

2017

Consolidated Financial Statements

Consolidated Statements of Financial Position

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

As of December 31, 2017 and 2016.
Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

| | Note | December 2017 (*) | December 2017 | December 2016 |
|---|------|----------------------|--------------------|--------------------|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | 5 | \$ 4,936 | Ps. 96,944 | Ps. 43,637 |
| Short-term investments | 6 | 110 | 2,160 | 120 |
| Accounts receivable, net | 7 | 1,646 | 32,316 | 26,222 |
| Inventories | 8 | 1,774 | 34,840 | 31,932 |
| Recoverable taxes | 24 | 575 | 11,284 | 9,226 |
| Other current financial assets | 9 | 38 | 756 | 2,705 |
| Other current assets | 9 | 147 | 2,888 | 4,109 |
| Total current assets | | 9,226 | 181,188 | 117,951 |
| Investments in associates and joint ventures | 10 | 4,893 | 96,097 | 128,601 |
| Property, plant and equipment, net | 11 | 5,943 | 116,712 | 102,223 |
| Intangible assets, net | 12 | 7,846 | 154,093 | 153,268 |
| Deferred tax assets | 24 | 807 | 15,853 | 12,053 |
| Other financial assets | 13 | 615 | 12,073 | 15,345 |
| Other assets | 13 | 637 | 12,525 | 16,182 |
| TOTAL ASSETS | | \$ 29,967 | Ps. 588,541 | Ps. 545,623 |
| LIABILITIES AND EQUITY | | | | |
| Current Liabilities: | | | | |
| Bank loans and notes payable | 18 | \$ 144 | Ps. 2,830 | Ps. 1,912 |
| Current portion of long-term debt | 18 | 548 | 10,760 | 5,369 |
| Interest payable | | 50 | 976 | 976 |
| Suppliers | | 2,476 | 48,625 | 47,465 |
| Accounts payable | | 893 | 17,538 | 11,624 |
| Taxes payable | | 571 | 11,214 | 11,360 |
| Other current financial liabilities | 25 | 666 | 13,079 | 7,583 |
| Total current liabilities | | 5,348 | 105,022 | 86,289 |
| Long-Term Liabilities: | | | | |
| Bank loans and notes payable | 18 | 5,996 | 117,758 | 131,967 |
| Employee benefits | 16 | 274 | 5,373 | 4,447 |
| Deferred tax liabilities | 24 | 312 | 6,133 | 11,037 |
| Other financial liabilities | 25 | 142 | 2,797 | 7,320 |
| Provisions and other long-term liabilities | 25 | 740 | 14,546 | 18,393 |
| Total long-term liabilities | | 7,464 | 146,607 | 173,164 |
| Total liabilities | | 12,812 | 251,629 | 259,453 |
| Equity: | | | | |
| Controlling interest: | | | | |
| Capital stock | | 170 | 3,348 | 3,348 |
| Additional paid-in capital | | 1,365 | 26,808 | 25,733 |
| Retained earnings | | 10,279 | 201,868 | 168,796 |
| Accumulated other comprehensive income (loss) | | 930 | 18,267 | 14,027 |
| Total controlling interest | | 12,744 | 250,291 | 211,904 |
| Non-controlling interest in consolidated subsidiaries | 21 | 4,411 | 86,621 | 74,266 |
| Total equity | | 17,155 | 336,912 | 286,170 |
| TOTAL LIABILITIES AND EQUITY | | \$ 29,967 | Ps. 588,541 | Ps. 545,623 |

(*) 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, 2017, 2016 and 2015.

Amounts expressed in millions of U.S. dollars (\$)

and in millions of Mexican pesos (Ps.), except per share amounts.

| | Note | 2017 ^(*) | 2017 | 2016 | 2015 |
|---|------|---------------------|-------------|-------------|-------------|
| Net sales | | \$ 23,410 | Ps. 459,763 | Ps. 398,622 | Ps. 310,849 |
| Other operating revenues | | 35 | 693 | 885 | 740 |
| Total revenues | | 23,445 | 460,456 | 399,507 | 311,589 |
| Cost of goods sold | | 14,776 | 290,188 | 251,303 | 188,410 |
| Gross profit | | 8,669 | 170,268 | 148,204 | 123,179 |
| Administrative expenses | | 841 | 16,512 | 14,730 | 11,705 |
| Selling expenses | | 5,674 | 111,456 | 95,547 | 76,375 |
| Other income | 19 | 1,769 | 34,741 | 1,157 | 423 |
| Other expenses | 19 | 1,729 | 33,959 | 5,909 | 2,741 |
| Interest expense | 18 | 566 | 11,124 | 9,646 | 7,777 |
| Interest income | | 80 | 1,566 | 1,299 | 1,024 |
| Foreign exchange gain (loss), net | | 252 | 4,956 | 1,131 | (1,193) |
| Monetary position gain (loss), net | | 81 | 1,590 | 2,411 | (36) |
| Market value (loss) gain on financial instruments | | (10) | (204) | 186 | 364 |
| Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method | | 2,031 | 39,866 | 28,556 | 25,163 |
| Income taxes | 24 | 539 | 10,583 | 7,888 | 7,932 |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes | 10 | 403 | 7,923 | 6,507 | 6,045 |
| Consolidated net income | | \$ 1,895 | Ps. 37,206 | Ps. 27,175 | Ps. 23,276 |
| Attributable to: | | | | | |
| Controlling interest | | 2,160 | 42,408 | 21,140 | 17,683 |
| Non-controlling interest | 21 | (265) | (5,202) | 6,035 | 5,593 |
| Consolidated net income | | \$ 1,895 | Ps. 37,206 | Ps. 27,175 | Ps. 23,276 |
| Basic controlling interest net income: | | | | | |
| Per series "B" share | 23 | \$ 0.11 | Ps. 2.12 | Ps. 1.05 | Ps. 0.88 |
| Per series "D" share | 23 | 0.13 | 2.65 | 1.32 | 1.10 |
| Diluted controlling interest net income: | | | | | |
| Per series "B" share | 23 | 0.11 | 2.11 | 1.05 | 0.88 |
| Per series "D" share | 23 | 0.13 | 2.64 | 1.32 | 1.10 |

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

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

Consolidated Statements of Comprehensive Income

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

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

| | Note | 2017 ^(*) | 2017 | 2016 | 2015 |
|---|------|---------------------|------------|------------|------------|
| Consolidated net income | | \$ 1,895 | Ps. 37,206 | Ps. 27,175 | Ps. 23,276 |
| Other comprehensive income: | | | | | |
| Items that will be reclassified to consolidated net income, net of tax: | | | | | |
| Valuation of the effective portion of derivative financial instruments | 20 | (22) | (439) | 1,732 | 122 |
| Loss on hedge of a net investment in a foreign operations | 18 | (64) | (1,259) | (1,443) | - |
| Exchange differences on the translation of foreign operations and associates | | 737 | 14,482 | 30,763 | (2,234) |
| Share of other comprehensive (loss) income of associates and joint ventures | 10 | (102) | (2,013) | (2,228) | 282 |
| Total items that will be reclassified | | 549 | 10,771 | 28,824 | (1,830) |
| Items that will not be reclassified to consolidated net income in subsequent periods, net of tax: | | | | | |
| Share of other comprehensive income (loss) of associates and joint ventures | | 4 | 69 | (1,004) | 169 |
| Remeasurements of the net defined benefit liability | | - | (7) | (167) | 144 |
| Total items that will not be reclassified | | 4 | 62 | (1,171) | 313 |
| Total other comprehensive income (loss), net of tax | | 553 | 10,833 | 27,653 | (1,517) |
| Consolidated comprehensive income, net of tax | | \$ 2,448 | Ps. 48,039 | Ps. 54,828 | Ps. 21,759 |
| Controlling interest comprehensive income | | 2,348 | 46,052 | 39,330 | 19,165 |
| Reattribution to non-controlling interest of other comprehensive income by acquisition of Vonpar | | (3) | (51) | - | - |
| Controlling interest comprehensive income | | 2,345 | 46,001 | 39,330 | 19,165 |
| Non-controlling interest comprehensive income | | 100 | 1,987 | 15,498 | 2,594 |
| Reattribution from controlling interest of other comprehensive income by acquisition of Vonpar | | 3 | 51 | - | - |
| Non-controlling interest comprehensive income | | 103 | 2,038 | 15,498 | 2,594 |
| Consolidated comprehensive income, net of tax | | \$ 2,448 | Ps. 48,039 | Ps. 54,828 | Ps. 21,759 |

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

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

Consolidated Statements of Changes in Equity

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

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

| | Capital Stock | Additional Paid-in Capital | Retained Earnings | Valuation of the Effective Portion of Derivative Financial Instrument |
|--|------------------|----------------------------------|----------------------|--|
| Balances at January 1, 2015 | Ps. 3,347 | Ps. 25,649 | Ps. 147,122 | Ps. 307 |
| Net income | - | - | 17,683 | - |
| Other comprehensive income (loss), net of tax | - | - | - | 299 |
| Comprehensive income | - | - | 17,683 | 299 |
| Dividends declared and paid | - | - | (7,350) | - |
| Issuance of shares associated with share-based payment plans | 1 | 158 | - | - |
| Acquisition of Grupo Socofar (see Note 4) | - | - | - | - |
| Contributions from non-controlling interest | - | - | - | - |
| Other movements of equity method of associates, net of taxes | - | - | (923) | - |
| Balances at December 31, 2015 | 3,348 | 25,807 | 156,532 | 606 |
| Net income | - | - | 21,140 | - |
| Other comprehensive income (loss), net of tax | - | - | - | 2,057 |
| Comprehensive income | - | - | 21,140 | 2,057 |
| Dividends declared and paid | - | - | (8,355) | - |
| Issuance (purchase) of shares associated with share-based payment plans | - | (74) | - | - |
| Other equity instruments from acquisition of Vonpar (see Note 4) | - | - | - | - |
| Other acquisitions and remeasurements (see Note 4) | - | - | - | - |
| Contributions from non-controlling interest | - | - | - | - |
| Other movements of equity method of associates, net of taxes | - | - | (521) | - |
| Balances at December 31, 2016 | Ps. 3,348 | Ps. 25,733 | Ps. 168,796 | Ps. 2,663 |
| Net income | - | - | 42,408 | - |
| Other comprehensive income (loss), net of taxes | - | - | - | (47) |
| Comprehensive income | - | - | 42,408 | (47) |
| Dividends declared and paid | - | - | (8,636) | - |
| Issuance of shares associated with share-based payment plans | - | (89) | - | - |
| Capitalization of issued shares to former owners of Vonpar in Coca-Cola FEMSA (see Note 4) | - | 1,164 | - | 2 |
| Acquisitions of non-controlling interest (see Note 4) | - | - | - | - |
| Contribution from non-controlling interest | - | - | - | - |
| Recognition of non-controlling interest upon consolidation of CCFPI (see Note 4) | - | - | - | - |
| Recycling from net defined benefit liability on partial disposal of associates and joint ventures | - | - | (596) | - |
| Other movements of equity method of associates, net of taxes | - | - | (104) | - |
| Balances at December 31, 2017 | Ps. 3,348 | Ps. 26,808 | Ps. 201,868 | Ps. 2,618 |

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

| Exchange Differences on the Translation of Foreign Operations and Associates | Remeasurements of the Net Defined Benefit Liability | Total Controlling Interest | Non-Controlling Interest | Total Equity |
|--|---|----------------------------|--------------------------|--------------|
| Ps. (3,633) | Ps. (2,319) | Ps. 170,473 | Ps. 59,649 | Ps.230,122 |
| - | - | 17,683 | 5,593 | 23,276 |
| 945 | 238 | 1,482 | (2,999) | (1,517) |
| 945 | 238 | 19,165 | 2,594 | 21,759 |
| - | - | (7,350) | (3,351) | (10,701) |
| - | - | 159 | 57 | 216 |
| - | - | - | 1,133 | 1,133 |
| - | - | - | 250 | 250 |
| - | - | (923) | - | (923) |
| (2,688) | (2,081) | 181,524 | 60,332 | 241,856 |
| - | - | 21,140 | 6,035 | 27,175 |
| 17,241 | (1,108) | 18,190 | 9,463 | 27,653 |
| 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. 14,553 | Ps. (3,189) | Ps. 211,904 | Ps. 74,266 | Ps.286,170 |
| - | - | 42,408 | (5,202) | 37,206 |
| 3,607 | 33 | 3,593 | 7,240 | 10,833 |
| 3,607 | 33 | 46,001 | 2,038 | 48,039 |
| - | - | (8,636) | (3,622) | (12,258) |
| - | - | (89) | 50 | (39) |
| 47 | 2 | 1,215 | 2,867 | 4,082 |
| - | - | - | (322) | (322) |
| - | - | - | 272 | 272 |
| - | - | - | 11,072 | 11,072 |
| - | 596 | - | - | - |
| - | - | (104) | - | (104) |
| Ps. 18,207 | Ps. (2,558) | Ps. 250,291 | Ps. 86,621 | Ps. 336,912 |

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, 2017, 2016 and 2015.
Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

| | 2017 ^(*) | 2017 | 2016 | 2015 |
|--|---------------------|------------|------------|------------|
| Cash flows from operating activities: | | | | |
| Income before income taxes | \$ 2,434 | Ps. 47,789 | Ps. 35,063 | Ps. 31,208 |
| Adjustments for: | | | | |
| Non-cash operating expenses | 159 | 3,114 | 4,111 | 2,873 |
| Non-cash non operating (income) expenses | 1,315 | 25,817 | - | - |
| Depreciation | 795 | 15,613 | 12,076 | 9,761 |
| Amortization | 104 | 2,052 | 1,633 | 1,064 |
| Gain on sale of long-lived assets | (11) | (209) | (170) | (249) |
| (Gain) loss on sale of shares (see Note 19) | (1,533) | (30,112) | 8 | (14) |
| Disposal of long-lived assets | 23 | 451 | 238 | 416 |
| Impairment of long-lived assets | 105 | 2,063 | - | 134 |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes | (403) | (7,923) | (6,507) | (6,045) |
| Interest income | (80) | (1,566) | (1,299) | (1,024) |
| Interest expense | 566 | 11,124 | 9,646 | 7,777 |
| Foreign exchange (gain) loss, net | (252) | (4,956) | (1,131) | 1,193 |
| Monetary position (gain) loss, net | (81) | (1,590) | (2,411) | 36 |
| Market value loss (gain) on financial instruments | 10 | 204 | (186) | (364) |
| Cash flow from operating activities before changes in operating accounts | 3,151 | 61,871 | 51,071 | 46,766 |
| Accounts receivable and other current assets | (578) | (11,349) | (1,889) | (4,379) |
| Other current financial assets | 99 | 1,949 | (1,395) | 318 |
| Inventories | (133) | (2,602) | (4,936) | (4,330) |
| Derivative financial instruments | 1 | 18 | 130 | 441 |
| Suppliers and other accounts payable | 376 | 7,394 | 15,337 | 6,799 |
| Other long-term liabilities | 16 | 309 | 968 | 822 |
| Other current financial liabilities | 100 | 1,968 | 2,642 | (570) |
| Employee benefits paid | (32) | (631) | (476) | (382) |
| Cash generated from operations | 3,000 | 58,927 | 61,452 | 45,485 |
| Income taxes paid | (957) | (18,792) | (11,321) | (8,743) |
| Net cash generated by operating activities | 2,043 | 40,135 | 50,131 | 36,742 |

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

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, 2017, 2016 and 2015.
Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

| | 2017 ^(*) | 2017 | 2016 | 2015 |
|--|---------------------|-------------------|-------------------|-------------------|
| Cash flows from investing activities: | | | | |
| Increase in cash by acquisition of Coca-Cola FEMSA Philippines, Inc. (see Note 4) | 204 | 4,013 | - | - |
| Deconsolidation in Coca-Cola FEMSA Venezuela | (9) | (170) | - | - |
| Acquisition of Grupo Socofar, net of cash acquired (see Note 4) | - | - | - | (6,890) |
| Partial payment of Vonpar, net of cash acquired (see Note 4) | - | - | (13,198) | - |
| Other acquisitions, net of cash acquired (see Note 4) | - | - | (5,032) | (5,821) |
| Other investments in associates and joint ventures | (45) | (889) | (2,189) | (291) |
| Partial disposal of investment in Heineken | 2,586 | 50,790 | - | - |
| Purchase of investments | (103) | (2,016) | (118) | - |
| Proceeds from investments | - | - | 20 | 126 |
| Interest received | 80 | 1,566 | 1,299 | 1,024 |
| Derivative financial instruments | (2) | (35) | (220) | 232 |
| Dividends received from associates and joint ventures | 167 | 3,277 | 3,276 | 2,394 |
| Property, plant and equipment acquisitions | (1,061) | (20,838) | (19,083) | (17,485) |
| Proceeds from the sale of property, plant and equipment | 25 | 490 | 574 | 630 |
| Acquisition of intangible assets | (170) | (3,346) | (2,309) | (971) |
| Investment in other assets | (62) | (1,222) | (1,709) | (1,502) |
| Collections of other assets | (1) | (19) | 2 | 223 |
| Investment in other financial assets | (9) | (184) | (23) | (28) |
| Collection in other financial assets | - | - | 65 | - |
| Net cash generated by (used in) investing activities | 1,600 | 31,417 | (38,645) | (28,359) |
| Cash flows from financing activities: | | | | |
| Proceeds from borrowings | 692 | 13,599 | 26,629 | 8,422 |
| Payments of bank loans | (923) | (18,130) | (5,458) | (15,520) |
| Interest paid | (335) | (6,578) | (5,470) | (4,563) |
| Derivative financial instruments | (80) | (1,579) | (3,471) | 8,345 |
| Dividends paid | (634) | (12,450) | (12,045) | (10,701) |
| Contributions from non-controlling interest | - | - | 892 | 250 |
| Acquisition of non-controlling interest | (16) | (315) | - | - |
| Other financing activities | (9) | (168) | 220 | 26 |
| Financing from Vonpar's acquisition | 208 | 4,082 | - | - |
| Net cash (used in) generated by financing activities | (1,097) | (21,539) | 1,297 | (13,741) |
| Increase (decrease) in cash and cash equivalents | 2,546 | 50,013 | 12,783 | (5,358) |
| Initial balance of cash and cash equivalents | 2,222 | 43,637 | 29,396 | 35,497 |
| Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies | 168 | 3,294 | 1,458 | (743) |
| Ending balance of cash and cash equivalents | \$ 4,936 | Ps. 96,944 | Ps. 43,637 | Ps. 29,396 |

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

Notes to the Consolidated Financial Statements

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. Y SUBSIDIARIAS
MONTERREY, N.L., MÉXICO

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

Note 1. Activities of the Company

Fomento Económico Mexicano, S.A.B. de C.V. (“FEMSA”) is a Mexican holding company. The principal activities of FEMSA and its subsidiaries (the “Company”) are carried out by operating subsidiaries and companies that are direct and indirect holding company subsidiaries of FEMSA.

