COCA COLA FEMSA SAB DE CV
Form 20-F
April 12, 2019
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As filed with the Securities and Exchange Commission on April 12, 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 1-12260

Coca-Cola FEMSA, S.A.B. de C.V.

(Exact name of registrant as specified in its charter)

Not Applicable

(Translation of registrant s name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

Calle Mario Pani No. 100,

Santa Fe Cuajimalpa,

Cuajimalpa de Morelos,

05348, Ciudad de México, México

(Address of principal executive offices)

Maria Dyla Castro Varela

Calle Mario Pani No. 100,

Santa Fe Cuajimalpa,

Cuajimalpa de Morelos,

05348 Ciudad de México, México

(52-55) 1519-5121

kofmxinves@kof.com.mx

(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 units	New York Stock Exchange, Inc.
Units, each consisting of 3 Series B shares and 5 Series L shares, without par value	New York Stock Exchange, Inc. (not for trading, for listing purposes only)
Series L shares, without par value	New York Stock Exchange, Inc. (not for trading, for listing purposes only)

Series B shares, without par value	**New York Stock Exchange, Inc.** **(not for trading, for listing purposes only)**

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

The number of outstanding shares of each class of capital or common stock as of December 31, 2018 was:

992,078,519 Series A shares, without par value

583,545,678 Series D shares, without par value

525,208,065 Series L shares, without par value

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).

Yes No

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

Yes No

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

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 IFRS 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

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

References

Unless the context otherwise requires, the terms Coca-Cola FEMSA, our company, we, us and our are used in th annual report to refer to Coca-Cola FEMSA, S.A.B. de C.V. and its subsidiaries on a consolidated basis.

References herein to U.S. dollar, US$, dollar or $ are to the lawful currency of the United States of America. References herein to Mexican pesos or Ps. are to the lawful currency of the United Mexican States, or Mexico.

As used in this annual report:

Central America refers to Guatemala, Nicaragua, Costa Rica and Panama.

South America refers to Argentina, Brazil, Colombia and Uruguay.

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.

References to *Coca-Cola* trademark beverages in this annual report refer to products described in **Item 4. Information on the Company The Company Our Products.**

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.19.64 to US$1.00, the exchange rate for Mexican pesos on December 31, 2018, according to the U.S. Federal Reserve Board. On April 5, 2019, this exchange rate was Ps.19.07 to US$1.00.

To the extent that estimates are contained in this annual report, we believe 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.

Sources

Certain information contained in this annual report has been computed based upon statistics prepared by the Mexican National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*, or INEGI), the Federal Reserve Bank of New York, the U.S. Federal Reserve Board, the Mexican Central Bank (*Banco de México*), the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores,* or the CNBV), local entities in each country where we operate 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 of 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 The Coca-Cola Company, fluctuation in the prices of raw materials, competition, significant developments in economic or political conditions in Mexico, Central and South America, including changes in currency exchange and interest rates, our ability to successfully integrate mergers and acquisitions, 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.

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

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Item 2. Offer Statistics and Expected Timetable

Not applicable.

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Item 3. Key Information

SELECTED CONSOLIDATED FINANCIAL DATA

We prepared our consolidated financial statements included in this annual report in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, or IASB, referred to herein as IFRS.

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 statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2018, 2017 and 2016.

Pursuant to IFRS, the information in this annual report presents financial information in nominal terms and Mexican pesos. In the case of Argentina, on July 1, 2018 the economy satisfied the conditions to be treated as a hyperinflationary economy based on various economic factors, including that Argentina s cumulative inflation over the three-year period prior to such date exceeded 100%, according to available indexes in the country. Effective as of January 1, 2018, we adjusted the financial information of our Argentine operations to recognize inflationary effects and functional currency was converted to Mexican pesos using the exchange rates at the end of the period ended December 31, 2018. See Note 3.4 to our consolidated financial statements. Our non-Mexican subsidiaries maintain their accounting records in their local 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.

Effective as of December 31, 2017, we deconsolidated our operations in Venezuela and as a result began accounting for the results of operations of Coca-Cola FEMSA de Venezuela, S.A., or KOF Venezuela, as an investment under the fair value method pursuant to IFRS 9, *Financial Instruments*. Effective as of January 1, 2018, we no longer include the results of operations of KOF Venezuela in our consolidated financial statements. See Notes 3.3 and 26 to our consolidated financial statements.

Commencing on February 1, 2017, we started consolidating the financial results of Coca-Cola FEMSA Philippines, Inc., or KOF Philippines, in our financial statements. In August 2018, our subsidiary Controladora de Inversiones en Bebidas Refrescantes, S.L., or CIBR, notified The Coca-Cola Company of its decision to exercise its option to sell its 51.0% stake in KOF Philippines and, on December 13, 2018, CIBR completed this sale. As a result, KOF Philippines was classified as an asset held for sale commencing on August 31, 2018 and as a discontinued operation for the year ended December 31, 2018, and the corresponding results for 2017 were restated for comparative purposes. Commencing on January 1, 2018, we stopped accounting for KOF Philippines and, specifically our Asia division, as a separate reporting segment. The net gain derived from the sale of KOF Philippines, as well as KOF Philippines results of operations from January 1, 2018 through December 12, 2018 were recorded in our consolidated financial statements as part of our Mexico and Central America consolidated reporting segment. See Notes 5 and 26 to our consolidated financial statements.

Except when specifically indicated, information in this annual report on Form 20-F is presented as of December 31, 2018 and does not give effect to any transaction 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 consolidated financial statements, including the notes thereto, and the information in **Item 5. Operating and Financial Review and Prospects.** 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 consolidated financial statements for our significant accounting policies.

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	Year Ended December 31,					
	2018[1][2]	2018[2]	2017[3]	2016[4]	2015	2014
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)					
Income Statement Data:						
Total revenues	US$ 9,286	Ps. 182,342	Ps. 183,256	Ps. 177,718	Ps. 152,360	Ps. 147,298
Cost of goods sold	5,012	98,404	99,748	98,056	80,330	78,916
Gross profit	4,274	83,938	83,508	79,662	72,030	68,382
Administrative expenses	407	7,999	7,693	7,423	6,405	6,385
Selling expenses	2,543	49,925	50,351	48,039	41,879	40,465
Other income	29	569	1,542	1,281	620	1,001
Other expenses	125	2,450	32,899[5]	5,093	2,368	1,159
Interest expenses	385	7,568	8,777	7,471	6,337	5,546
Interest income	51	1,004	791	715	414	379
Foreign exchange gain (loss), net	(14)	(277)	788	(1,792)	(1,459)	(968)
Gain (loss) on monetary position for subsidiaries in hyperinflationary economies	11	212	1,590	2,417	(33)	(312)
Market value gain (loss) on financial instruments	(16)	(314)	246	51	142	25
Income (loss) before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	875	17,190	(11,255)	14,308	14,725	14,952
Income taxes	268	5,260	4,184	3,928	4,551	3,861
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	(12)	(226)	60	147	155	(125)
Net income (loss) for continuing operations	596	11,704	(15,379)	10,527	14,725	14,952
Net income (loss) for discontinued operations	172	3,366	3,725			

Consolidated net income (loss)	768	15,070	(11,654)	10,527	10,329	10,966
Attributable to:						
Equity holders of the parent for continuing operations	557	10,936	(16,058)	10,070	10,235	10,542
Equity holders of the parent for discontinued operations	152	2,975	3,256			
Non-controlling interest for continuing operations	39	768	679	457	94	424
Non-controlling interest for discontinued operations	20	391	469			
Consolidated net income (loss)	768	15,070	(11,654)	10,527	10,329	10,966
Ratio to Revenues (%)						
Gross profit margin	46.0	46.0	45.6	44.8	47.3	46.4
Net income margin	8.3	8.3	(6.4)	5.9	6.8	7.4

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	As of December 31, (in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)					
	2018(1)(2)	2018(2)	2017(3)	2016(4)	2015	2014
Balance Sheet Data:						
Cash and cash equivalents	US$ 1,208	Ps. 23,727	Ps. 18,767	Ps. 10,476	Ps. 15,989	Ps. 12,958
Accounts receivable, net, inventories, recoverable taxes, other current financial assets and other current assets	1,720	33,763	36,890	34,977	26,243	25,170
Total current assets	2,928	57,490	55,657	45,453	42,232	38,128
Investments in other entities	536	10,518	12,540	22,357	17,873	17,326
Property, plant and equipment, net	3,155	61,942	75,827	65,288	50,532	50,527
Intangible assets, net	5,949	116,804	124,243	123,964	90,754	97,024
Deferred tax assets, other non-current financial assets and other non-current assets	868	17,033	17,410	22,194	8,858	9,361
Total non-current assets	10,508	206,297	230,020	233,803	168,017	174,238
Total assets	13,436	263,787	285,677	279,256	210,249	212,366
Bank loans and notes payable	70	1,382	2,057	1,573	384	301
Current portion of non-current debt	521	10,222	10,114	1,479	3,086	905
Interest payable	25	497	487	520	411	371
Suppliers, accounts payable, taxes payable and other current financial liabilities	1,705	33,423	42,936	36,296	26,599	26,826
Total current liabilities	2,321	45,524	55,594	39,868	30,480	28,403
Bank loans and notes payable	3,575	70,201	71,189	85,857	63,260	64,821
Post-employment and other non-current employee benefits, deferred tax liabilities, other non-current financial liabilities, provisions and other non-current liabilities	830	16,312	18,184	24,298	7,774	9,024
Total non-current liabilities	4,405	86,513	89,373	110,155	71,034	73,845
Total liabilities	6,726	132,037	144,967	150,023	101,514	102,248
Total equity	6,710	131,750	140,710	129,233	108,735	110,118
	6,363	124,944	122,569(6)	122,137	104,749	105,717

Equity attributable to equity holders of the parent						
Non-controlling interest in consolidated subsidiaries	347	6,806	18,141	7,096	3,986	4,401
Total liabilities and equity	13,436	263,787	285,677	279,256	210,249	212,366

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	As of December 31,					
	2018(1)(2)	2018(2)	2017(3)	2016(4)	2015	2014
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)					
Financial Ratios (%)						
Current(7)	1.26	1.26	1.00	1.14	1.38	1.34
Leverage(8)	1.0	1.0	1.03	1.16	0.93	0.93
Capitalization(9)	0.41	0.41	0.39	0.41	0.39	0.38
Coverage(10)	4.22	4.22	4.20	4.80	3.92	4.73
Share Data(11)						
A Shares	7,936,628,152	7,936,628,152	7,936,628,152	7,936,628,152	7,936,628,152	7,936,628,152
D Shares	4,668,365,424	4,668,365,424	4,668,365,424	4,668,365,424	4,668,365,424	4,668,365,424
B Shares	1,575,624,195	1,575,624,195	1,575,624,195	1,491,894,096	1,491,894,096	1,491,894,096
L Shares	2,626,040,325	2,626,040,325	2,626,040,325	2,486,490,160	2,486,490,160	2,486,490,160
Number of outstanding shares	16,806,658,096	16,806,658,096	16,806,658,096	16,583,377,832	16,583,377,832	16,583,377,832
Per Share Data(11)						
Book Value(12)	0.38	7.43	7.29	7.37	6.32	6.37
Basic earnings (loss) per share from(13):						
Continuing operations	0.03	0.65	(0.96)	0.61	0.62	0.64
Discontinued operations	0.01	0.18	0.19			
Diluted earnings (loss) per share from(14):						
Continuing operations	0.03	0.65	(0.96)	0.61	0.62	0.64
Discontinued operations	0.01	0.18	0.19			

(1) Translation to U.S. dollar amounts at an exchange rate of Ps.19.64 to US$1.00 solely for the convenience of the reader.

(2) Includes results of Alimentos y Bebidas Atlantida, S.A., or ABASA, and Comercializadora y Productora de Bebidas Los Volcanes, S.A., or Los Volcanes, from May 2018 and of Montevideo Refrescos S.R.L., or Monresa, from July 2018. **See Item 4. Information on the Company The Company Corporate History.**

(3) Our consolidated statements of income for 2017 were restated for comparative purposes, as a result of the sale of our equity participation in KOF Philippines. For further information **see Item 5. Operating and Financial Review and Prospects General Sale of Equity Participation in KOF Philippines.**

(4) Includes results of Vonpar S.A., or Vonpar, from December 2016. **See Item 4. Information on the Company The Company Corporate History.**

(5) See Note 19 to our consolidated financial statements.

(6) See Note 3.3 to our consolidated financial statements.

(7) Computed by dividing total current assets by total current liabilities.

(8) Computed by dividing total liabilities by total equity.

(9) Computed by adding current bank loans and notes payable, current portion of non-current debt and non-current bank loans and notes payable, and dividing such sum by the sum of total equity and non-current bank loans and notes payable.

(10) Computed by dividing net cash flows from operating activities by the difference between interest expense and interest income.

(11) Share data and per share data has been restated to give effect to the stock split described in **Item 4. Information on the Company The Company Capital Stock.**

(12) Based on 16,806.7 million shares as of December 31, 2018 and 2017, and 16,583.4 million shares as of December 31, 2016, 2015 and 2014.

(13) Computed on the basis of the weighted average number of shares outstanding during the period: 16,806.7 million in 2018, 16,730.8 million in 2017, and 16,598.7 million in 2016, 2015 and 2014.

(14) The diluted earnings per share calculation was computed on the basis of the diluted weighted average number of shares outstanding during the period: 16,806.7 million in 2018, 16,730.8 million in 2017, 16,598.7 million in 2016 (which reflects the commitment to deliver Series L shares to the sellers of Vonpar, without changing the number of shares for 2016) and 16,583.4 million in 2015 and 2014. For further information see Note 3.26 to our consolidated financial statements.

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DIVIDENDS AND DIVIDEND POLICY

The following table sets forth the nominal amount in Mexican pesos of dividends declared, paid and to be paid per share each year and the U.S. dollar amounts on a per share basis actually paid or to be paid to holders of American Depositary Shares, which we refer to as ADSs, on each of the respective payment dates.

Fiscal Year with Respect to which Dividend was Declared(1)	Date Dividend Paid or To Be Paid	Mexican Pesos per Share (Nominal)(2)	U.S. Dollars per Share(3)
2014	May 5, 2015	1.540	0.090
	November 3, 2015	1.550	0.090
2015	May 3, 2016	1.670	0.097
	November 1, 2016	1.680	0.089
2016	May 3, 2017	1.680	0.086
	November 1, 2017	1.670	0.087
2017	May 3, 2018	1.680	0.088
	November 1, 2018	1.670	0.083
2018	May 3, 2019	1.770(4)	(5)
	November 1, 2019	1.770(4)	(5)

(1) The dividends declared for each fiscal year were divided into two payments.
(2) Based on the number of shares outstanding at the time the dividend is paid.
(3) Expressed in U.S. dollars using the applicable exchange rate when the dividend was paid.
(4) Dividend declared prior to the eight-for-one stock split described in **Item 4. Information on the Company The Company Capital Stock**. As a result of the stock split, the dividend per share to be paid will be Ps.0.22125 per share, or the amount of the dividend declared divided by eight.
(5) Because the dividend declared for the fiscal year 2018 has not been paid at the time of this annual report, the U.S. dollar per share amount has not been determined.

The declaration, amount and payment of dividends are subject to the approval by holders of a majority of our shares (except for our Series L shares, which do not grant the right to vote on the declaration, amount and payment of dividends); provided that, if the amount of dividends exceeds 20.0% of the preceding years retained earnings, the approval by holders of a majority of our Series D shares is also required. The declaration, amount and payment of dividends is also subject to and dependent generally upon the recommendation of our board of directors, and upon our results, financial condition, capital requirements, general business conditions and the requirements of Mexican law. Accordingly, our historical dividend payments are not necessarily indicative of future dividends. See **Item 10. Additional Information Bylaws Dividend Rights.**

We pay all cash dividends in Mexican pesos. Exchange rate fluctuations affect the U.S. dollar amounts received by holders of ADSs as a result of the conversion by the ADS depositary of cash dividends paid on the Series L shares and Series B shares underlying our units represented by such ADSs. In addition, exchange rate fluctuations between the Mexican peso and the U.S. dollar affect the market price of the ADSs.

Under Mexican income tax law, dividends, either in cash or in kind, paid to individuals that are Mexican residents, and to individuals and companies that are non-Mexican residents, on our shares, including the Series L shares and the Series B shares underlying our units, including units represented by ADSs, are subject to a 10.0% Mexican withholding tax, or a lower rate if covered by a tax treaty. **See Item 10. Additional Information Taxation Mexican**

Taxation.

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RISK FACTORS

Risks Related to Our Company

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

Substantially all of our sales are derived from sales of *Coca-Cola* trademark beverages. We produce, market, sell and distribute *Coca-Cola* trademark beverages through standard bottler agreements in the territories where we operate, which we refer to as our territories. We are required to purchase concentrate for all *Coca-Cola* trademark beverages from affiliates of The Coca-Cola Company, which price may be unilaterally determined from time to time by The Coca-Cola Company in all such territories. We are also required to purchase sweeteners and other raw materials only from companies authorized by The Coca-Cola Company. **See Item 4. Information on the Company The Company Our Territories.**

In addition, under our bottler agreements, we are prohibited from bottling or distributing any other beverages without The Coca-Cola Company s authorization or consent, and we may not transfer control of the bottler rights of any of our territories without prior consent from The Coca-Cola Company.

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

We depend on The Coca-Cola Company to continue with our bottler agreements. Our 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 us from selling *Coca-Cola* trademark beverages in the affected territory. The foregoing and any other adverse changes in our relationship with The Coca-Cola Company would have an adverse effect on our business, financial condition, results of operations and prospects.

The Coca-Cola Company and FEMSA have substantial influence on the conduct of our business, which may result in us taking actions contrary to the interests of our shareholders other than The Coca-Cola Company and FEMSA.

The Coca-Cola Company and Fomento Económico Mexicano, S.A.B. de C.V., which we refer to as FEMSA, have substantial influence on the conduct of our business. As of the date of this report, The Coca-Cola Company indirectly owned 27.8% of our outstanding capital stock, representing 32.9% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint up to five of our maximum of 21 directors and the vote of at least two of them is required to approve certain actions by our board of directors. As of the date of this report, FEMSA indirectly owned 47.2% of our outstanding capital stock, representing 56.0% of our capital stock with full voting rights. FEMSA is entitled to appoint up to 13 of our maximum of 21 directors and all of our executive officers. The Coca-Cola Company and FEMSA together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval by our board of directors, and FEMSA and The Coca-Cola Company together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval of our shareholders. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.** The interests of The Coca-Cola Company and FEMSA may be different from the interests of our other shareholders, which may result in us taking actions contrary to the interests of such other shareholders.

Changes in consumer preferences and public concern about health related issues could reduce demand for some of our 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 we operate. 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 our 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, or HFCS. In addition, concerns over the environmental impact of plastic may reduce the consumption of our 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 our failure to meet consumers preferences, could reduce demand for some of our products, which would adversely affect our business, financial condition, results of operations and prospects. **See Item 4. Information on the Company The Company Business Strategy.**

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

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

If we are unable to protect our information systems against service interruption, misappropriation of data or breaches of security, our operations could be disrupted, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We rely 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. We use 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 our operating activities, our 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. We 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 our information systems could have a material adverse effect on our business, financial condition, results of operations and prospects.

Negative or inaccurate information on social media could adversely affect our 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 which allow individual access to a broad audience of consumers and other interested persons. Negative or inaccurate information concerning or affecting us or the *Coca-Cola* trademarks may be posted on such platforms at any time. This information may harm our reputation without affording us an opportunity for redress or correction, which could in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

Competition could adversely affect our business, financial condition, results of operations and prospects.

The beverage industry in the territories where we operate is highly competitive. We face 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. We also compete 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 we will continue to face strong competition in our beverage categories in all of our 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 our territories, we compete 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 The Company Competition.** Lower pricing and activities by our competitors and changes in consumer preferences may have an adverse effect on our business, financial condition, results of operations and prospects.

Water shortages or any failure to maintain existing concessions or contracts could adversely affect our business, financial condition, results of operations and prospects.

