MEXICAN ECONOMIC DEVELOPMENT INC
Form 20-F
April 24, 2019
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As filed with the Securities and Exchange Commission on April 24, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Commission file number 001-35934

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

(Exact name of registrant as specified in its charter)

Mexican Economic Development, Inc.

(Translation of registrant s name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

General Anaya No. 601 Pte.

Colonia Bella Vista

Monterrey, NL 64410 Mexico

(Address of principal executive offices)

Juan F. Fonseca

General Anaya No. 601 Pte.

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

address of company contact person)

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

Title of each class:	Name of each exchange on which registered:
American Depositary Shares, each representing 10 BD Units, and each BD Unit consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value	**New York Stock Exchange**
2.875% Senior Notes due 2023	**New York Stock Exchange**
4.375% Senior Notes due 2043	**New York Stock Exchange**

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

None

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

None

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

2,161,177,770	BD Units, each consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value. The BD Units represent a total of 2,161,177,770 Series B Shares, 4,322,355,540 Series D-B Shares and 4,322,355,540 Series D-L Shares.
1,417,048,500	B Units, each consisting of five Series B Shares without par value. The B Units represent a total of 7,085,242,500 Series B Shares.

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large Accelerated filer	Accelerated filer
Non-accelerated filer	Emerging growth company

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

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

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

U.S. GAAP	International Financial Reporting Standards as issued by the International Accounting Standards Board	Other

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

Item 17 Item 18

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

Yes No

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INTRODUCTION

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

References

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

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

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

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

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 19.6350 to US$ 1.00, the noon buying rate for Mexican pesos on December 31, 2018, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. On April 19, 2019, this exchange rate was Ps. 18.7705 to US$ 1.00.

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

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

Forward-Looking Information

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

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

ITEMS 1-2. NOT APPLICABLE

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

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

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

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

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

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

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

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

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

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

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

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

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

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

Dividends

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

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

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

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

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

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

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

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

Risk Factors

Risks Related to Our Company

Coca-Cola FEMSA

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

Substantially all of Coca-Cola FEMSA s sales are derived from sales of *Coca-Cola* trademark beverages. Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages through standard bottler agreements in the territories where it operates, which we refer to as Coca-Cola FEMSA territories. Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages from affiliates of TCCC, which price may be unilaterally determined from time to time by TCCC in all such territories. Coca-Cola FEMSA is also required to purchase sweeteners and other raw materials only from companies authorized by TCCC. **See Item 4. Information on the Company Our Territories.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FEMSA Comercio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Mexico and the Other Countries Where We Operate

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

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

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

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

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

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

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

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

Political events in Mexico could adversely affect our operations.

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

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

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

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

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

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

Natural disasters could adversely affect our business.

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

Technology and cyber-security risks.

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

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

In recent years, Mexico has experienced a period of increasing criminal activity, primarily due to organized crime. The presence of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, pose a risk to our business. Historically, these incidents have been relatively concentrated along the northern Mexican border, and during 2018 in certain other Mexican states such as Colima, Morelos, Guerrero, Zacatecas and Veracruz. The north of Mexico is an important region for some of our FEMSA Comercio operations, and an increase in crime rates could negatively affect our sales and customer traffic, increase our security expenses, and result in higher turnover of personnel or damage to the perception of our brands. This situation could worsen and adversely impact our business and financial results because consumer habits and patterns adjust to the increased perceived and real security risks, as people refrain from going out as much and gradually shift some on-premise consumption to off-premise consumption of food and beverages on certain social occasions.

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

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

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

Risks Related to the Heineken Investment

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

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

Heineken operates in a large number of countries.

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

The Mexican peso may strengthen compared to the Euro.