The following is a description of the Company’s activities as of the date of the issuance of these consolidated financial statements, together with the ownership interest in each subholding company or business unit:

| Subholding Company | % Ownership | | Activities | |
|--|---|--|--|--|
| | December 31, 2017 | December 31, 2016 | | |
| Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (“Coca-Cola FEMSA”) | 47.2% ⁽¹⁾⁽²⁾ (63.0% of the voting shares) | 47.9% ⁽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 Philippines (see Note 4). At December 31, 2017, The Coca-Cola Company (TCCC) indirectly owns 27.8% of Coca-Cola FEMSA’s capital stock. In addition, shares representing 25% of Coca-Cola FEMSA’s capital stock are traded on the Bolsa Mexicana de Valores (Mexican Stock Exchange “BMV”) and on the New York Stock Exchange, Inc (NYSE) in the form of American Depositary Shares (“ADS”). | |
| FEMSA Comercio, S.A. de C.V. and subsidiaries (“FEMSA Comercio”) | Retail Division | 100% | 100% | Small-box retail chain format operations in Mexico, Colombia and the United States, mainly under the trade name “OXXO” and “Big John” in Chile. |
| | 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. |
| | Health Division ⁽⁴⁾ | Various ⁽³⁾ | Various ⁽³⁾ | Drugstores operations in Chile and Colombia, mainly under the trademark “Cruz Verde” and Mexico under various brands such as YZA, La Moderna and Farmacon. |
| CB Equity, LLP (“CB Equity”) | 100% | 100% | This Company holds Heineken N.V. and Heineken Holding N.V. shares, which represents the aggregate of 14.8% ⁽⁵⁾ economic interest in both entities (“Heineken”). | |
| Other companies | 100% | 100% | Companies engaged in the production and distribution of coolers, commercial refrigeration equipment, plastic cases, food processing, preservation and weighing equipment; as well as 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 ownership decreased from 47.9% as of December 31, 2016 to 47.2% as of December 31, 2017 as a result of the issuance to former owners of Vonpar of shares in Coca-Cola FEMSA (see Note 4).

⁽³⁾ The former shareholders of Farmacias YZA hold a 23% stake in Cadena Comercial de Farmacias, S.A.P.I. de C.V., a subsidiary of FEMSA Comercio that holds all pharmacy business in Mexico (which we refer to as CCF). In addition, FEMSA Comercio through one of its subsidiaries, Cadena Comercial de Farmacias Sudamerica, S.P.A., holds a 60% stake in Grupo Socofar, see Note 4.1.2.

⁽⁴⁾ From 2016, FEMSA Comercio – Health Division has been considered as a separate reportable segment, see Note 26.

⁽⁵⁾ The economic interest decreased from 20.0% as of December 31, 2016 to 14.8% as of December 31, 2017 as a result of partial disposal transaction (see Note 4.2).

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 Chief Corporate Financial Officer Gerardo Estrada Attolini on February 21, 2018. These consolidated financial statements and notes were then approved by the Company’s Board of Directors on February 27, 2018 and subsequent events have been considered through that date (see Note 28). These consolidated financial statements and their accompanying notes will be presented at the Company’s shareholders meeting in March 16, 2018. 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 the historical cost basis, except for the following:

- Available-for-sale investments.
- 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 recognized assets and liabilities that are 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 stated in terms of the measuring unit current at the end of the reporting period.

2.2.1 Presentation of consolidated income statement

The Company classifies its costs and expenses by function in the consolidated income statement, in order to conform to the industry practices where 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, 2017, the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2017 were converted into U.S. dollars at the exchange rate of 19.6395 Mexican pesos per U.S. dollar as published by the Federal Reserve Bank of New York as of December 29, 2017 the last date in 2017 for available information. This arithmetic conversion should not be construed as representation that the 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, 2018 (the issuance date of these financial statements) such exchange rate was Ps. 18.5659 per U.S. dollar, a revaluation of 6% since December 31, 2017.

2.3 Critical accounting judgments and estimates

In the application of the Company’s accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.3.1 Key sources of estimation uncertainty

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

2.3.1.1 Impairment of indefinite lived intangible assets, goodwill and 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 transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. In order to determine whether such assets are impaired, the Company initially calculates an estimation of the value in use of the cash-generating units to which such assets have been allocated. Impairment losses are recognized in current earnings in the period the related impairment is determined.

The Company assesses at each reporting date whether there is an indication that a long-lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. 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 3.16 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 3.12, 3.14, 11 and 12.

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

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

2.3.1.7 Business combinations

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

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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes* and IAS 19, *Employee Benefits*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, *Share-based Payment* at the acquisition date, see Note 3.24; and
- 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.
- 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 weighed average cost 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.

2.3.2 Judgements

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

2.3.2.1 Investments in associates

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

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

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

In addition, the Company evaluates 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.

2.3.2.2 Joint arrangements

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When the Company is a party to an arrangement it shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively; joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. Management needs to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. When assessing joint control, management considers the following facts and circumstances 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 3.11.2; 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.

2.3.2.3 Venezuela exchange rates and deconsolidation

As is further explained in Note 3.3 below, as of December 31, 2017, the exchange rate used to translate the financial statements of the Company’s Venezuelan 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 challenging economic environment in that country and began accounting for the operations under the fair value method.

2.4 Application of recently issued accounting standards

The Company has applied the following amendments to IFRS during 2017:

Amendments to IAS 7, *Disclosure Initiative*

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

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. (see Note 18.1).

Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that the Company needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Company did not have any impact in the adoption of these amendments.

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 3.11.2.

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

- 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 for investments in associates and joint ventures

In preparing the financial statements of each individual subsidiary and accounting for investments in associates and joint ventures, 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.
- 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 are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint ventures that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss. In September 2017, the Company sold shares equal to 5.2% of economic interest in Heineken, 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 statement of income.

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

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

Exchange Rates of Local Currencies Translated to Mexican Pesos⁽¹⁾

| Country or Zone | Functional / Recording Currency | Average Exchange Rate for | | | Exchange Rate as of | |
|-----------------|---------------------------------|---------------------------|-------|-------|---------------------|-------------------|
| | | 2017 | 2016 | 2015 | December 31, 2017 | December 31, 2016 |
| Guatemala | Quetzal | 2.57 | 2.46 | 2.07 | 2.69 | 2.75 |
| Costa Rica | Colon | 0.03 | 0.03 | 0.03 | 0.03 | 0.04 |
| Panama | U.S. dollar | 18.93 | 18.66 | 15.85 | 19.74 | 20.66 |
| Colombia | Colombian peso | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Nicaragua | Cordoba | 0.63 | 0.65 | 0.58 | 0.64 | 0.70 |
| Argentina | Argentine peso | 1.15 | 1.26 | 1.71 | 1.06 | 1.30 |
| Venezuela a) | Bolivar a) | a) | a) | a) | a) | a) |
| Brazil | Reais | 5.94 | 5.39 | 4.81 | 5.97 | 6.34 |
| Chile | Chilean peso | 0.03 | 0.03 | 0.02 | 0.03 | 0.03 |
| Euro Zone | Euro (€) | 21.32 | 20.66 | 17.60 | 23.57 | 21.77 |
| Peru | Nuevo Sol | 5.78 | 5.53 | 4.99 | 6.08 | 6.15 |
| Ecuador | Peso | 18.93 | 18.66 | 15.85 | 19.74 | 20.66 |
| Philippines | Philippine peso | 0.38 | 0.39 | 0.35 | 0.40 | 0.41 |

⁽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 an extraordinary loss within other expenses for an amount of Ps. 28,177 on December 31, 2017. Such effect includes the reclassification of Ps. 26,123 to the income statement previously recorded within accumulated foreign currency translation losses 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 January 1, 2018, Coca-Cola FEMSA will recognize its investment in Venezuela under the fair value method following the new IFRS 9 Financial Instruments standard.

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 DIPRO (Divisa Protegida) 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 DICOM (Divisas Complementarias) 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 Venezuelan subsidiary that operates in hyperinflationary economic environments (when cumulative inflation of the three preceding years is approaching, or exceeds, 100% or more in addition to other qualitative factors), which consists of:

- Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, intangible assets, including related costs and expenses when such assets are consumed or depreciated;
- Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, net income, retained earnings and items of other comprehensive income by the necessary amount to maintain the purchasing power equivalent in the currency of 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 operations in Venezuela. Consequently, there will not be financial impacts associated to inflation adjustments in future financial statements, however, Coca-Cola FEMSA's Venezuelan subsidiary will continue operating.

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

| Country | Cumulative Inflation 2015- 2017 | Type of Economy | Cumulative Inflation 2014- 2016 | Type of Economy | Cumulative Inflation 2013- 2015 | Type of Economy |
|---------------|---------------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|
| Mexico | 12.7% | Non-hyperinflationary | 9.9% | Non-hyperinflationary | 10.5% | Non-hyperinflationary |
| Guatemala | 13.5% | Non-hyperinflationary | 10.6% | Non-hyperinflationary | 10.8% | Non-hyperinflationary |
| Costa Rica | 2.5% | Non-hyperinflationary | 5.1% | Non-hyperinflationary | 8.1% | Non-hyperinflationary |
| Panama | 2.3% | Non-hyperinflationary | 2.8% | Non-hyperinflationary | 5.1% | Non-hyperinflationary |
| Colombia | 17.5% | Non-hyperinflationary | 17.0% | Non-hyperinflationary | 12.8% | Non-hyperinflationary |
| Nicaragua | 12.3% | Non-hyperinflationary | 13.1% | Non-hyperinflationary | 15.8% | Non-hyperinflationary |
| Argentina (a) | 101.5% | Non-hyperinflationary | 99.7% | Non-hyperinflationary | 59.2% | Non-hyperinflationary |
| Venezuela | 30,690.0% | Hyperinflationary | 2,263.0% | Hyperinflationary | 562.9% | Hyperinflationary |
| Brazil | 21.1% | Non-hyperinflationary | 25.2% | Non-hyperinflationary | 24.7% | Non-hyperinflationary |
| Philippines | 7.5% | Non-hyperinflationary | 5.7% | Non-hyperinflationary | 8.3% | Non-hyperinflationary |
| Euro Zone | 2.72% | Non-hyperinflationary | 1.2% | Non-hyperinflationary | 0.9% | Non-hyperinflationary |
| Chile | 9.67% | Non-hyperinflationary | 12.2% | Non-hyperinflationary | 12.5% | Non-hyperinflationary |
| Peru | 9.28% | Non-hyperinflationary | 11.2% | Non-hyperinflationary | 10.8% | Non-hyperinflationary |
| Ecuador | 30.34% | Non-hyperinflationary | 8.4% | Non-hyperinflationary | 10.0% | Non-hyperinflationary |

a) Argentina

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

- CPI for the City and Greater Buenos Aires Area (New CPI-CGBA), for which the IMF noted improvements in quality, this new consumer price index will only be provided for periods after April 2016 and does not provide national coverage.
- “Coeficiente de Estabilización de Referencia” (CER or Reference Stabilization Ratio) to calculate the three-year cumulative inflation rate in Argentina, the CER is used by the government of Argentina to adjust the rate they pay on certain adjustable rate bonds they issue. At April 30, 2017, the three-year cumulative inflation rate based on CER data is estimated to be approximately 95.5%.
- WPI with a cumulative inflation for three years of 92.2% at November 2016 but not including information for November and December 2015 since it was not published by the National Bureau of Statistics of Argentina (INDEC). The WPI has historically been viewed as the most relevant inflation measure for companies by practitioners in Argentina.

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

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

3.5 Cash and cash equivalents and restricted cash

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

The Company also maintains restricted cash held as collateral to meet certain contractual obligations (see Note 9.2). Restricted cash is presented within other current financial assets given that the restrictions are short-term in nature.

3.6 Financial assets

Financial assets are classified into the following specified categories: “fair value through profit or loss (FVTPL),” “held-to-maturity investments,” “available-for-sale” and “loans and receivables” or as derivatives designated as hedging instruments in an effective 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.

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

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

The Company’s financial assets include cash, cash equivalents and restricted cash, investments with maturities of greater than three months, loans and receivables, derivative financial instruments and other financial assets.

3.6.1 Effective interest rate method (EIR)

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

3.6.2 Investments

Investments consist of debt securities and bank deposits with maturities of more than three months at the acquisition date. Management determines the appropriate classification of investments at the time of purchase and assesses such designation as of each reporting date (see Note 6).

3.6.2.1 Held-to maturity investments are those that the Company has the positive intent and ability to hold to maturity, and after initial measurement, such financial assets are subsequently measured at amortized cost, which includes any cost of purchase and premium or discount related to the investment. Subsequently, the premium/discount is amortized over the life of the investment based on its outstanding balance utilizing the effective interest method less any impairment. Interest and dividends on investments classified as held-to maturity are included in interest income.

3.6.3 Financial assets at fair value through profit or loss (FVTPL)

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

3.6.4 Loans and receivables

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

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. For the years ended December 31, 2016 and 2015 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 41 and Ps. 53, respectively.

3.6.5 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.

3.6.6 Impairment of financial assets

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

Evidence of impairment may include indicators as follows:

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

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

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

3.6.7 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.

3.6.8 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.

3.7 Derivative financial instruments

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

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

3.7.1 Hedge accounting

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

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

3.7.1.1 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.

3.7.1.2 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 the consolidated net income.

3.7.2 Hedge of net investment in a foreign business

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

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.

3.8 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.

3.9 Inventories and cost of goods sold

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

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

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

3.10 Other current assets

Other current assets, which will be realized within a period of less than one year from the reporting date, are comprised of prepaid assets 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, 2017, 2016 and 2015, such amortization aggregated to Ps. 759, Ps. 582 and Ps. 317, respectively.

3.11 Investments in associates and joint arrangements

3.11.1 Investments in associates

Associates are those entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Investments in associates are accounted for using the equity method and initially recognized at cost, which comprises the investment's purchase price and any directly attributable expenditure necessary to acquire it. The carrying amount of the investment is adjusted to 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 have been recognized in net income if the associate had directly disposed of the asset to which it relates.

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

3.11.2 Joint arrangements

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

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method, as described in Note 3.11.1. As of December 31, 2017 and 2016 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 as described in Note 3.11.1. During the years ended December 31, 2017 and 2016 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.

3.12 Property, plant and equipment

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

3.13 Borrowing costs

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

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

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

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

3.14 Intangible assets

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

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

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

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

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

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

As of December 31, 2017, Coca-Cola FEMSA had ten bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in May 2018 and June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) three agreements for the Central territory, which are up for renewal in May 2018 (two agreements), and May 2025, (iv) the agreement for the Northeast territory, which is up for renewal in May 2018, and (v) two agreements for the Bajío territory, which are up for renewal in May 2018 and May 2025.

As of December 31, 2017, Coca-Cola FEMSA had nine bottler agreements in Brazil, which are up for renewal in May 2018 (seven agreements) and April 2024 (two agreements); and one bottler agreement in each of Argentina which is up for renewal in September 2024; Colombia which is up for renewal in June 2024; Venezuela which is up for renewal in August 2026; Guatemala which is up for renewal in March 2025; Costa Rica which is up for renewal in September 2027; Nicaragua which is up for renewal in May 2026; Panama which is up for renewal in November 2024; and Philippines which is up for renewal in December 2022.

The bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent 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.

3.15 Non-current assets held for sale

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

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

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

3.16 Impairment of long-lived assets

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

For 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, 2017 and December 31, 2015, the Company recognized impairment loss of Ps. 2,063 and Ps. 134, respectively (see Note 19).

3.17 Leases

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

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

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.

3.18 Financial liabilities and equity instruments

3.18.1 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.

3.18.2 Equity instruments

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

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

3.18.3 Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

3.18.4 Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated 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.

3.18.5 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.

3.19 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.

3.20 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 other comprehensive income ("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.

3.21 Revenue recognition

Sales of all of the Company products (including retail consumer goods, fuel and others) are recognized as revenue upon delivery to the customer, and once all the following conditions are satisfied:

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

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

Rendering of services and other

Revenue arising from logistic transportation, maintenance services and packing of raw materials are recognized in the revenues caption in the consolidated income statement.

The Company recognized these transactions as revenues based upon the stage of completion of the transaction at the end of the reporting period in accordance with the requirements established in the IAS 18 "Revenue" for delivery of goods and rendering of services, which are:

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

Interest income

Revenue arising from the use by others of entity assets yielding interest is recognized once all the following conditions are satisfied:

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

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

3.22 Administrative and selling expenses

Administrative expenses include labor costs (salaries and other benefits, including employee profit sharing “PTU”) of employees not directly involved in the sale 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 (salaries and other related benefits), 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, 2017, 2016 and 2015, these distribution costs amounted to Ps. 25,041, Ps. 20,250 and Ps. 20,205, respectively;
- Sales: labor costs (salaries and other benefits, including PTU) and sales commissions paid to sales personnel; and
- Marketing: promotional expenses and advertising costs.

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

3.23 Income taxes

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

3.23.1 Current income taxes

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

3.23.2 Deferred income taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, including tax loss carryforwards and certain tax credits, to the extent that it is probable that future taxable profits, reversal of existing taxable temporary differences and future tax planning strategies will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from 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 2017, 2016 and 2015, and it will remain at 30% for the following years.

3.24 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.

3.25 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.

3.26 Issuance of subsidiary stock

The Company recognizes the issuance of a subsidiary's stock as an equity transaction. The difference between the book value of the shares issued and the amount contributed by the non-controlling interest holder or third party is recorded 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 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 years of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015 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 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 | (11,072) |
| Fair value of the equity interest at the acquisition date | 22,109 |
| 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 result of taking control over CCFPI. Coca-Cola FEMSA's selected income statement information of Philippines for the period from the acquisition date through December 31, 2017 is as follows:

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

4.1.2 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 per the announcement made on September 23, 2016. 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. 2,492 |
| Total non-current assets | 1,910 |
| Distribution rights | 14,793 |
| Net assets acquired | 19,325 |
| Goodwill | 2,152 ⁽¹⁾ |
| Total consideration transferred | 21,478 |
| 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 current assets amounted to Ps. (1,898), total non-current assets amounted to Ps. (8,945), distribution rights of Ps. 5,191 and goodwill of Ps. (5,559).

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 |

4.1.3 Acquisition of Grupo Socofar

On September 30, 2015, FEMSA Comercio – Health Division completed the acquisition of 60% of Grupo Socofar. Grupo Socofar is an operator of pharmacies in South America which operated, directly and through franchises, 643 pharmacies and 154 beauty supply stores in Chile, and over 150 pharmacies in Colombia. Grupo Socofar was acquired for Ps. 7,685 in an all cash transaction. Transaction related costs of Ps. 116 were expensed by FEMSA Comercio – Health Division as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Socofar was included in operating results from the closing in September 2015.