Water is an essential component of all of our products. We obtain water from various sources in our territories, including springs, wells, rivers and municipal and state water companies pursuant to either concessions granted by governments in our various territories (including governments at the federal, state or municipal level) or pursuant to contracts.

We obtain the vast majority of the water used in our 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. Our 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 Regulation Water Supply.** In some of our other territories, our existing water supply may not be sufficient to meet our future production needs, and the available water supply may be adversely affected by shortages or changes in governmental regulations and environmental changes.

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We cannot assure you that water will be available in sufficient quantities to meet our future production needs or will prove sufficient to meet our water supply needs. Continued water scarcity in the regions where we operate may adversely affect our business, financial condition, results of operations and prospects.

Increases in the prices of raw materials would increase our cost of goods sold and may adversely affect our business, financial condition, results of operations and prospects.

In addition to water, our most significant raw materials are (i) concentrate, which we acquire from affiliates of The Coca-Cola Company, (ii) sweeteners and (iii) packaging materials.

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

The prices for our other raw materials are driven by market prices and local availability, the imposition of import duties and restrictions and fluctuations in exchange rates. We are also required to meet all of our supply needs (including sweeteners and packaging materials) from suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to us. Our sales prices are denominated in the local currency in each country where we operate, while the prices of certain materials, including those used in the bottling of our 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. We 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 we will be successful in mitigating any such fluctuations through derivative instruments or otherwise. **See Item 4. Information on the Company The Company Raw Materials.**

Our 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 our 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 we operate, other than Brazil, sugar prices are subject to local regulations and other barriers to market entry that cause us to purchase sugar above international market prices. **See Item 4. Information on the Company The Company Raw Materials.** We cannot assure you that our raw material prices will not further increase in the future or that we will be successful in mitigating any such increase through derivative instruments or otherwise. Increases in the prices of raw materials would increase our cost of goods sold and adversely affect our business, financial condition, results of operations and prospects.

Regulatory developments may adversely affect our business, financial condition, results of operations and prospects.

We are subject to several laws and regulations in each of the territories where we operate. The principal areas in which we are 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 Regulation.** Changes in existing laws and regulations, the adoption of new laws or regulations, or a stricter interpretation or enforcement thereof in the countries where we operate may increase our operating and compliance costs or impose restrictions on our operations which, in turn, may adversely affect our 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 we operate. **See Item 4. Information on the Company Regulation Price Controls.** We cannot assure you that existing or future laws and regulations in the countries where we operate relating to goods and services (in particular, laws and regulations imposing statutory price controls) will not affect our products, our ability to set prices for our products, or that we will not need to implement price restraints, which could have a negative effect on our business, financial condition, results of operations and prospects.

We operate in multiple territories and are subject to complex regulatory frameworks with increased enforcement activities. Despite our internal governance and compliance processes, we may be subject to unexpected breaches by our employees, contractors or other agents to our code of ethics, anti-corruption policies and business conduct protocols, including instances of fraudulent behavior, corrupt practices and dishonesty by any of them. Our failure to comply with applicable laws and other standards could harm our reputation, subject us to substantial fines, sanctions or penalties and adversely affect our business. There is no assurance that we 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 our business, financial condition, results of operations and prospects.

The countries where we operate may adopt new tax laws or modify existing tax laws to increase taxes applicable to our business or products. Our products are subject to certain taxes in many of the countries where we operate. **See Item 4. Information on the Company Regulation 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 our business, financial condition, results of operations and prospects.

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

Unfavorable outcome of legal proceedings could have an adverse effect on our business, financial condition, results of operations and prospects.

Our 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. We also have 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 our business, financial condition, results of operations and prospects. **See Item 8. Financial Information Legal Proceedings.**

Weather conditions and natural disasters may adversely affect our business, financial condition, results of operations and prospects.

Lower temperatures, higher rainfall and other adverse weather conditions such as hurricanes, as well as natural disasters such as earthquakes and floods, may negatively impact consumer patterns, which may result in reduced sales of our 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 we operate and limit our ability to produce, sell and distribute our products, thus affecting our business, financial condition, results of operations and prospects.

We may not be able to successfully integrate our acquisitions and achieve the expected operational efficiencies or synergies.

We have and we may continue to acquire bottling operations and other businesses. Key elements to achieving the benefits and expected synergies of our acquisitions and mergers are the integration of acquired or merged businesses operations into our own in a timely and effective manner and the retention of qualified and experienced key personnel. We 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 into our operating structure. We cannot assure you that these efforts will be successful or completed as expected by us, and our business, financial condition, results of operations and prospects could be adversely affected if we are unable to do so.

An impairment in the carrying value of distribution rights under our bottler agreements and goodwill of acquired businesses could negatively affect our financial condition and results of operations.

We periodically review the carrying value of our intangible assets, including distribution rights under our 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 we operate, 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 our bottler agreements or goodwill of acquired territories could have a material adverse effect on our financial condition and results of operations.

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Risks Related to the units and the ADSs

Our Series L shares have limited voting rights.

Our Series L shares grant the right to vote only in certain circumstances. In general terms, they grant the right to elect up to three of our maximum of 21 directors and only grant the right to vote on specific matters, including certain changes in our corporate form, mergers involving our company when our company is the merged entity or when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of our shares on the *Bolsa Mexicana de Valores* (Mexican Stock Exchange, or BMV) or any other foreign stock exchange, and those matters for which the *Ley del Mercado de Valores* (Mexican Securities Market Law) expressly grants the right to vote to classes of shares with limited voting rights. As a result, holders of units will not be able to influence our business or operations with respect to the Series L shares they indirectly hold. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders** and **Item 10. Additional Information Bylaws Voting Rights, Transfer Restrictions and Certain Minority Rights.**

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

Our units, which are comprised of 3 Series B shares and 5 Series L shares, trade on the New York Stock Exchange (NYSE) in the form of ADSs, each representing 10 units. Holders of ADSs may not receive notice of Series L or Series B shareholder meetings from the ADS depositary in sufficient time to enable such holders to return voting instructions to the ADS depositary in a timely manner.

The protections afforded to minority shareholders in Mexico are different from those afforded to minority shareholders in the United States and investors may experience difficulties in enforcing civil liabilities against us or our directors, officers and controlling persons.

Under the Mexican Securities Market Law, the protections afforded to minority shareholders are different from, and may be less than, those afforded to minority shareholders in the United States. Therefore, it may be more difficult for minority shareholders to enforce their rights against us, our directors or our controlling interest shareholders than it would be for minority shareholders of a U.S. company.

In addition, we are organized under the laws of Mexico and most of our directors, officers and controlling persons reside outside the United States, and all or a substantial portion of our assets and the assets of our directors, officers and controlling persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws.

The enforceability against our directors, officers and controlling persons in Mexico in actions for enforcement of judgments of U.S. courts, and liabilities predicated solely upon the U.S. federal securities laws will be subject to certain requirements provided for in the Mexican Federal Civil Procedure Code and any applicable treaties. Some of the requirements may include personal service of process and that the judgments of U.S. courts are not against Mexican public policy. The Mexican Securities Market Law, which is considered Mexican public policy, provides that in the event of actions derived from any breach of the duty of care and the duty of loyalty against our directors and officers, any remedy would be exclusively for the benefit of our company. Therefore, investors would not be directly entitled to any remedies under such actions.

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 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 will not adversely affect the market value of our securities.

Holders of units and ADSs in the United States may not be able to participate in any capital 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, treasury stock or mergers, 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 units 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, or 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, as amended. 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 units and ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

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We may decide not to file a registration statement with the SEC that would allow holders of our units 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 ADSs is not possible. As a result, the equity interest of such holders of units or ADSs would be diluted proportionately. **See Item 10. Additional Information Bylaws Preemptive Rights.**

Risks Related to the Countries Where We Operate

Adverse economic conditions in the countries where we operate may adversely affect our financial condition and results.

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. We also conduct an important part of our operations in Brazil. For the year ended December 31, 2018, approximately 77.3% of our total revenues were attributable to Mexico and Brazil. Our results are affected by the economic conditions in the countries where we conduct operations. Consumer demand and preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic conditions, which vary by country and may not be correlated. In addition, adverse economic conditions may affect and reduce consumer per capita income, thereby adversely affecting consumer demand for our products as a result of a decrease in consumer purchasing power. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our business, financial condition, results of operations and prospects.

Some of the countries where we conduct operations are influenced by the U.S. economy. Deterioration in economic conditions in the U.S. economy may affect these economies. In particular, economic conditions in Mexico are correlated with economic conditions in the United States as a result of the North American Free Trade Agreement. On November 30, 2018, Mexico, Canada and the United States signed a new free trade agreement, the U.S.-Mexico-Canada Agreement, or USMCA, which is yet to be ratified by the signatory countries. Any adverse event affecting the relationship between Mexico and the United States, including the termination of any free trade agreement between these two countries, may have a significant adverse effect on the Mexican economy.

Our business may also be significantly affected by interest rates, inflation rates and exchange rates of the local currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk.** In addition, an increase in interest rates would increase the cost to us of variable rate funding (which, after giving effect to our swap contracts, and calculated by weighting each year s outstanding debt balance mix, constituted approximately 6.9% of our total debt as of December 31, 2018), which would have an adverse effect on our financial position. A continued and prolonged increase in inflation rates in any of the countries where we operate may result in such country being categorized as a hyperinflationary economy for accounting purposes, which would change the manner in which we present and report financial information related to our operations in such country. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.**

On July 1, 2018, Argentina s economy satisfied the conditions to be treated as a hyperinflationary economy based on various economic factors, including that Argentina s cumulative inflation over the three-year period prior to such date exceeded 100%, according to available indexes in the country. Continuing hyperinflation in Argentina may adversely affect our financial position and results of our operations.

***Depreciation of the local currencies of the countries where we operate relative to the U.S. dollar could adversely affect our financial condition and results*.**

Depreciation of local currencies relative to the U.S. dollar increases our cost of some of the raw materials we acquire, the price of which may be paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and may therefore negatively affect our results, financial position and equity. In addition, depreciation of local currencies of the countries where we operate relative to the U.S. dollar may also potentially increase inflation rates in such countries. Significant fluctuations of local currencies relative to the U.S. dollar have occurred in the past and may continue in the future, negatively affecting our results. 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.**

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We selectively hedge our exposure to the U.S. dollar with respect to certain local currencies, our U.S. dollar-denominated debt obligations and the purchase of certain U.S. dollar-denominated raw materials. A severe depreciation of any currency of the countries where we operate may result in a disruption of the international foreign exchange markets and may limit our ability to transfer or to convert such currencies into U.S. dollars or other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated indebtedness or obligations in other currencies. While the Mexican government does not restrict 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. Currency fluctuations may have an adverse effect on our results, financial condition and cash flows in future periods.

Political and social events in the countries where we operate and elsewhere and changes in governmental policies may have an adverse effect on our business, financial condition, results of operations and prospects.

In recent years, some of the governments in the countries where we operate have implemented and may continue to implement significant changes in laws, public policy or regulations that could affect the political and social conditions in these countries. Any such changes, and similar changes in other countries such as the U.S., may have an adverse effect on our business, results of operations, prospects and financial condition. Furthermore, national presidential and legislative elections took place in 2018 or are scheduled to take place in 2019 in several of the countries where we operated in 2018, including Mexico, Brazil, Argentina, Costa Rica, Colombia, Guatemala and Panama. We cannot assure you that political or social developments in the countries where we operate or elsewhere, such as the election of new administrations, changes in laws, public policy or regulations, political disagreements, civil disturbances and the rise in violence and perception of violence, over which we have no control, will not have a corresponding adverse effect on the local or global markets or on our business, financial condition, results of operations and prospects.

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Item 4. Information on the Company

THE COMPANY

Overview

We are the largest franchise bottler of *Coca-Cola* trademark beverages in the world in terms of volume. We operate 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.

We also operate in Venezuela through our investment in KOF Venezuela.

Our company 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, we became a publicly traded stock corporation with variable capital (*sociedad anónima bursátil de capital variable*). Our legal name is Coca-Cola FEMSA, S.A.B. de C.V. Our principal executive offices are located at Calle Mario Pani No. 100, Colonia Santa Fe Cuajimalpa, Delegación Cuajimalpa de Morelos, 05348, Ciudad de México, México. Our telephone number at this location is (52-55) 1519-5000. Our website is www.coca-colafemsa.com.

The following is an overview of our operations by consolidated reporting segment in 2018.

Operations by Consolidated Reporting Segment Overview

Year Ended December 31, 2018

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

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

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

Corporate History

We are a subsidiary of FEMSA, a leading company that participates in the beverage industry through us, and the beer industry through its ownership of the second largest equity stake in Heineken, one of the world s leading brewers with operations in over 70 countries. FEMSA also participates in the retail industry through FEMSA Comercio, which is comprised of a retail division operating various small-format chain stores including OXXO, a health division which includes drugstores and related operations and a fuel division operated by OXXO Gas, a chain of retail fuel service stations. Additionally, FEMSA, through its strategic businesses unit, provides logistics services, point-of-sale refrigeration solutions and plastics solutions to FEMSA s business units and third-party clients.

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

In a series of transactions since 1994, we acquired new territories, brands and other businesses, including Argentina and certain territories in southern Mexico, which today comprise our business. In May 2003, we acquired Panamerican Beverages Inc., or Panamco, and began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central, southeastern and northeastern regions of Mexico and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories.

In November 2006, FEMSA acquired 148,000,000 of our Series D shares from certain subsidiaries of The Coca-Cola Company, which increased FEMSA s ownership to 53.7%.

In November 2007, we acquired together with The Coca-Cola Company 100.0% of the shares of capital stock of Jugos del Valle, S.A.P.I. de C.V., or Jugos del Valle. In 2008, we, The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle.

In December 2007 and May 2008, we sold most of our proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to us by The Coca-Cola Company pursuant to our bottler agreements.

In May 2008, we entered into a transaction with The Coca-Cola Company to acquire its wholly owned bottling franchise Refrigerantes Minas Gerais, Ltda., or REMIL, located in the State of Minas Gerais in Brazil.

In July 2008, we acquired the Agua de los Angeles bulk water business in Mexico City and surrounding areas from Grupo Embotellador CIMSA, S.A. de C.V., or Grupo CIMSA, at the time one of the *Coca-Cola* bottling franchises in Mexico. The trademarks remain with The Coca-Cola Company. We subsequently merged Agua de los Angeles into our bulk water business under the *Ciel* brand.

In February 2009, we acquired together with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, S.A., a subsidiary of SABMiller plc. We acquired the production assets and the distribution territory, and The Coca-Cola Company acquired the *Brisa* brand.

In May 2009, we entered into an agreement to manufacture, distribute and sell the *Crystal* trademark water products in Brazil jointly with The Coca-Cola Company.

In August 2010, we acquired from The Coca-Cola Company, along with other Brazilian *Coca-Cola* bottlers, Leão Alimentos e Bebidas, Ltda., or Leão Alimentos, manufacturer and distributor of the *Matte Leão* tea brand, which would later be integrated with the Brazilian operations of Jugos del Valle.

In March 2011, we acquired together with The Coca-Cola Company, Industrias Lácteas, S.A. (known as Estrella Azul), a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama.

In October 2011, we merged with Administradora de Acciones del Norte, S.A.P.I. de C.V., or Grupo Tampico, a Mexican bottler with operations in the states of Tamaulipas, San Luis Potosi, and Veracruz, as well as in parts of the states of Hidalgo, Puebla and Queretaro.

In December 2011, we merged with Corporación de los Angeles, S.A. de C.V., also part of Grupo CIMSA, a Mexican *Coca-Cola* bottler with operations mainly in the states of Morelos and Mexico, as well as in parts of the states of Guerrero and Michoacan. As part of our merger with Grupo CIMSA, we also acquired a minority equity interest in Promotora Industrial Azucarera, S.A de C.V., or PIASA.

In May 2012, we merged with Grupo Fomento Queretano, S.A.P.I. de C.V., or Grupo Fomento Queretano, a Mexican bottler with operations mainly in the state of Queretaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. As part of our merger with Grupo Fomento Queretano, we increased our minority equity interest in PIASA.

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In August 2012, we acquired, through Jugos del Valle, an indirect minority participation in Santa Clara Mercantil de Pachuca, S.A. de C.V., or Santa Clara, a producer of milk and dairy products in Mexico.

In January 2013, we acquired, through CIBR, a 51.0% stake in KOF Philippines from The Coca-Cola Company. In December 2018, CIBR completed the sale of its stake in KOF Philippines back to The Coca-Cola Company through the exercise of CIBR s option to sell.

In May 2013, we merged with Grupo Yoli, S.A. de C.V., a Mexican bottler with operations mainly in the state of Guerrero, as well as in parts of the state of Oaxaca. As part of our merger with Grupo Yoli, we increased our minority equity interest in PIASA.

In August 2013, we acquired Companhia Fluminense de Refrigerantes, or Companhia Fluminense, a franchise that operates in parts of the states of Sao Paulo, Minas Gerais and Rio de Janeiro in Brazil. As part of our acquisition of Companhia Fluminense, we also acquired an additional minority equity interest in Leão Alimentos.

In October 2013, we acquired Spaipa S.A. Industria Brasileira de Bebidas, or Spaipa, a Brazilian bottler with operations in the state of Parana and in parts of the state of Sao Paulo. As part of our acquisition of Spaipa, we increased our minority equity interest in Leão Alimentos and a 50.0% stake in Fountain Água Mineral Ltda., a joint venture to develop the water category together with The Coca-Cola Company.

In 2016, we entered into certain distribution agreements with Monster Energy Company to sell and distribute *Monster* trademark energy drinks in most of our territories. These agreements have a ten-year term and are automatically renewed for up to two five-year terms.

In August 2016, we acquired, through Leão Alimentos, an indirect participation in Laticínios Verde Campo Ltda., a producer of milk and dairy products in Brazil.

In December 2016, we acquired Vonpar, a Brazilian bottler of *Coca-Cola* trademark products with operations in the states of Rio Grande do Sul and Santa Catarina in Brazil. As part of our acquisition of Vonpar, we increased our minority equity interest in Leão Alimentos.

In March 2017, we acquired together with The Coca-Cola Company, through our Mexican, Brazilian, Argentine, Colombian subsidiaries and also through our interest in Jugos del Valle in Mexico, a participation in the AdeS plant-based beverage businesses. As a result of this acquisition, we have exclusive distribution rights of AdeS plant-based beverages in our territories.

In April 2018, Compañía Inversionista en Bebidas del Norte, S.L., one of our subsidiaries, acquired from The Coca-Cola Company ABASA, a Guatemalan bottler of *Coca-Cola* trademark products with operation in the northeast region of Guatemala.

In April 2018, Compañía de Inversiones Moderna, S.L., one of our subsidiaries, acquired from The Coca-Cola Company Los Volcanes, a Guatemalan bottler of *Coca-Cola* trademark products with operations in the southwest region of Guatemala.

In June 2018, Inversiones en Bebidas Refrescantes Ibérica, S.L., one of our subsidiaries, acquired from The Coca-Cola Company, Monresa, the Uruguayan bottler of *Coca-Cola* trademark products.

Capital Stock

On April 11, 2019, we completed an eight-for-one stock split, or the Stock Split , whereby (a) for each Series A share, holders of Series A shares received eight new Series A shares, (b) for each Series D share, holders of Series D shares received eight new Series D shares and (c) for each Series L share, holders of Series L shares received one unit (each consisting of 3 Series B shares (with full voting rights) and 5 Series L shares (with limited voting rights)). Effective on April 11, 2019, our units were listed for trading on the Mexican Stock Exchange and ADSs, each representing 10 units, were listed for trading on the NYSE.

As of the date of this report, (1) FEMSA indirectly owned Series A shares equal to 47.2% of our capital stock (56.0% of our capital stock with full voting rights), and (2) The Coca-Cola Company indirectly owned Series D shares equal to 27.8% of our capital stock (32.9% of our capital stock with full voting rights). Series L shares with limited voting rights constituted 15.6% of our capital stock, and Series B shares constituted the remaining 9.4% of our capital stock (the remaining 11.1% of our capital stock with full voting rights).

