performance obligation is satisfied at the point in time of the rendering or the control is transferred to the customer.
FEMCO – Fuel Division	Services revenues	The core products are sold in the retail service stations as fuels, diesel, motor oils and other car care products. The performance obligation is satisfied at the point in time on sale and/or the control is transferred to the customer.
Others	Integral logistic services	Rendering a wide range of logistic services and maintenance of vehicles to subsidiaries and customers. The operations are on a daily, monthly or based upon the customer request. The revenue is recognized progressively during the time the service is rendered in a period no greater than a month.
	Production and sale of commercial refrigeration, plastic solutions and sale of equipment for food processing.	Involves the production, commercialization of refrigerators including its delivery and installation and offering of integral maintenance services at the point of sale. Design, manufacturing and recycling of plastic products. In addition, it includes the sale of equipment for food processing, storage and weighing. The revenue recognition is performed at the time in which the corresponding installation is concluded. The recognition of other business lines is performed at the point of sale or in time the control of the product is transferred to the customer.

27.2 DISAGGREGATION OF REVENUE

The information sets below described the disaggregation of revenue by geographic area, business unit and products and services categories in which the Company operates. The timing in which the revenues is recognized by the business units in the Company, is the point in the time in which control of goods and services is transferred in its entirely to the customer.

	Coca-Cola FEMSA			FEMCO – Proximity Division			FEMCO – Health Division		
	2018 (1)	2017	2016	2018 (1)	2017	2016	2018 (1)	2017	2016
By geographic areas:									
Mexico and Central America (2)	Ps. 100,162	Ps. 92,643	Ps. 87,557	Ps.166,040	Ps. 148,652	Ps.132,433	Ps. 7,898	Ps. 7,359	Ps. 7,159
South America (3)	82,180	86,608	71,293	1,418	1,181	795	43,841	40,062	36,252
Venezuela	–	4,005	18,868	–	–	–	–	–	–
Total revenues	182,342	183,256	177,718	167,458	149,833	133,228	51,739	47,421	43,411
Consolidation adjustments	5,160	4,678	4,269	290	202	4	–	–	–
Consolidated revenues	177,182	178,578	173,449	167,168	149,632	133,224	51,739	47,421	43,411
By products and/or services:									
Products sold in the point-of-sale	Ps. 182,342	Ps. 183,256	Ps. 177,718	Ps.167,458	Ps. 149,834	Ps.133,228	Ps. 51,739	Ps. 47,421	Ps. 43,411
Services revenues	–	–	–	–	–	–	–	–	–
Consolidation adjustments	5,160	4,678	4,269	290	202	4	–	–	–
Consolidated revenues	177,182	178,578	173,449	167,168	149,632	133,224	51,739	47,421	43,411

	FEMCO – Fuel Division			Other Segments			Total		
	2018 (1)	2017	2016	2018 (1)	2017	2016	2018 (1)	2017	2016
By geographic areas:									
Mexico and Central America (2)	Ps. 46,936	Ps. 38,388	Ps. 28,616	Ps. 31,918	Ps. 29,211	Ps. 25,224	Ps. 352,954	Ps. 316,253	Ps. 280,989
South America (3)	–	–	–	10,350	10,467	8,001	137,789	138,318	116,341
Venezuela	–	–	–	25	54	181	25	4,059	19,049
Total revenues	46,936	38,388	28,616	42,293	39,732	33,406	490,768	458,630	416,379
Consolidation adjustments	–	–	–	15,574	13,818	12,599	21,024	18,698	16,872
Consolidated revenues	46,936	38,388	28,616	26,719	25,913	20,807	469,744	439,932	399,507
By products and/or services:									
Products sold in the point-of-sale	46,936	38,388	28,616	13,240	12,667	10,274	461,715	431,566	393,247
Services revenues	–	–	–	29,053	27,064	23,132	29,053	27,064	23,132
Consolidation adjustments	–	–	–	15,574	13,818	12,599	21,024	18,698	16,872
Consolidated revenues	46,936	38,388	28,616	26,719	25,913	20,807	469,744	439,932	399,507

(1) For IFRS 15 adoption purposes, the Company applies the modified retrospective method in which no comparative information is restated for previous periods. The Company recognized no adjustment as a result of adopting IFRS 15.

(2) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 319,792, Ps. 288,783 and Ps. 254,643 and during the years ended December 31, 2018, 2017 and 2016, respectively.