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

| | 2016 |
|---|--|
| | Final Purchase Price Allocation |
| Total current assets (including cash acquired of Ps. 795) | Ps. 10,499 |
| Total non-current assets | 4,240 |
| Trademark rights | 3,033 |
| Total assets | 17,772 |
| Total liabilities | (12,564) |
| Net assets acquired | 5,208 |
| Goodwill | 4,559 ⁽¹⁾ |
| Non-controlling interest ⁽²⁾ | (2,082) |
| Total consideration transferred | Ps. 7,685 |

⁽¹⁾ As a result of the purchase price allocation which was finalized in 2016, additional fair value adjustments from those recognized in 2015 have been recognized as follow: property, plant and equipment amounted of Ps. 197, trademark rights amounted of Ps. 3,033, other intangible assets with finite live amounted of Ps. 163 and deferred tax liabilities amounted of Ps. 1,009.

⁽²⁾ Measured at the proportionate share of the acquiree's identifiable net assets.

FEMSA Comercio – Health Division expects to recover the amount recorded as goodwill through synergies related to the implementation of successful practices from its existing Mexican operations such as speed and quality in execution of the customer’s value proposition and growth. Goodwill has been allocated to FEMSA Comercio Health Division cash generating units in South America (see Note 12).

Selected income statement information of Socofar for the period from the acquisition date through December 31, 2015 is as follows:

| Income Statement | 2015 |
|----------------------------|-----------|
| Total revenues | Ps. 7,583 |
| Income before income taxes | 394 |
| Net income | Ps. 354 |

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

4.1.4 Other acquisitions

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. shares, a small coffee and bakery restaurant (“Specialty’s”), 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: 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 FEMSA Comercio – Retail Division in Chile and FEMSA Comercio – Health Division in Mexico and Colombia, to each one respectively. FEMSA Comercio 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) |

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, 2017.

During 2015, the Company completed smaller acquisitions and mergers which in the aggregate amounted to Ps. 5,892. These acquisitions and mergers were primarily related to the following: acquisition of 100% Farmacias Farmacon, a regional drugstore operator in the western Mexican states of Sinaloa, Sonora, Baja California and Baja California Sur with headquarters in the city of Culiacan, Sinaloa, at the acquisition date Farmacias Farmacon operated 215 stores; merger of 100% of PEMEX franchises in which FEMSA Comercio – Fuel Division has been providing operational and administrative services for gasoline service stations through agreements with third parties, using the commercial brand name “OXXO GAS”, at the acquisition date there were 227 OXXO GAS stations; acquisition of 100% of “Zimag”, supplier of logistics services in Mexico, with experience in warehousing, distribution and value added services over twelve cities in Mexico mainly in Mexico City, Monterrey, Guanajuato, Chihuahua, Merida and Tijuana; acquisition of 100% of Atlas Transportes e Logistica, supplier of logistics services in Brazil, with experience in the service industry breakbulk logistics with a network of 49 operative centers and over 1,200 freight units through all regions in Brazil. Transactions related costs in the aggregate amounted of Ps. 39 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. 71) | Ps. 1,683 |
| Total non-current assets | 2,319 |
| Total assets | 4,002 |
| Total liabilities | (2,955) |
| Net assets acquired | 1,047 |
| Goodwill | 5,027 ^(a) |
| Total consideration transferred | Ps. 6,074 |

^(a) As a result of the purchase price allocation which was finalized in 2016, additional fair value adjustments from those recognized in 2015 have been recognized as follow: property, plant and equipment amounted of Ps. 130, trademark rights amounted of Ps. 453 and other liabilities amounted of Ps. 1,202.

FEMSA Comercio – Health Division and the logistic services business expect to recover the amount recorded as goodwill through synergies related to the ability to apply the operational processes of these business units. Farmacias Farmacon goodwill have been allocated to FEMSA Comercio – Health Division cash generating unit in Mexico and merger of PEMEX franchises goodwill have been allocated to FEMSA Comercio – Fuel Division cash generating unit in Mexico. Zimag and Atlas Transportes e Logistica goodwill have been allocated into logistic services business’s cash generating unit in Mexico and Brazil, respectively.

Selected income statement information of these acquisitions for the period from the acquisition date through December 31, 2015 is as follows:

| Income Statement | 2015 |
|----------------------------|------------|
| Total revenues | Ps. 20,262 |
| Income before income taxes | 176 |
| Net income | Ps. 120 |

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 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 associates and joint ventures accounting for using the equity method | 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 associates and joint ventures accounting for using the equity method | 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 |

Below are unaudited consolidated pro forma data of the acquisitions made on 2015 as if Grupo Socofar, Farmacias Farmacon, Zimag, Atlas Transportes e Logística and merger of PEMEX franchises were acquired on January 1, 2015:

| | Unaudited pro forma financial information for the –year ended December 31, 2015 |
|---|---|
| Total revenues | Ps. 340,600 |
| Income before income taxes and share of the profit of associates and joint ventures accounting for using the equity method | 27,485 |
| Net income | 25,004 |
| Basic net controlling interest income per share Series “B” | Ps. 0.97 |
| Basic net controlling interest income per share Series “D” | 1.21 |

4.2. Disposal

During 2017, the Company sold a portion of its investment in Heineken, 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 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

For the purposes of the statement of cash flows, the cash item 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, 2017 | December 31, 2016 |
|---------------------------------|----------------------|----------------------|
| Cash and bank balances | Ps. 73,774 | Ps. 18,140 |
| Cash equivalents (see Note 3.5) | 23,170 | 25,497 |
| | Ps. 96,944 | Ps. 43,637 |

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

Note 6. Investments

As of December 31, 2017 and 2016 investments are classified as held-to maturity, the carrying value of the investments is similar to their fair value. The following is a detail of held-to maturity investments:

| <i>Held-to Maturity</i> ⁽¹⁾ | 2017 | 2016 |
|--|-----------|---------|
| Government debt securities | | |
| Acquisition cost | Ps. 1,934 | Ps. - |
| Accrued interest | - | - |
| Amortized cost | 1,934 | - |
| Corporate debt securities | | |
| Acquisition cost | 222 | 118 |
| Accrued interest | 4 | 2 |
| Amortized cost | 226 | 120 |
| Total investments | Ps. 2,160 | Ps. 120 |

⁽¹⁾ Denominated in dollars at a fixed interest rate.

Note 7. Accounts Receivable, Net

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Trade receivables | Ps. 26,856 | Ps. 22,177 |
| Allowance for doubtful accounts | (1,375) | (1,193) |
| The Coca-Cola Company (see Note 14) | 2,054 | 1,857 |
| Loans to employees | 128 | 229 |
| Other related parties | - | 254 |
| Heineken (see Note 14) | 999 | 1,041 |
| Former shareholders of Vonpar (see Note 14) | 1,219 | - |
| Others | 2,435 | 1,857 |
| | Ps. 32,316 | Ps. 26,222 |

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 doubtful accounts.

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.

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

Aging of past due but not impaired (days outstanding)

| | | December 31, 2017 | | December 31, 2016 |
|--------------|------------|----------------------|------------|----------------------|
| 60-90 days | Ps. | 599 | Ps. | 610 |
| 90-120 days | | 269 | | 216 |
| 120+ days | | 1,206 | | 1,539 |
| Total | Ps. | 2,074 | Ps. | 2,365 |

7.2 Changes in the allowance for doubtful accounts

| | | 2017 | | 2016 | | 2015 |
|--|------------|--------------|------------|--------------|------------|------------|
| Opening balance | Ps. | 1,193 | Ps. | 849 | Ps. | 456 |
| Allowance for the year | | 530 | | 467 | | 167 |
| Charges and write-offs of uncollectible accounts | | (400) | | (418) | | (99) |
| Addition from business combinations | | 86 | | 94 | | 401 |
| Effects of changes in foreign exchange rates | | (32) | | 201 | | (76) |
| Venezuela deconsolidation effect | | (2) | | - | | - |
| Ending balance | Ps. | 1,375 | Ps. | 1,193 | Ps. | 849 |

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, 2017, 2016 and 2015 contributions due were Ps. 4,023, Ps. 4,518 and Ps. 3,749, respectively.

Note 8. Inventories

| | | December 31, 2017 | | December 31, 2016 |
|------------------------|------------|----------------------|------------|----------------------|
| Finished products | Ps. | 25,374 | Ps. | 22,709 |
| Raw materials | | 5,194 | | 5,156 |
| Spare parts | | 2,102 | | 2,401 |
| Work in process | | 198 | | 144 |
| Inventories in transit | | 1,437 | | 1,188 |
| Other | | 535 | | 334 |
| | Ps. | 34,840 | Ps. | 31,932 |

For the years ended at 2017, 2016 and 2015, the Company recognized write-downs of its inventories for Ps. 308, Ps. 1,832 and Ps. 1,290 to net realizable value, respectively.

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

| | | 2017 | | 2016 | | 2015 |
|---|------------|----------------|------------|----------------|------------|----------------|
| Changes in inventories of finished goods and work in progress | Ps. | 196,547 | Ps. | 172,554 | Ps. | 132,835 |
| Raw materials and consumables used | | 85,568 | | 63,285 | | 53,514 |
| Total | Ps. | 282,115 | Ps. | 235,839 | Ps. | 186,349 |

Note 9. Other Current Assets and Other Current Financial Assets

9.1 Other current assets

| | December 31, 2017 | December 31, 2016 |
|---------------------------|----------------------|----------------------|
| Prepaid expenses | Ps. 2,425 | Ps. 3,784 |
| Agreements with customers | 192 | 179 |
| Short-term licenses | 224 | 112 |
| Other | 47 | 34 |
| | Ps. 2,888 | Ps. 4,109 |

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

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Advances for inventories | Ps. 1,260 | Ps. 2,734 |
| Advertising and promotional expenses paid in advance | 370 | 171 |
| Advances to service suppliers | 268 | 466 |
| Prepaid leases | 218 | 164 |
| Prepaid insurance | 103 | 104 |
| Others | 206 | 145 |
| | Ps. 2,425 | Ps. 3,784 |

Advertising and promotional expenses recorded in the consolidated income statement for the years ended December 31, 2017, 2016 and 2015 amounted to Ps. 6,236, Ps. 6,578 and Ps. 4,613, respectively.

9.2 Other current financial assets

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Restricted cash | Ps. 504 | Ps. 774 |
| Derivative financial instruments (see Note 20) | 233 | 1,917 |
| Short term note receivable ⁽¹⁾ | 19 | 14 |
| | Ps. 756 | Ps. 2,705 |

⁽¹⁾ The carrying value approximates its fair value as of December 31, 2017 and 2016.

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, 2017 and 2016, the carrying of restricted cash pledged were:

| | December 31, 2017 | December 31, 2016 |
|---------------------|----------------------|----------------------|
| Venezuelan bolivars | Ps. - | Ps. 183 |
| Brazilian reais | 65 | 73 |
| Colombian pesos | 439 | 518 |
| | Ps. 504 | Ps. 774 |

During 2016 due to a jurisdictional order with the municipal sewage system services, the Colombian authorities withheld all the cash that Coca-Cola FEMSA has in the bank account, the total amount of which was reclassified as a restricted cash according with the Company's accounting policy.

Note 10. Investments in Associates and Joint Ventures

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

| Investee | Principal Activity | Place of Incorporation | Ownership Percentage | | Carrying Amount | |
|---|---------------------------|------------------------|----------------------|-------------------|-------------------|-------------------|
| | | | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| Heineken ^{(1) (2)} | Beverages | The Netherlands | 14.8% | 20.0% | Ps. 83,720 | Ps. 105,268 |
| Coca-Cola FEMSA: | | | | | | |
| Joint ventures: | | | | | | |
| Compañía Panameña de Bebidas, S.A.P.I. de C.V. | Beverages | Panama | 50.0% | 50.0% | 2,036 | 1,911 |
| Dispensadoras de Café, S.A.P.I. de C.V. | Services | Mexico | 50.0% | 50.0% | 153 | 145 |
| Estancia Hidromineral Itabirito, L.T.D.A | Bottling and distribution | Brazil | - | 50.0% | - | 96 |
| Coca-Cola FEMSA Philippines, Inc. ("CCFPI") ⁽⁴⁾ | Bottling | Philippines | - | 51.0% | - | 11,460 |
| Fountain Agua Mineral, L.T.D.A | Beverages | Brazil | 50.0% | 50.0% | 784 | 765 |
| Associates: | | | | | | |
| Promotora Industrial Azucarera, S.A. de C.V. ("PIASA") | Sugar production | Mexico | 36.4% | 36.4% | 2,933 | 2,657 |
| Industria Envasadora de Queretaro, S.A. de C.V. ("IEQSA") | Canned bottling | Mexico | 26.5% | 26.5% | 177 | 177 |
| Industria Mexicana de Reciclaje, S.A. de C.V. ("IMER") | Recycling | Mexico | 35.0% | 35.0% | 121 | 100 |
| Jugos del Valle, S.A.P.I. de C.V. | Beverages | Mexico | 26.3% | 26.3% | 1,560 | 1,574 |
| KSP Participações, L.T.D.A. | Beverages | Brazil | 38.7% | 38.7% | 117 | 126 |
| Leao Alimentos e Bebidas, L.T.D.A. | Beverages | Brazil | 24.7% | 27.7% | 3,001 | 3,282 |
| UBI 3 Participações Ltda (Ades) | Beverages | Brazil | 26.0% | - | 391 | - |
| Other investments in Coca-Cola FEMSA's companies | Various | Various | Various | Various | 228 | 64 |
| FEMSA Comercio: | | | | | | |
| Café del Pacifico, S.A.P.I. de C.V. (Caffenio) ⁽¹⁾ | Coffee | Mexico | 40.0% | 40.0% | 539 | 493 |
| Other investments ^{(1) (3)} | Various | Various | Various | Various | 338 | 482 |
| | | | | | Ps. 96,098 | Ps. 128,601 |

⁽¹⁾ Associate.

⁽²⁾ As of December 31, 2017 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 and as of December 31, 2016, comprised of 12.53% of Heineken, N.V. and 14.94% of Heineken Holding, N.V., which represented an economic interest of 20% in Heineken. 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.

⁽³⁾ Joint ventures.

⁽⁴⁾ See Note 4.1.2

As mentioned in Note 4, in December 2016, Coca-Cola FEMSA through its subsidiary Spal, completed the acquisition of 100% of Vonpar. As part of this acquisition Spal increased its equity interest by 3.36% in Leao Alimentos e Bebidas, LTDA.

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 2017 Coca-Cola FEMSA made capital contributions to Compañía Panameña de Bebidas, S.A.P.I. de C.V. and Promotora Industrial Azucarera, S.A. de C.V. in the amounts of Ps. 349 and Ps. 182, respectively, and there were no changes in the ownership percentage as a result of capital contributions made by the other shareholders. On June 25, 2017, the Coca-Cola FEMSA through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. sold 3.05% of their participation in Leao Alimentos e Bebidas, LTDA 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 this transaction did not generated any cash flow.

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

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

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

As disclosed in Note 4.1.1, commencing on February 1, 2017, the Coca-Cola FEMSA started consolidating CCFPI's financial results in its financial statements.

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. 7,847, Ps. 6,342, and Ps. 5,879 net of taxes based on its economic interest in Heineken for the years ended December 31, 2017, 2016 and 2015, respectively. The economic interest for the year 2017 was 20% for the first eight months and 14.8% for the last four months and 20% for the years 2016 and 2015. The Company's share of the net income attributable to equity holders of Heineken exclusive of amortization of adjustments amounted to Ps. 7,656 (€ 357 million), Ps. 6,430 (€ 308 million) and Ps. 6,567 (€ 378 million), for the years ended December 31, 2017, 2016 and 2015, respectively. Summarized financial information in respect of the associate Heineken accounted for under the equity method is set out below.

| | December 31, 2017 | | December 31, 2016 | |
|---|--------------------|--------------------|--------------------|--------------------|
| | Million of Peso | Million of Euro | Million of Peso | Million of Euro |
| Total current assets | Ps. 194,429 | € 8,248 | Ps. 177,176 | € 8,137 |
| Total non-current assets | 772,861 | 32,786 | 679,004 | 31,184 |
| Total current liabilities | 246,525 | 10,458 | 226,385 | 10,397 |
| Total non-current liabilities | 378,463 | 16,055 | 312,480 | 14,351 |
| Total equity | 342,302 | 14,521 | 317,315 | 14,573 |
| Net income attributable to equity holders of Heineken | 314,015 | 13,321 | 288,246 | 13,238 |
| Total revenue and other income | Ps. 499,818 | € 22,029 | Ps. 427,019 | € 20,838 |
| Total cost and expenses | 423,764 | 18,677 | 370,563 | 18,083 |
| Net income | Ps. 48,850 | € 2,153 | Ps. 35,636 | € 1,739 |
| Net income attributable to equity holders of Heineken | 43,903 | 1,935 | 31,558 | 1,540 |
| Other comprehensive income | (26,524) | (1,169) | (19,037) | (929) |
| Total comprehensive income | Ps. 22,326 | € 984 | Ps. 16,599 | € 810 |
| Total comprehensive income attributable to equity holders of Heineken | 19,989 | 881 | 13,525 | 660 |

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

| | December 31, 2017 | | December 31, 2016 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | Million of Peso | Million of Euro | Million of Peso | Million of Euro |
| Equity attributable to equity holders of Heineken | Ps. 314,018 | €. 13,321 | Ps. 288,090 | €. 13,238 |
| Economic ownership percentage | 14.76% | 14.76% | 20% | 20% |
| Investment in Heineken exclusive of goodwill and others adjustments | Ps. 46,349 | €. 1,966 | Ps. 57,618 | €. 2,648 |
| Effects of fair value determined by Purchase Price Allocation | 16,610 | 705 | 21,495 | 988 |
| Goodwill | 20,761 | 881 | 26,116 | 1,200 |
| Investment in Heineken | Ps. 83,720 | €. 3,552 | Ps. 105,229 | €. 4,836 |

As of December 31, 2017 and 2016, the fair value of Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 14.8% and 20% of its outstanding shares amounted to Ps. 141,693 (€. 6,011 million) and Ps. 173,857 (€. 7,989 million) based on quoted market prices of those dates. As of February 27, 2017, issuance date of these consolidated financial statements, fair value amounted to €. 5,938 million.

During the years ended December 31, 2017, 2016 and 2015, the Company received dividends distributions from Heineken, amounting to Ps. 3,250, Ps. 3,263 and Ps. 2,343, respectively.

For the years ended December 31, 2017, 2016 and 2015 the total net income corresponding to the immaterial associates of Coca-Cola FEMSA was Ps. 235, Ps. 31 and Ps. 185, respectively.

For the years ended December 31, 2017, 2016 and 2015 the total net income (loss) corresponding to the immaterial joint ventures of Coca-Cola FEMSA was Ps. (175), Ps. 116 and Ps. (30), respectively.