Business Strategy

We operate with a large geographic footprint in Latin America. To consolidate our position as a global leader in the beverage business, we continue to expand our robust portfolio of beverages, transforming and enhancing our operational capabilities, inspiring a cultural evolution, and embedding sustainability throughout our business to create economic, social, and environmental value for all of our stakeholders.

Our view on sustainable development is a comprehensive part of our business strategy. We base our efforts in our ethics and values, focusing on (i) our people, (ii) our communities and (iii) our planet, and we take a responsible and disciplined approach to the use of resources and capital allocation.

To maximize growth and profitability and driven by our centers of excellence s initiatives we plan on continuing to execute the following key strategies: (i) accelerate revenue growth, (ii) increase our business scale and profitability across categories, (iii) continue our expansion through organic growth and strategic joint ventures, mergers and acquisitions, (iv) accelerate the digitization of our end-to-end processes and (v) empower people to lead this transformation, building on our high performance organization.

We seek to accelerate our revenue growth through the introduction of new categories, products and presentations that better meet our consumers needs and preferences, while maintaining our core products and improving our profitability. To address our consumers diverse lifestyles, we have developed new products through innovation and have expanded the availability of low- and non-caloric beverages by reformulating existing products to reduce added sugar and offering smaller presentations of our products. As of December 31, 2018, approximately 34.6% of our brands were low- or non-caloric beverages, and we continue to expand our product portfolio to offer more options to our consumers so they can satisfy their hydration and nutrition needs. **See Our Products and Packaging.** In addition, we inform our consumers through front labeling on the nutrient composition and caloric content of our beverages. We have been pioneers in the introduction of the Guideline Daily Amounts (GDA), and we perform responsible advertising practices and marketing. We voluntarily adhere to national and international codes of conduct in advertising and marketing, including communications targeted to minors who are developed based on the Responsible Marketing policies and Global School Beverage Guidelines of The Coca-Cola Company, achieving full compliance with all such codes and guidelines in all of the countries where we operate.

We view our relationship with The Coca-Cola Company as integral to our business, and together we have developed marketing strategies to better understand and address our consumer needs. **See Marketing.**

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Our Territories

The following map shows our territories giving estimates in each case of the population to which we offer products and the number of retailers of our beverages as of December 31, 2018:

Our Products

We produce, market, sell and distribute *Coca-Cola* trademark beverages. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters and still beverages (including juice drinks, coffee, teas, milk, value-added dairy, sports drinks, energy drinks and plant-based drinks).

Our most important brand, *Coca-Cola*, together with its line of low-calorie products, accounted for 62.2%, 60.8% (excluding sales volume of KOF Philippines) and 60.3% of our total sales volume in 2018, 2017 and 2016, respectively.

The following table sets forth the trademarks of the main products we distributed in 2018:

Colas:

Coca-Cola

Coca-Cola Sin Azúcar

Coca-Cola Light

Flavored Sparkling Beverages:

Crush	*Kuat*	*Quatro*
Fanta	*Lift*	*Schweppes*
Fresca	*Mundet*	*Sprite*

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Still Beverages:

Cepita	*Hi-C*	*Leão*	*ValleFrut*
Estrella Azul	*Santa Clara*	*Powerade*	*Monster*
FUZE Tea	*Del Valle*	*Valle Fresh*	*AdeS*

Water:

Alpina	*Brisa*	*Dasani*	*Kin*
Aquarius	*Ciel*	*Manantial*	
Bonaqua	*Crystal*	*Nevada*	

Packaging

We produce, market, sell and distribute *Coca-Cola* trademark beverages in each of our territories in containers authorized by The Coca-Cola Company, which consist primarily of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles mainly made of PET resin. We use the term presentation to refer to the packaging unit in which we sell our products. Presentation sizes for our *Coca-Cola* trademark beverages range from a 6.5-ounce personal size to a 3-liter multiple serving size. For all of our products excluding water, we consider a multiple serving size as equal to, or larger than, 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. We offer both returnable and non-returnable presentations, which allow us to offer portfolio alternatives based on convenience and affordability to implement revenue management strategies and to target specific distribution channels and population segments in our territories. In addition, we sell some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which we refer to as fountain. We also sell bottled water products in bulk sizes, which refer to presentations equal to or larger than 5.0 liters and up to 20.0 liters, which have a much lower average price per unit case than our other beverage products.

Sales Volume and Transactions Overview

We measure total sales volume in terms of unit cases and number of transactions. Unit case refers to 192 ounces of finished beverage product (24 eight-ounce servings) and, when applied to soda fountains, refers to the volume of syrup, powders and concentrate that is required to produce 192 ounces of finished beverage product. Transactions refers to the number of single units (e.g. a can or a bottle) sold, regardless of their size or volume or whether they are sold individually or in multipacks, except for fountain which represents multiple transactions based on a standard 12 oz. serving. Except when specifically indicated, sales volume in this annual report refers to sales volume in terms of unit cases.

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The following table illustrates our historical sales volume and number of transactions for each of our consolidated reporting segments, as well as our unit case and transaction mix by category. The table includes information of Venezuela for 2017, prior to its deconsolidation.

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

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

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

The following table illustrates our historical sales volume and number of transactions performance by category for each of our operations and our reporting segments for 2018 as compared to 2017:

Year Ended December 31, 2018

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

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Number of Transactions Growth[1]				
Mexico	(1.3)%	4.8%	3.8%	(0.4)%
Central America[2]	26.7%	0.0%	4.5%	21.3%
Mexico and Central America	2.2%	3.8%	3.8%	2.5%
Colombia	(0.4)%	(13.0)%	15.6%	0.7%
Brazil[5]	3.9%	15.1%	13.1%	5.5%
Argentina	(9.3)%	(16.0)%	(7.4)%	(9.8)%
South America[4][5]	2.8%	2.6%	12.3%	3.7%
Total	0.1%	2.2%	3.9%	0.7%

The following table illustrates our unit case mix by category for each of our operations and our consolidated reporting segments for 2018:

	Sparkling Beverages		**Stills**		**Water**[6]	
			Years Ended December 31,			
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Unit Case Mix by Category						
Mexico	72.9%	73.0%	6.5%	6.0%	20.6%	21.0%
Central America	85.0%	82.5%	9.6%	11.0%	5.4%	6.4%
Mexico and Central America[2]	**74.2%**	**73.8%**	**6.8%**	**6.5%**	**19.1%**	**19.8%**
Colombia	76.5%	75.4%	6.5%	8.4%	17.1%	16.2%
Brazil	87.5%	88.9%	5.6%	4.9%	6.9%	6.2%
Argentina	80.4%	80.7%	7.1%	7.6%	12.6%	11.7%
Uruguay	91.6%		1.5%		6.9%	
South America[4][5]	**84.2%**	**84.7%**	**5.9%**	**6.1%**	**9.9%**	**9.3%**
Venezuela[3]		84.9%		3.6%		11.4%
Total[1]	78.0%	77.9%	6.5%	6.3%	15.6%	15.8%

(1) Our sales volume and number of transactions for 2018 exclude the sales volume and transactions of KOF Philippines and KOF Venezuela, and our sales volume and number of transactions for 2017 exclude the sales volume and transactions of KOF Philippines.

(2) Includes sales volume and transactions from Guatemala (including the operations of ABASA and Los Volcanes from May 2018), Nicaragua, Costa Rica and Panama.

(3) We stopped consolidating our Venezuelan operations commencing on January 1, 2018.

(4) Includes sales volume and transactions of Monresa from July 2018.

(5) Excludes beer sales volume and transactions.

(6) Includes bulk water volume and transactions.

Seasonality

Sales of our products are seasonal in all of the countries where we operate, as our sales volumes generally increase during the summer of each country and during the year-end holiday season. In Mexico, Central America and Colombia, we typically achieve our highest sales during the summer months of April through August as well as during the year-end holidays in December. In Brazil, Uruguay and Argentina, our highest sales levels occur during the summer months of October through March, including the year-end holidays in December.

Marketing

We, in conjunction with The Coca-Cola Company, have developed a marketing strategy to promote the sale and consumption of our products. We rely extensively on advertising, sales promotions and retailer support programs to target the particular preferences of our consumers. Our consolidated marketing expenses in 2018 were Ps.5,813 million, net of Ps.3,542 million contributed by The Coca-Cola Company.

Retailer Support Programs. Support programs include providing retailers with point-of-sale display materials and consumer sales promotions, such as contests, sweepstakes and the giveaway of product samples.

Coolers. Coolers play an integral role in our clients plans for success. Increasing both cooler coverage and the number of cooler doors among our retailers is important to ensure that our wide variety of products are properly displayed, while strengthening our merchandising capacity in our distribution channels to significantly improve our point-of-sale execution.

Advertising. We advertise in all major communications media. We focus our advertising efforts on increasing brand recognition by consumers and improving our customer relations. National advertising campaigns are designed and proposed by The Coca-Cola Company s local affiliates in the countries where we operate, with our input at the local or regional level. Point-of-sale merchandising and advertising efforts are proposed and implemented by us, with a focus on increasing our connection with customers and consumers.

Marketing in our Distribution Channels. In order to provide more dynamic and specialized marketing of our products, our strategy is to classify our markets and develop targeted efforts for each consumer segment or distribution channel. Our principal channels are small retailers, on-premise accounts, such as restaurants and bars, supermarkets and third party distributors. Presence in these channels entails a comprehensive and detailed analysis of the purchasing patterns and preferences of various groups of beverage consumers in each of the different types of locations or distribution channels. In response to this analysis, we tailor our product, price, packaging and distribution strategies to meet the particular needs of and exploit the potential of each channel.

Multi-Segmentation. We have implemented a multi-segmentation strategy in all of our markets. These strategies consist of the definition of a strategic market cluster or group and the implementation and assignment of different product/price/package portfolios and service models to such market cluster or group. These clusters are defined based on consumption occasion, competitive environment, income level, and types of distribution channels.

Product Sales and Distribution

The following table provides an overview of our distribution centers and the retailers to which we sold our products:

	As of December 31, 2018	
	Mexico and Central America(1)	**South America(2)**
Distribution centers	201	74
Retailers(3)	1,045,780	852,091

(1)

Includes Mexico, Guatemala (including the operations of ABASA and Los Volcanes), Nicaragua, Costa Rica and Panama.
(2) Includes Colombia, Brazil, Argentina and Uruguay.
(3) Estimated.

We continuously evaluate our distribution model in order to fit with the local dynamics of the marketplace and analyze the way we go to market, recognizing different service needs from our customers, while looking for a more efficient distribution model. As part of this strategy, we are rolling out a variety of new distribution models throughout our territories looking for improvements in our distribution network.

We use several sales and distribution models depending on market, geographic conditions and the customer s profile: (i) the pre-sale system, which separates the sales and delivery functions, permitting trucks to be loaded with the mix of products that retailers have previously ordered, thereby increasing both sales and distribution efficiency; (ii) the conventional truck route system, in which the person in charge of the delivery makes immediate sales from inventory available on the truck; (iii) a hybrid distribution system, where the same truck carries product available for immediate sale and product previously ordered through the pre-sale system; (iv) the telemarketing system, which could be combined with pre-sales visits; and (v) sales through third-party wholesalers and other distributors of our products.

As part of the pre-sale system, sales personnel also provide merchandising services during retailer visits, which we believe enhance the shopper experience at the point of sale. We believe that an adequate number of service visits to retailers and frequency of deliveries are essential elements in an effective selling and distribution system of our products.

In 2018, no single customer accounted for more than 10.0% of our consolidated total sales.

Our distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to our fleet of trucks, we distribute our products in certain locations through electric carts and hand-trucks in order to comply with local environmental and traffic regulations. In some of our territories, we retain third parties to transport our finished products from our production facilities to our distribution centers within Mexico.

Mexico. We contract with a subsidiary of FEMSA, Solistica, S.A. de C.V. transportation services of finished products from our production facilities to our distribution centers within Mexico. **See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.** From the distribution centers, we distribute our finished products to retailers through our fleet of trucks.

In Mexico, we sell a majority of our beverages at small retail stores to consumers who may take the beverages for consumption at home or elsewhere. We also sell products through modern distribution channels, the on-premise consumption segment, home delivery, supermarkets and other locations. Modern distribution channels include large and organized chain retail outlets such as wholesale supermarkets, discount stores and convenience stores that sell fast-moving consumer goods, where retailers can buy large volumes of products from various producers. The on-premise consumption segment consists of sales through sidewalk stands, restaurants, bars and various types of dispensing machines as well as sales through point-of-sale programs in stadiums, concert halls, auditoriums and theaters.

Brazil. In Brazil, we distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors, including related parties such as FEMSA, while we maintain control over the selling activities. In designated zones in Brazil, third-party distributors purchase our products at a discount from the wholesale price and resell the products to retailers. We also sell our products through the same modern distribution channels used in Mexico.

Territories other than Mexico and Brazil. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors, including related parties such as FEMSA. In most of our territories, an important part of our total sales volume is sold through small retailers.

Principal Competitors

We continue to be leaders in the beverage market, with one out of every nine beverages under the *Coca-Cola* trademarks sold in the world being produced and sold by us.

The characteristics of our territories are very diverse. Central Mexico and our territories in Argentina are densely populated and have a large number of competing beverage brands as compared to the rest of our territories. Our territories in Brazil are densely populated but have lower consumption of beverage products as compared to Mexico. Uruguay has a high per capita consumption and low population density. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with low population density, low per capita income and low consumption of beverages.

Our principal competitors are local *Pepsi* bottlers and other bottlers and distributors of local beverage brands. We also face competition in many of our territories from producers of low price beverages, commonly referred to as B brands. A number of our competitors in Central America, Brazil, Argentina and Colombia offer beer in addition to sparkling beverages, still beverages, and water, which may enable them to achieve distribution efficiencies.

While competitive conditions are different in each of our territories, we compete 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. We compete by seeking to offer products at an attractive price in the different segments in our markets and by building on the value of our brands. We believe that the introduction of new products and new presentations has been a significant competitive advantage that allows us to increase demand for our products, provide different options to consumers and increase new consumption opportunities. **See Our Products and Packaging.**

Mexico and Central America. Our principal competitors in Mexico are bottlers of *Pepsi* products. We compete with Organización Cultiba, S.A.B. de C.V., a joint venture formed by Grupo Embotelladoras Unidas, S.A.B. de C.V., the former *Pepsi* bottler in central and southeast Mexico, a subsidiary of PepsiCo and Empresas Polar, S.A., a beer distributor and *Pepsi* bottler. Our main competition in the juice category in Mexico is Grupo Jumex. In the water category, *Bonafont*, a water brand owned by Danone, is our main competition. In addition, we compete with *Cadbury Schweppes* in sparkling beverages and with other local brands in our Mexican territories, as well as B brand producers, such as Ajemex, S.A. de C.V. (*Big Cola* bottler) and Consorcio AGA, S.A. de C.V. (*Red Cola* bottler), that offer various presentations of sparkling and still beverages.

In the countries that comprise our Central America region, our main competitors are *Pepsi* and *Big Cola* bottlers. In Guatemala and Nicaragua, we compete with a joint venture between AmBev and The Central American Bottler Corporation. In Costa Rica, our principal competitor is Florida Bebidas S.A., subsidiary of Florida Ice and Farm Co. In Panama, our main competitor is Cervecería Nacional, S.A. We also face competition from B brands offering multiple serving size presentations in some Central American countries.

South America. Our principal competitor in Colombia is Postobón, a local bottler (*Postobón* and *Colombiana* bottler). Postobón sells *Pepsi* products and is a vertically integrated producer, the owners of which hold other significant commercial and industrial interests in Colombia. We also compete with low-price producers, such as the producers of *Big Cola*, which principally offer multiple serving size presentations in the sparkling and still beverage industry.

In Brazil, we compete against AmBev, a company with a portfolio of brands that includes *Pepsi*, local brands with flavors such as guarana, and proprietary beer brands. We also compete against B brands or Tubainas, which are small, local producers of low-cost flavored sparkling beverages that represent a significant portion of the sparkling beverage market.

In Argentina, our main competitor is Buenos Aires Embotellador S.A. (BAESA), a *Pepsi* bottler, which is owned by Argentina s principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In the water category, *Levité*, a water brand owned by Danone, is our main competition. In addition, we compete with a number of competitors offering generic, low-priced sparkling beverages as well as many other generic products and private label proprietary supermarket brands.

In Uruguay, our main competitor is Fábricas Nacionales de Cerveza S.A. (FNC), a *Pepsi* bottler and distributor, partially owned by Argentina s principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In the water category, *Salus*, a water brand owned by Danone, is our main competitor. In addition, we compete with low-priced regional producers as well as many other generic and imported products.

Raw Materials

Pursuant to our bottler agreements, we are authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and we are required to purchase concentrate for all *Coca-Cola* trademark beverages in all of our territories from affiliates of The Coca-Cola Company and sweeteners and other raw materials from companies authorized by The Coca-Cola Company. Concentrate prices for *Coca-Cola* trademark beverages are determined as a percentage of the weighted average retail price in local currency net of applicable taxes. Although The Coca-Cola Company has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with The Coca-Cola Company. **See Bottler Agreements.**

In the past, The Coca-Cola Company has increased concentrate prices for Coca-Cola trademark beverages in some of the countries where we operate. For example, The Coca-Cola Company (i) gradually increased concentrate prices for certain *Coca-Cola* trademark beverages in Costa Rica and Panama beginning in 2014 through 2018; (ii) gradually increased concentrate prices for flavored water in Mexico beginning in 2015 through 2018; (iii) increased concentrate prices for certain *Coca-Cola* trademark beverages in Colombia in 2016 and 2017; and (iv) began to gradually increase concentrate prices for certain *Coca-Cola* trademark beverages in Mexico beginning in 2017 and informed us that it would continue to do so through 2019. Based on our estimates, we currently do not expect these increases will have a material adverse effect on our results of operations. The Coca-Cola Company may continue to unilaterally increase concentrate prices in the future, and we may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the prices of our products or our results. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders Cooperation Framework with The Coca-Cola Company.**

In addition to concentrate, we purchase sweeteners, carbon dioxide, PET resin and preforms to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Our bottler agreements provide that these materials may be purchased only from suppliers approved by The Coca-Cola Company. Prices for certain raw materials, including those used in the bottling of our products, mainly PET resin, finished plastic bottles, aluminum cans, HFCS and certain sweeteners, are paid in or determined with reference to the U.S. dollar, and therefore local prices in a particular country may increase based on changes in the applicable exchange rates. Our most significant packaging raw material costs arise from the purchase of PET resin, the price of which is related to crude oil prices and global PET resin supply. The average price that we paid for PET resin in U.S. dollars in 2018 increased 21.8% as compared to 2017 in all our territories, excluding Venezuela prior to its deconsolidation. In addition, given that high currency volatility has affected and continues to affect most of our territories, the average price for PET resin in local currencies was higher in 2018 in Mexico, Colombia, Brazil and Argentina. In 2018, we purchased certain raw materials in advance, implemented a price fixing strategy and entered into certain derivative transactions, which helped us capture opportunities with respect to raw material costs and currency exchange rates.

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Under our agreements with The Coca-Cola Company, we may use raw or refined sugar and HFCS in our products. Sugar prices in all of the countries where we operate, other than Brazil, are subject to local regulations and other barriers to market entry that, in certain countries, often cause us to pay for sugar in excess of international market prices. In recent years, international sugar prices experienced significant volatility. Across our territories, our average price for sugar in U.S. dollars, taking into account our financial hedging activities, decreased by approximately 8.4% in 2018 as compared to 2017; however, the average price for sugar in local currency was higher in Argentina and our territories in Central America.

We categorize water as a raw material in our business. We obtain water for the production of some of our natural spring water products, such as *Manantial* in Colombia and *Crystal* in Brazil, from spring water pursuant to concessions granted.

None of the materials or supplies that we use is presently in short supply, although the supply of specific materials could be adversely affected by strikes, weather conditions, governmental controls, national emergency situations, water shortages or the failure to maintain our existing water concessions.