(3) South America includes Brazil, Argentina, Colombia, Chile, Uruguay and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 63,601, Ps. 64,345 and Ps. 48,924 during the years ended December 31, 2018, 2017 and 2016, respectively. South America revenues include Colombia revenues of Ps. 19,245, Ps. 17,545 and Ps. 17,027 during the years ended December 31, 2018, 2017 and 2016, respectively. South America revenues include Argentina revenues of Ps. 9,237, Ps. 13,938 and Ps. 12,340 during the years ended December 31, 2018, 2017 and 2016, respectively. South America revenues include Chile revenues of Ps. 44,576, Ps. 40,660 and Ps. 36,631 during the years ended December 31, 2018, 2017 and 2016, respectively. South America revenues include Uruguay revenue of Ps. 1,925 during the year ended in December 31, 2018.

27.3 CONTRACT BALANCES

As of December 31, 2018, no significant cost was identified incurred to obtain or accomplished a contract that might be capitalized as assets. No significant contacts have been entered into for which the Company has not performed all the obligations as well as additional costs associate to it.

27.4 TRANSACTION PRICE ASSIGNED TO REMAINED PERFORMANCE OBLIGATIONS

No performance obligations were identified in customer contracts that are not included in the transaction price, as a result of identified variable considerations per each business unit are part of the transaction price through be consider highly probable that not occurs a significant reversion of the revenue amount.

Note 28. 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. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 16 *LEASES*

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

The transition consideration required to be taken into account by the Company is the modified retrospective approach, which involves recognizing the cumulative effect of the adoption of the new standard as from January 1, 2019. For this reason, the comparative financial statements of the period will not be restated (as of and for the years ended December 31, 2018 and 2017). Likewise, as of the transition date of IFRS 16 (January 1, 2019), the Company has elected to apply the practical expedient 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". In addition, the Company elects to not recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less with no renewal option included) and leases of low-value assets (i.e. based on the value of the asset when it is new, regardless of the age of the asset being leased). Furthermore, the Company has decided to apply the short-term consideration to the remaining period for leases at the adoption date.

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

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

The main impacts are derived from the recognition of lease arrangements as rights of use and liabilities for the obligation to make such payments. In addition, the rental 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 adoption of IFRS 16 by FEMCO – Proximity Division, FEMCO – Health Division and FEMCO – Fuel Division will generate a significant effect on the Company's consolidated financial statements because of the number of leases in effect as of the date of adoption and, the significant length of time period at which the lease contracts are settled.

At the adoption date, the Company estimates it will recognize a right-of-use asset in the range of 8.5% - 9.5% of total assets at December 31, 2018 and a corresponding amount of lease liability for all its lease arrangements in the consolidated financial statement. The final amount will be determined when the Company issues its first financial statements after the adoption date.

As of December 31, 2018, the accounting policies of the Company regarding to lease recognition under IFRS 16 have been modified and submitted for approval of the Company Board of Director's, with the purpose of fully implementation as of January 1, 2019, which it will stablish the new basis of accounting for leases. Similarly, the Company has analyzed and evaluated the aspects related to internal control derived from the adoption, ensuring internal control environment is appropriate for financial reporting purposes once the standard have been adopted. Also, the presentation requirements involve a significant increase of disclosures required in the Company's consolidated financial statements and its notes. During 2018, it Company developed and tested appropriate systems, internal controls, policies and procedures necessary to collect and disclose the information required.

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 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; and

(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 has yet to complete its evaluation of whether this interpretation will have a significant impact in the consolidated financial statements.

AMENDMENTS TO IFRS 9 PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

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

The amendments should be applied retrospectively and are effective for periods beginning on January 1, 2019, with earlier application permitted. The Company has yet to complete its evaluation of whether this interpretation will have a significant impact in the consolidated financial statements.

AMENDMENTS TO IAS 19 PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT

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

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

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

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

AMENDMENTS TO IAS 28 LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES

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

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

ANNUAL IMPROVEMENTS 2015-2017 CYCLE (ISSUED IN DECEMBER 2017)

These improvements include:

IFRS 3 *BUSINESS COMBINATIONS*

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

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

IFRS 11 *JOINT ARRANGEMENTS*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future transactions of the Company.

IAS 12 *INCOME TAXES*

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

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

IAS 23 *BORROWING COSTS*

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

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. The Company does not expect any significant effect on its consolidated financial statements.

Note 29. SUBSEQUENT EVENTS

As of January 31, 2019, Coca-Cola FEMSA, S.A.B. de C.V. Extraordinary General Shareholders' Meeting approved the following: (i) an eight-for-one stock split (the "Stock Split") of each series of shares of the Company; (ii) the issuance of Series B ordinary shares with full voting rights; (iii) the creation of units, comprised of 3 Series B shares and 5 Series L shares, to be listed for trading on the Mexican Stock Exchange and in the form of American depositary shares on the New York Stock Exchange ; and (iv) Amendments to the Company's bylaws mainly to give effect to the matters approved in paragraphs (i), (ii), and (iii), described above.