The Company's share of other comprehensive income from equity investees, net of taxes for the year ended December 31, 2017, 2016 and 2015 are as follows:

| | 2017 | 2016 | 2015 |
|---|--------------------|--------------------|----------------|
| Items that may be reclassified to consolidated net income: | | | |
| Valuation of the effective portion of derivative financial instruments | Ps. 252 | Ps. 614 | Ps. 213 |
| Exchange differences on translating foreign operations | (2,265) | (2,842) | 69 |
| Total | Ps. (2,013) | Ps. (2,228) | Ps. 282 |
| Items that may not be reclassified to consolidated net income in subsequent periods: | | | |
| Remeasurements of the net defined benefit liability | Ps. 69 | Ps. (1,004) | Ps. 169 |

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, 2015 | Ps. 7,211 | Ps. 15,791 | Ps. 50,519 | Ps. 12,466 | Ps. 9,402 | Ps. 7,872 | Ps. 12,250 | Ps. 1,075 | Ps. 116,586 |
| Additions | 675 | 1,688 | 5,122 | 851 | 1,655 | 6,942 | 41 | 511 | 17,485 |
| Additions from business acquisitions | 30 | 251 | 870 | - | - | - | 862 | - | 2,013 |
| Transfer of completed projects in progress | 59 | 1,289 | 3,251 | 1,168 | 662 | (8,143) | 1,714 | - | - |
| Transfer (to)/from assets classified as held for sale | - | - | (10) | - | - | - | - | - | (10) |
| Disposals | (56) | (219) | (2,694) | (972) | (103) | - | (356) | (40) | (4,440) |
| Effects of changes in foreign exchange rates | (595) | (1,352) | (4,330) | (1,216) | (266) | (1,004) | (23) | (848) | (9,634) |
| Changes in value on the recognition of inflation effects | 245 | 503 | 957 | 295 | 301 | 91 | - | 229 | 2,621 |
| Capitalization of borrowing costs | - | - | - | - | - | 57 | - | - | 57 |
| December 31, 2015 | 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 |
| 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 |
| 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 |
| Changes in fair value of past acquisitions | - | - | - | - | - | - | - | - | - |
| 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) |
| 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 |

| Accumulated Depreciation | Investments in Fixed Assets in Progress | | | | | | | | | | Total |
|--|---|-------------|-------------------------|-------------------------|--------------------|------------------------|-----------|--------------|--|--|-------|
| | Land | Buildings | Machinery and Equipment | Refrigeration Equipment | Returnable Bottles | Leasehold Improvements | Other | | | | |
| Accumulated Depreciation as of January 1, 2015 | Ps. - | Ps. (3,726) | Ps. (21,382) | Ps. (6,644) | Ps. (5,205) | Ps. (3,614) | Ps. (386) | Ps. (40,957) | | | |
| Depreciation for the year | - | (515) | (4,864) | (1,184) | (1,984) | (1,071) | (143) | (9,761) | | | |
| Disposals | - | 172 | 2,001 | 946 | 80 | 270 | 2 | 3,471 | | | |
| Effects of changes in foreign exchange rates | - | 498 | 2,222 | 1,044 | 167 | 22 | 212 | 4,165 | | | |
| Changes in value on the recognition of inflation effects | - | (187) | (426) | (166) | (436) | 1 | (86) | (1,300) | | | |
| Accumulated Depreciation as of December 31, 2015 | Ps. - | Ps. (3,758) | Ps. (22,449) | Ps. (6,004) | Ps. (7,378) | Ps. (4,392) | Ps. (401) | Ps. (44,382) | | | |
| Accumulated Depreciation as of January 1, 2016 | Ps. - | Ps. (3,758) | Ps. (22,449) | Ps. (6,004) | Ps. (7,378) | 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. (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. (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. (6,956) | Ps. (498) | Ps. (70,232) | | | |

| Carrying Amount | Investments in Fixed Assets in Progress | | | | | | | | | | Total |
|-------------------------|---|------------|-------------------------|-------------------------|--------------------|------------------------|------------|-----------|-------------|--|-------|
| | Land | Buildings | Machinery and Equipment | Refrigeration Equipment | Returnable Bottles | Leasehold Improvements | Other | | | | |
| As of December 31, 2015 | Ps. 7,569 | Ps. 14,193 | Ps. 31,236 | Ps. 6,588 | Ps. 4,273 | Ps. 5,815 | Ps. 10,096 | Ps. 526 | Ps. 80,296 | | |
| 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 | | |

During the years ended December 31, 2016 and 2015 the Company capitalized Ps. 61 and Ps. 57, respectively of borrowing costs in relation to Ps. 99 and Ps. 993 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were 4.5% and 4.1%, respectively. For the year ended December 31, 2017, the Company did not recognize any capitalization of borrowing costs.

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

| | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|
| Interest expense, interest income and net foreign exchange | Ps. 4,602 | Ps. 7,285 | Ps. 8,031 |
| Amount capitalized ^(a) | - | 69 | 85 |
| Net amount in consolidated income statements | Ps. 4,602 | Ps. 7,216 | Ps. 7,946 |

^(a) 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

| Cost | 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, 2015 | Ps. 70,263 | Ps. 25,174 | Ps. 1,514 | Ps. 63 | Ps. 97,014 | Ps. 3,225 | Ps. 1,554 | Ps. 1,027 | Ps. 671 | Ps. 6,477 | Ps. 103,491 |
| Purchases | - | - | - | - | - | 480 | 458 | 198 | 83 | 1,219 | 1,219 |
| Acquisitions from business combinations | - | 11,369 | - | 1,238 | 12,607 | 328 | - | - | 199 | 527 | 13,134 |
| Transfer of completed development systems | - | - | - | - | - | 1,085 | (1,085) | - | - | - | - |
| Disposals | - | - | - | - | - | (150) | (242) | - | (77) | (469) | (469) |
| Effect of movements in exchange rates | (4,992) | (2,693) | (33) | (19) | (7,737) | (94) | (2) | - | (16) | (112) | (7,849) |
| Changes in value on the recognition of inflation effects | 1,121 | - | - | - | 1,121 | (12) | - | - | - | (12) | 1,109 |
| Capitalization of borrowing costs | - | - | - | - | - | 28 | - | - | - | 28 | 28 |
| Cost as of December 31, 2015 | Ps. 66,392 | Ps. 33,850 | Ps. 1,481 | Ps. 1,282 | Ps. 103,005 | Ps. 4,890 | Ps. 683 | Ps. 1,225 | Ps. 860 | Ps. 7,658 | Ps. 110,663 |
| Cost as of January 1, 2016 | Ps. 66,392 | Ps. 33,850 | Ps. 1,481 | Ps. 1,282 | Ps. 103,005 | Ps. 4,890 | Ps. 683 | Ps. 1,225 | Ps. 860 | Ps. 7,658 | Ps. 110,663 |
| Purchases | - | - | 3 | - | 3 | 345 | 609 | 191 | 146 | 1,291 | 1,296 |
| 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 | 2,372 |
| 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. 2,187 | Ps. 145,607 | Ps. 6,124 | Ps. 798 | Ps. 1,416 | Ps. 2,338 | Ps. 10,676 | Ps. 156,283 |
| Cost as of January 1, 2017 | Ps. 85,338 | Ps. 51,857 | Ps. 6,225 | Ps. 2,187 | Ps. 145,607 | Ps. 6,124 | Ps. 798 | Ps. 1,416 | Ps. 2,338 | Ps. 10,676 | Ps. 156,283 |
| Purchases | 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 | - | - | - | - | - | - | - | - | (139) | (139) | (139) |
| Cost as of December 31, 2017 | Ps. 92,647 | Ps. 43,449 | Ps. 7,185 | Ps. 2,293 | Ps. 145,574 | Ps. 7,103 | Ps. 1,291 | Ps. 1,637 | Ps. 3,843 | Ps. 13,874 | Ps. 159,448 |

| 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, 2015 | Ps. - | Ps. - | Ps. - | Ps. (36) | Ps. (36) | Ps. (1,343) | Ps. - | Ps. (235) | Ps. (350) | Ps. (1,928) | Ps. (1,964) |
| Amortization expense | - | - | - | - | - | (461) | - | (67) | (76) | (604) | (604) |
| Disposals | - | - | - | - | - | 126 | - | - | 42 | 168 | 168 |
| Effect of movements in exchange rates | - | - | - | - | - | 59 | - | - | 19 | 78 | 78 |
| Amortization as of December 31, 2015 | Ps. - | Ps. - | Ps. - | Ps. (36) | Ps. (36) | Ps. (1,619) | Ps. - | Ps. (302) | Ps. (365) | Ps. (2,286) | Ps. (2,322) |
| Amortization as of January 1, 2016 | Ps. - | Ps. - | Ps. - | Ps. (36) | Ps. (36) | Ps. (1,619) | Ps. - | Ps. (302) | Ps. (365) | Ps. (2,286) | Ps. (2,322) |
| 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. (36) | Ps. (36) | Ps. (1,937) | Ps. - | Ps. (376) | Ps. (666) | Ps. (2,979) | Ps. (3,015) |
| Amortization as of January 1, 2017 | Ps. - | Ps. - | Ps. - | Ps. (36) | Ps. (36) | Ps. (1,937) | Ps. - | Ps. (376) | Ps. (666) | Ps. (2,979) | Ps. (3,015) |
| Amortization expense | - | - | - | - | - | (961) | - | (81) | (217) | (1,259) | (1,259) |
| Impairment losses | - | - | - | - | - | (110) | - | - | - | (110) | (110) |
| Disposals | - | - | - | - | - | - | - | - | - | - | - |
| Venezuela deconsolidation effect | - | - | - | - | - | - | - | - | (120) | (120) | (120) |
| Venezuela impairment | (745) | - | - | - | (745) | - | - | - | - | - | (745) |
| Effect of movements in exchange rates | - | - | - | - | - | (254) | - | - | 148 | (106) | (106) |
| Amortization as of December 31, 2017 | Ps. (745) | Ps. - | Ps. - | Ps. (36) | Ps. (781) | Ps. (3,262) | Ps. - | Ps. (457) | Ps. (855) | Ps. (4,574) | Ps. (5,354) |
| Carrying Amount | | | | | | | | | | | |
| As of December 31, 2015 | Ps. 66,392 | Ps. 33,850 | Ps. 1,481 | Ps. 1,246 | Ps. 102,969 | Ps. 3,271 | Ps. 683 | Ps. 923 | Ps. 495 | Ps. 5,372 | Ps. 108,341 |
| 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. 91,901 | 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 |

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

| | 2017 | 2016 | 2015 |
|-------------------------|-----------|-----------|---------|
| Cost of goods sold | Ps. 132 | Ps. 82 | Ps. 61 |
| Administrative expenses | 627 | 727 | 407 |
| Selling expenses | 500 | 207 | 136 |
| | Ps. 1,259 | Ps. 1,016 | Ps. 604 |

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 CGU.

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

| | December 31, 2017 | December 31, 2016 |
|--------------|----------------------|----------------------|
| Mexico | Ps. 56,352 | Ps. 55,137 |
| Guatemala | 488 | 499 |
| Nicaragua | 484 | 532 |
| Costa Rica | 1,520 | 1,622 |
| Panama | 1,185 | 1,241 |
| Colombia | 5,824 | 5,988 |
| Venezuela | - | 1,225 |
| Brazil | 48,345 | 52,609 |
| Argentina | 50 | 67 |
| Philippines | 3,882 | - |
| Total | Ps. 118,130 | Ps. 118,920 |

Goodwill and distribution rights are tested for impairments annually.

The recoverable amounts are based on value in use. The value in use of CGUs is determined based on the method of discounted cash flows. The key assumptions used in projecting cash flows are: volume, expected annual long-term inflation, and the weighted average cost of capital (“WACC”) used to discount the projected 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 would assess in the market for credit to the CGUs. 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 Weighted Average Cost of Capital (“WACC”) was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjustments.

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% |
| Philippines | 9.7% | 5.9% | 3.6% | 3.4% |

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

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

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, 2017, 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 | +0.16% | -1.0% | Passes by 5.2x |
| Colombia | +0.19% | -1.0% | Passes by 2.5x |
| Costa Rica | +0.64% | -1.0% | Passes by 2.3x |
| Guatemala | +1.52% | -1.0% | Passes by 7.4x |
| Nicaragua | +4.27% | -1.0% | Passes by 3.1x |
| Panama | +0.12% | -1.0% | Passes by 12.1x |
| Argentina | +4.39% | -1.0% | Passes by 299x |
| Brazil | +0.26% | -1.0% | Passes by 3.6x |
| Philippines | +0.46% | -1.0% | Passes by 2.1x |

⁽¹⁾ Compound Annual Growth Rate (CAGR).

FEMSA Comercio 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. FEMSA Comercio has integrated its cash generating units as follow: Retail Division and Health Division are integrated as Mexico, for each of them and Fuel Division includes only Mexico.

As of December 31, 2017 in 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.

Goodwill is tested for impairments annually.

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, FEMSA Comercio prepares its estimates based on the current situation of each of the CGUs or group of CGUs.

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

The estimated discount rates to perform the IAS 36 “Impairment of assets”, impairment test for each CGU or group of CGUs consider market participants’ assumptions. Market participants were selected taking into consideration the size, operations and characteristics of the businesses that are similar to those of FEMSA Comercio.

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 FEMSA Comercio 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 Coca-Cola FEMSA is obliged to service, which is equivalent to the cost of debt based on the conditions that a creditor would assess in the market. Segment-specific risk is incorporated by applying beta factors which are evaluated annually based on publicly available market data.

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

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

- Cash flows were projected based on actual operating results and the five-year business plan. FEMSA Comercio 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 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, 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 (Health Division) | 6.9% | 6.2% | 3% | 2% |

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

| CGU | Pre-tax WACC | Post-tax WACC | Expected Annual Long-Term Inflation 2017-2026 | Expected Volume Growth Rates 2017-2026 |
|---------------------------------|--------------|---------------|---|--|
| South America (Health Division) | 7.5% | 7.3% | 3% | 13% |

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). FEMSA Comercio consistently applied its methodology to determine CGU specific WACC’s to perform its annual impairment testing.

Sensitivity to Changes in Assumptions

At December 31, 2017, FEMSA Comercio 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 Group | Change in WACC | Change in Sales Growth CAGR ⁽¹⁾ | Effect on Valuation |
|------------------------------------|----------------|--|---------------------|
| Health Division (South America) | +0.3% | -1.0% | Passes by 7.03x |

⁽¹⁾ Compound Annual Growth Rate.

Note 13. Other Assets and Other Financial Assets

13.1 Other assets

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Agreement with customers | Ps. 849 | Ps. 793 |
| Long term prepaid advertising expenses | 298 | 392 |
| Guarantee deposits ⁽¹⁾ | 3,491 | 3,757 |
| Prepaid bonuses | 151 | 103 |
| Advances to acquire property, plant and equipment | 266 | 173 |
| Recoverable taxes | 1,674 | 1,653 |
| Indemnifiable assets from business combinations ⁽²⁾ | 4,510 | 8,081 |
| Recoverable taxes from business combinations | 458 | - |
| Others | 828 | 1,230 |
| | Ps. 12,525 | Ps. 16,182 |

⁽¹⁾ As it is customary in Brazil, the Company is required to collateralize 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.

13.2 Other financial assets

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Non-current accounts receivable | Ps. 733 | Ps. 511 |
| Derivative financial instruments (see Note 20) | 10,137 | 14,729 |
| Investments in other entities ⁽¹⁾ | 1,039 | - |
| Others | 164 | 105 |
| | Ps. 12,073 | Ps. 15,345 |

⁽¹⁾ Investment in Venezuela subsidiary, Coca-Cola FEMSA determined that the deteriorating conditions in Venezuela had led the Company to no longer meet the accounting criteria to consolidate its Venezuelan subsidiary, the impacts of such deconsolidation are discussed in Note 3.3 above.

As of December 31, 2017 and 2016, the fair value of long term accounts receivable amounted to Ps. 707 and Ps. 541, 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, 2017 | | December 31, 2016 | |
|---|----------------------|-------|----------------------|-------|
| Balances | | | | |
| Due from The Coca-Cola Company (see Note 7) ⁽¹⁾⁽⁸⁾ | Ps. | 2,054 | Ps. | 1,857 |
| Balance with BBVA Bancomer, S.A. de C.V. ⁽²⁾ | | 1,496 | | 2,535 |
| Balance with JP Morgan Chase & Co. ⁽²⁾ | | 6,907 | | - |
| Balance with Banco Mercantil del Norte S.A. Grupo Industrial Saltillo S.A.B. de C.V. ⁽³⁾ | | 806 | | - |
| Due from Heineken ⁽¹⁾⁽³⁾⁽⁷⁾ | | 141 | | 128 |
| Former shareholders of Vonpar | | 2,673 | | 2,622 |
| Other receivables ⁽¹⁾⁽⁴⁾ | | 1,219 | | - |
| Due to The Coca-Cola Company ⁽⁵⁾⁽⁶⁾⁽⁸⁾ | Ps. | 209 | Ps. | 237 |
| Due to BBVA Bancomer, S.A. de C.V. ⁽⁵⁾ | | 3,731 | | 4,454 |
| Due to Caffenio ⁽⁶⁾⁽⁷⁾ | | 352 | | 395 |
| Due to Heineken ⁽⁶⁾⁽⁷⁾ | | 293 | | 76 |
| Other payables ⁽⁶⁾ | | 4,403 | | 4,458 |
| | | 1,508 | | 1,047 |

⁽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.