Mexico and Central America. In Mexico, we mainly purchase PET resin from Indorama Ventures Polymers México, S. de R.L. de C.V. (formerly Arteva Specialties, S. de R.L. de C.V.) and DAK Resinas Americas Mexico, S.A. de C.V., which Alpla México, S.A. de C.V., known as Alpla, and Envases Universales de México, S.A.P.I. de C.V. manufacture into non-returnable plastic bottles for us. Also, we have introduced into our business Asian global suppliers, such as Far Eastern New Century Corp., known as FENC and SFX Jiangyin Xingyu New Material Co. Ltd., which support our PET resin strategy and are known as the top PET global suppliers.

We purchase all of our cans from Crown Envases México, S.A. de C.V., formerly known as Fábricas de Monterrey, S.A. de C.V., and Envases Universales de México, S.A.P.I. de C.V. We mainly purchase our glass bottles from Vitro America, S. de R.L. de C.V. (formerly Compañía Vidriera, S.A. de C.V.), FEVISA Industrial, S.A. de C.V., known as FEVISA, and Glass & Silice, S.A. de C.V.

We purchase sugar from, among other suppliers, PIASA, Beta San Miguel, S.A. de C.V. or Beta San Miguel, Ingenio La Gloria, S.A. and Impulsora Azucarera del Trópico, S.A. de C.V., all of them sugar cane producers. As of April 5, 2019, we held a 36.4% and 2.7% equity interest in PIASA and Beta San Miguel, respectively. We purchase HFCS from Ingredion México, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

Sugar prices in Mexico are subject to local regulations and other barriers to market entry that often cause us to pay higher prices than those paid in the international market. As a result, prices in Mexico have no correlation to international market prices. In 2018, sugar prices in local currency in Mexico decreased approximately 4.0% as compared to 2017.

In Central America, the majority of our raw materials such as glass and non-returnable plastic bottles are purchased from several local suppliers. We purchase our cans from Envases Universales Rexam de Centro América, S.A. Sugar is available from suppliers that represent several local producers. In Costa Rica, we acquire plastic non-returnable bottles from Alpla C.R. S.A., and in Nicaragua we acquire such plastic bottles from Alpla Nicaragua, S.A.

South America. In Colombia, we use sugar as a sweetener in all of our caloric beverages, which we buy from several domestic sources. Sugar prices in Colombia decreased approximately 19.0% in U.S. dollars and 19.0% in local currency, as compared to 2017. We purchase non-returnable plastic bottles from Amcor Rigid Plastics de Colombia, S.A. and Envases de Tocancipa S.A.S. (affiliate of Envases Universales de México, S.A.P.I. de C.V.). We have historically purchased all of our non-returnable glass bottles from O-I Peldar and other global suppliers in the Middle

East. We purchase all of our cans from Crown Colombiana, S.A. Grupo Ardila Lulle (owners of our competitor Postobón) owns a minority equity interest in certain of our suppliers, including O-I Peldar and Crown Colombiana, S.A.

In Brazil, we also use sugar as a sweetener in all of our caloric beverages, which is available at local market prices, which historically have been similar to international prices. Sugar prices in Brazil decreased approximately 25.0% in U.S. dollars and 14.0% in local currency as compared to 2017. Taking into account our financial hedging activities, our sugar prices in Brazil decreased approximately 15.0% in U.S. dollars and 2.0% in local currency as compared to 2017. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk.** We purchase non-returnable glass bottles, plastic bottles and cans from several domestic and international suppliers. We mainly purchase PET resin from local suppliers such as Companhia Integrada Textil de Pernambuco (recently acquired by Alpek, S.A.B. de C.V.).

In Argentina, we mainly use HFCS that we purchase from several different local suppliers as a sweetener in our products. We purchase glass bottles and other raw materials from several domestic sources. We purchase plastic preforms at competitive prices from Andina Empaques S.A., a local subsidiary of Embotelladora Andina, S.A., a *Coca-Cola* bottler with operations in Chile, Argentina, Brazil and Paraguay, Alpla Avellaneda, S.A., AMCOR Argentina, and other local suppliers.

In Uruguay we also use sugar as a sweetener in all of our caloric beverages, which is available at Brazil s local market prices. Sugar prices in Uruguay decreased approximately 4.7% in U.S. dollars and increased 1.6% in local currency as compared to 2017. Our main supplier of sugar is Nardini Agroindustrial Ltda., which is based in Brazil. We purchase PET resin from Asian suppliers, such as India Reliance Industry (a joint venture with DAK Resinas Americas Mexico, S.A. de C.V.), and we purchase non-returnable plastic bottlers from global PET converters, such as Cristalpet S.A. (affiliate of Envases Universales de México, S.A.P.I. de C.V.).

REGULATION

We are subject to different regulations in each of the territories where we operate. The adoption of new laws or regulations in the countries where we operate may increase our operating costs, our liabilities or impose restrictions on our operations which, in turn, may adversely affect our financial condition, business and results. Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on our future results or financial condition.

Price Controls

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where we operate. Currently, there are no price controls on our products in any of the territories where we operate, except for voluntary price restraints in Argentina, where authorities directly supervise certain of our products sold through supermarkets as a measure to control inflation. Any changes to applicable law affecting prices could have an adverse effect on our business. **See Item 3. Key Information Risk Factors Regulatory developments may adversely affect our business.**

Taxation of Beverages

All the countries where we operate, except for Panama, impose value-added tax on the sale of sparkling beverages, with a rate of 16.0% in Mexico, 12.0% in Guatemala, 15.0% in Nicaragua, an average percentage of 15.9% in Costa Rica, 19.0% in Colombia (applied only to the first sale in the supply chain prior to December 31, 2018, and applied and transferred throughout the entire supply chain commencing on January 1, 2019), 21.0% in Argentina, 22.0% in Uruguay, and in Brazil 16.0% in the state of Parana, 17.0% in the state of Goias and Santa Catarina, 18.0% in the states of Sao Paulo, Minas Gerais and Rio de Janeiro, and 20.0% in the states of Mato Grosso do Sul and Rio Grande do Sul. The states of Rio de Janeiro, Minas Gerais and Parana also charge an additional 2.0% on sales as a contribution to a poverty eradication fund. In Brazil the value-added tax is grossed-up and added, along with federal sales tax, at the taxable basis. In addition, we are responsible for charging and collecting the value-added tax from each of our retailers in Brazil, based on average retail prices for each state where we operate, defined primarily through a survey conducted by the government of each state, which in 2018 represented an average taxation of approximately 17.4% over net sales. In addition, several of the countries where we operate impose the following excise or other taxes:

- Mexico imposes an excise tax of Ps.1.17 per liter on the production, sale and import of beverages with added sugar and HFCS as of January 1, 2018 (until December 31, 2017 the excise tax was Ps.1.00 per liter). This excise tax is applied only to the first sale and we are responsible for charging and collecting it. The excise tax is subject to increase when accumulated inflation in Mexico reaches 10.0% since the most recent date of adjustment. The increased tax is imposed starting on the fiscal year following such increase (the last increase being in November 2017).

Guatemala imposes an excise tax of 0.18 cents in local currency (Ps.0.46 as of December 31, 2018) per liter of sparkling beverage.

Costa Rica imposes a specific tax on non-alcoholic carbonated bottled beverages based on the combination of packaging and flavor, currently assessed at 19.09 colones (Ps.0.61 as of December 31, 2018) per 250 ml, and an excise tax currently assessed at 6.628 colones (approximately Ps.0.21 as of December 31, 2018) per 250 ml.

Nicaragua imposes a 9.0% tax on consumption, and municipalities impose a 1.0% tax on our Nicaraguan gross income.

Panama imposes a 5.0% tax based on the cost of goods produced and a 10.0% selective consumption tax on syrups, powders and concentrate.

Argentina imposes an excise tax of 8.7% on sparkling beverages containing less than 5.0% lemon juice or less than 10.0% fruit juice, and an excise tax of 4.2% on sparkling water and flavored sparkling beverages with 10.0% or more fruit juice, although this excise tax is not applicable to some of our products.

Brazil assesses an average production tax of approximately 4.2% and an average sales tax of approximately 12.3% over net sales. Except for sales to wholesalers, this production and sales taxes apply only to the first sale and we are responsible for charging and collecting these taxes from each of our retailers. For sales to wholesalers, they are entitled to recover the sales tax and charge this tax again upon the resale of our products to retailers.

Colombia s municipalities impose a sales tax that varies between 0.35% and 1.2% of net sales.

Uruguay imposes an excise tax of 19.0% on sparkling beverages, an excise tax of 12.0% on beverages containing less than 5.0% lemon juice or less than 10.0% fruit juice, and an excise tax of 8.0% on sparkling water and still water.

Tax Reforms

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

In addition, the excise tax rate on concentrate in Brazil was reduced from 20.0% to 4.0% from September 1, 2018 to December 31, 2018. This excise tax rate was temporarily increased from 4.0% to 12.0% from January 1, 2019 to June 30, 2019, and will be reduced to 8.0% on July 1, 2019 and further reduced to 4.0% on January 1, 2020. The tax credit that we may recognize in our Brazilian operations in connection with purchases of concentrate in the Manaus Free Trade Zone will be affected accordingly.

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

On January 1, 2019, the Mexican government eliminated the right to offset any tax credit against any payable tax (universal offset or *compensación universal*). As of such date, tax credits will only be offset against taxes of the same nature, and it will not be possible to offset tax credits against taxes withheld to third parties. Additionally, by Executive Decree, certain tax benefits related to the value-added tax and income tax were provided to businesses located in the northern border of Mexico. Based on the territories where we operate within Mexico, we currently do not expect to take advantage from any of these tax benefits.

On January 1, 2019, a new tax reform became effective in Colombia. This reform will reduce the current income tax rate of 33.0% for 2019 to 32.0% for 2020, to 31.0% for 2021 and to 30.0% for 2022. The minimum assumed income tax (*renta presuntiva sobre el patrimonio*) will also be reduced from 3.5% for 2018 to 1.5% for 2019 and 2020, and to 0.0% for 2021. In addition, the thin capitalization ratio was adjusted from 3:1 to 2:1, and was modified to apply only to transactions among related parties. Commencing on January 1, 2019, value-added tax, which was applied only to the first sale in the supply chain prior to December 31, 2018, began to be applied and transferred throughout the entire supply chain, which in our case results in charging value-added tax on the sales price of our finished goods (applicable to our Colombian subsidiary located in the free trade zone). For companies located in free trade zones, the value-added tax will be charged on the cost of imported raw materials of national and foreign origin, which we will be able to credit against the value-added tax on the sales price of our products. The municipality sales tax will be 50.0% deductible against payable income tax in 2019 and 100.0% deductible in 2020. Finally, the value-added tax paid on acquired fixed assets will be credited against income tax or the minimum assumed income tax.

On July 1, 2019, a tax reform will become effective in Costa Rica. This reform will allow tax credits on sales taxes to be recorded not only on goods related to production and on administrative services, but on a greater number of goods and services. The value-added tax rate of 13.0% on services provided within Costa Rica will apply for both domestic and foreign service providers. Capital gains taxes are now imposed at a rate of 15.0% on sales of assets located in Costa Rica. New income tax withholding rates were imposed on salaries and other employee benefits at the rates of 25.0% and 20.0%, depending on the salary bracket. Finally, a new thin capitalization rule will provide that interest expenses paid to entities other than members of the Costa Rican financial system that exceed 20.0% of a company s EBITDA will not be deductible for income tax purposes.

Water Supply

As a beverage bottler, efficient water management is essential to our business and our communities. As a result, we are committed to improving our overall water use ratio to 1.5 liters of water per liter of beverage produced by 2020. In 2018, we used 1.59 liters of water per liter of beverage produced.Our goal is to reduce our water consumption and to return to the environment and our communities the same amount of water used to produce our beverages by 2020. Additionally, all our bottling plants have their own or have contracted services for waste water treatment to ensure the quality of the waste water discharge.

In Mexico, we obtain water directly from wells pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the 1992 Water Law (*Ley de Aguas Nacionales de 1992*), as amended, and regulations issued thereunder, which created the National Water Commission (*Comisión Nacional del Agua*). The National Water Commission is in charge of overseeing the national system of water use. Under the 1992 Water Law, concessions for the use of a specific volume of ground or surface water generally run from five to fifty-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms be extended before the expiration of the same. The Mexican government may reduce the volume of ground or surface water granted for use by a concession by whatever volume of water that is not used by the concessionaire for two consecutive years, unless the concessionaire proves that the volume of water not used is because the concessionaire is saving water by an efficient use of it. Our concessions may be terminated if, among other things, we use more water than permitted or we fail to pay required concession-related fees and do not cure such situations in a timely manner. Although we have not undertaken independent studies to confirm the sufficiency of the existing groundwater supply, we believe that our existing concessions satisfy our current water requirements in Mexico.

In addition, the 1992 Water Law provides that plants located in Mexico must pay a fee either to the local governments for the discharge of residual waste water to drainage or to the federal government for the discharge of residual waste water into rivers, oceans or lakes. Pursuant to this law, certain local and federal authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by the National Water Commission. In the case of non-compliance with the law, penalties, including closures, may be imposed. All of our bottling plants located in Mexico meet these standards. **See Description of Property, Plant and Equipment.**

In Brazil, we obtain water and mineral water from wells pursuant to concessions granted by the Brazilian government for each plant. According to the Brazilian Constitution and the National Water Resources Policy, water is considered an asset of common use and can only be exploited for the national interest by Brazilians or companies formed under Brazilian law. Concessionaires and users have the responsibility for any damage to the environment. The exploitation and use of water is regulated by the Code of Mining, Decree Law No. 227/67 (*Código de Mineração*), the Mineral Water Code, Decree Law No. 7841/45 (*Código de Águas Minerais*), the National Water Resources Policy (Decree No. 24.643/1934 and Law No. 9433/97) and by regulations issued thereunder. The companies that exploit water are supervised by the National Mining Agency (*Agência Nacional de Mineração* ANM) and the National Water Agency (*Agência Nacional de Águas*) in connection with federal health agencies, as well as state and municipal authorities. In the Jundiai, Marilia, Curitiba, Maringa, Porto Alegre, Antonio Carlos and Itabirito plants, we do not exploit spring water. We only exploit spring water where we have all the necessary permits.

In Colombia, in addition to natural spring water for *Manantial*, we obtain water directly from wells and from utility companies. We are required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees No. 2811 of 1974 and No. 3930 of 2010. In addition, Decree No. 303 of 2012 requires us to apply for water concessions and for authorization to discharge our water into public waterways. The Ministry of Environment and Sustainable Development and Regional Autonomous Corporations supervises companies that use water as a raw material for their businesses. Furthermore, in Colombia, Law No. 142 of 1994 provides that public sewer services are charged based on volume (usage). The Water and Sewerage Company of the City of Bogota has interpreted this rule to be the volume of water captured, and not the volume of water discharged by users. Based on our production process, our Colombian subsidiary discharges into the public sewer system significantly less water than the water it captures. As a result, our Colombian subsidiary filed monthly claims with the Water and Sewerage Company of the City of Bogota challenging these charges. In 2015, the highest court in Colombia issued a final ruling stating that the Water and Sewerage Company of the City of Bogota is not required to measure the volume of water discharged by users in calculating public sewer services charges. Based on this ruling, the Water and Sewerage Company of the City of Bogota commenced an administrative proceeding against our Colombian subsidiary requesting payment of Ps.309 million for the sewer services it claims our subsidiary has not properly paid since 2005. In connection with such proceeding, in March 2016, this authority issued an order freezing certain of our bank accounts. See Note 9.2 to our consolidated financial statements. In June 2017, our Colombian subsidiary held conciliatory hearings with the Water and Sewerage Company of the City of Bogota and reached an agreement to settle this matter by payment of Ps.216 million for the sewer services charged from June 2005 to May 2017, which was submitted before the administrative court seeking its judicial endorsement. In May 2018 the settlement agreement was approved. Since then, we have complied with all of our obligations and commitments under the settlement agreement. As a result, the proceeding with the Water and Sewerage Company of Bogotá was terminated.

In Argentina, a state water company provides water to our Alcorta plant on a limited basis; however, we believe the authorized amount meets our requirements for this plant. In our Monte Grande plant in Argentina we pump water from wells, in accordance with Law No. 25.688.

In Uruguay, we acquire water from the local water system, which is managed by the Organism of Sanitary Works (*Obras Sanitarias del Estado*). Additionally, we are required by the Uruguayan federal government to discharge all of our water excess to the sanitation system for recollection.

In Nicaragua, the use of water is regulated by the National Water Law (*Ley General de Aguas Nacionales*), and we obtain water directly from wells. In November 2017, we obtained a permit to increase our monthly amount of water used for production in Nicaragua and renewed our concession for the exploitation of wells for five more years, extending the expiration date to 2022. In Costa Rica, the use of water is regulated by the Water Law (*Ley de Aguas*). In both of these countries, we exploit water from wells granted to us through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in our own plants. In Panama, we acquire water from a state water company, and the use of water is regulated by the Panama Use of Water Regulation (*Reglamento de Uso de Aguas de Panamá*).

In addition, we obtain water for the production of some of our natural spring water products, such as *Manantial* in Colombia and *Crystal* in Brazil, from spring water pursuant to concessions granted. **See Regulation Water Supply.**

Environmental Matters

We have internal environmental policies and procedures that intend to identify, address and minimize environmental risks, as well as to implement appropriate strategies for the use of clean and renewable energy, efficient use of water and waste management throughout the value chain of all of our operations. We have programs that seek to reduce energy consumption and diversify our portfolio of clean and renewable energy sources in order to reduce greenhouse gas emissions and contribute to the fight against climate change. In addition, we establish short-, medium-, and long-term goals and indicators for the use, management and confinement of energy, air emissions, water discharges, solid waste and disposal of hazardous materials.

During 2018, 50.0% of our total energy requirements were obtained from clean energy sources. Additionally, as part of our waste management strategies, in 2018, 21.0% of our PET resin packaging was comprised of recycled materials and we recycled 95% of the total waste generated.

In all of our territories, our operations are subject to federal and state laws and regulations relating to the protection of the environment. In Mexico, the principal legislation is the Federal General Law for Ecological Equilibrium and Environmental Protection (*Ley General de Equilibrio Ecológico y Protección al Ambiente*, or the Mexican Environmental Law), and the General Law for the Prevention and Integral Management of Waste (*Ley General para la Prevención y Gestión Integral de los Residuos*) which are enforced by the Ministry of the Environment and Natural Resources (*Secretaría del Medio Ambiente y Recursos Naturales,* or SEMARNAT). SEMARNAT can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to close non-complying facilities. Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to hazardous wastes and set forth standards for waste water discharge that apply to our operations. We have implemented several programs designed to facilitate compliance with air, waste, noise and energy standards established by current Mexican federal and state environmental laws, including a program that installs catalytic converters and liquid petroleum gas in delivery trucks for our operations in Mexico City. **See The Company Product Sales and Distribution.**

In March 2015, the General Law of Climate Change (*Ley General de Cambio Climático*), its regulation and certain decrees related to such law became effective, imposing upon different industries (including the food and beverage industry) the obligation to report direct or indirect gas emissions exceeding 25,000 tons of carbon dioxide. Currently, we are not required to report these emissions, since we do not exceed this threshold. We cannot assure you that we will not be required to comply with this reporting requirement in the future.

In our Mexican operations, we established a partnership with The Coca-Cola Company and Alpla, our supplier of plastic bottles in Mexico, to create Industria Mexicana de Reciclaje (IMER), a PET recycling facility located in Toluca, Mexico. In 2018, this facility recycled 11,422 tons of PET resin. We have also continued contributing funds to ECOCE, A.C., a nationwide collector of containers and packaging materials. In 2018, ECOCE collected 58.0% of the total PET resin waste in Mexico.

All of our plants located in Mexico have received a Certificate of Clean Industry (*Certificado de Industria Limpia*).