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

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

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

Risks Related to Our Principal Shareholders and Capital Structure

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

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

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

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

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

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

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

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

We may decide not to file a registration statement with the SEC to allow holders of our shares or ADSs who are located in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, the sale by the ADS depositary of preemptive rights and the distribution of the proceeds from such sales to the holders of our shares in the form of ADSs is not possible. As a result, the equity interest of holders of our shares in the form of ADSs would be diluted proportionately. **See Item 10. Additional Information Bylaws Preemptive Rights.**

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

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

Overview

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

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filings we make electronically are available to the public over the internet at the SEC s web site at www.sec.gov and at our website at www.femsa.com. (This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL, is not and shall not be deemed to be incorporated into this annual report.) See Item 10. Additional Information Documents on Display.

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

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

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

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

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

Corporate Background

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Ownership Structure

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

Ownership Structure as of March 31, 2019

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

Significant Subsidiaries

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

Name of Company	Jurisdiction of Establishment	Percentage Owned
CIBSA:	Mexico	100.0%
Coca-Cola FEMSA	Mexico	47.2%[1]
Emprex:	Mexico	100.0%
FEMSA Comercio	Mexico	100.0%
CB Equity	United Kingdom	100.0%

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

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

Operations by Segment Overview

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

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

(1) For 2018, consolidated total revenues exclude the financial information of KOF Philippines due to its discontinued operation classification.
(2) Reflects the percentage decrease between the loss of Ps. 226 million recorded in 2018 and the gain of Ps. 60 million recorded in 2017.
(3) Reflects the percentage decrease between the loss of Ps. 17 million recorded in 2018 and the gain of Ps. 5 million recorded in 2017.
(4) In 2018, FEMSA Comercio s Retail Division removed operations that are not directly related to proximity store business, including restaurant and discount retail units. The removed operations are included in Other Businesses. The business segment is now named the Proximity Division. See note 26 to our audited consolidated financial statements.

Total Revenues Summary by Segment[(1)(2)]

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

(1) The sum of the financial data for each of our segments differs from our consolidated total revenues due to intercompany transactions, which are eliminated in consolidation, and certain assets and activities of FEMSA. For 2018 and 2017, consolidated total revenues exclude the financial information of KOF Philippines due to its discontinued operation classification.
(2) In 2018, FEMSA Comercio s Retail Division removed operations that are not directly related to proximity store business, including restaurant and discount retail units. The removed operations are included in Other Business. The business segment is now named the Proximity Division. See note 26 to our audited consolidated financial statements.

Business Strategy

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

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

We believe that the competencies that our businesses have developed can be replicated in other geographic regions. This underlying principle guides our consolidation and growth efforts, which have led to our current continental footprint. We operate in Mexico, Central and South America, including some of the most populous metropolitan areas in Latin America which provides us with opportunities to create value through both an improved ability to execute our strategies in complex markets and the use of superior commercial tools. We have also increased our capabilities to operate and succeed in other geographic regions by improving management skills in order to obtain a precise understanding of local consumer needs. Going forward, we intend to use those capabilities to continue our international expansion of both Coca-Cola FEMSA and FEMSA Comercio, expanding both our geographic footprint and our presence in the non-alcoholic beverage industry and in small box retail formats, as well as taking advantage of potential opportunities across markets to leverage our capability set.

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

Coca-Cola FEMSA

Overview

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

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

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

- Mexico a substantial portion of central Mexico, the southeast and northeast of Mexico.
- Guatemala
- Nicaragua
- Costa Rica
- Panama
- Colombia most of the country.
- Brazil a major part of the states of Sao Paulo and Minas Gerais, the states of Parana, Santa Catarina and Mato Grosso do Sul and part of the states of Rio de Janeiro, Rio Grande do Sul and Goias.
- Argentina Buenos Aires and surrounding areas.
- Uruguay

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

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

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

Operations by Consolidated Reporting Segment Overview

Year Ended December 31, 2018

	Total Revenues	Gross Profit
	(in millions of Mexican pesos, except percentages)	
Mexico and Central America[(1)]	Ps.100,162	