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

| Transactions | 2017 | | 2016 | | 2015 | |
|--|------|--------|------|--------|------|--------|
| Income: | | | | | | |
| Services to Heineken ⁽¹⁾ | Ps. | 3,570 | Ps. | 3,153 | Ps. | 3,396 |
| Logistic services to Grupo Industrial Saltillo, S.A. de C.V. ⁽³⁾ | | 457 | | 427 | | 407 |
| Logistic services to Jugos del Valle ⁽¹⁾ | | 587 | | 555 | | 564 |
| Other revenues from related parties | | 620 | | 857 | | 644 |
| Expenses: | | | | | | |
| Purchase of concentrate from The Coca-Cola Company ⁽²⁾ | Ps. | 33,898 | Ps. | 38,146 | Ps. | 27,330 |
| Purchases of raw material and beer from Heineken ⁽¹⁾ | | 24,942 | | 16,436 | | 14,467 |
| Purchase of coffee from Caffenio ⁽¹⁾ | | 2,397 | | 2,064 | | 1,774 |
| Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. ⁽³⁾ | | 4,802 | | 4,184 | | 3,740 |
| Advertisement expense paid to The Coca-Cola Company ⁽²⁾⁽⁴⁾ | | 1,392 | | 2,354 | | 1,316 |
| Purchase of juices from Jugos del Valle, S.A.P.I. de C.V. ⁽¹⁾ | | 3,905 | | 3,310 | | 3,082 |
| Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V. ⁽¹⁾ | | 1,885 | | 1,765 | | 1,236 |
| Interest expense and fees paid to BBVA Bancomer, S.A. de C.V. ⁽³⁾ | | 40 | | 26 | | 68 |
| Purchase of sugar from Beta San Miguel ⁽³⁾ | | 1,827 | | 1,349 | | 1,264 |
| Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V. ⁽³⁾ | | 839 | | 759 | | 587 |
| Purchase of canned products from IEQSA ⁽¹⁾ | | 804 | | 798 | | 731 |
| Purchase of inventories to Leao Alimentos e Bebidas, L.T.D.A. ⁽¹⁾ | | 4,010 | | 3,448 | | 3,359 |
| Advertising paid to Grupo Televisa, S.A.B. ⁽³⁾ | | 107 | | 193 | | 175 |
| Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. ⁽³⁾ | | 32 | | 63 | | 58 |
| Donations to Fundación FEMSA, A.C. ⁽³⁾ | | 23 | | 62 | | 30 |
| Donations to Difusión y Fomento Cultural, A.C. ⁽³⁾ | | 44 | | 49 | | 59 |
| Interest expense paid to The Coca-Cola Company ⁽²⁾ | | - | | - | | 1 |
| Other expenses with related parties | | 751 | | 618 | | 470 |

⁽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. 4,023, Ps. 4,518 and Ps. 3,749, for the years ended in 2017, 2016 and 2015, respectively.

Commitments with related parties

| Related Party | Commitment | Conditions |
|---------------|------------|--|
| Heineken | 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 1 st , 2010 to Jun 30, 2020. |

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

| | 2017 | 2016 | 2015 |
|-----------------------------------|-----------|-----------|-----------|
| Short-term employee benefits paid | Ps. 1,699 | Ps. 1,510 | Ps. 1,162 |
| Postemployment benefits | 48 | 39 | 42 |
| Termination benefits | 74 | 192 | 63 |
| Share based payments | 351 | 468 | 463 |

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, 2017 and for each of the three years ended on December 31, 2017, assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

| Balances | Assets | | Liabilities | |
|-------------------------|------------|-----------|-------------|-------------|
| | Short-Term | Long-Term | Short-Term | Long-Term |
| 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 |
| As of December 31, 2016 | | | | |
| U.S. dollars | Ps. 17,796 | Ps. 696 | Ps. 4,540 | Ps. 88,611 |
| Euros | 246 | - | 345 | 21,774 |
| Other currencies | 5 | 1,581 | 246 | 1,190 |
| Total | Ps. 18,047 | Ps. 2,277 | Ps. 5,131 | Ps. 111,575 |

| Transactions | Revenues | Other Operating Revenues | Purchases of Raw Materials | Interest Expense | Consulting Fees | Asset Acquisitions | Other |
|--------------------------------------|-----------|--------------------------|----------------------------|------------------|-----------------|--------------------|-----------|
| | | | | | | | |
| 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 |
| For the year ended December 31, 2015 | | | | | | | |
| U.S. dollars | Ps. 1,891 | Ps. 472 | Ps. 11,710 | Ps. 1,973 | Ps. 34 | Ps. 75 | Ps. 2,035 |
| Euros | - | 1 | 2 | - | 2 | - | 37 |
| Other currencies | 20 | - | - | - | - | - | 204 |
| Total | Ps. 1,911 | Ps. 473 | Ps. 11,712 | Ps. 1,973 | Ps. 36 | Ps. 75 | Ps. 2,276 |

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:

| | 2017 | December 31, 2016 | February 27, 2018 |
|-------------|---------|----------------------|----------------------|
| U.S. dollar | 19.7354 | 20.6640 | 18.5659 |
| Euro | 23.5729 | 21.7741 | 21.1430 |

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, 2017 | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|----------------------|
| Financial: | | | |
| Discount rate used to calculate the defined benefit obligation | 7.60% | 7.60% | 7.00% |
| Salary increase | 4.50% | 4.50% | 4.50% |
| Future pension increases | 3.50% | 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 |
|--------------|------------------------------------|-------|-----------------------|-----|---|-----|---------|
| 2018 | Ps. | 611 | Ps. | 53 | Ps. | 19 | Ps. 683 |
| 2019 | | 233 | | 52 | | 20 | 305 |
| 2020 | | 351 | | 50 | | 22 | 423 |
| 2021 | | 263 | | 48 | | 24 | 335 |
| 2022 | | 270 | | 47 | | 25 | 342 |
| 2023 to 2027 | | 2,115 | | 254 | | 158 | 2,527 |

16.2 Balances of the liabilities for employee benefits

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Pension and Retirement Plans: | | |
| Defined benefit obligation | Ps. 7,370 | Ps. 5,702 |
| Pension plan funds at fair value | (3,131) | (2,216) |
| Net defined benefit liability | Ps. 4,239 | Ps. 3,486 |
| Seniority Premiums: | | |
| Defined benefit obligation | Ps. 783 | Ps. 663 |
| Seniority premium plan funds at fair value | (109) | (102) |
| Net defined benefit liability | Ps. 674 | Ps. 561 |
| Postretirement Medical Services: | | |
| Defined benefit obligation | Ps. 524 | Ps. 460 |
| Medical services funds at fair value | (64) | (60) |
| Net defined benefit liability | Ps. 460 | Ps. 400 |
| Total employee benefits | Ps. 5,373 | Ps. 4,447 |

16.3 Trust assets

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

| Type of Instrument | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Fixed return: | | |
| Traded securities | 18% | 15% |
| Bank instruments | 5% | 4% |
| Federal government instruments of the respective countries | 62% | 63% |
| Variable return: | | |
| Publicly traded shares | 15% | 18% |
| | 100% | 100% |

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

In Mexico, the Income Tax Law requires that, in the case of private plans, certain notifications must be submitted to the authorities and a certain level of instruments must be invested in 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, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Debt: | | |
| Cementos Mexicanos, S.A.B. de C.V. | Ps. - | Ps. 7 |
| Grupo Televisa, S.A.B. de C.V. | 28 | 45 |
| Grupo Financiero Banorte, S.A.B. de C.V. | - | 7 |
| BBVA Bancomer S.A. de C.V. | 10 | - |
| El Puerto de Liverpool, S.A.B. de C.V. | 30 | 5 |
| Grupo Industrial Bimbo, S.A.B. de C. V. | 5 | 19 |
| Genera, S.A.B. de C.V. | - | 8 |
| Capital: | | |
| Grupo Industrial Bimbo, S.A.B. de C.V. | - | 6 |

During the years ended December 31, 2017, 2016 and 2015, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during the following fiscal year. The plan assets include securities of the Company in portfolio fund in amount of Ps. 114, as of December 31, 2016. There are no restrictions placed on the trustee's ability to sell those securities. As of December 31, 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, 2017 | | | | | | |
| Pension and retirement plans | Ps. 341 | Ps. 10 | Ps. (2) | Ps. 267 | Ps. 1,060 | |
| Seniority premiums | 106 | - | (1) | 41 | 46 | |
| Postretirement medical services | 24 | - | - | 30 | 184 | |
| Total | Ps. 471 | Ps. 10 | Ps. (3) | Ps. 338 | Ps. 1,290 | |
| December 31, 2016 | | | | | | |
| Pension and retirement plans | Ps. 245 | Ps. 45 | Ps. (61) | Ps. 224 | Ps. 1,102 | |
| Seniority premiums | 93 | - | - | 34 | 18 | |
| Postretirement medical services | 21 | - | - | 24 | 151 | |
| Total | Ps. 359 | Ps. 45 | Ps. (61) | Ps. 282 | Ps. 1,270 | |
| December 31, 2015 | | | | | | |
| Pension and retirement plans | Ps. 233 | Ps. 3 | Ps. (120) | Ps. 212 | Ps. 913 | |
| Seniority premiums | 88 | - | (9) | 32 | 39 | |
| Postretirement medical services | 16 | - | - | 23 | 119 | |
| Post-employment Venezuela | 6 | - | - | 9 | - | |
| Total | Ps. 343 | Ps. 3 | Ps. (129) | Ps. 276 | Ps. 1,071 | |

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

For the years ended December 31, 2017, 2016 and 2015, current service cost of Ps. 408, Ps. 359 and Ps. 343 has been included in the consolidated income statement as cost of goods sold, administrative and selling expenses.

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

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|----------------------|
| Amount accumulated in other comprehensive income as of the beginning of the period, net of tax | Ps. 966 | Ps. 810 | Ps. 942 |
| Actuarial losses arising from exchange rates | (2) | 123 | (12) |
| Remeasurements during the year, net of tax | 295 | 288 | (46) |
| Actuarial gains and (losses) arising from changes in financial assumptions | (367) | (255) | (74) |
| Amount accumulated in other comprehensive income as of the end of the period, net of tax | Ps. 892 | Ps. 966 | Ps. 810 |

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, 2017 | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|----------------------|
| Pension and Retirement Plans: | | | |
| Initial balance | Ps. 5,702 | Ps. 5,308 | Ps. 5,270 |
| Current service cost | 341 | 245 | 233 |
| Past service cost | 10 | 45 | 3 |
| Interest expense | 491 | 369 | 353 |
| Effect on curtailment | (2) | (61) | (120) |
| Remeasurements of the net defined benefit obligation | 263 | (67) | (154) |
| Foreign exchange loss (gain) | (79) | 150 | 39 |
| Benefits paid | (550) | (287) | (316) |
| Acquisitions | 1,194 | - | - |
| Ending balance | Ps. 7,370 | Ps. 5,702 | Ps. 5,308 |
| Seniority Premiums: | | | |
| Initial balance | Ps. 663 | Ps. 610 | Ps. 563 |
| Current service cost | 106 | 93 | 88 |
| Interest expense | 49 | 41 | 38 |
| Settlement | (1) | - | - |
| Effect on curtailment | - | - | (9) |
| Remeasurements of the net defined benefit obligation | 28 | (43) | (34) |
| Benefits paid | (68) | (55) | (45) |
| Acquisitions | 6 | 17 | 9 |
| Ending balance | Ps. 783 | Ps. 663 | Ps. 610 |
| Postretirement Medical Services: | | | |
| Initial balance | Ps. 460 | Ps. 404 | Ps. 338 |
| Current service cost | 24 | 22 | 16 |
| Interest expense | 34 | 27 | 26 |
| Remeasurements of the net defined benefit obligation | 32 | 30 | 44 |
| Benefits paid | (26) | (23) | (20) |
| Ending balance | Ps. 524 | Ps. 460 | Ps. 404 |
| Post-employment: | | | |
| Initial balance | | Ps. 135 | Ps. 194 |
| Current service cost | | - | 5 |
| Certain liability cost | | - | 73 |
| Reclassification to certain liability cost | | (135) | - |
| Foreign exchange (gain) | | - | (137) |
| Ending balance | | Ps. - | Ps. 135 |

16.6 Changes in the balance of plan assets

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|-------------------------------|----------------------|----------------------|----------------------|
| Total Plan Assets: | | | |
| Initial balance | Ps. 2,378 | Ps. 2,228 | Ps. 2,158 |
| Actual return on trust assets | 213 | 40 | 65 |
| Foreign exchange loss (gain) | 86 | 4 | 7 |
| Life annuities | 65 | 107 | 61 |
| Benefits paid | (136) | (1) | (63) |
| Acquisitions | 698 | - | - |
| Ending balance | Ps. 3,304 | Ps. 2,378 | Ps. 2,228 |

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

16.7 Variation in assumptions

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

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

The following table presents the amount of defined benefit plan expense and OCI impact in absolute terms of a variation of 0.5% in the assumptions on the net defined benefit liability associated with the Company's defined benefit plans. The sensitivity of this 0.5% 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:

| +0.5%: | 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 | Past 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. 322 | Ps. 9 | Ps. (2) | Ps. 264 | Ps. 1,289 | | | |
| Seniority premiums | 102 | - | (1) | 41 | 44 | | | |
| Postretirement medical services | 23 | - | - | 33 | 178 | | | |
| Post-employment | - | - | - | - | - | | | |
| Total | Ps. 447 | Ps. 9 | Ps. (3) | Ps. 338 | Ps. 1,511 | | | |
| Expected salary increase | | | | | | | | |
| Pension and retirement plans | Ps. 355 | Ps. 10 | Ps. (2) | Ps. 286 | Ps. 1,496 | | | |
| Seniority premiums | 112 | - | (1) | 43 | 42 | | | |
| Postretirement medical services | - | - | - | - | - | | | |
| Post-employment | - | - | - | - | - | | | |
| Total | Ps. 467 | Ps. 10 | Ps. (3) | Ps. 329 | Ps. 1,538 | | | |
| Assumed rate of increase in healthcare costs | | | | | | | | |
| Postretirement medical services | Ps. 26 | Ps. - | Ps. - | Ps. 33 | Ps. 265 | | | |

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

| -0.5%: | 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 | | Past 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. | 355 | Ps. | 10 | Ps. | (2) | Ps. | 268 | Ps. | 1,506 |
| Seniority premiums | | 111 | | - | | (1) | | 40 | | 46 |
| Postretirement medical services | | 26 | | - | | - | | 31 | | 267 |
| Post-employment | | - | | - | | - | | - | | - |
| Total | Ps. | 492 | Ps. | 10 | Ps. | (3) | Ps. | 339 | Ps. | 1,819 |
| Expected salary increase | | | | | | | | | | |
| Pension and retirement plans | Ps. | 323 | Ps. | 9 | Ps. | (2) | Ps. | 253 | Ps. | 1,291 |
| Seniority premiums | | 100 | | - | | (1) | | 38 | | 56 |
| Postretirement medical services | | - | | - | | - | | - | | - |
| Post-employment | | - | | - | | - | | - | | - |
| Total | Ps. | 423 | Ps. | 9 | Ps. | (3) | Ps. | 291 | Ps. | 1,347 |
| Assumed rate of increase in healthcare costs | | | | | | | | | | |
| Postretirement medical services | Ps. | 23 | Ps. | - | Ps. | - | Ps. | 28 | Ps. | 179 |

⁽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, 2017, 2016 and 2015, employee benefits expenses recognized in the consolidated income statements as cost of goods sold, administrative and selling expenses are as follows:

| | 2017 | 2016 | 2015 |
|--------------------------|-------------------|-------------------|-------------------|
| Wages and salaries | Ps. 53,056 | Ps. 39,459 | Ps. 39,459 |
| Social security costs | 9,860 | 6,114 | 6,114 |
| Employee profit sharing | 1,209 | 1,506 | 1,243 |
| Post employment benefits | 815 | 625 | 493 |
| Share-based payments | 351 | 468 | 463 |
| Termination benefits | 455 | 503 | 503 |
| | Ps. 65,746 | Ps. 48,675 | Ps. 48,275 |

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, 2017, 2016 and 2015, the compensation expense recorded in the consolidated income statement amounted to Ps. 351, Ps. 468 and Ps. 463, 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, 2017 and 2016, the number of shares held by the trust associated with the Company's share based payment plans is as follows:

| | Number of Shares | | | |
|---|------------------|-------------|-----------|-----------|
| | FEMSA UBD | | KOFL | |
| | 2017 | 2016 | 2017 | 2016 |
| Beginning balance | 3,625,171 | 4,246,792 | 1,068,327 | 1,160,311 |
| Shares acquired by the administrative trust to employees | 1,311,599 | 2,375,196 | 344,770 | 695,487 |
| Shares released from administrative trust to employees upon vesting | (1,991,561) | (2,996,817) | (477,198) | (787,471) |
| Forfeitures | - | - | - | - |
| Ending balance | 2,945,209 | 3,625,171 | 935,899 | 1,068,327 |

The fair value of the shares held by the trust as of the end of December 31, 2017 and 2016 was Ps. 673 and Ps. 712, respectively, based on quoted market prices of those dates.

Note 18. Bank Loans and Notes Payables

| (in millions of Mexican pesos) | At December 31, ⁽¹⁾ | | | | | 2023 and Thereafter | Carrying | Fair | Carrying |
|--------------------------------|--------------------------------|------------------|-------------------|------------------|---------------|------------------------|----------------------------------|----------------------------------|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | | Value at December 31, 2017 | Value at December 31, 2017 | Value at December 31, 2016 ⁽¹⁾ |
| Short-term debt: | | | | | | | | | |
| Fixed rate debt: | | | | | | | | | |
| Argentine pesos | | | | | | | | | |
| Bank loans | Ps. 106 | Ps. - | Ps. - | Ps. - | Ps. - | Ps. - | Ps. 106 | Ps. 107 | Ps. 644 |
| Interest rate | 22.4% | - | - | - | - | - | 22.4% | - | 32.0% |
| Chilean pesos | | | | | | | | | |
| Bank loans | 770 | - | - | - | - | - | 770 | 770 | 338 |
| Interest rate | 3.1% | - | - | - | - | - | 3.1% | - | 4.3% |
| U.S. dollars | | | | | | | | | |
| Bank loans | - | - | - | - | - | - | - | - | 206 |
| Interest rate | - | - | - | - | - | - | - | - | 3.4% |
| Variable rate debt: | | | | | | | | | |
| Colombian pesos | | | | | | | | | |
| Bank loans | 1,951 | - | - | - | - | - | 1,951 | 1,949 | 723 |
| Interest rate | 7.3% | - | - | - | - | - | 7.3% | - | 9.1% |
| Chilean pesos | | | | | | | | | |
| Bank loans | 3 | - | - | - | - | - | 3 | 3 | 1 |
| Interest rate | 6.1% | - | - | - | - | - | 6.1% | - | 10.0% |
| Total short-term debt | Ps. 2,830 | Ps. - | Ps. - | Ps. - | Ps. - | Ps. - | Ps. 2,830 | Ps. 2,829 | Ps. 1,912 |
| Long-term debt: | | | | | | | | | |
| Fixed rate debt: | | | | | | | | | |
| Euro | | | | | | | | | |
| Senior unsecured notes | Ps. - | Ps. - | Ps. - | Ps. - | Ps. - | Ps. 23,449 | Ps. 23,449 | Ps. 24,697 | Ps. 21,627 |
| Interest rate | - | - | - | - | - | 1.8% | 1.8% | - | 1.8% |
| U.S. dollars | | | | | | | | | |
| Yankee bond | 8,774 | - | 9,844 | - | - | 29,425 | 48,043 | 51,938 | 61,703 |
| Interest rate | 2.4% | - | 4.6% | - | - | 4.4% | 4.1% | - | 3.8% |
| Bank of NY (FEMSA USD 2023) | - | - | - | - | - | 5,852 | 5,852 | 5,870 | 6,117 |
| Interest rate ⁽¹⁾ | - | - | - | - | - | 2.9% | 2.9% | - | 2.9% |
| Bank of NY (FEMSA USD 2043) | - | - | - | - | - | 13,510 | 13,510 | 14,539 | 14,128 |
| Interest rate ⁽¹⁾ | - | - | - | - | - | 4.4% | 4.4% | - | 4.4% |
| Finance leases | 6 | 5 | 2 | - | - | - | 13 | 13 | 20 |
| Interest rate ⁽¹⁾ | 4.0% | 3.8% | 3.5% | - | - | - | 3.8% | - | 3.9% |
| Mexican pesos | | | | | | | | | |
| Units of investment (UDIs) | - | - | - | - | - | - | - | - | 3,245 |
| Interest rate | - | - | - | - | - | - | - | - | 4.2% |
| Domestic senior notes | - | - | - | 2,498 | - | 15,981 | 18,479 | 17,035 | 9,991 |
| Interest rate | - | - | - | 8.3% | - | 6.7% | 6.9% | - | 6.2% |
| Brazilian reais | | | | | | | | | |
| Bank loans | 391 | 247 | 152 | 92 | 78 | 73 | 1,033 | 1,055 | 742 |
| Interest rate | 5.7% | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% | 5.7% | - | 5.3% |
| Notes payable ⁽²⁾ | - | 6,707 | - | - | - | - | 6,707 | 6,430 | 7,022 |
| Interest rate | - | 0.4% | - | - | - | - | 0.4% | - | 0.4% |
| Chilean pesos | | | | | | | | | |
| Bank loans | 40 | - | - | - | - | - | 40 | 40 | 164 |
| Interest rate | 7.9% | - | - | - | - | - | 7.9% | - | 7.0% |
| Finance leases | 27 | 28 | 26 | 17 | - | - | 98 | 98 | 114 |
| Interest rate | 3.8% | 3.7% | 3.4% | 3.2% | - | - | 3.5% | - | 3.4% |
| Colombian pesos | | | | | | | | | |
| Bank loans | 728 | - | - | - | - | - | 728 | 741 | 758 |
| Interest rate | 9.6% | - | - | - | - | - | 9.6% | - | 9.6% |
| Finance leases | 6 | 6 | 5 | - | - | - | 17 | 17 | - |
| Interest rate | 4.0% | 4.0% | 4.0% | - | - | - | 4.2% | - | - |
| Subtotal | Ps. 9,972 | Ps. 6,993 | Ps. 10,029 | Ps. 2,607 | Ps. 78 | Ps. 88,290 | Ps. 117,969 | Ps. 122,473 | Ps. 125,631 |