Our Central American operations are subject to several federal and state laws and regulations related to the protection of the environment and the disposal of hazardous and toxic materials, as well as water usage. Our Costa Rican operations have participated in a joint effort along with the local division of The Coca-Cola Company, Misión Planeta, for the collection and recycling of non-returnable plastic bottles. In Guatemala, we joined the Foundation for Water (*Fundación para el Agua*), through which we will have direct participation in several projects related to the sustainable use of water. Our plants in Central America are certified for ISO 14001.

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Our Colombian operations are subject to several Colombian federal and state laws and regulations related to the protection of the environment and the disposal of treated water and toxic and hazardous materials. These laws include the control of atmospheric emissions, noise emissions, disposal of treated water and strict limitations on the use of chlorofluorocarbons. In addition, on February 6, 2012, Colombia promulgated Decree No. 303, which requires us to apply for an authorization to discharge our water into public waterways. We are engaged in nationwide reforestation programs and campaigns for the collection and recycling of glass and plastic bottles, among other programs with positive environmental impacts. We have also obtained and maintained the ISO 9001, ISO 14001, OHSAS 18001, FSSC 22000 and PAS 220 certifications for our plants located in Medellin, Cali, Bogota, Barranquilla, Bucaramanga and La Calera, as recognition for the highest quality and food harmlessness in our production processes, which is evidence of our strict level of compliance with relevant Colombian regulations. Our six plants joined a small group of companies that have obtained these certifications. Our plant located in Tocancipa, which commenced operations in February 2015, obtained the Leadership in Energy and Environmental Design (LEED 2009) certification in April 2017, as well as the ISO 9001/2015, ISO 4000, ISO 8000 and ISO 22000 certifications.

Our Brazilian operations are subject to several federal, state and municipal laws and regulations related to the protection of the environment. Among the most relevant laws and regulations are those dealing with the emission of toxic and hazardous gases and disposal of wastewater and solid waste, soil contamination by hazardous chemicals, which impose penalties, such as fines, facility closures or criminal charges depending upon the level of non-compliance.

Our production plant located in Jundiai has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by applicable law. This production plant has been certified for GAO-Q and GAO-E. In 2017, the Itabirito plant was certified for ISO 9001 and the Leadership in Energy and Environmental Design, which is a globally recognized certification of sustainability achievement. In addition, the plants of Jundiai, Mogi das Cruzes, Campo Grande, Marilia, Maringa, Curitiba, and Bauru have been certified for (i) ISO 9001; (ii) ISO 14001 and; (iii) norm OHSAS 18001. The Jundiai, Campo Grande, Bauru, Marilia, Curitiba, Maringa, Porto Alegre, Antonio Carlos and Mogi das Cruzes plants are certified in standard FSSC 22000.

In May 2008, a municipal regulation of the City of Sao Paulo, implemented pursuant to Law 13.316/2002, came into effect requiring us to collect for recycling a specified annual percentage of plastic bottles made from PET resin sold in the City of Sao Paulo. Beginning in May 2011, we were required to collect 90.0% of PET resin bottles sold. Currently, we are not able to collect the entire required volume of PET resin bottles we sell in the City of Sao Paulo. Since we do not meet the requirements of this regulation, which we believe to be more onerous than those imposed by the countries with the highest recycling standards, we could be fined and be subject to other sanctions, such as the suspension of operations in any of our plants and/or distribution centers located in the City of Sao Paulo. In May 2008, when this law came into effect, we and other bottlers in the City of Sao Paulo, through the Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR (*Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas*), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In November 2009, in response to a request by a municipal authority to provide evidence of the destination of the PET resin bottles sold in Sao Paulo, we filed a motion presenting all of our recycling programs and requesting a more practical timeline to comply with the requirements imposed. In October 2010, the municipal authority of Sao Paulo levied a fine on our Brazilian operating subsidiary of 250,000 Brazilian reais (Ps.1.3 million as of December 31, 2018) on the grounds that the report submitted by our Brazilian operating subsidiary did not comply with the 75.0% proper disposal requirement for the period from May 2008 to May 2010. We filed an appeal against this fine, which was denied by the municipal authority in May 2013. This resolution by the municipal authority is final and not subject to appeal. However, in July 2012, the State Appellate Court of Sao Paulo rendered a decision on an interlocutory appeal filed on behalf of ABIR staying the requirement to pay the fines and other sanctions imposed on

ABIR s associated companies, including our Brazilian subsidiary, pending the final resolution of the appeal. We are still awaiting the final resolution of the appeal filed on behalf of ABIR. In November 2016, the municipal authority filed a tax enforcement claim against our Brazilian subsidiary in order to try to collect the fine imposed in October 2010. In February 2017, we filed a motion for a stay of execution against the collection of the fine based on the decision rendered by the State Appellate Court of Sao Paulo in July 2012. We cannot assure you that these measures will have the desired effect or that we will prevail in any judicial challenge that our Brazilian subsidiary may pursue.

In August 2010, Law No. 12.305/2010 established the Brazilian National Solid Waste Policy. This policy is based on the principle of shared responsibility between the government, companies and the public, and provides for the post-consumption return of products to companies and requires public authorities to implement waste management programs. This law is regulated by Federal Decree No. 7.404/2010, and was published in December 2010. In response to the Brazilian National Solid Waste Policy, in December 2012, a proposal of agreement was provided to the Ministry of the Environment by almost 30 associations involved in the packaging sector, including ABIR in its capacity as representative for The Coca-Cola Company, our Brazilian subsidiary and other bottlers. This agreement proposed the creation of a coalition to implement systems for reverse logistics packaging non-dangerous waste that make up the dry fraction of municipal solid waste or equivalent. The goal of the proposal is to create methodologies for sustainable development, and improve the management of solid waste by increasing recycling rates and decreasing incorrect disposal in order to protect the environment, society and the economy. The Ministry of Environment approved and signed this agreement in November 2015.

2015. In August 2016, the public prosecutor s office of the state of Sao Paulo filed several class actions against the parties that signed this agreement, challenging the validity of certain terms of the agreement and the effectiveness of the mandatory measures to be taken by the companies of the packaging sector, as provided in the agreement. Due to the large number of class actions involving the same parties, same cause of action and same pleas, a motion for resolution of repetitive claims was filed with the purpose of suspending all the class actions until the motion is resolved, and the competent court is appointed. ABIR and other associations are leading the defense.

Our Argentine operations are subject to federal and municipal laws and regulations relating to the protection of the environment. The most significant of these are regulations concerning waste management, which is regulated by federal Law 24.051 and Law 9111/78, and waste water discharge. Such regulations are enforced by the Ministry of Natural Resources and Sustainable Development (*Secretaría de Ambiente y Desarrollo Sustentable*) and the Provincial Organization for Sustainable Development (*Organismo Provincial para el Desarrollo Sostenible*) for the province of Buenos Aires. Our Alcorta plant is in compliance with environmental standards and we have been, and continue to be, certified for ISO 14001:2004 for the plants and operative units in Buenos Aires.

In Uruguay, we own a water treatment plant to reuse water in certain processes. We have established a program for recycling solid wastes and are currently certified for ISO 14001:2015 for our plant in Montevideo and for our distribution center in Paysandú.

For all of our plant operations, we employ the following environmental management system Environmental Administration System, or EKOSYSTEM (*Sistema de Administración Ambiental*).

We have spent, and may be required to spend in the future, funds for compliance with and remediation under local environmental laws and regulations. Currently, we do not believe that such costs will have a material adverse effect on our results or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly stringent in our territories, and there is increased recognition by local authorities of the need for higher environmental standards in the countries where we operate, changes in current regulations may result in an increase in costs, which may have an adverse effect on our future results or financial condition. We are not aware of any significant pending regulatory changes that would require a significant amount of additional remedial capital expenditures.

We do not believe that our business activities pose a material risk to the environment, and we believe that we are in material compliance with all applicable environmental laws and regulations.

Other Regulations

In June 2014, the Brazilian government enacted Law No. 12,997 (Law of Motorcycle Drivers), which requires employers to pay a premium of 30.0% of the base salary to all employees that are required to drive a motorcycle to perform their job duties. This premium became enforceable in October 2014, when the related rules and regulations were issued by the Ministry of Labor and Employment. We believe that these rules and regulations (Decree No. 1.565/2014) were unduly issued because such Ministry did not comply with all the requirements of applicable law (Decree No. 1.127/2003). In November 2014, our Brazilian subsidiary, in conjunction with other bottlers of the *Coca-Cola* system in Brazil and through the ABIR, filed a claim before the Federal Court to stay the effects of such decree. ABIR s associated companies, including our Brazilian subsidiary, were issued a preliminary injunction staying the effects of the decree and exempting us from paying the premium. The Ministry of Labor and Employment filed an interlocutory appeal against the preliminary injunction in order to restore the effects of Decree No. 1.565/2014. This interlocutory appeal was denied. In October 2016, a decision was rendered by the Federal Court declaring Decree No. 1.565/2014 to be null and void and requesting the Ministry of Labor and Employment to revise and reissue its regulations under Law No. 12,997. The Ministry of Labor and Employment, with the participation of all interested parties, is in the process of revising Decree No. 1.565/2014. Such revision has not concluded, therefore we cannot assure you that any changes made to Decree No. 1.565/2014 will not have an adverse effect on our business.

In July 2017, the Brazilian government issued Law No. 13,467 (Labor Reform Law), which resulted in significant changes to labor regulations. This law extends the workday from 8 hours to 12 hours, provided that there is a 36-hour break afterwards. With regard to negotiations with any labor union, Law No. 13,467 provides that certain rights, such as constitutional rights and women s rights, cannot be part of the negotiations, as the Constitution and existing law prevails over any collective bargaining agreement. In addition, Law No. 13,467 allows companies to outsource any activity, including the company s principal activity and activities that a company s own employees are carrying out. Furthermore, the law provides that a claimant seeking to enforce his or her rights under this law will have to pay all costs and expenses related to the lawsuit and limits any compensation for moral damages to certain thresholds. We are currently in compliance with these labor regulations.

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In November 2017, the Panamanian government enacted Law No. 75 which regulates the sale of food and beverages in public and private schools (from elementary school through high school). Law No. 75 prohibits the sale of all sparkling beverages and certain still beverages that contain high amounts of sugar or calories in schools. In addition, the Ministry of Education issued a decree with certain products that they recommend should be sold in schools; the products mentioned do not include sparkling beverages, teas and still beverages that contain high amounts of sugar. We cannot assure you that these restrictions and any further restrictions will not have an adverse impact on our results of operations.

In December 2017, the Argentine government enacted Law No. 27,401 (Corporate Criminal Liability Law), which introduced the criminal liability regime for corporate entities who engage in corruption and bribery with governmental agencies. The main purpose of this law is to make corporate entities liable for corruption and bribery carried out directly or indirectly by such corporate entity, either with its participation, on its behalf or to its benefit. Although we believe we are in compliance with this law, if we were found liable for any of these practices, this law may have an adverse effect on our business.

In August 2018, the Uruguayan government enacted Decree No. 272/018, which imposes an obligation to label certain food and beverages products that contain sodium, sugar, fats or saturated fats with health warnings. Although this decree is already enacted, we will not be required to label our products until February 2020.

In recent years, the Colombian government has enacted regulations associated with policies addressing money laundering and finance of terrorism, and cross border anti-bribery programs. Regarding money laundering, the new regulations impose the obligation to implement internal policies and comply with basic requirements such as know-your-counterparty procedures, anti-money laundering and finance of terrorism clauses in agreements and reporting of suspicious operations. Regarding anti bribery programs, companies are required to comply with basic requirements, such as due diligence in merger and acquisition transactions and delivery of gifts, remuneration to contractors, political contributions, donations, whistleblowing channels and anti corruption clauses in agreements. The Colombian authorities conduct audits to ensure the effectiveness of these policies and compliance with relevant regulations, and may impose fines and penalties in the event these policies and regulations are not observed.

BOTTLER AGREEMENTS

Coca-Cola Bottler Agreements

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers. Pursuant to our bottler agreements, we are authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and we are required to purchase concentrate for all *Coca-Cola* trademark beverages in all of our territories from affiliates of The Coca-Cola Company and sweeteners and other raw materials from companies authorized by The Coca-Cola Company.

These bottler agreements also provide that we will purchase our entire requirement of concentrate for *Coca-Cola* trademark beverages at prices, terms of payment and on other terms and conditions of supply as determined from time to time by The Coca-Cola Company at its sole discretion. Concentrate prices for *Coca-Cola* trademark beverages are determined as a percentage of the weighted average retail price in local currency, net of applicable taxes. Although the price multipliers used to calculate the cost of concentrate and the currency of payment, among other terms, are set by The Coca-Cola Company at its sole discretion, we set the price of products sold to customers at our discretion, subject to the applicability of price restraints imposed by authorities in certain territories. We have the exclusive right to distribute *Coca-Cola* trademark beverages for sale in our territories in authorized containers of the nature approved by the bottler agreements and currently used by our company. These containers include various configurations of cans and returnable and non-returnable bottles made of glass, aluminum and plastic and fountain containers.

The bottler agreements include an acknowledgment by us that The Coca-Cola Company is the sole owner of the trademarks that identify the *Coca-Cola* trademark beverages and of the formulas with which The Coca-Cola Company s concentrates are made. Subject to our exclusive right to distribute *Coca-Cola* trademark beverages in our territories, The Coca-Cola Company reserves the right to import and export *Coca-Cola* trademark beverages to and from each of our territories. Our bottler agreements do not contain restrictions on The Coca-Cola Company s ability to set the price of concentrates and do not impose minimum marketing obligations on The Coca-Cola Company. The prices at which we purchase concentrate under the bottler agreements may vary materially from the prices we have historically paid. However, under our bylaws and the shareholders agreement among The Coca-Cola Company and certain of its subsidiaries and certain of FEMSA s subsidiaries, an adverse action by The Coca-Cola Company under any of the bottler agreements may result in a suspension of certain voting rights of the directors appointed by The Coca-Cola Company. This provides us with limited protection against The Coca-Cola Company s ability to raise concentrate prices to the extent that such increase is deemed detrimental to us pursuant to such shareholder agreement and our bylaws. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.**

The Coca-Cola Company has the ability, at its sole discretion, to reformulate any of the *Coca-Cola* trademark beverages and to discontinue any of the *Coca-Cola* trademark beverages, subject to certain limitations, so long as all *Coca-Cola* trademark beverages are not discontinued. The Coca-Cola Company may also introduce new beverages in our territories in which case we have a right of first refusal with respect to the manufacturing, packaging, distribution and sale of such new beverages subject to the same obligations as then exist with respect to the *Coca-Cola* trademark beverages under the bottler agreements. The bottler agreements prohibit us from producing, bottling or handling beverages other than *Coca-Cola* trademark beverages, or other products or packages that would imitate, infringe upon, or cause confusion with the products, trade dress, containers or trademarks of The Coca-Cola Company, except under the authority of, or with the consent of, The Coca-Cola Company. The bottler agreements also prohibit us from acquiring or holding an interest in a party that engages in such restricted activities. The bottler agreements impose restrictions concerning the use of certain trademarks, authorized containers, packaging and labeling of The Coca-Cola Company so as to conform to policies approved by The Coca-Cola Company. In particular, we are obligated to:

maintain plant and equipment, staff and distribution facilities capable of manufacturing, packaging and distributing the *Coca-Cola* trademark beverages in authorized containers in accordance with our bottler agreements and in sufficient quantities to satisfy fully the demand in our territories;

undertake adequate quality control measures established by The Coca-Cola Company;

develop, stimulate and satisfy fully the demand for *Coca-Cola* trademark beverages using all approved means, which includes the investment in advertising and marketing plans;

maintain a sound financial capacity as may be reasonably necessary to assure performance by us and our subsidiaries of our obligations to The Coca-Cola Company; and

submit annually to The Coca-Cola Company our marketing, management, promotional and advertising plans for the ensuing year.

The Coca-Cola Company contributed a significant portion of our total marketing expenses in our territories during 2018 and has reiterated its intention to continue providing such support as part of our cooperation framework. Although we believe that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement** and **Item 7. Major Shareholders and Related Party Transactions Major Shareholders Cooperation Framework with The Coca-Cola Company.**

We have separate bottler agreements with The Coca-Cola Company for each of the territories where we operate, on substantially the same terms and conditions. These bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement.

As of the date of this report, and as a result of our agreement with The Coca-Cola Company to consolidate the nine bottlers agreements we had in Mexico into four agreements, and the nine bottler agreements we had in Brazil into two agreements, we had:

four bottler agreements in Mexico: (i) the agreement for the Valley of Mexico territory, which is up for renewal in June 2023, (ii) the agreement for the southeast territory, which is up for renewal in June 2023, (iii) the agreement for the Bajio territory, which is up for renewal in May 2025, and (iv) the agreement for the Gulf territory, which is up for renewal in May 2025;

two bottler agreements in Brazil, which are up for renewal in October 2027;

three bottler agreements in Guatemala, one of which is up for renewal in March 2025 and two in April 2028;

- one bottler agreement in Argentina, which is up for renewal in September 2024;
- one bottler agreement in Colombia, which is up for renewal in June 2024;
- one bottler agreement in Costa Rica, which is up for renewal in September 2027;
- one bottler agreement in Nicaragua, which is up for renewal in May 2026;
- one bottler agreement in Panama, which is up for renewal in November 2024; and
- one bottler agreement in Uruguay, which is up for renewal in June 2028.

As of the date of this report, our investee KOF Venezuela had one bottler agreement, which is up for renewal in August 2026.

The bottler agreements are subject to termination by The Coca-Cola Company in the event of default by us. The default provisions include limitations on the change in ownership or control of our company and the assignment or transfer of the bottler agreements and are designed to preclude any person not acceptable to The Coca-Cola Company from obtaining an assignment of a bottler agreement or from acquiring our company independently of other rights set forth in the shareholders agreement. These provisions may prevent changes in our principal shareholders, including mergers or acquisitions involving sales or dispositions of our capital stock, which will involve an effective change of control, without the consent of The Coca-Cola Company. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.**

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We have also entered into tradename license agreements with The Coca-Cola Company pursuant to which we are authorized to use certain trademark names of The Coca-Cola Company with our corporate name. These agreements have a ten-year term and are automatically renewed for ten-year terms, but are terminated if we cease to manufacture, market, sell and distribute *Coca-Cola* trademark products pursuant to the bottler agreements or if the shareholders agreement is terminated. The Coca-Cola Company also has the right to terminate any license agreement if we use its trademark names in a manner not authorized by the bottler agreements.

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DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2018, we owned 49 bottling plants company-wide. By country, as of such date, we had 17 bottling facilities and 5 secondary facilities for a total of 22 in Mexico, 7 in Central America, 7 in Colombia, 10 in Brazil, 2 in Argentina, and 1 in Uruguay. In 2018, we changed the criteria to account for bottling facilities in Mexico to include small capacity bottling facilities mainly for bulk water. In addition, our investee KOF Venezuela owned 4 bottling plants as of December 31, 2018.

As of December 31, 2018, we operated 275 distribution centers, approximately 52.7% of which were in our Mexican territories. As of such date, we owned more than 73.4% of these distribution centers and leased the remainder. In addition, our investee KOF Venezuela operated 22 distribution centers. **See The Company Product Sales and Distribution.**

We maintain an all-risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disaster, including hurricane, hail, earthquake and damages caused by human acts, including explosion, fire, vandalism and riot; we also maintain a freight transport insurance policy that covers damages to goods in transit. In addition, we maintain a liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. We believe that our coverage is consistent with the coverage maintained by similar companies.

Certain factors may affect utilization levels of our bottling facilities, such as seasonality of demand for our products, supply chain planning due to different geographies and different packaging capacities of our production lines. As a result, we are exposed to seasonality and peak months of demand for our products, which may lead us to have excess capacity during certain months in certain countries.

The table below summarizes by country installed capacity, average annual utilization and utilization during peak month of our production facilities:

Bottling Facility Summary

As of December 31, 2018

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

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

(2) Annualized rate.