Subject to the approval of the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores or ("CNBV")), after giving effect to the Stock Split, KOF's units (each representing 3 Series B shares and 5 Series L shares) will trade on the BMV, and KOF's Series L shares will no longer trade individually on the BMV. KOF's units will trade on the NYSE in the form of ADSs (each representing 10 units). The Series B shares will have full voting rights, while the Series L shares will continue to have limited voting rights. Holders of Series L shares previously trading on the BMV will receive one unit in exchange for one Series L shares, and holders of ADSs trading on the NYSE will hold ADSs representing 10 units in lieu of 10 Series L shares.

Prior to the Shareholders' Meeting, KOF's capital stock was divided as follows: 47.2% of Series A ordinary shares; 27.8% of Series D ordinary shares; and 25% of Series L shares with limited voting rights. Given the limitation under the Company's current capital share structure to issue Series L shares with limited voting rights that represent more than 25% of KOF's capital stock, the purpose of the Stock Split and specifically the issuance of Series B ordinary shares, is to increase KOF's capacity to issue equity that may be used as consideration in future share-based acquisitions and for general corporate purposes.

The creation of units will allow the Series B shares and Series L shares to trade together, facilitating their trading and avoiding liquidity and price discrepancies that would otherwise arise if the shares were listed and traded separately. ADSs will continue to be listed on the NYSE and will represent 10 units. The units may not be separated into Series B shares and Series L shares except with the required consent of the Series L and Series B shareholders, which consent may only be granted in a special shareholder meeting no earlier than five years after the Stock Split.

Upon the approval of the CNBV, as a consequence of the Stock Split, the Company's shareholders will receive the following shares:

- The Series A shareholders will receive 8 new Series A shares in exchange for each Series A share outstanding;
- The Series D shareholders will receive 8 new Series D shares in exchange for each Series D share outstanding; and
- The Series L shareholders will receive 5 new Series L shares (with limited voting rights) and 3 new Series B ordinary shares (with full voting rights) in exchange for each Series L share outstanding.

The Series A, Series D, and Series L shares outstanding prior to the Stock Split and exchanged for new shares of the relevant series will be canceled after giving effect to the Stock Split.

As a result, (i) the percentage of ownership held by the Company's shareholders will not change, and (ii) the percentage of ordinary shares with full voting rights will be adjusted proportionally due to the issuance of the Series B shares, as set forth in the table below.

The capital stock of the Company prior to and immediately after the Stock Split is as follows:

Outstanding shares prior to the Stock Split:

Series of shares	Shareholders	Outstanding shares	% of the capital stock	% of ordinary shares with full voting rights
A	Wholly-owned subsidiary of Fomento Económico Mexicano, S.A.B. de C.V.	992,078,519	47.223%	62.964%
D	Wholly-owned subsidiaries of The Coca-Cola Company	583,545,678	27.777%	37.036%
L	Public float	525,208,065	25.0%	0%
Total		2,100,832,262	100%	100%

Outstanding shares immediately after the Stock Split:

Series of shares	Shareholders	Outstanding shares	% of the capital stock	% of ordinary shares with full voting rights
A	Wholly-owned subsidiary of Fomento Económico Mexicano, S.A.B. de C.V.	7,936,628,152	47.223%	55.968%
D	Wholly-owned subsidiaries of The Coca-Cola Company	4,668,365,424	27.777%	32.921%
B	Public float	1,575,624,195	9.375%	11.111%
L	Public float	2,626,040,325	15.625%	0%
Total		16,806,658,096	100%	100%

After obtaining the authorization from the CNBV, the Company will announce the record date and exchange date for all holders of Series L shares and the conversion date for all holders of ADSs. KOF expects that the announcement will happen in the first quarter of 2019.

On February 27, 2019, the Company's Board of Directors agreed to propose the payment of a cash ordinary dividend in the amount of Ps. 9,692 to be paid in two equal installments as of May [3], 2019 and November [1], 2019. This ordinary dividend will be approved by the Annual Shareholders meeting on March 22, 2019.

On February 26, 2019, the Company through its subsidiary Cadena Comercial OXXO, S.A. de C.V. ("OXXO") has signed an agreement with HEINEKEN Group ("Cervezas Cuauhtémoc Moctezuma, S.A. de C.V.") and both companies have agreed to an extension of their existing commercial relationship (see Note 14) with certain important changes. Under the terms of the agreement, starting in April of 2019 and following a gradual process, OXXO will also start selling the beer brands of Grupo Modelo in certain regions of Mexico, covering the entire Mexican territory by the end of 2022 and is expected to be formalized through the signing of a definitive contract, which is expected to take place during March of 2019.