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

| (in millions of Mexican pesos) | At December 31, ⁽¹⁾ | | | | | 2023 and Thereafter | Carrying | Fair | Carrying |
|--|--------------------------------|------------------|-------------------|------------------|------------------|------------------------|----------------------------------|----------------------------------|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | | Value at December 31, 2017 | Value at December 31, 2017 | Value at December 31, 2016 ⁽¹⁾ |
| Variable rate debt: | | | | | | | | | |
| U.S. dollars | | | | | | | | | |
| Bank loans | Ps. - | Ps. - | Ps. - | Ps. 4,032 | Ps. - | Ps. - | Ps. 4,032 | Ps. 4,313 | Ps. 4,218 |
| Interest rate ⁽¹⁾ | - | - | - | 2.1% | - | - | 2.1% | - | 1.6% |
| Mexican pesos | | | | | | | | | |
| Domestic senior notes | - | - | - | - | 1,496 | - | 1,496 | 1,500 | - |
| Interest rate ⁽¹⁾ | - | - | - | - | 7.7% | - | 7.7% | - | - |
| Argentine pesos | | | | | | | | | |
| Bank loans | - | - | - | - | - | - | - | - | 40 |
| Interest rate | - | - | - | - | - | - | - | - | 27.8% |
| Brazilian reais | | | | | | | | | |
| Bank loans | 284 | 284 | 229 | 66 | 7 | - | 870 | 883 | 1,864 |
| Interest rate | 8.5% | 8.5% | 8.5% | 8.5% | 8.5% | - | 8.5% | - | 5.5% |
| Notes payable | 10 | 5 | - | - | - | - | 15 | 14 | 26 |
| Interest rate | 0.4% | 0.4% | - | - | - | - | 0.4% | - | 0.4% |
| Colombian pesos | | | | | | | | | |
| Bank loans | - | - | - | - | - | - | - | - | 1,206 |
| Interest rate | - | - | - | - | - | - | - | - | 9.6% |
| Chilean pesos | | | | | | | | | |
| Bank loans | 494 | 664 | 1,110 | 732 | 751 | 385 | 4,136 | 4,135 | 4,351 |
| Interest rate | 4.3% | 4.2% | 4.1% | 4.0% | 4.1% | 3.9% | 4.1% | - | 3.7% |
| Subtotal | Ps. 788 | Ps. 953 | Ps. 1,339 | Ps. 4,830 | Ps. 2,254 | Ps. 385 | Ps. 10,549 | Ps. 10,845 | Ps. 11,705 |
| Total long-term debt | Ps.10,760 | Ps. 7,946 | Ps. 11,368 | Ps. 7,437 | Ps. 2,332 | Ps. 88,675 | Ps. 128,518 | Ps. 133,318 | Ps.137,336 |
| Current portion of long term debt | | | | | | | (10,760) | | (5,369) |
| | | | | | | | Ps. 117,758 | | Ps.131,967 |

⁽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⁾ | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 and Thereafter | Total 2017 | Total 2016 | |
|---|--------|-------|-------|-------|------|------------------------|---------------|---------------|-----------|
| (notional amounts in millions of Mexican pesos) | | | | | | | | | |
| Cross currency swaps: | | | | | | | | | |
| Units of investments to Mexican pesos and variable rate: | | | | | | | | | |
| Fixed to variable | Ps. | - | Ps. | - | Ps. | - | Ps. | - | Ps. 2,500 |
| Interest pay rate | | - | | - | | - | | - | 5.9% |
| Interest receive rate | | - | | - | | - | | - | 4.2% |
| U.S. dollars to Mexican pesos | | | | | | | | | |
| Fixed to variable ⁽²⁾ | | - | | - | | - | 11,403 | 11,403 | 11,403 |
| Interest pay rate | | - | | - | | - | 8.9% | 8.9% | 7.4% |
| Interest receive rate | | - | | - | | - | 4.0% | 4.0% | 4.0% |
| Fixed to fixed | | - | | 9,868 | | - | 9,951 | 19,818 | 19,451 |
| Interest pay rate | | - | | 9.0% | | - | 9.1% | 9.1% | 8.8% |
| Interest receive rate | | - | | 3.9% | | - | 4.0% | 3.9% | 4.1% |
| U.S. dollars to Brazilian reais | | | | | | | | | |
| Fixed to variable | 8,782 | 6,263 | 4,571 | - | - | - | 19,617 | 21,210 | |
| Interest pay rate | 6.3% | 5.2% | 6.6% | - | - | - | 6.0% | 11.9% | |
| Interest receive rate | 2.7% | 0.4% | 2.9% | - | - | - | 2.0% | 1.9% | |
| Variable to variable | 15,571 | - | - | 4,046 | - | - | 19,617 | 22,834 | |
| Interest pay rate | 6.7% | - | - | 6.1% | - | - | 6.6 | 12.4% | |
| Interest receive rate | 2.6% | - | - | 1.9% | - | - | 2.5 | 2.0% | |
| Chilean pesos | | | | | | | | | |
| Variable to fixed | - | - | 620 | - | - | - | 620 | 827 | |
| Interest pay rate | - | - | 6.9% | - | - | - | 6.9% | 6.9% | |
| Interest receive rate | - | - | 3.9% | - | - | - | 3.9% | 6.2% | |
| Interest rate swap: | | | | | | | | | |
| Mexican pesos | | | | | | | | | |
| Variable to fixed rate: | - | 65 | - | 650 | 875 | 1,925 | 3,515 | 3,591 | |
| Interest pay rate | - | 6.5% | - | 7.6% | 6.6% | 5.8% | 5.8% | 6.4% | |
| Interest receive rate | - | 3.7% | - | 3.8% | 4.5% | 4.5% | 4.5% | 5.1% | |
| Variable to fixed rate: | | | | | | | | | |
| Interest pay rate | - | - | - | - | - | - | - | 5.9% | |
| Interest receive rate | - | - | - | - | - | - | - | 6.0% | |
| Variable to fixed rate ⁽²⁾ : | | | | | | | | | |
| Interest pay rate | - | - | - | - | - | - | 7.2% | 7.2% | |
| Interest receive rate | - | - | - | - | - | - | 8.9% | 7.4% | |

⁽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 8.9% 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 8.9%.

For the years ended December 31, 2017, 2016 and 2015, the interest expense is comprised as follows:

| | 2017 | 2016 | 2015 |
|--|------------|-----------|-----------|
| Interest on debts and borrowings | Ps. 6,409 | Ps. 5,694 | Ps. 4,586 |
| Capitalized interest | (10) | (32) | (60) |
| Finance charges for employee benefits | 317 | 282 | 276 |
| Derivative instruments | 4,339 | 3,519 | 2,894 |
| Finance operating charges | 69 | 183 | 79 |
| Finance charges payable under finance leases | - | - | 2 |
| | Ps. 11,124 | Ps. 9,646 | Ps. 7,777 |

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, 2017, a foreign exchange loss, 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. 1,259.

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% and ii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46% Ps. 1,500 (nominal amount) with a maturity date 2022 and floating interest rate of THIE + 0.25% iv) Ps. 8,500 (nominal amount) with a maturity date 2027 and fixed interest rate of 7.87%; and 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 all of which 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

| | Carrying Value at December 31, 2016 | | Non-Cash Flows | | | | Carrying Value at December 31, 2017 |
|--|-------------------------------------|--------------------|----------------|---------------------------|--------------------|--------------------|-------------------------------------|
| | | Cash Flows | Acquisition | Foreign Exchange Movement | Others | | |
| 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 | |

| | Carrying Value at December 31, 2015 | | Non-Cash Flows | | | | Carrying Value at December 31, 2016 |
|--|-------------------------------------|-------------------|----------------|---------------------------|-------------------|--------------------|-------------------------------------|
| | | Cash Flows | Acquisition | Foreign Exchange Movement | Others | | |
| Bank loans | Ps. 7,357 | Ps. (2,597) | Ps. 377 | Ps. (50) | Ps. 9,410 | Ps. 14,497 | |
| Notes payable | 83,945 | 24,234 | - | 15,790 | (110) | 123,859 | |
| Lease liabilities | 562 | (466) | 9 | - | 786 | 892 | |
| Total liabilities from financing activities | Ps. 91,864 | Ps. 21,171 | Ps. 386 | Ps. 15,740 | Ps. 10,086 | Ps. 139,248 | |

Note 19. Other Income and Expenses

| | 2017 | | 2016 | | 2015 | |
|---|------------|---------------|------------|--------------|------------|--------------|
| Gain on sale of shares (see Note 4.2) | Ps. | 123 | Ps. | - | Ps. | 14 |
| Gain on sale of Heineken shares | | 29,989 | | - | | - |
| Gain on sale of long-lived assets | | 209 | | 170 | | 249 |
| Sale of waste material | | 3 | | 50 | | 41 |
| Write off-contingencies (see Note 25.5) | | - | | 329 | | - |
| Recoveries from previous years | | (35) | | 466 | | 16 |
| Insurance rebates | | 6 | | 10 | | 17 |
| Foreign exchange gain | | (4) | | - | | - |
| Consolidation of Philippines | | 2,830 | | - | | - |
| Others | | 1,620 | | 132 | | 86 |
| Other income | Ps. | 34,741 | Ps. | 1,157 | Ps. | 423 |
| Contingencies associated with prior acquisitions or disposals | Ps. | 39 | Ps. | 1,582 | Ps. | 93 |
| Loss on sale of equity financial assets | | - | | 8 | | - |
| Loss on sale of other assets | | 148 | | 159 | | - |
| Impairment of long-lived assets ⁽²⁾ | | 2,063 | | - | | 134 |
| Disposal of long-lived assets ⁽¹⁾ | | 451 | | 238 | | 416 |
| Suppliers provisions | | 398 | | - | | - |
| Foreign exchange losses related to operating activities | | 2,524 | | 2,370 | | 917 |
| Non-income taxes from Colombia | | 636 | | 53 | | 30 |
| Severance payments | | 363 | | 98 | | 285 |
| Donations | | 242 | | 203 | | 362 |
| Legal fees and other expenses from past acquisitions | | 612 | | 241 | | 223 |
| Venezuela impact | | 26,123 | | - | | - |
| Other | | 359 | | 957 | | 281 |
| Other expenses | Ps. | 33,958 | Ps. | 5,909 | Ps. | 2,741 |

⁽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, 2017 and 2016:

| | December 31, 2017 | | December 31, 2016 | |
|---|-------------------|---------|-------------------|---------|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| Derivative financial instrument (current asset) | 22 | 211 | 374 | 1,543 |
| Derivative financial instrument (non-current asset) | - | 10,137 | - | 14,729 |
| Derivative financial instrument (current liability) | 26 | 3,921 | - | 264 |
| Derivative financial instrument (non-current liability) | - | 1,769 | - | 6,403 |

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, 2017 and 2016, which is considered to be level 1 in the fair value hierarchy.

| | 2017 | | 2016 | |
|----------------|------|---------|------|---------|
| Carrying value | Ps. | 131,348 | Ps. | 139,248 |
| Fair value | | 136,147 | | 140,284 |

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, 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 | 4,089 | (35) | - |
| 2020 | 3,669 | (17) | - |
| 2021 | 3,709 | (103) | - |
| 2022 | 875 | (34) | - |
| 2023 | 13,328 | (77) | 984 |

At December 31, 2016, the Company has the following outstanding interest rate swap agreements:

| Maturity Date | Notional Amount | Fair Value Liability December 31, 2016 | Fair Value Asset December 31, 2016 |
|---------------|-----------------|--|--|
| 2017 | Ps. 1,250 | Ps. - | Ps. 10 |
| 2019 | 77 | (4) | - |
| 2021 | 727 | (87) | - |
| 2022 | 929 | (35) | - |
| 2023 | 13,261 | (73) | 1,028 |

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, 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 |

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

| Maturity Date | Notional Amount | Fair Value Liability December 31, 2016 | Fair Value Asset December 31, 2016 |
|---------------|-----------------|--|--|
| 2017 | Ps. 8,265 | Ps. (247) | Ps. 364 |

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

| Maturity Date | Notional Amount | Fair Value Liability 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, 2017, the Company had the following outstanding cross currency swap agreements:

| Maturity Date | Notional Amount | Fair Value Liability December 31, 2017 | Fair Value Asset December 31, 2017 |
|---------------|-----------------|--|------------------------------------|
| 2018 | 24,760 | (3,878) | - |
| 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 |

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

| Maturity Date | Notional Amount | Fair Value Liability 2016 | Fair Value Asset December 31, 2016 |
|---------------|-----------------|---------------------------|------------------------------------|
| 2017 | Ps. 2,707 | Ps. (10) | Ps. 1,165 |
| 2018 | 39,262 | (4,837) | 3,688 |
| 2019 | 7,022 | (265) | - |
| 2020 | 19,474 | (842) | 798 |
| 2021 | 5,076 | (128) | 28 |
| 2023 | 12,670 | - | 9,057 |
| 2026 | 925 | (131) | - |
| 2027 | 5,476 | - | 125 |

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

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

At December 31, 2016, Coca-Cola FEMSA had the following sugar price contracts:

| Maturity Date | Notional Amount | Fair Value Asset December 31, 2016 |
|---------------|-----------------|------------------------------------|
| 2017 | Ps. 572 | Ps. 370 |

At December 31, 2016, Coca-Cola FEMSA had the following aluminum price contracts:

| Maturity Date | Notional Amount | Fair Value Liability December 31, 2016 |
|---------------|-----------------|--|
| 2017 | Ps. 74 | Ps. 5 |

20.7 Option embedded in the Promissory Note to fund the Vonpar’s acquisition

As disclosed in Note 4.1.2, 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 1,090 million Brazilian reais (approximately Ps. 6,503 and Ps. 7,022 million as of December 31, 2017 and 2016, respectively). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into the 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. 242 million and 368 million as of December 31, 2017 and 2016, 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, 2017 and 2016 by approximately 30.4% and 35.9% or U.S. \$82 million and U.S. \$93 million with respect to the strike price.