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The table below summarizes our main production facilities in terms of installed capacity, including their location and facility area:

Main Bottling Facility by Location

As of December 31, 2018

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	Toluca, Estado de Mexico	317
	Leon, Guanajuato	124
	Morelia, Michoacan	50
	Ixtacomitan, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	La Pureza Altamira, Tamaulipas	300
	San Juan del Rio, Queretaro	84
Guatemala	Guatemala City	46
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San Jose	52
Panama	Panama City	29
Colombia	Barranquilla, Atlántico	37
	Bogota, DC	105
	Tocancipa, Cundinamarca	298
Brazil	Jundiai, Sao Paulo	191
	Marilia, Sao Paulo	159
	Curitiba, Paraná	119
	Itabirito, Minas Gerais	320
	Porto Alegre, Río Grande do Sul	196
Argentina	Alcorta, Buenos Aires	73
Uruguay	Montevideo, Montevideo	119

SIGNIFICANT SUBSIDIARIES

The table below sets forth all of our direct and indirect significant subsidiaries and the percentage of equity of each subsidiary we owned directly or indirectly as of December 31, 2018:

Name of Company	Jurisdiction of Incorporation	Percentage Owned	Description
Propimex, S. de R.L. de C.V.	Mexico	100.0%	Distributor of bottled beverages.
Controladora Interamericana de Bebidas, S. de R.L. de C.V.	Mexico	100.0%	Holding company of manufacturers and distributors of bottled beverages.
Spal Indústria Brasileira de Bebidas, S.A.	Brazil	96.1%	Manufacturer and distributor of bottled beverages.
Distribuidora y Manufacturera del Valle de México, S. de R.L. de C.V.	Mexico	100.0%	Manufacturer and distributor of bottled beverages.
Servicios Refresqueros del Golfo, S. de R.L. de C.V.	Mexico	100.0%	Manufacturer and distributor of bottled beverages.

For further information regarding our investment in associates and joint ventures, see Note 10 to our consolidated financial statements.

Item 4.A. Unresolved Staff Comments

None.

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Item 5. Operating and Financial Review and Prospects

General

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements including the notes thereto. Our consolidated financial statements were prepared in accordance with IFRS as issued by the IASB.

Average Price Per Unit Case. We use average price per unit case to analyze average pricing trends in the different territories where we operate. We calculate average price per unit case by dividing net sales by total sales volume. Sales of beer in Brazil, which are not included in our sales volumes, are excluded from this calculation.

Effects of Changes in Economic Conditions. Our results are affected by changes in economic conditions in Mexico, Brazil and in the other countries where we operate. For the year ended December 31, 2018, approximately 77.3% of our total revenues were attributable to Mexico and Brazil. Our results are affected by the economic conditions in the countries where we conduct operations. Some of these economies continue to be influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect these economies. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our results and financial condition. Our business may also be significantly affected by the interest rates, inflation rates and exchange rates of the local currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. In addition, an increase in interest rates would increase the cost to us of variable rate funding, which would have an adverse effect on our financial position.

Changes to the Accounting Method for our Venezuelan Operations. As disclosed in Note 3.3 to our consolidated financial statements, effective as of December 31, 2017, we determined that deteriorating conditions in Venezuela had led us to no longer meet the accounting criteria to consolidate the results of operations of KOF Venezuela. Such deteriorating conditions had significantly impacted our ability to manage our capital structure and our capacity to import and purchase raw materials and had imposed limitations on our portfolio dynamics. In addition, government controls over the pricing of certain products, labor law restrictions and an inability to obtain U.S. dollars and import raw materials have affected the normal course of our business. Therefore, as a result of the deconsolidation of our Venezuelan operations in 2017, we recorded an extraordinary loss in other expenses of Ps.28,177 million as of December 31, 2017, including Ps.26,123 million which were previously recorded in accumulated foreign currency translation losses in equity, and we changed the method of accounting for the results of operations of KOF Venezuela from consolidation to fair value method. In 2018, we recognized in other comprehensive income a fair value loss on the investment of Ps.1,039 million as of December 31, 2018 and an impairment remeasurement of Ps.210 million as of December 31, 2017. Gains and losses on the investment since January 1, 2018 are recognized in other comprehensive income in accordance with IFRS 9, *Financial Instruments*. See Note 10 to our consolidated financial statements.

We reported the results of operations of KOF Venezuela as a consolidated reporting segment for the periods ended December 31, 2017 and 2016. Since January 1, 2018, we no longer include the results of operations of KOF Venezuela in our consolidated financial statements.

Treatment of Argentina as a Hyperinflationary Economy. On July 1, 2018, Argentina s economy satisfied the conditions to be treated as a hyperinflationary economy based on various economic factors, including that Argentina s cumulative inflation over the three-year period prior to such date exceeded 100%, according to available indexes in the country. Effective as of January 1, 2018, we adjusted the financial information of our Argentine operations to recognize inflationary effects and functional currency was converted to Mexican pesos using the exchange rates at the end of the period ended December 31, 2018. See Note 3.4 to our consolidated financial statements.

Sale of Equity Participation in KOF Philippines. In August 2018, our subsidiary, CIBR, notified The Coca-Cola Company of its decision to exercise its option to sell its 51.0% stake in KOF Philippines and, on December 13, 2018, CIBR completed this sale. As a result, KOF Philippines was classified as an asset held for sale commencing on August 31, 2018 and as a discontinued operation for the year ended December 31, 2018, and the corresponding results for 2017 were restated for comparative purposes. Commencing on January 1, 2018, we stopped accounting for KOF Philippines and, specifically our Asia division, as a separate reporting segment. The net gain derived from the sale of KOF Philippines, as well as KOF Philippines results of operations from January 1, 2018 through December 12, 2018 were recorded in our consolidated financial statements as part of our Mexico and Central America consolidated reporting segment. See Notes 5 and 26 to our consolidated financial statements.

Recent Acquisitions. In April 2018, Compañía Inversionista en Bebidas del Norte, S.L., one of our subsidiaries, acquired from The Coca-Cola Company, ABASA, a Guatemalan bottler of *Coca-Cola* trademark products with operation in the northeast region of Guatemala, and Compañía de Inversiones Moderna, S.L., another of our subsidiaries, acquired from The Coca-Cola Company, Los Volcanes, a Guatemalan bottler of *Coca-Cola* trademark products with operations in the southwest region of Guatemala. In June 2018, Inversiones en Bebidas Refrescantes Ibérica, S.L., one of our subsidiaries, acquired from The Coca-Cola Company, Monresa, the Uruguayan bottler of *Coca-Cola* trademark products.

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Recent Developments Relating to Our Indebtedness. In 2018, we entered into certain bank loans in Mexican and Uruguayan pesos for an aggregate principal amount of Ps.10,100 million and 2,212 million Uruguayan pesos (Ps.1,344 million, based on an exchange rate of 0.61 Mexican pesos per Uruguayan peso), respectively. In January 2019, we prepaid three bank loans in Mexican pesos for an aggregate amount of Ps.4,700 million. On November 26, 2018 our 2.375% Notes due 2018 matured and were repaid in full.

Critical Accounting Judgments and Estimates

In the application of our accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. For a description of all of our critical accounting judgments and estimates, see Note 2.3 to our consolidated financial statements.

New Accounting Pronouncements

For a description of the new IFRS and amendments to IFRS adopted during 2018, see Note 2.4 to our consolidated financial statements. In addition, for a description of the recently issued accounting standards effective in 2019 and 2020, see Note 27 to our consolidated financial statements.

Results

The following table sets forth our consolidated income statements for the years ended December 31 2018, 2017 and 2016.

	Year Ended December 31,			
	2018(1)(2)	2018(2)	2017(3)	2016(4)
	(in millions of Mexican pesos or millions of U.S. dollars, except per share data)			
Revenues:				
Net sales	US$ 9,260	Ps. 181,823	Ps. 182,850	Ps. 177,082
Other operating revenues	26	519	406	636
Total revenues	9,286	182,342	183,256	177,718
Cost of goods sold	5,012	98,404	99,748	98,056
Gross profit	4,274	83,938	83,508	79,662
Costs and expenses:				
Administrative expenses	407	7,999	7,693	7,423
Selling expenses	2,543	49,925	50,351	48,039
Other income	29	569	1,542	1,281
Other expenses	125	2,450	32,899(5)	5,093

Interest expenses	385	7,568	8,777	7,471
Interest income	51	1,004	791	715
Foreign exchange gain (loss), net	(14)	(277)	788	(1,792)
Gain (loss) on monetary position for subsidiaries in hyperinflationary economies	11	212	1,590	2,417
Market value gain (loss) on financial instruments	(16)	(314)	246	51
Income (loss) before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	875	17,190	(11,255)	14,308
Income taxes	268	5,260	4,184	3,928
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	(12)	(226)	60	147
Net income (loss) for continuing operations	596	11,704	(15,379)	10,527
Net income (loss) for discontinued operations	172	3,366	3,725	

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	Year Ended December 31,			
	2018(1)(2)	2018(2)	2017(3)	2016(4)
	(in millions of Mexican pesos or millions of U.S. dollars, except per share data)			
Consolidated net income (loss)	768	15,070	(11,654)	10,527
Attributable to:				
Equity holders of the parent for continuing operations	557	10,936	(16,058)	10,070
Equity holders of the parent for discontinued operations	152	2,975	3,256	
Non-controlling interest for continuing operations	39	768	679	457
Non-controlling interest for discontinued operations	20	391	469	
Consolidated net income (loss)	768	15,070	(11,654)	10,527
Per share data(6):				
Basic earnings (loss) per share from(7):				
Continuing operations	0.03	0.65	(0.96)	0.61
Discontinued operations	0.01	0.18	0.19	
Diluted earnings (loss) per share from(8):				
Continuing operations	0.03	0.65	(0.96)	0.61
Discontinued operations	0.01	0.18	0.19	

(1) Translation to U.S. dollar amounts at an exchange rate of Ps.19.64 to US$1.00 solely for the convenience of the reader.
(2) Includes results of ABASA and Los Volcanes from May 2018 and Monresa from July 2018. See **Item 4. Information on the Company The Company Corporate History**.
(3) Our consolidated statements of income for 2017 were restated for comparative purposes, as a result of the sale of our equity participation in KOF Philippines. For further information **see General Sale of Equity Participation in KOF Philippines.**
(4) Includes results of Vonpar from December 2016. **See Item 4. Information on the Company The Company Corporate History.**
(5) See Note 19 to our consolidated financial statements.
(6) Per share data has been restated to give effect to the Stock Split.
(7) Computed on the basis of the weighted average number of shares outstanding during the period: 16,806.7 million in 2018, 16,730.8 million in 2017 and 16,598.7 million in 2016.
(8) The diluted earnings per share calculation was computed on the basis of the diluted weighted average number of shares outstanding during the period: 16,806.7 million in 2018, 16,730.8 million in 2017 and 16,598.7 million in 2016 (which reflects the commitment to deliver Series L shares to the sellers of Vonpar, without changing the number of shares for 2016). For further information see Note 3.26 to our consolidated financial statements.

Operations by Consolidated Reporting Segment

The following table sets forth certain financial information for each of our consolidated reporting segments for the years ended December 31, 2018, 2017 and 2016. See Note 26 to our consolidated financial statements for additional information about all of our consolidated reporting segments.

	Year Ended December 31,		
	2018(1)	2017(1)	2016(1)
	(in millions of Mexican pesos)		
Total revenues			
Mexico and Central America(1)	100,162	92,643	87,557
South America(2)	82,180	86,608	71,293
Venezuela(3)		4,005	18,868
Gross profit			
Mexico and Central America(1)	48,162	45,106	43,569
South America(2)	35,776	37,756	29,263
Venezuela(3)		646	6,830

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

(2) Includes Colombia, Brazil, Argentina and Uruguay. Includes results of Vonpar from December 2016 and Monresa from July 2018.

(3) We stopped consolidating our Venezuelan operations commencing on January 1, 2018.

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Results for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Consolidated Results

The comparability of our financial and operating performance in 2018 as compared to 2017 was affected by the following factors: (1) the ongoing integration of mergers, acquisitions, and divestitures completed in recent years, specifically the acquisitions in Guatemala and Uruguay in April and June 2018, respectively; (2) translation effects from fluctuations in exchange rates; (3) our results in Argentina, which effective as of January 1, 2018 is considered a hyperinflationary economy; (4) the deconsolidation of our Venezuelan operations effective as of December 31, 2017; and (5) the classification of KOF Philippines as a discontinued operation effective as of January 1, 2018 and the restatement for comparative purposes of the corresponding results for 2017 to exclude the results of KOF Philippines, as if such operation had been discontinued as of February 1, 2017, the date we commenced consolidating the financial results of KOF Philippines in our financial statements. To translate the full-year 2018 results of Argentina, we used the end-of-period exchange rate of 37.70 Argentine pesos per U.S. dollar. The depreciation of the Argentine peso at December 31, 2018, as compared to the average exchange rate for 2017, was 127.7%. In addition, the average depreciation of currencies used in our main operations relative to the U.S. dollar in 2018, as compared to 2017, were: 14.5% for the Brazilian real, 1.6% for the Mexican peso, 0.2% for the Colombian peso and 7.2% for the Uruguayan peso.

Total Revenues. Our consolidated total revenues decreased by 0.5% to Ps.182,342 million in 2018, mainly as a result of the depreciation of the Argentine peso, the Brazilian real and the Colombian peso, in each case as compared to the Mexican peso, and the deconsolidation of KOF Venezuela effective as of December 31, 2017, which were partially offset by price increases aligned with or above inflation and volume growth in key territories. On a comparable basis, total revenues would have increased by 5.9%, mainly as a result of an increase in the average price per unit case across our operations and volume growth in Brazil, Central America and Colombia.

Total sales volume remained flat at 3,321.8 million unit cases in 2018 as compared to 2017. On a comparable basis, total sales volume would have increased by 1.3% in 2018 as compared to 2017.

Sales volume of our sparkling beverage portfolio remained flat as compared to 2017; sales volume of our colas portfolio increased by 2.3%, while sales volume of our flavored sparkling beverage portfolio declined by 8.2%. On a comparable basis, sales volume of our sparkling beverage portfolio would have increased by 1.0% as compared to 2017, driven by growth across all of our operations (except for Mexico which had a flat performance). Sales volume of our colas portfolio would have increased by 2.8%, mainly due to volume growth in most of our territories, and sales volume of our flavored sparkling beverages portfolio would have declined by 5.6%.

Sales volume of our still beverage portfolio increased by 3.1% as compared to 2017. On a comparable basis, sales volume of our still beverage portfolio would have increased by 5.8%, driven by growth in Brazil, Central America and Mexico, which was partially offset by a volume contraction in Colombia.

Sales volume of our bottled water category, excluding bulk water, increased by 1.9% as compared to 2017. On a comparable basis, sales volume of our water portfolio would have increased by 7.2%, driven by growth in Brazil, Colombia and Mexico, which was partially offset by a volume contraction in Central America.

Sales volume of our bulk water category declined by 2.0%. On a comparable basis, sales volume of our bulk water portfolio would have decreased by 2.6%, mainly as a result of volume contraction in Mexico, which was partially offset by volume growth in Brazil, Central America and Colombia.

Consolidated average price per unit case decreased by 1.4% to Ps.50.57 in 2018, as compared to Ps.51.31 in 2017, mainly as a result of the negative translation effect resulting from depreciation of the Argentine peso and the Brazilian real relative to the Mexican peso, which was partially offset by the positive translation effect resulting from the appreciation of the Colombian peso relative to the Mexican peso. On a comparable basis, average price per unit case would have increased by 3.1% in 2018, driven by average price per unit case increases in local currency in Mexico and Brazil.

Gross Profit. Our gross profit increased by 0.5% to Ps.83,938 million in 2018; with a gross margin expansion of 40 basis points to reach 46.0% in 2018 as compared to 2017. On a comparable basis, our gross profit would have increased by 5.5% in 2018, as compared to 2017. Our pricing initiatives, together with lower sweetener prices in most of our operations, were offset by higher PET resin costs across most of our operations, higher concentrate costs in Mexico, and the depreciation in the average exchange rate of all of our operating currencies as applied to U.S. dollar-denominated raw material costs.

The components of cost of goods sold include raw materials (principally concentrate, sweeteners and packaging materials), depreciation costs attributable to our production facilities, wages and other labor costs associated with labor force employed at our production facilities and certain overhead costs. Concentrate prices are determined as a percentage of the retail price of our products in local currency, net of applicable taxes. Packaging materials, mainly PET resin and aluminum, and HFCS, used as a sweetener in some countries, are denominated in U.S. dollars.

Administrative and Selling Expenses. Our administrative and selling expenses decreased by 0.2% to Ps.57,924 in 2018 as compared to 2017. Our administrative and selling expenses as a percentage of total revenues increased by 10 basis points to 31.8% in 2018 as compared to 2017, mainly as a result of an increase in labor and freight costs, which were partially offset by the effects of favorable foreign exchange translations. In 2018, we continued investing across our territories to support marketplace execution, increase our cooler coverage, and bolster our returnable presentation base.

Other Expenses Net. We recorded other expenses net of Ps.1,880 million in 2018 as compared to Ps.31,357 million in 2017, which decrease was mainly as a result of a one-time non-cash charge related to the deconsolidation of KOF Venezuela as of December 31, 2017. Our non-operating expenses net in 2018 were mainly comprised of an impairment of Ps.432 million of our investment in Compañía Panameña de Bebidas, S.A.P.I. de C.V. (Estrella Azul) along with provisions related to contingencies in Brazil and Colombia. For more information, see Notes 3.3 (Venezuela) and 10 (Estrella Azul) to our consolidated financial statements.

Comprehensive Financing Result. The term comprehensive financing result refers to the combined financial effects of net interest expenses, net financial foreign exchange gains or losses, and net gains or losses on the monetary position of hyperinflationary countries where we operate. Net financial foreign exchange gains or losses represent the impact of changes in foreign exchange rates on financial assets or liabilities denominated in currencies other than local currencies, and gains or losses resulting from derivative financial instruments. A financial foreign exchange loss arises if a liability is denominated in a foreign currency that appreciates relative to the local currency between the date the liability is incurred or the beginning of the period, whichever occurs first, and the date it is repaid or the end of the period, whichever occurs first, as the appreciation of the foreign currency results in an increase in the amount of local currency, which must be exchanged to repay the specified amount of the foreign currency liability.

Comprehensive financing result in 2018 recorded an expense of Ps.6,943 million as compared to an expense of Ps.5,362 million in 2017. This 29.5% increase was mainly driven by a foreign exchange loss of Ps.277 million in 2018 as compared to a foreign exchange gain of Ps.788 million in 2017, as a result of the depreciation of the Mexican peso relative to the U.S. dollar as applied to our U.S. dollar-denominated cash position, that included US$715 million of proceeds received from the sale of our equity interest in KOF Philippines. This foreign exchange loss was partially offset by a 13.8% decrease in interest expense in 2018 as compared to 2017. In 2018 we recognized a Ps.212 million gain in monetary position in hyperinflationary subsidiaries related to our operations in Argentina, as compared to a gain of Ps.1,591 million in 2017 related to our operations in Venezuela prior to the deconsolidation.

Income Taxes. In 2018, our effective income tax rate was 31.0%, reaching Ps.5,260 million in 2018, as compared to Ps.4,184 million in 2017. This increase was mainly driven by higher tax rates in Brazil as compared to tax rates in other jurisdictions where we operate, considering the relative weight of Brazil s profits in our consolidated results, as well as the deconsolidation of KOF Venezuela, which had deferred taxes in 2017. For more information, see Note 24 to our consolidated financial statements.

Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method, Net of Taxes. In 2018, we recorded a loss of Ps.226 million in the share of the profits of associates and joint ventures accounted for using the equity method, net of taxes, mainly due to a loss in Compañía Panameña de Bebidas, S.A.P.I. de C.V. (Estrella Azul) and Jugos del Valle; this loss was partially offset by gains in our joint ventures in Brazil.

Net Income (Equity holders of the parent). We reported a net controlling interest income of Ps.13,911 million in 2018, as compared to a net controlling interest loss of Ps.12,802 million in 2017. This was mainly driven by a decrease in other non-operating expenses net as described above. Our net controlling interest income from continuing operations was Ps.10,936 million in 2018, as compared to a net controlling interest loss from continuing operations of Ps.16,058 million in 2017.

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Results by Consolidated Reporting Segment

Mexico and Central America

Total Revenues. Total revenues in our Mexico and Central America consolidated reporting segment increased by 8.1% to Ps.100,162.4 million in 2018 as compared to 2017, mainly as a result of an increase in the average price per unit case in Mexico and the consolidation of our acquisitions of ABASA and Los Volcanes in Guatemala.

Total sales volume in our Mexico and Central America consolidated reporting segment increased by 2.3% to 2,065.0 million unit cases in 2018 as compared to 2017, as a result of volume growth in Central America.

Sales volume of our sparkling beverage portfolio increased by 2.9%, mainly driven by a 3.6% increase in our colas portfolio, which was partially offset by a flat performance of our flavored sparkling beverage portfolio. On a comparable basis, sales volume of our sparkling beverage portfolio would have increased by 0.5% as compared to 2017, driven by growth across all of our operations. Sales volume of our colas portfolio would have increased by 0.8%, while sales volume of our flavored sparkling beverage portfolio would have declined by 0.9%.

Sales volume of our still beverage portfolio increased by 7.4%, mainly due to growth in both Mexico and Central America. On a comparable basis, sales volume of our still beverage portfolio would have increased by 6.9% as compared to 2017, driven by growth across all of our territories.

Sales volume of bottled water, excluding bulk water, increased by 4.8%, as Mexico and Central America had a positive performance. On a comparable basis, sales volume of our bottled water portfolio would have increased by 3.9% as compared to 2017, driven by growth in Mexico.

Sales volume of our bulk water portfolio declined 3.5%.

Sales volume in Mexico slightly increased by 0.3% to 1,850.2 million unit cases in 2018, as compared to 1,845.0 million unit cases in 2017.

Sales volume of our sparkling beverage portfolio increased by 0.2%, driven by a 0.3% increase in our colas portfolio, which was partially offset by a 0.2% decrease in sales volume of our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio increased by 7.3%.

Sales volume of bottled water, excluding bulk water, increased by 4.7%.

Sales volume of our bulk water portfolio decreased by 3.6%.

Sales volume in Central America increased by 24.2% to 214.8 million unit cases in 2018, as compared to 173.0 million unit cases in 2017, mainly as a result of the acquisitions of ABASA and Los Volcanes in Guatemala.

Sales volume of our sparkling beverage portfolio increased by 27.8%, driven by a 37.1% increase in sales volume of our colas portfolio and a 0.7% increase in sales volume of our flavored sparkling beverage portfolio. On a comparable basis, sales volume of our sparkling beverage portfolio would have increased by 3.0% as compared to 2017; sales volume of our colas portfolio would have increased by 6.0%, while sales volume of our flavored sparkling beverage portfolio would have declined by 5.7%.

Sales volume of our still beverage portfolio increased by 7.8%. On a comparable basis, sales volume of our still beverage portfolio would have increased by 4.4% as compared to 2017.

Sales volume of bottled water, excluding bulk water, increased by 5.8%. On a comparable basis, sales volume of our bottled water portfolio would have decreased by 2.8% as compared to 2017.

Sales volume of our bulk water portfolio grew by 1.5%.

Gross Profit. Our gross profit in this consolidated reporting segment increased by 6.8% to Ps.48,162.3 million in 2018 as compared to 2017; however, gross profit margin decreased by 60 basis points to 48.1% in 2018. Gross profit margin decreased mainly as a result of higher PET resin prices, increases in concentrate prices in Mexico and the depreciation of the average exchange rates of the Mexican peso, the Guatemalan quetzal, the Costa Rican colon and the Nicaraguan Cordoba, in each case as applied to our U.S. dollar-denominated raw material costs, which factors were partially offset by our pricing initiatives, a favorable currency hedging position and the decline of sweeteners costs.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment increased by 50 basis points to 33.7% in 2018 as compared with the same period in 2017. Administrative and selling expenses, in absolute terms, increased 9.7% as compared to 2017 driven mainly by increases in freight and labor costs in Mexico.

South America

Total Revenues. Total revenues in our South America consolidated reporting segment decreased by 5.1% to Ps.82,179.6 million in 2018 as compared to 2017, mainly as a result of negative translation effects due to the depreciation of the Argentine peso, the Brazilian real and the Colombian peso, in each case as compared to the Mexican peso. These effects were partially offset by volume growth in Brazil and Colombia together with average price per unit case growth across our territories and the consolidation of our new acquisition in Uruguay. Total revenues for beer amounted to Ps.13,848.5 million in 2018. On a comparable basis, total revenues would have increased by 6.9%, driven by volume growth and average price per unit case increases in local currencies across our territories.

Total sales volume in our South America consolidated reporting segment increased by 1.7% to 1,256.8 million unit cases in 2018 as compared to 2017, mainly as a result of volume growth in Brazil and Colombia, which was partially offset by volume contraction in Argentina. On a comparable basis, total sales volume would have increased by 2.8% in 2018 as compared to 2017, as a result of volume growth in all of our South America operations.

- Sales volume of our sparkling beverage portfolio increased by 1.1% as compared to 2017. On a comparable basis, sales volume of our sparkling beverage portfolio would have increased by 1.9%, mainly due to volume growth of our colas portfolio in all our South American territories, and a volume contraction in our flavored sparkling beverages in Brazil and Colombia.

- Sales volume of our still beverage portfolio decreased by 1.1% as compared to 2017. On a comparable basis, sales volume of our still beverage portfolio would have increased by 3.4%, mainly driven by volume growth in Brazil, which was partially offset by volume decline in Colombia.

- Sales volume of our bottled water category, excluding bulk water, increased by 8.0% as compared to 2017. On a comparable basis, sales volume of our bottled water category, excluding bulk water, would have increased by 12.8% as compared to 2017, with volume expansions in Brazil and Colombia.

- Sales volume of our bulk water portfolio increased by 10.5% as compared to 2017. On a comparable basis, sales volume of our bulk water portfolio would have increased by 8.3%, mainly driven by a volume growth in Colombia and Brazil.

Sales volume in Brazil increased by 2.9% to 787.4 million unit cases in 2018, as compared to 765.1 million unit cases in 2017.

Sales volume of our sparkling beverage portfolio increased by 1.2% as compared to 2017, as a result of a 4.7% increase in our colas portfolio, which was partially offset by a 8.5% decrease in sales volume of our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio increased by 18.2% as compared to 2017.

Sales volume of our bottled water, excluding bulk water, increased by 15.0% as compared to 2017.

Sales volume of our bulk water portfolio increased by 16.1%.

Sales volume in Colombia increased by 2.4% to 271.4 million unit cases in 2018, as compared to 265.0 million unit cases in 2017.

Sales volume of our sparkling beverage portfolio increased by 4.0% as compared to 2017, mainly driven by a 11.4% increase in our colas portfolio, which was partially offset by a 29.4% decrease of sales volume of our flavored sparkling beverages portfolio.

Sales volume of our still beverage portfolio decreased by 21.4% during 2018, as compared to 2017.

Sales volume of bottled water, excluding bulk water, increased by 9.0% as compared to 2017.

Sales volume of our bulk water portfolio increased by 5.6%.

Sales volume in Argentina decreased by 14.9% to 175.3 million unit cases in 2018, as compared to 205.9 million unit cases in 2017.

Sales volume of our sparkling beverage portfolio decreased by 15.2% as compared to 2017, mainly driven by a decrease in sales volume of our colas portfolio and our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio decreased by 20.5% as compared to 2017.

Sales volume of bottled water, excluding bulk water, decreased by 14.9%.

Sales volume of our bulk water portfolio increased by 25.6%.

Sales volume in Uruguay amounted to 22.7 million unit cases in 2018. Our sparkling beverage category represented 91.6% of our total sales volume. Our still beverage category represented 1.5% of our total sales volume. Our water portfolio represented 6.9% of our total sales volume.

Gross Profit. Gross profit in this consolidated reporting segment amounted to Ps.35,776.0 million, a decrease of 5.2% in 2018 as compared to 2017, with a 110 basis point margin contraction to 43.5%. This decrease in gross profit was mainly driven by higher PET resin prices in the segment, an unfavorable raw material hedging position in Brazil, and the depreciation of the Argentine peso, Brazilian real and the Colombian peso as applied to U.S. dollar-denominated raw material costs, which factors were partially offset by lower sweetener prices, a favorable currency hedging position in the segment and our pricing initiatives.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment increased by 10 basis points to 29.5% in 2018 as compared to 2017. Administrative and selling expenses, in absolute terms, decreased by 4.8% as compared to 2017, driven mainly by operating expense efficiencies in Brazil.

Results for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Consolidated Results

The comparability of our financial and operating performance in 2017 as compared to 2016 was affected by the following factors: (1) the ongoing integration of mergers, acquisitions, and divestitures completed in recent years; (2) translation effects from fluctuations in exchange rates; and (3) our results in Venezuela, which is considered a hyperinflationary economy, and the non-recurrent charges as a result of the deconsolidation of our Venezuelan operations. In certain information presented below, we have excluded the effects of (i) translation effects resulting from exchange rate fluctuations, (ii) our acquisition of Vonpar in Brazil, and (iii) our operations in Venezuela, in order to better describe the performance of our business on a comparable basis in 2017 as compared to 2016. To translate the results of our Venezuelan operations in 2017, we used the exchange rate of 22,793 bolivars per U.S. dollar, as compared to 673.76 bolivars per U.S. dollar used to translate our 2016 reported results. In addition, the average depreciation of currencies used in our main operations relative to the U.S. dollar in 2017, as compared to 2016, were: 12.1% for the Argentine peso and 1.5% for the Mexican peso. Moreover, the average appreciation of currencies used in our main operations relative to the U.S. dollar in 2017, as compared to 2016, were: 3.4% for the Colombian peso and 8.5% for the Brazilian real.

Total Revenues. Our consolidated total revenues increased by 3.1% to Ps.183,256 million in 2017, as a result of the acquisition of Vonpar in Brazil. Total revenues were also driven by average price per unit case increases in local currency aligned with or above inflation in key territories, supported by the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso, despite the depreciation of the Argentine peso, and the Venezuelan bolivar; in each case relative to the Mexican peso. On a comparable basis, total revenues would have increased by 3.6%, driven by growth in our average price per unit case across most of our operations, which were partially offset by volume declines in our South American (excluding Venezuela) consolidated reporting segment.

Total sales volume decreased by 0.5% to 3,318.2 million unit cases in 2017 as compared to 2016, mainly as a result of volume contraction in Argentina, Colombia and Venezuela as discussed below, which was partially offset by the acquisition of Vonpar. On a comparable basis, total sales volume would have decreased by 2.5% in 2017 as compared to 2016.

Sales volume of our sparkling beverage portfolio remained flat as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 2.6%, driven by volume contractions across our operations. On the same basis, sales volume of our colas portfolio would have declined by 2.2%, while sales volume of our flavored sparkling beverage portfolio would have declined by 4.1%.

Sales volume of our still beverage portfolio declined by 2.1%, as compared to 2016. On a comparable basis, sales volume of our still beverage portfolio would have declined by 1.6%, mainly due to volume contractions in Brazil and Colombia, which were partially offset by volume growth in Mexico and Argentina.

Sales volume of our bottled water category, excluding bulk water, declined 2.7% as compared to 2016. On a comparable basis, sales volume of our bottled water category, excluding bulk water, would have declined by 1.2%, driven mainly by growth in Mexico and Central America, which was partially offset by volume contractions in South America.

Sales volume of our bulk water portfolio decreased by 1.6%, as compared to 2016. On a comparable basis, sales volume of our bulk water portfolio would have declined by 2.2%, driven mainly by a volume contraction in Colombia, which was partially offset by volume growth in Argentina and Brazil.

Consolidated average price per unit case increased by 1.1% to Ps.51.31 in 2017, as compared to Ps.50.75 in 2016, mainly as a result of the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso, in each case relative to the Mexican peso, which was partially offset by the negative translation effect resulting from depreciation of the Argentine peso and the Venezuelan bolivar relative to the Mexican peso. On a comparable basis, average price per unit case would have increased by 6.4% in 2017, driven by average price per unit case increases in local currency in Mexico, Argentina, Brazil and Colombia.

Gross Profit. Our gross profit increased by 4.8% to Ps.83,507 million in 2017; our gross profit margin increased by 80 basis points to reach 45.6% in 2017 as compared to 2016. On a comparable basis, our gross profit would have increased by 5.9% in 2017, as compared to 2016. Our pricing initiatives, together with our currency and raw material hedging strategies, offset higher costs resulting from higher sweetener and concentrate prices in Mexico and the depreciation in the average exchange rate of the Mexican peso and the Argentine peso, as applied to U.S. dollar-denominated raw material costs.

The components of cost of goods sold include raw materials (principally concentrate, sweeteners and packaging materials), depreciation costs attributable to our production facilities, wages and other labor costs associated with labor force employed at our production facilities and certain overhead costs. Concentrate prices are determined as a percentage of the retail price of our products in local currency, net of applicable taxes. Packaging materials, mainly PET resin and aluminum, and HFCS, used as a sweetener in some countries, are denominated in U.S. dollars.

Administrative and Selling Expenses. Our administrative and selling expenses as a percentage of total revenues increased by 50 basis points to 31.7% in 2017 as compared to 2016. Our administrative and selling expenses in absolute terms increased by 4.7% to Ps.58,045 million as compared to Ps.55,462 million in 2016, mainly as a result of the acquisition of Vonpar; however, this increase was partially offset by the effects of foreign exchange translations. In 2017, we continued investing across our territories to support marketplace execution, increase our cooler coverage, and bolster our returnable presentation base.

Other Expenses Net. We recorded other expenses net of Ps.31,357 million in 2017 as compared to Ps.3,812 million in 2016, mainly due to the deconsolidation of Venezuela. For more information, see Note 3.3 to our consolidated financial statements.

Comprehensive Financing Result. The term comprehensive financing result refers to the combined financial effects of net interest expenses, net financial foreign exchange gains or losses, and net gains or losses on the monetary position of hyperinflationary countries where we operate. Net financial foreign exchange gains or losses represent the impact of changes in foreign exchange rates on financial assets or liabilities denominated in currencies other than local currencies, and gains or losses resulting from derivative financial instruments. A financial foreign exchange loss arises if a liability is denominated in a foreign currency that appreciates relative to the local currency between the date the liability is incurred or the beginning of the period, whichever occurs first, and the date it is repaid or the end of the period, whichever occurs first, as the appreciation of the foreign currency results in an increase in the amount of local currency, which must be exchanged to repay the specified amount of the foreign currency liability.

Comprehensive financing result in 2017 recorded an expense of Ps.5,362 million as compared to an expense of Ps.6,080 million in 2016. This decrease was mainly driven by an increase in interest expenses of Ps.8,778 million in 2017 as compared to interest expenses of Ps.7,471 million in 2016, which was more than offset by a foreign exchange gain of Ps.788 million in 2017 as compared to a foreign exchange loss of Ps.1,792 million in 2016, such gain resulting from the appreciation of the end-of-period exchange rate of the Mexican peso relative to the U.S. dollar as applied to our U.S. dollar-denominated debt.

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Income Taxes. In 2017, reported income tax was Ps.4,184 million as compared to Ps.3,928 million in 2016.

Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method, Net of Taxes. In 2017, we recorded a gain of Ps.60 million in the share of the profits of associates and joint ventures accounted for using the equity method, net of taxes; mainly as a result of gains in our joint ventures in Brazil.

Net Income (Equity holders of the parent). Consolidated net controlling interest loss was Ps.12,802 million during 2017, mainly as a result of the deconsolidation of our Venezuelan operations, which resulted in the reclassification of an accumulated non-cash item as a one-time charge to the other expenses line of the income statement in accordance with IFRS standards. On a comparable basis, controlling net income would have grown 30.4% in 2017.

Results by Consolidated Reporting Segment

Mexico and Central America

Total Revenues. Total revenues in our Mexico and Central America consolidated reporting segment increased by 5.8% to Ps.92,643 million in 2017 as compared to 2016, mainly as a result of an increase in the average price per unit case in Mexico.

Total sales volume in our Mexico and Central America consolidated reporting segment decreased by 0.4% to 2,017.9 million unit cases in 2017 as compared to 2016, as a result of volume contraction in both Mexico and Central America as discussed below.

- Sales volume of our sparkling beverage portfolio decreased by 0.9%, mainly driven by a 1.4% decrease in sales volume of our colas portfolio, which was partially offset by a 1.1% increase in sales volume of our flavored sparkling beverage portfolio.

- Sales volume of our still beverage portfolio increased by 3.8%, mainly due to growth in both Mexico and Central America.

- Sales volume of our bottled water category, excluding bulk water, increased by 2.6%, as Mexico and Central America had a positive performance.

- Sales volume of our bulk water portfolio declined by 0.7%.

Sales volume in Mexico decreased by 0.3% to 1,845.0 million unit cases in 2017, as compared to 1,850.7 million unit cases in 2016.

- Sales volume of our sparkling beverage portfolio decreased by 0.8%, driven by a 1.3% volume decrease in our colas portfolio, which was partially offset by a 1.6% volume increase in our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio increased by 4.4%.

Sales volume of our bottled water category, excluding bulk water, increased by 2.3%.

Sales volume of our bulk water portfolio declined by 0.6%.

Sales volume in Central America decreased by 1.1% to 173.0 million unit cases in 2017, as compared to 174.9 million unit cases in 2016.

Sales volume of our sparkling beverage portfolio decreased by 1.8%, driven by a 1.7% volume decrease in our colas portfolio and a 2.0% volume decrease in our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio increased slightly by 0.5%.

Sales volume of our bottled water category, excluding bulk water, increased by 5.7%.

Sales volume of our bulk water portfolio declined by 3.9%.

Gross Profit. Our gross profit in this consolidated reporting segment increased by 3.5% to Ps.45,106 million in 2017 as compared to 2016; however, gross profit margin decreased by 110 basis points to 48.7% in 2017. Gross profit margin decreased mainly as a result of higher sugar prices, increases in concentrate prices, and the depreciation of the average exchange rate of the Mexican peso as applied to our U.S. dollar-denominated raw material costs. This decrease was partially offset by our pricing initiatives and lower PET resin prices in the segment.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment increased by 60 basis points to 33.2% in 2017 as compared with the same period in 2016. Administrative and selling expenses, in absolute terms, increased 7.6% as compared to 2016.

South America

Total Revenues. Total revenues in our South America consolidated reporting segment increased by 21.5% to Ps.86,608 million in 2017 as compared to 2016, mainly as a result of the acquisition of Vonpar in Brazil and driven by average price per unit case increases together with the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso. Total revenues for beer amounted to Ps.12,608 million.

Total sales volume in our South America consolidated reporting segment increased by 6.1% to 1,236.0 million unit cases in 2017 as compared to 2016, mainly as a result of the acquisition of Vonpar in Brazil. On a comparable basis, total sales volume would have decreased by 6.0% in 2017 as compared to 2016, as a result of a volume contraction in all of our South America operations.

Sales volume of our sparkling beverage portfolio increased by 5.1% as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 5.3%, mainly due to volume contraction of our colas portfolio in all our South American territories and volume contraction in our flavored sparkling beverages portfolio in Brazil and Colombia.

Sales volume of our still beverage portfolio decreased by 3.3% as compared to 2016. On a comparable basis, sales volume of our still beverage portfolio would have decreased by 10.4%, mainly driven by a volume contraction in Colombia, which was partially offset by volume growth in Argentina.

Sales volume of our bottled water category, excluding bulk water, decreased by 2.4% as compared to 2016. On a comparable basis, sales volume of our bottled water category, excluding bulk water, would have decreased by 7.7% as compared to 2016, with volume contractions in Argentina, Brazil and Colombia.

Sales volume of our bulk water portfolio decreased by 8.0% as compared to 2016. On a comparable basis, sales volume of our bulk water portfolio would have declined by 11.1%, mainly driven by volume decline in Colombia, which was partially offset by volume growth in Argentina and Brazil.