20.8 Net effects of expired contracts that met hedging criteria

| Type of Derivatives | Impact in Consolidated Income Statement | | 2017 | | 2016 | | 2015 |
|---|--|-----|-------|-----|-------|-----|----------|
| Cross currency swap ⁽¹⁾ | Interest expense | Ps. | 2,102 | Ps. | - | Ps. | 2,595 |
| Cross currency swap ⁽¹⁾ | Foreign exchange | | - | | - | | (10,911) |
| Forward agreements to purchase foreign currency | Foreign exchange | | (40) | | 160 | | (180) |
| Commodity price contracts | Cost of goods sold | | (6) | | (241) | | 619 |
| Options to purchase foreign currency | Cost of goods sold | | - | | - | | (21) |
| Forward agreements to purchase foreign currency | Cost of goods sold | | 89 | | (45) | | (523) |

⁽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

| Type of Derivatives | Impact in Consolidated Income Statement | | 2017 | | 2016 | | 2015 |
|----------------------|--|-----|------|-----|------|-----|------|
| Cross currency swaps | gain (loss) on | Ps. | - | Ps. | - | Ps. | (20) |
| Others | financial instruments | | - | | - | | 56 |

20.10 Net effect of expired contracts that did not meet the hedging criteria for accounting purposes

| Type of Derivatives | Impact in Consolidated Income Statement | | 2017 | | 2016 | | 2015 |
|----------------------|--|-----|-------|-----|------|-----|------|
| Cross-currency swaps | Market value gain on financial instruments | Ps. | (438) | Ps. | - | Ps. | 204 |

20.11 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 |
|-----------------------|----------------------------|------------------|
| 2017 | | |
| FEMSA ^(a) | +13% MXN/EUR | Ps. (141) |
| | +8% CLP/USD | 2 |
| | -13% MXN/EUR | 141 |
| | -8% CLP/USD | (2) |
| Coca-Cola FEMSA | +12% MXN/USD | 626 |
| | +9% COP/USD | 73 |
| | +14% BRL/USD | 234 |
| | +10% ARS/USD | 29 |
| | -12% MXN/USD | (625) |
| | -9% COP/USD | (73) |
| | -14% BRL/USD | (234) |
| | -10% ARS/USD | (29) |
| 2016 | | |
| FEMSA ^(a) | -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 |
| 2015 | | |
| FEMSA ^(a) | -14% MXN/EUR | Ps. 319 |
| | +14% MXN/EUR | (319) |
| | +10% CLP/USD | 9 |
| | -10% CLP/USD | (9) |
| | -11% MXN/USD | 197 |
| Coca-Cola FEMSA | +11% MXN/USD | (197) |
| | +21% BRL/USD | (387) |
| | +17% COP/USD | (113) |
| | -36% ARS/USD | 231 |
| | +36% ARS/USD | (231) |
| | -21% BRL/USD | 387 |
| | -17% COP/USD | 113 |
| | +17% COP/USD | (113) |

^(a) Does not include Coca-Cola FEMSA.

| Cross Currency Swaps ⁽¹⁾⁽²⁾ | Change in Exchange Rate | Effect on Equity | Effect on Profit or Loss |
|--|-------------------------|------------------|--------------------------|
| 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 | - |
| | +14% BRL/USD | 7,483 | - |
| | -12% MXN/USD | (3,540) | - |
| | -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 |
| | +18% BRL/USD | 9,559 | - |
| | -17% MXN/USD | (3,687) | (1,790) |
| | -18% BRL/USD | (9,559) | - |
| 2015 | | | |
| FEMSA ⁽³⁾ | -11% MXN/USD | Ps. - | Ps. (2,043) |
| | +11% MXN/USD | - | 2,043 |
| Coca-Cola FEMSA | -11% MXN/USD | - | (938) |
| | +11% MXN/USD | - | 938 |
| | -21% BRL/USD | (4,517) | (1,086) |
| | +21% BRL/USD | 4,517 | 1,086 |

⁽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 |
|---|--|--------------------------|
| 2017 | | |
| FEMSA ⁽²⁾ | +13% EUR/ +12% USD -13% EUR/ -12% USD | Ps. 8,077 (8,077) |
| Coca-Cola FEMSA | +12% USD -12% USD | (553) 553 |
| 2016 | | |
| FEMSA ⁽²⁾ | +17% EUR/ +17% USD -17% EUR/ -17% USD | Ps. 3,176 (3,176) |
| Coca-Cola FEMSA | +17% USD -17% USD | (105) 105 |
| 2015 | | |
| FEMSA ⁽²⁾ | +14% EUR/ +11%USD -14% EUR/ -11%USD | Ps. 504 (504) |
| Coca-Cola FEMSA | +11%USD -11%USD | (1,112) 1,112 |

⁽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 |
|--|-------------------------------|-------------------|
| 2017 | | |
| Coca-Cola FEMSA | Sugar - 30% | Ps. (32) |
| 2016 | | |
| Coca-Cola FEMSA | Sugar - 33% Aluminum - 16% | Ps. (310) (13) |
| 2015 | | |
| Coca-Cola FEMSA | Sugar - 31% Aluminum - 18% | Ps. (406) (58) |

⁽¹⁾ Effects on commodity price contracts are only in Coca-Cola FEMSA.

20.12 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 |
|-----------------------------------|-------------------|---------------------|
| 2017 | | |
| FEMSA ⁽²⁾ | (100 Bps.) | Ps. (452) |
| Coca-Cola FEMSA | (100 Bps.) | (234) |
| 2016 | | |
| FEMSA ⁽²⁾ | (100 Bps.) | Ps. (550) |
| 2015 | | |
| FEMSA ⁽²⁾ | (100 Bps.) | Ps. (542) |

⁽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 | 2017 | 2016 | 2015 |
|--|-------------|-----------|-----------|
| Change in interest rate | +100 Bps. | +100 Bps. | +100 Bps. |
| Effect on profit loss | Ps. (251) | Ps. (354) | Ps. (192) |

20.13 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, 2017 and 2016, 64.3% and 64.5%, 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 FEMSA Comercio 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 or, as in the case of exchange controls in Venezuela, practicable to remit cash generated in local operations to fund cash requirements in other countries. Exchange controls like those in Venezuela may also increase the real price of remitting cash from operations to fund debt 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 addition, the Company's liquidity in Venezuela could be affected by changes in the rules applicable to exchange rates as well as other regulations, such as exchange controls. 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, 2017, 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, 2017. Such expected net cash outflows are determined based on each particular settlement date of an instrument. The amounts disclosed are undiscounted net cash outflows for the respective upcoming fiscal years, based on the earliest date on which the Company could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on economic conditions (like interest rates and foreign exchange rates) existing at December 31, 2017.

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 and thereafter |
|---------------------------------------|-----------|-----------|------------|-----------|-----------|---------------------|
| Non-derivative financial liabilities: | | | | | | |
| Notes and bonds | Ps. 9,961 | Ps. 7,828 | Ps. 10,939 | Ps. 3,574 | Ps. 2,532 | Ps. 97,602 |
| Loans from banks | 4,915 | 1,239 | 1,480 | 4,917 | 766 | 414 |
| Obligations under finance leases | 49 | 39 | 33 | 16 | - | - |
| Derivative financial liabilities | (3,452) | 26 | 654 | 190 | 236 | (4,831) |

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

20.14 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, 2017 and 2016 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, 2017, the Company concluded that the maximum exposure to credit risk related with derivative financial instruments is not significant given the high credit rating of its counterparties.

Note 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, 2017 and 2016 is as follows:

| | December 31, 2017 | December 31, 2016 |
|-----------------|----------------------|----------------------|
| Coca-Cola FEMSA | Ps. 82,366 | Ps. 70,293 |
| Other | 4,255 | 3,973 |
| | Ps. 86,621 | Ps. 74,266 |

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

| | 2017 | 2016 | 2015 |
|---|------------|------------|------------|
| Balance at beginning of the year | Ps. 74,266 | Ps. 60,332 | Ps. 59,649 |
| Net income of non controlling interest | (5,202) | 6,035 | 5,593 |
| Other comprehensive income (loss): | 7,240 | 9,463 | (2,999) |
| Exchange differences on translation of foreign operation | 7,349 | 9,238 | (3,110) |
| Remeasurements of the net defined benefits liability | 30 | (63) | 75 |
| Valuation of the effective portion of derivative financial instruments | (139) | 288 | 36 |
| Capitalization of issued shares to former owners of Vonpar in Coca-Cola FEMSA | 2,867 | - | - |
| Other acquisitions and remeasurments | (50) | 1,710 | 1,133 |
| Contribution from non-controlling interest | 11,072 | 892 | 250 |
| Equity instruments | - | (485) | - |
| Dividends | (3,622) | (3,690) | (3,351) |
| Share based payment | 50 | 9 | 57 |
| Balance at end of the year | Ps. 86,621 | Ps. 74,266 | Ps. 60,332 |

Non controlling accumulated other comprehensive loss is comprised as follows:

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Exchange differences on translation foreign operation | Ps. 7,150 | Ps. (199) |
| Remeasurements of the net defined benefits liability | (274) | (304) |
| Valuation of the effective portion of derivative financial instruments | 56 | 195 |
| Accumulated other comprehensive loss | Ps. 6,932 | Ps. (308) |

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, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Total current assets | Ps. 55,657 | Ps. 45,453 |
| Total non-current assets | 230,020 | 233,803 |
| Total current liabilities | 55,594 | 39,868 |
| Total non-current liabilities | 89,373 | 110,155 |
| Total revenue | Ps. 203,780 | Ps. 177,718 |
| Total consolidated net (loss) income | (11,654) | 10,527 |
| Total consolidated comprehensive income | Ps. 3,315 | Ps. 27,171 |
| Net cash flow from operating activities | 33,323 | 32,446 |
| Net cash flow from used in investing activities | (10,890) | (26,915) |
| Net cash flow from financing activities | (10,775) | (9,734) |

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, 2017 and 2016, the capital 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, 2017 and 2016, 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 capital 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, 2017 and 2016, 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 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, 2017 amounted to Ps. 193,348. 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 19, 2015, the shareholders approved a dividend of Ps. 7,350 that was paid 50% on May 7, 2015 and other 50% on November 5, 2015; and a reserve for share repurchase of a maximum of Ps. 3,000. As of December 31, 2015, 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 12, 2015, the shareholders approved a dividend of Ps. 6,405 that was paid 50% on May 5, 2015 and other 50% on November 3, 2015. The corresponding payment to the non-controlling interest was Ps. 3,340.

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.

For the years ended December 31, 2017, 2016 and 2015 the dividends declared and paid by the Company and Coca-Cola FEMSA were as follows:

| | 2017 | 2016 | 2015 |
|------------------------------------|-------------|-------------|-------------|
| FEMSA | Ps. 8,636 | Ps. 8,355 | Ps. 7,350 |
| Coca-Cola FEMSA (100% of dividend) | 6,991 | 6,945 | 6,405 |

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

| Series of Shares | 2017 | 2016 |
|------------------|-------------|-------------|
| "B" | Ps. 0.43067 | Ps. 0.41666 |
| "D" | 0.53833 | 0.52083 |

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, 2017 and 2016.

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 divestitures, 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).

| | 2017 | | 2016 | | 2015 | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Per Series "B" Shares | Per Series "D" Shares | Per Series "B" Shares | Per Series "D" Shares | Per Series "B" Shares | Per Series "D" Shares |
| Shares expressed in millions: | | | | | | |
| Weighted average number of shares for basic earnings per share | 9,243.14 | 8,631.57 | 9,242.48 | 8,628.97 | 9,241.91 | 8,626.69 |
| Effect of dilution associated with non-vested shares for share based payment plans | 3.29 | 13.14 | 3.94 | 15.74 | 4.51 | 18.02 |
| 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 |
| Allocation of earnings, weighted | 46.11% | 53.89% | 46.11% | 53.89% | 46.11% | 53.89% |
| Net Controlling Interest Income Allocated | Ps. 19,555 | Ps. 22,853 | Ps. 9,748 | Ps. 11,392 | Ps. 8,154 | Ps. 9,529 |

Note 24. Income Taxes

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

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

On January 1, 2017, a new general tax reform became effective in Colombia. This reform modifies the income tax rate to 33.0%, starting with a 34.0% for 2017 and then 33.0% for the next 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 20% for 2017. In 2016 the rate is 15.0%. Additionally, the supplementary income tax (9.0 %) the temporary contribution to social programs (5.0 % to 9.0 % for 2015 to 2018), and the tax on net equity which were included in tax reform 2015 were eliminated. For 2017, the dividends received by individuals that are Colombian residents will be subject to a withholding of 35.0%; 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 1st, 2016, the rates of federal production tax will be reduced and the rates of the federal sales tax will be increased. Coca-Cola FEMSA estimates of these taxes is 16.2% over the net sales. For 2017, we expected the average of these taxes will range between 15.0% and 17.0% over the net sales.

On April 1, 2015, the Brazilian government issued Decree No. 8.426/15 to impose, as of July 2015, PIS/COFINS (Social Contributions on Gross Revenues) of 4.65% on financial income (except for foreign exchange variations).

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

On December 30, 2015, the Venezuelan government enacted a package of tax reforms that became effective in 2016. This reform mainly (i) eliminated the inflationary adjustments for the calculation of income tax as well as the new investment tax deduction, and (ii) imposed a new tax on financial transactions effective as of February 1, 2016, for those identified as “special taxpayers,” at a rate of 0.75% over certain financial transactions, such as bank withdrawals, transfer of bonds and securities, payment of debts without intervention of the financial system and debits on bank accounts for cross-border payments, which will be immediately withheld by the banks. Given the inherent uncertainty as to how the Venezuelan Tax Administration will require that the aforementioned inflation adjustments be applied, starting 2016 the Company decided to recognize the effects of elimination of the inflationary adjustments.

24.1 Income Tax

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

| | 2017 | 2016 | 2015 |
|---|------------|------------|-----------|
| Current tax expense | Ps. 18,801 | Ps. 13,548 | Ps. 9,879 |
| Deferred tax expense: | | | |
| Origination and reversal of temporary differences | (7,385) | (3,947) | 826 |
| (Recognition) application of tax losses, net | (823) | (1,693) | (2,789) |
| Change in the statutory rate | (10) | (20) | 16 |
| Total deferred tax income | (8,218) | (5,660) | (1,979) |
| | Ps. 10,583 | Ps. 7,888 | Ps. 7,932 |

Recognized in Consolidated Statement of Other Comprehensive Income (OCI)

| Income tax related to items charged or recognized directly in OCI during the year: | 2017 | 2016 | 2015 |
|--|-------------|-----------|-----------|
| Unrealized loss on cash flow hedges | Ps. (191) | Ps. 745 | Ps. 93 |
| Exchange differences on translation of foreign operations | 387 | 4,478 | 1,699 |
| Remeasurements of the net defined benefit liability | (154) | (49) | 49 |
| Share of the other comprehensive income of associates and joint ventures | (1,465) | (1,385) | 193 |
| Total income tax cost recognized in OCI | Ps. (1,423) | Ps. 3,789 | Ps. 2,034 |

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

| | 2017 | 2016 | 2015 |
|---|---------|--------|--------|
| Mexican statutory income tax rate | 30.0% | 30.0% | 30.0% |
| Difference between book and tax inflationary values and translation effects | (6.2%) | (2.4%) | (1.3%) |
| Annual inflation tax adjustment | 0.4% | 0.6% | (1.5%) |
| Difference between statutory income tax rates | 1.8% | 1.2% | 0.4% |
| Repatriation of capital benefit decree | (20.2%) | - | - |
| Non-deductible expenses | 2.4% | 2.8% | 3.3% |
| (Non-taxable) income | - | (0.4%) | (0.3%) |
| Hedge of a net investment in foreign operations | (1.4%) | (2.2%) | - |
| Effect of changes in Venezuela tax law | - | 3.6% | - |
| Income tax credits | (1.8%) | (3.9%) | - |
| Philippines consolidation profit | (2.2%) | - | - |
| Venezuela desconsolidation effect | 23.4% | - | - |
| Others | 0.3% | (1.6%) | 0.8% |
| | 26.5% | 27.6% | 31.5% |

Deferred Income Tax Related to:

| | Consolidated Statement of Financial Position as of | | Consolidated Statement of Income | | |
|--|---|----------------------|-------------------------------------|-------------|------------|
| | December 31, 2017 | December 31, 2016 | 2017 | 2016 | 2015 |
| Allowance for doubtful accounts | Ps. (152) | Ps. (172) | Ps. 16 | Ps. (17) | Ps. 93 |
| Inventories | (151) | (112) | (1) | (151) | (14) |
| Other current assets | 101 | 64 | 34 | (80) | 21 |
| Property, plant and equipment, net ^(a) | (2,733) | (471) | (2,537) | 670 | (314) |
| Investments in associates and joint ventures | (6,989) | (1,227) | (5,094) | 75 | 684 |
| Other assets | 254 | 257 | (155) | 234 | (52) |
| Finite useful lived intangible assets | 894 | 201 | 207 | (1,506) | 201 |
| Indefinite lived intangible assets | 9,957 | 9,376 | 968 | 7,391 | 84 |
| Post-employment and other long-term employee benefits | (965) | (692) | (217) | (34) | 86 |
| Derivative financial instruments | 84 | 255 | (171) | 128 | 165 |
| Provisions | (3,500) | (2,956) | (557) | (411) | (8) |
| Temporary non-deductible provision | (222) | (3,450) | (144) | (9,118) | 735 |
| Employee profit sharing payable | (351) | (340) | (11) | (29) | (43) |
| Tax loss carryforwards | (10,218) | (8,889) | (823) | (1,693) | (2,789) |
| Tax credits to recover ^(b) | (2,308) | (1,150) | (705) | (1,150) | - |
| Accumulated other comprehensive income ^(a) | 239 | 537 | (224) | - | - |
| Exchange differences on translation of foreign operations in OCI | 7,168 | 7,694 | - | - | - |
| Other liabilities | (828) | 59 | 1,220 | 102 | (113) |
| Deferred tax income | | | Ps. (8,194) | Ps. (5,589) | Ps.(1,264) |
| Deferred tax income net recorded in share of the profit of associates and joint ventures accounted for using the equity method | | | (24) | (71) | (683) |
| Deferred tax income, net | | | Ps. (8,218) | Ps. (5,660) | Ps.(1,947) |
| Deferred income taxes, net | (9,720) | (1,016) | | | |
| Deferred tax asset | (15,853) | (12,053) | | | |
| Deferred tax liability | Ps. 6,133 | Ps. 11,037 | | | |

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

^(b) 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.

^(c) 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.

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 derecognized in 2017 upon deconsolidation of Coca-Cola FEMSA's Venezuelan operations.

Deferred tax related to Accumulated Other Comprehensive Income (AOCI)

| Income tax related to items charged or recognized directly in AOCI as of the year: | | 2017 | | 2016 |
|--|------------|------------|------------|------------|
| Unrealized loss on derivative financial instruments | Ps. | 641 | Ps. | 847 |
| Remeasurements of the net defined benefit liability | | (402) | | (306) |
| Total deferred tax loss (income) related to AOCI | Ps. | 239 | Ps. | 541 |

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

| | 2017 | 2016 | 2015 |
|--|--------------------|--------------------|--------------------|
| Initial balance | Ps. (1,016) | Ps. (2,063) | Ps. (2,635) |
| Deferred tax provision for the year | (8,218) | (5,660) | (1,979) |
| Deferred tax income net recorded in share of the profit of associates and joint ventures accounted for using the equity method | (67) | 71 | 683 |
| Acquisition of subsidiaries (see Note 4) | (367) | 1,375 | (161) |
| Effects in equity: | | | |
| Unrealized loss on cash flow hedges | (83) | 1,008 | 184 |
| Exchange differences on translation of foreign operations | (1,472) | 3,260 | 1,729 |
| Remeasurements of the net defined benefit liability | 131 | (479) | 121 |
| Retained earnings of associates | (38) | (224) | (396) |
| Cash flow hedges in foreign investments | (540) | (618) | - |
| Restatement effect of the year and beginning balances associated with hyperinflationary economies | 1,689 | 2,314 | 359 |
| Deconsolidation of subsidiaries | 261 | - | - |
| Ending balance | Ps. (9,720) | Ps. (1,016) | Ps. (2,063) |

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 their years of expiration are as follows:

| Year | Tax Loss Carryforwards |
|-------------------------------------|------------------------|
| 2018 | Ps. 665 |
| 2019 | 98 |
| 2020 | 111 |
| 2021 | 116 |
| 2022 | 122 |
| 2023 | 479 |
| 2024 | 86 |
| 2025 | 410 |
| 2026 and thereafter | 10,681 |
| No expiration (Brazil and Colombia) | 16,719 |
| | Ps. 29,487 |

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, 2017, The Company believes that it is more likely than not that it will ultimately recover such NOLs through the reversal of temporary differences and future taxable income. Accordingly the related deferred tax assets have been fully recognized.

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

| | 2017 | 2016 |
|--|-------------|-------------|
| Balance at beginning of the year | Ps. 27,452 | Ps. 16,463 |
| Reserved | - | (2) |
| Additions | 5,673 | 6,349 |
| Usage of tax losses | (3,157) | (168) |
| Translation effect of beginning balances | (481) | 4,810 |
| Balance at end of the year | Ps. 29,487 | Ps. 27,452 |

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

The Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized, aggregate to Ps. 41,915 (December 31, 2016: Ps. 41,204 and December 31, 2015: Ps. 44,082).

24.2 Recoverable taxes

Recoverable taxes are mainly integrated by higher provisional payments of income tax during 2017 in comparison to prior year, which will be compensated during 2018.

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

Note 25. Other Liabilities, Provisions, Contingencies and Commitments

25.1 Other current financial liabilities

| | December 31, 2017 | December 31, 2016 |
|--|-----------------------------|-----------------------------|
| Sundry creditors | Ps. 9,116 | Ps. 7,244 |
| Derivative financial instruments (see Note 20) | 3,947 | 264 |
| Others | 16 | 75 |
| Total | Ps. 13,079 | Ps. 7,583 |

The carrying value of short-term payables approximates its fair value as of December 31, 2017 and 2016.

25.2 Provisions and other long term liabilities

| | December 31, 2017 | December 31, 2016 |
|---------------|-----------------------------|-----------------------------|
| Provisions | Ps. 12,855 | Ps. 16,428 |
| Taxes payable | 458 | 508 |
| Others | 1,233 | 1,457 |
| Total | Ps. 14,546 | Ps. 18,393 |

25.3 Other financial liabilities

| | December 31, 2017 | December 31, 2016 |
|--|-----------------------------|-----------------------------|
| Derivative financial instruments (see Note 20) | Ps. 1,769 | Ps. 6,403 |
| Security deposits | 1,028 | 917 |
| Total | Ps. 2,797 | Ps. 7,320 |

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 loss contingencies are the result of the Company's business acquisitions. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|----------------|----------------------|----------------------|
| Indirect taxes | Ps. 6,836 | Ps. 11,065 |
| Labor | 2,723 | 2,578 |
| Legal | 3,296 | 2,785 |
| Total | Ps. 12,855 | Ps. 16,428 |

25.5 Changes in the balance of provisions recorded

25.5.1 Indirect taxes

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|----------------------|
| Balance at beginning of the year | Ps. 11,065 | Ps. 1,725 | Ps. 2,271 |
| Penalties and other charges | 362 | 173 | 21 |
| New contingencies (see Note 19) | 91 | 768 | 84 |
| Contingencies added in business combination ^(a) | 861 | 7,840 | - |
| Cancellation and expiration | (796) | (106) | (205) |
| Payments | (947) | (6) | (214) |
| Brazil amnesty adoption | (3,321) | - | - |
| Effects of changes in foreign exchange rates | (479) | 671 | (232) |
| Balance at end of the year | Ps. 6,836 | Ps. 11,065 | Ps. 1,725 |

25.5.2 Labor

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|----------------------|
| Balance at beginning of the year | Ps. 2,578 | Ps. 1,372 | Ps. 1,587 |
| Penalties and other charges | 56 | 203 | 210 |
| New contingencies | 283 | 397 | 44 |
| Contingencies added in business combination ^(a) | - | 500 | - |
| Cancellation and expiration | (32) | (186) | (102) |
| Payments | (92) | (336) | (114) |
| Effects of changes in foreign exchange rates | (69) | 628 | (253) |
| Venezuela deconsolidation effect | (1) | - | - |
| Balance at end of the year | Ps. 2,723 | Ps. 2,578 | Ps. 1,372 |

25.5.3 Legal

| | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|----------------------|
| Balance at beginning of the year | Ps. 2,785 | Ps. 318 | Ps. 427 |
| Penalties and other charges | 121 | 34 | - |
| New contingencies | 186 | 196 | - |
| Contingencies added in business combination ^(a) | 783 | 2,231 | - |
| Cancellation and expiration | (16) | (46) | (33) |
| Payments | (417) | (81) | - |
| Brazil amnesty adoption | 7 | - | - |
| Effects of changes in foreign exchange rates | (151) | 133 | (76) |
| Venezuela deconsolidation effect | (2) | - | - |
| Balance at end of the year | Ps. 3,296 | Ps. 2,785 | Ps. 318 |

^(a) 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.

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, 2017 is Ps. 70,830. 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. 51,014, with loss expectations assessed by management and supported by the analysis of legal counsel consider as possible. Among these possible contingencies, are Ps. 12,346 in various tax disputes related primarily to credits for ICMS (VAT) and Ps. 33,217 related to tax credits of IPI over raw materials acquired from Free Trade Zone Manaus. Possible claims also include Ps. 4,787 related to compensation of federal taxes not approved by the IRS (Tax authorities) and Ps. 664 related to the requirement by the Tax Authorities of State of São Paulo for ICMS (VAT), interest and penalty due to the alleged underpayment of tax arrears for the period 1994-1996. Coca-Cola FEMSA is defending its position in these matters and final decision is pending in court. In addition, the Company has Ps. 6,272 in unsettled indirect tax contingencies regarding indemnification accorded with Heineken 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. 9,433, Ps. 8,093 and 3,569 as of December 31, 2017, 2016 and 2015, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies (see Note 13).

25.8 Commitments

As of December 31, 2017, 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 FEMSA Comercio's operations.

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

| | Mexican Pesos | U.S. Dollars | Others |
|--|-------------------|------------------|-------------------|
| Not later than 1 year | Ps. 6,553 | Ps. 426 | Ps. 5,700 |
| Later than 1 year and not later than 5 years | 26,098 | 3,145 | 27,581 |
| Later than 5 years | 25,131 | 280 | 4,749 |
| Total | Ps. 57,782 | Ps. 3,851 | Ps. 38,030 |

Rental expense charged to consolidated net income was Ps. 9,468, Ps. 8,202 and Ps. 6,088 for the years ended December 31, 2017, 2016 and 2015, respectively.

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

| | 2017 Minimum Payments | Present Value of Payments | 2016 Minimum Payments | Present Value of Payments |
|--|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
| Not later than 1 year | Ps. 41 | Ps. 34 | Ps. 32 | Ps. (68) |
| Later than 1 year and not later than 5 years | 91 | 82 | 103 | 83 |
| Later than 5 years | - | - | - | 97 |
| Total minimum lease payments | 132 | 116 | 135 | 112 |
| Less amount representing finance charges | 16 | - | 23 | - |
| Present value of minimum lease payments | 116 | 116 | 112 | 112 |

Note 26. Information by Segment

The analytical 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.

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:

| 2017 | Coca-Cola FEMSA | FEMSA Comercio Retail Division | FEMSA Comercio Health Division | FEMSA Comercio Fuel Division | CB Equity | Other ⁽¹⁾ | Consolidation Adjustments | Consolidated |
|---|--------------------|--------------------------------------|--------------------------------------|------------------------------------|-----------|----------------------|------------------------------|--------------|
| Total revenues | Ps. 203,780 | Ps. 154,204 | Ps. 47,421 | Ps. 38,388 | Ps. - | Ps. 35,357 | Ps. (18,694) | Ps. 460,456 |
| Intercompany revenue | 4,678 | 198 | - | - | - | 13,818 | (18,694) | - |
| Gross profit | 91,685 | 58,245 | 14,213 | 2,767 | - | 7,186 | (3,828) | 170,268 |
| Administrative expenses | - | - | - | - | - | - | - | 16,512 |
| Selling expenses | - | - | - | - | - | - | - | 111,456 |
| Other income | - | - | - | - | - | - | - | 34,741 |
| Other expenses | - | - | - | - | - | - | - | 33,959 |
| Interest expense | 8,810 | 1,317 | 685 | 156 | - | 2,359 | (2,203) | 11,124 |
| Interest income | 887 | 298 | 23 | 47 | 23 | 2,491 | (2,203) | 1,566 |
| Other net finance expenses ⁽³⁾ | - | - | - | - | - | - | - | 6,342 |
| Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method | (7,162) | 11,518 | 956 | 146 | 30,000 | 4,472 | (64) | 39,866 |
| Income taxes | 4,554 | 734 | 434 | 23 | (5,132) | 9,970 | - | 10,583 |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes | 60 | 5 | - | - | 7,848 | 10 | - | 7,923 |
| Consolidated net income | - | - | - | - | - | - | - | 37,206 |
| Depreciation and amortization ⁽²⁾ | 11,657 | 4,403 | 942 | 118 | - | 545 | - | 17,665 |
| Non-cash items other than depreciation and amortization | 1,714 | 296 | 31 | 18 | - | 255 | - | 2,314 |
| Investments in associates and joint ventures | 11,500 | 642 | - | - | 83,720 | 235 | - | 96,097 |
| Total assets | 285,677 | 68,820 | 38,496 | 4,678 | 76,555 | 150,816 | (36,501) | 588,541 |
| Total liabilities | 144,968 | 49,696 | 25,885 | 4,091 | 1,343 | 62,147 | (36,501) | 251,629 |
| Investments in fixed assets ⁽⁴⁾ | 14,612 | 8,563 | 774 | 291 | - | 1,311 | (371) | 25,180 |

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

⁽²⁾ Includes bottle breakage.

⁽³⁾ Includes foreign exchange loss, net; loss 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.

| 2016 | Coca-Cola FEMSA | FEMSA Comercio Retail Division | FEMSA Comercio Health Division | FEMSA Comercio Fuel Division | CB Equity | Other ⁽¹⁾ | Consolidation Adjustments | Consolidated |
|---|--------------------|--------------------------------------|--------------------------------------|------------------------------------|-----------|----------------------|------------------------------|--------------|
| Total revenues | Ps. 177,718 | Ps. 137,139 | Ps. 43,411 | Ps. 28,616 | Ps. - | Ps. 29,491 | Ps. (16,868) | Ps. 399,507 |
| Intercompany revenue | 4,269 | - | - | - | - | 12,599 | (16,868) | - |
| Gross profit | 79,662 | 50,990 | 12,738 | 2,248 | - | 6,114 | (3,548) | 148,204 |
| Administrative expenses | - | - | - | - | - | - | - | 14,730 |
| Selling expenses | - | - | - | - | - | - | - | 95,547 |
| Other income | - | - | - | - | - | - | - | 1,157 |
| Other expenses | - | - | - | - | - | - | - | 5,909 |
| Interest expense | 7,473 | 809 | 654 | 109 | - | 1,580 | (979) | 9,646 |
| Interest income | 715 | 246 | 31 | 37 | 20 | 1,229 | (979) | 1,299 |
| Other net finance expenses ⁽³⁾ | - | - | - | - | - | - | - | 3,728 |
| Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method | 14,308 | 11,046 | 914 | 182 | 9 | 2,218 | (121) | 28,556 |
| Income taxes | 3,928 | 719 | 371 | 16 | 3 | 2,851 | - | 7,888 |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes | 147 | 15 | - | - | 6,342 | 3 | - | 6,507 |
| Consolidated net income | - | - | - | - | - | - | - | 27,175 |
| Depreciation and amortization ⁽²⁾ | 8,666 | 3,736 | 855 | 92 | - | 360 | - | 13,709 |
| Non-cash items other than depreciation and amortization | 2,908 | 288 | 8 | 17 | - | 630 | - | 3,851 |
| Investments in associates and joint ventures | 22,357 | 611 | - | - | 105,229 | 404 | - | 128,601 |
| Total assets | 279,256 | 59,740 | 35,862 | 3,649 | 108,976 | 90,429 | (32,289) | 545,623 |
| Total liabilities | 150,023 | 42,211 | 24,368 | 3,132 | 7,132 | 64,876 | (32,289) | 259,453 |
| Investments in fixed assets ⁽⁴⁾ | 12,391 | 7,632 | 474 | 299 | - | 1,671 | (312) | 22,155 |

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

⁽²⁾ Includes bottle breakage.

⁽³⁾ Includes foreign exchange loss, net; loss 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.

| 2015 | Coca-Cola FEMSA | FEMSA Comercio Retail Division | FEMSA Comercio Health Division | FEMSA Comercio Fuel Division | CB Equity | Other ⁽¹⁾ | Consolidation Adjustments | Consolidated |
|---|--------------------|--------------------------------------|--------------------------------------|------------------------------------|-----------|----------------------|------------------------------|--------------|
| Total revenues | Ps. 152,360 | Ps. 119,884 | Ps. 13,053 | Ps. 18,510 | Ps. - | Ps. 22,774 | Ps. (14,992) | Ps. 311,589 |
| Intercompany revenue | 3,794 | 46 | - | - | - | 11,152 | (14,992) | - |
| Gross profit | 72,030 | 43,649 | 3,688 | 1,420 | - | 5,334 | (2,942) | 123,179 |
| Administrative expenses | - | - | - | - | - | - | - | 11,705 |
| Selling expenses | - | - | - | - | - | - | - | 76,375 |
| Other income | - | - | - | - | - | - | - | 423 |
| Other expenses | - | - | - | - | - | - | - | (2,741) |
| Interest expense | (6,337) | (612) | (148) | (78) | - | (1,269) | 667 | (7,777) |
| Interest income | 414 | 149 | 8 | 35 | 18 | 1,067 | (667) | 1,024 |
| Other net finance expenses ⁽³⁾ | - | - | - | - | - | - | - | (865) |
| Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method | 14,725 | 9,714 | 416 | 164 | 8 | 208 | (72) | 25,163 |
| Income taxes | 4,551 | 859 | 97 | 28 | 2 | 2,395 | - | 7,932 |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes | 155 | (10) | - | - | 5,879 | 21 | - | 6,045 |
| Consolidated net income | - | - | - | - | - | - | - | 23,276 |
| Depreciation and amortization ⁽²⁾ | 7,144 | 3,132 | 204 | 63 | - | 282 | - | 10,825 |
| Non-cash items other than depreciation and amortization | 1,443 | 296 | (16) | 17 | - | 326 | - | 2,066 |
| Investments in associates and joint ventures | 17,873 | 744 | - | 19 | 92,694 | 401 | - | 111,731 |
| Total assets | 210,249 | 44,677 | 22,534 | 3,230 | 95,502 | 49,213 | (16,073) | 409,332 |
| Total liabilities | 101,514 | 30,661 | 14,122 | 2,752 | 4,202 | 30,298 | (16,073) | 167,476 |
| Investments in fixed assets ⁽⁴⁾ | 11,484 | 5,731 | 317 | 228 | - | 1,448 | (323) | 18,885 |

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

⁽²⁾ Includes bottle breakage.

⁽³⁾ Includes foreign exchange loss, net; loss 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.

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 and Venezuela). Venezuela operates in an economy with exchange controls and hyper-inflation; and as a result, it is not aggregated into the South America area, (iii) Europe (comprised of the Company's equity method investment in Heineken) and (iv) the Asian division comprised of Philippines commencing on February 1, 2017, started to consolidated in the Company financial statements. The Company's results for 2017 reflect a reduction in the share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, as a result of this consolidation (see Note 4.1.2).

Geographic disclosure for the Company is as follow:

| | Total Revenues | Total Non Current Assets |
|---|--------------------|--------------------------------|
| 2017 | | |
| Mexico and Central America ⁽¹⁾ | Ps. 301,463 | Ps. 176,174 |
| Asia | 20,524 | 17,233 |
| South America ⁽²⁾ | 135,608 | 130,225 |
| Venezuela | 3,932 | 1 |
| Europe | - | 83,720 |
| Consolidation adjustments | (1,071) | - |
| Consolidated | Ps. 460,456 | Ps. 407,353 |
| 2016 | | |
| Mexico and Central America ⁽¹⁾ | Ps. 267,732 | Ps. 176,613 |
| South America ⁽²⁾ | 113,937 | 138,549 |
| Venezuela | 18,937 | 7,281 |
| Europe | - | 105,229 |
| Consolidation adjustments | (1,099) | - |
| Consolidated | Ps. 399,507 | Ps. 427,672 |
| 2015 | | |
| Mexico and Central America ⁽¹⁾ | Ps. 228,563 | Ps. 158,506 |
| South America ⁽²⁾ | 74,928 | 67,568 |
| Venezuela | 8,904 | 3,841 |
| Europe | - | 92,694 |
| Consolidation adjustments | (806) | - |
| Consolidated | Ps. 311,589 | Ps. 322,609 |

⁽¹⁾ Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 288,783, Ps. 254,643 and Ps. 218,809 during the years ended December 31, 2017, 2016 and 2015, respectively. Domestic (Mexico only) non-current assets were Ps. 170,547 and Ps. 168,976, as of December 31, 2017, and December 31, 2016, respectively.

⁽²⁾ South America includes Brazil, Argentina, Colombia, Chile and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 64,345, Ps. 48,924 and Ps. 39,749 during the years ended December 31, 2017, 2016 and 2015, respectively. Brazilian non-current assets were Ps. 89,137 and Ps. 97,127, as of December 31, 2017 and December 31, 2016, respectively. South America revenues include Colombia revenues of Ps. 17,545, Ps. 17,027 and Ps. 14,283 during the years ended December 31, 2017, 2016 and 2015, respectively. Colombia non-current assets were Ps. 18,396 and Ps. 18,835, as of December 31, 2017 and December 31, 2016, respectively. South America revenues include Argentina revenues of Ps. 13,938, Ps. 12,340 and Ps. 14,004 during the years ended December 31, 2017, 2016 and 2015, respectively. Argentina non-current assets were Ps. 3,052 and Ps. 3,159, as of December 31, 2017 and December 31, 2016, respectively. South America revenues include Chile revenues of Ps. 40,660 and Ps. 36,631 during the year ended December 31, 2017 and 2016, respectively. Chile non-current assets were Ps. 19,590 and Ps. 19,367, as of December 31, 2017 and 2016, respectively.

Note 27. Future Impact of Recently Issued Accounting Standards not yet in Effect

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

IFRS 15, Revenue from Contracts with Customers

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

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

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

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

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

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

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

IFRS 9, Financial Instruments

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

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

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

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

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

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

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

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

An analysis was carried out to determine the impact of the new Expected Loss model of financial assets to calculate the provisions that should be recorded. An increase is not expected for the provisions of financial assets under the new standard because the accounts receivable are characterized by recovering in the short term, which results in estimates of expected loss that converge to the provisions under IAS39.

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

IFRS 16, Leases

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

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

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

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

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

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

Based on the analysis carried out by the Company, FEMSA Comercio’s business units will particularly generate a significant effect on the Company’s consolidated financial statements as a result of the number of leases in effect as of the date of analysis, as well as an increase of them on daily basis.

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

Annual Improvements 2014-2016 Cycle (issued in December 2016)

These improvements include:

IFRS 2, Classification and Measurement of Share-based Payment Transactions

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

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

IFRIC 23 Uncertainty over Income Tax Treatment

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

- 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 is still in the process of quantifying the impact of the adoption of the IFRIC 23 in the consolidated financial statements.

Note 28. Subsequent Events

In January, 2018, Eduardo Padilla Silva replaced Carlos Salazar Lomelin as Chief Executive Officer.