Sales volume in Brazil increased by 17.9% to 765.1 million unit cases in 2017, as compared to 648.9 million unit cases in 2016, mainly as a result of the acquisition of Vonpar in Brazil. On a comparable basis, sales volume would have decreased by 3.8%.

Sales volume of our sparkling beverage portfolio increased by 18.8% as compared to 2016. On a comparable basis, sales volume of our sparkling beverage portfolio would have decreased by 3.9%, as a result of a 3.2% volume decrease in our colas portfolio and a 5.8% volume decrease in our flavored sparkling beverage portfolio.

Sales volume of our still beverage portfolio increased by 14.9% as compared to 2016. On a comparable basis, sales volume of our still beverage portfolio would have decreased by 2.1%.

Sales volume of our bottled water, excluding bulk water, increased by 7.4% as compared to 2016, while sales volume of our bulk water portfolio increased by 18.0%. On a comparable basis, sales volume of our bottled water category, excluding bulk water, would have decreased by 4.8%, while our bulk water portfolio would have increased by 2.5%.

Sales volume in Colombia decreased by 13.7% to 265.0 million unit cases in 2017, as compared to 307.0 million unit cases in 2016.

Sales volume of our sparkling beverage portfolio decreased by 11.8% as compared to 2016, mainly driven by a 6.0% volume decrease in our colas portfolio and a 31.2% volume decrease in our flavored sparkling beverages portfolio.

Sales volume of our still beverage portfolio decreased by 29.1% during 2017, as compared to 2016.

Sales volume of our bottled water category, excluding bulk water, decreased by 8.1% as compared to 2016, while sales volume of our bulk water portfolio decreased by 18.1%.

Sales volume in Argentina decreased by 1.5% to 205.9 million unit cases in 2017, as compared to 209.1 million unit cases in 2016.

Sales volume of our sparkling beverage portfolio decreased by 1.5% as compared to 2016, mainly driven by volume decrease in our colas portfolio.

Sales volume of our still beverage portfolio increased by 12.3% as compared to 2016.

Sales volume of our bottled water category, excluding bulk water, decreased by 7.7%, while our bulk water portfolio decreased by 11.1%.

Gross Profit. Gross profit in this consolidated reporting segment reached Ps.37,756 million, an increase of 23.5% in 2017 as compared to 2016, with a 280 basis point margin expansion to 43.6%. This increase in gross profit margin was mainly driven by lower costs resulting from lower PET resin and sweetener prices and the appreciation of the Brazilian real and the Colombian peso as applied to U.S. dollar-denominated raw material costs, which increase was partially offset by higher aluminum prices and the depreciation of the average exchange rate of the Argentine peso as applied to U.S. dollar-denominated raw material costs.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment decreased by 10 basis points to 29.4% in 2017 as compared to 2016. Administrative and selling expenses, in absolute terms, increased by 15.1% as compared to 2016, driven mainly by the acquisition of Vonpar in Brazil.

Venezuela

We stopped accounting for our Venezuelan operations as a separate consolidated reporting segment commencing on January 1, 2018.

Total Revenues. Total revenues in Venezuela decreased by 78.8% to Ps.4,005 million in 2017 as compared to 2016, mainly driven by a volume decline and the negative translation effect resulting from the devaluation of the Venezuelan bolivar relative to the Mexican peso. These effects were partially offset by an average price per unit case increase.

Total sales volume in Venezuela decreased by 55.1% to 64.2 million unit cases in 2017 as compared to 2016, mainly due to an overall sales volume contraction in all our categories as a result of the conditions in the country, facing high inflation and scarcity of raw materials.

Sales volume of our sparkling beverage portfolio decreased by 54.5%.

Sales volume of our still beverage portfolio decreased by 29.1%.

Sales volume of our bottled water category, including bulk water, decreased by 48.8%.

Gross Profit. For the reasons explained above, gross profit in Venezuela reached Ps.645 million in 2017, a decrease of 90.6% as compared to 2016.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment increased by 16.2% to 47.2% in 2017 as compared to 2016. Administrative and selling expenses, in absolute terms, decreased by 67.7% as compared to 2016.

Liquidity and Capital Resources

Liquidity. The principal source of our liquidity is cash generated from operations. A significant majority of our sales are on a cash basis with the remainder on a short-term credit basis. We have traditionally been able to rely on cash generated from operations to fund our working capital requirements and our capital expenditures. Our working capital benefits from the fact that most of our sales are made on a cash basis, while we generally pay our suppliers on credit. We have used a combination of borrowings from Mexican and international banks and bond issuances in the Mexican and international capital markets.

Our total indebtedness was Ps.81,805 million as of December 31, 2018, as compared to Ps.83,360 million as of December 31, 2017. Short-term debt and long-term debt were Ps.11,604 million and Ps.70,201 million, respectively, as of December 31, 2018, as compared to Ps.12,171 million and Ps.71,189 million, respectively, as of December 31, 2017. Total debt decreased Ps.1,555 million in 2018, compared to year end 2017. As of December 31, 2018, our cash and cash equivalents were Ps.23,727 million, as compared to Ps.18,767 million as of December 31, 2017. We had a non-recurrent cash inflow of US$715 million (Ps.14,547 million as of December 31, 2018) in 2018 as a result of the sale of our 51.0% stake in KOF Philippines to The Coca-Cola Company. Additionally, we had cash outflows in 2018 mainly resulting from dividend payments and the repayment of our 2.375% Notes due 2018. As of December 31, 2018, our cash and cash equivalents were comprised of 66.0% U.S. dollars, 15.0% Mexican pesos, 12.0% Brazilian reais, 2.0% Argentine pesos, 2.0% Colombian pesos and 3.0% other legal currencies. As of March 31, 2019, our cash and cash equivalents balance was Ps.23,615 million, including US$574 million denominated in U.S. dollars. We believe that these funds, in addition to the cash generated by our operations, are sufficient to meet our operating requirements.

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Future currency devaluations or the imposition of exchange controls in any of the countries where we have operations could have an adverse effect on our financial position and liquidity.

As part of our financing policy, we expect to continue to finance our liquidity needs mainly with cash flows from our operating activities. Nonetheless, as a result of regulations in certain countries where we operate, it may not be beneficial or practicable for us to remit cash generated in local operations to fund cash requirements in other countries. Exchange controls may also increase the real price of remitting cash to fund debt requirements in other countries. In the event that cash in these countries is not sufficient to fund future working capital requirements and capital expenditures, we may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In the future we may finance our working capital and capital expenditure needs with short-term or other borrowings.

We continuously evaluate opportunities to pursue acquisitions or engage in strategic transactions. We would expect to finance any significant future transactions with a combination of any of cash, long-term indebtedness and the issuance of shares of our company.

Our financing, treasury and derivatives policies provide that our finance and planning committee is responsible for determining the company s overall financial strategy, including the dividends policy, investments of our funds, cash flow and working capital strategies, mergers and acquisitions, debt and equity issuances, repurchases of shares, contract of financial derivative instruments (only for hedging purposes), purchase and lease of assets and indebtedness of the company, among others; which is ultimately approved by our board of directors and implemented by our corporate finance department.

Sources and Uses of Cash. The following table summarizes the sources and uses of cash for the years ended December 31, 2018, 2017 and 2016, from our consolidated statements of changes in cash flows:

	Year Ended December 31,		
	2018	**2017**	**2016**
	(in millions of Mexican pesos)		
Net cash flows from operating activities			
Continuing operations	27,581	26,536	32,446
Discontinued operations	1,962	6,700	
Net cash flows used in investing activities(1)			
Continuing operations(2)	(8,291)	(13,710)	(26,915)
Discontinued operations	(962)	2,820	
Net cash flows used in financing activities			
Continuing operations	(14,235)	(10,290)	(9,734)
Discontinued operations	(37)	(485)	
Dividends paid	(7,038)	(6,992)	(7,014)

(1) Includes purchases of property, plant and equipment, the payment of a portion of the purchase price for our acquisitions of ABASA, Los Volcanes and Monresa in 2018 and Vonpar in 2016 and investments in other assets.

(2) Includes cash for the sale of KOF Philippines, net of cash balances in KOF Philippines.

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Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2018:

	As of December 31, 2018				
	Maturity less than 1 year	Maturity 1 3 years	Maturity 4 5 years	Maturity in excess of 5 years	Total
	(in millions of Mexican pesos)				
Debt[1]					
Mexican pesos	4,700	7,898	8,992	8,488	30,078
U.S. dollars	10	13,854	17,557	11,818	43,239
Brazilian reais	5,088[2]	462	111	24	5,685
Colombian pesos	878	424			1,302
Argentine pesos	157				157
Uruguayan pesos	771	573			1,344
Interest Payments on Debt[3]					
Mexican pesos	2,193	3,292	1,987	2,395	9,867
U.S. dollars	1,890	2,304	1,964	13,815	19,973
Brazilian reais	79	57	12	2	149
Colombian pesos	63	3			66
Argentine pesos	27				27
Uruguayan pesos	111	41			152
Cross Currency Swaps					
U.S. dollars to Mexican pesos[4]		(386)	(135)	(160)	(681)
U.S. dollars to Brazilian reais[5]	(498)	(1,090)	390		(1,198)
Interest Rate Swaps					
Brazilian variable interest rate to fixed rate[6]	49	222			271
Options					
U.S. dollars to Mexican pesos[7]	(23)				(23)
U.S. dollars to Colombian pesos[8]	(1)				(1)
Forwards					
U.S. dollars to Mexican pesos[9]	45				45
U.S. dollars to Brazilian reais[10]	(39)				(39)
U.S. dollars to Colombian pesos[11]	(59)				(59)
U.S. dollars to Argentine pesos[12]	14				14
U.S. dollars to Uruguayan pesos[13]	(4)				(4)
Commodity Hedge Contracts					
Sugar[14]	88				88
Aluminum[15]	17				17
PET resin[16]	131				131
Expected Benefits to be Paid for Pension and Retirement Plans, Seniority Premiums and Post-employment	353	491	495	1,701	3,040

(1) Excludes the effect of cross currency swaps.
(2) Part of our debt denominated in Brazilian reais consists of a promissory note for 1,166 million Brazilian reais, which was partially offset on November 14, 2018 as a result of the occurrence of certain contingencies for which the holders of such debt agreed to indemnify us, resulting in an outstanding amount of 916 million Brazilian reais (Ps.4,653 million as of December 31, 2018). This promissory note is denominated and payable in Brazilian reais; however, it is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.
(3) Interest was calculated using the contractual debt and nominal interest rates as of December 31, 2018. Liabilities denominated in U.S. dollars were converted to Mexican pesos at an exchange rate of Ps.19.68 per U.S. dollar, the exchange rate reported by *Banco de México* quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2018.
(4) Cross-currency swaps used to convert U.S. dollar-denominated debt into Mexican peso-denominated debt with a notional amount of Ps.18,502 million. These cross-currency swaps are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.

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(5) Cross-currency swaps used to convert U.S. dollar-denominated debt into Brazilian real-denominated debt with a notional amount of Ps.22,694 million. These cross-currency swaps are considered hedges for accounting purposes and the amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(6) Reflects the market value as of December 31, 2018 of the interest rate swaps used to hedge Brazilian interest rate variation. These interest rate swaps are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(7) Reflects the market value as of December 31, 2018 of a collar option derivative instrument used to hedge against fluctuation in the Mexican peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(8) Reflects the market value as of December 31, 2018 of a collar option derivative instrument used to hedge against fluctuation in the Colombian peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(9) Reflects the market value as of December 31, 2018 of forward derivative instruments used to hedge against fluctuation in the Mexican peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(10) Reflects the market value as of December 31, 2018 of forward derivative instruments used to hedge against fluctuation in the Brazilian real. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(11) Reflects the market value as of December 31, 2018 of forward derivative instruments used to hedge against fluctuation in the Colombian peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(12) Reflects the market value as of December 31, 2018 of forward derivative instruments used to hedge against fluctuation in the Argentine peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(13) Reflects the market value as of December 31, 2018 of forward derivative instruments used to hedge against fluctuation in the Uruguayan peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(14) Reflects the market value as of December 31, 2018 of futures contracts used to hedge sugar cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(15) Reflects the market value as of December 31, 2018 of futures contracts used to hedge aluminum cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.
(16) Reflects the market value as of December 31, 2018 of futures contracts used to hedge PET resin cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2018.

Debt Structure

The following chart sets forth the debt breakdown of our company and its subsidiaries by currency and interest rate type as of December 31, 2018:

Currency	**Percentage of Total Debt**[1][2]	**Average Nominal Rate**[3]	**Average Adjusted Rate**[1][4]
Mexican pesos	60.4%	7.6%	8.4%
U.S. dollars	8.3%	3.9%	3.9%
Brazilian reais	27.8%	7.7%	8.9%
Colombian pesos	1.6%	5.6%	5.6%

Argentine pesos	0.2%	36.8%	36.8%
Uruguayan pesos	1.7%	10.0%	10.0%

(1) Includes the effects of our derivative contracts as of December 31, 2018, including cross currency swaps from U.S. dollars to Mexican pesos and U.S. dollars to Brazilian reais.
(2) Due to rounding, these figures may not add up to 100.0%.
(3) Annual weighted average interest rate per currency as of December 31, 2018.

(4) Annual weighted average interest rate per currency as of December 31, 2018 after giving effect to interest rate swaps and cross currency swaps. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.**

Summary of Significant Debt Instruments

The following is a brief summary of our significant long-term indebtedness with restrictive covenants outstanding as of the date of this annual report:

Mexican Peso-Denominated Bonds (Certificados Bursátiles).

On April 18, 2011, we issued Ps.2,500 million aggregate amount of 10-year fixed rate *certificados bursátiles* bearing an annual interest rate of 8.27% and due April 2021. This series of *certificados bursátiles* is guaranteed by Propimex, our main operating subsidiary in Mexico, Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V. (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.), Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., or the Guarantors.

On May 24, 2013, we issued Ps.7,500 million aggregate principal amount of *certificados bursátiles* bearing an annual interest rate of 5.46% and due May 2023. This series of *certificados bursátiles* is guaranteed by the Guarantors.

On June 30, 2017, we issued (i) Ps.8,500 million aggregate amount of 10-year fixed rate *certificados bursátiles* bearing an annual interest rate of 7.87% and due June 2027, and (ii) Ps.1,500 million aggregate amount of 5-year floating rate *certificados bursátiles*, priced at 28-day *Tasa de Interés Interbancaria de Equilibrio* (Equilibrium Interbank Interest Rate, or TIIE) plus 0.25% and due June 2022. These series of *certificados bursátiles* are guaranteed by the Guarantors.

As of December 31, 2018, we had the following *certificados bursátiles* outstanding in the Mexican securities market:

Issue Year	Maturity	Amount	Rate
2017	June 18, 2027	Ps.8,500 million	7.87%
2017	June 24, 2022	Ps.1,500 million	28-day TIIE + 0.25%
2013	May 12, 2023	Ps.7,500 million	5.46%
2011	April 5, 2021	Ps.2,500 million	8.27%

Our *certificados bursátiles* contain reporting obligations pursuant to which we must furnish to the bondholders consolidated audited annual financial reports and consolidated quarterly financial reports.

2.375% Notes due 2018. On November 26, 2013, we issued US$1 billion aggregate principal amount of 2.375% senior notes due November 26, 2018. On August 18, 2017, we redeemed 55.5% of the face value of the 2.375% senior notes in a principal amount of US$555 million. These notes matured and were repaid in full on November 26, 2018.

4.625% Notes due 2020. On February 2, 2010, we issued US$500 million aggregate principal amount of 4.625% senior notes due February 15, 2020. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and the entering into sale and leaseback transactions by us and our significant subsidiaries.

3.875% Notes due 2023. On November 26, 2013, we issued US$750 million aggregate principal amount of 3.875% senior notes due November 26, 2023. On January 21, 2014, we issued US$150 million aggregate principal amount of additional notes under this series. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and the entering into sale and leaseback transactions by us and our significant subsidiaries.

5.250% Notes due 2043. On November 26, 2013, we issued US$400 million aggregate principal amount of 5.250% senior notes due November 26, 2043. On January 21, 2014, we issued US$200 million aggregate principal amount of additional notes under this series. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and the entering into sale and leaseback transactions by us and our significant subsidiaries.

Bank Loans. As of December 31, 2018, we had a number of bank loans in U.S. dollars, Colombian pesos, Brazilian reais, Argentine pesos, Mexican pesos and Uruguayan pesos with an aggregate principal amount of Ps.17,955 million. Our bank loans in U.S. dollars and Mexican pesos are guaranteed by the Guarantors.

In January 2019, we prepaid three bank loans in Mexican pesos for an aggregate amount of Ps.4,700 million.

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Promissory Note (Vonpar Acquisition). On December 6, 2016, as part of the purchase price paid for our acquisition of Vonpar, we issued and delivered a three-year promissory note to the sellers, for a total amount of 1,166 million Brazilian reais, which was partially offset on November 14, 2018 as a result of the occurrence of certain contingencies for which the sellers agreed to indemnify us, resulting in an outstanding amount of 916 million Brazilian reais (Ps.4,653 million as of December 31, 2018). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

We are in compliance with all of our restrictive covenants as of the date of this annual report. A significant and prolonged deterioration in our consolidated results could cause us to cease to be in compliance under certain indebtedness in the future. We can provide no assurances that we will be able to incur indebtedness or to refinance existing indebtedness on similar terms in the future.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

Contingencies

We are subject to various claims and contingencies related to tax, labor and other legal proceedings. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions.

We have various losses related to tax, labor and other legal proceedings. We periodically assess the probability of loss for such contingencies and accrue a provision and/or disclose the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a provision for the estimated loss. See Note 25 to our consolidated financial statements. We use outside legal counsel for certain complex legal proceedings. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2018:

	As of December 31, 2018 (in millions of Mexican pesos)	
Tax	Ps.	5,038
Labor		2,340
Legal		920
Total	Ps.	8,298

In recent years, our Mexican subsidiaries have been required to submit certain information to relevant authorities regarding alleged monopolistic practices. **See Item 8. Financial Information Legal Proceedings Mexico Antitrust Matters.** Such proceedings are a normal occurrence in the beverage industry and we do not expect any significant liability to arise from these contingencies.

As is customary in Brazil, we have been required by the relevant authorities to collateralize tax contingencies currently in litigation amounting to Ps.7,739 million, Ps.9,433 million and Ps.8,093 million as of December 31, 2018, 2017 and 2016, respectively, by pledging fixed assets, or providing bank guarantees.

In connection with our acquisitions, sellers normally agree to indemnify us against certain contingencies that may arise as a result of the management of the businesses prior to the acquisition, subject to survival provisions and other limitations.

Capital Expenditures

The following table sets forth our capital expenditures, including investment in property, plant and equipment, deferred charges and other investments for the periods indicated on a consolidated basis and by consolidated reporting segment:

	Year Ended December 31,		
	2018	2017[1]	2016
	(in millions of Mexican pesos)		
Mexico and Central America[2]	6,574	8,231	6,597
South America[3]	4,495	4,686	4,240
Venezuela[4]			1,554
Capital expenditures, net	11,069	12,917	12,391[5]

(1) Excludes the capital expenditures made by KOF Philippines in 2017.
(2) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama. Includes capital expenditures of ABASA and Los Volcanes from May 2018.
(3) Includes Colombia, Brazil, Argentina and Uruguay. Includes capital expenditures of Monresa from July 2018.
(4) Includes the effects of inflation.
(5) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets of our Venezuelan operations.

In 2018, 2017 and 2016, we focused our capital expenditures on investments in (i) increasing production capacity; (ii) placing coolers with retailers; (iii) returnable bottles and cases; (iv) improving the efficiency of our distribution infrastructure; and (v) information technology.

We have budgeted approximately US$579 million (Ps.11,369 million as of December 31, 2018) for our capital expenditures in 2019. Our capital expenditures in 2019 are primarily intended for:

- investments in production capacity;
- market investments;
- returnable bottles and cases;
- improvements throughout our distribution network; and
- investments in information technology.

We estimate that of our projected capital expenditures for 2019, approximately 42.0% will be for our Mexican territories and the remaining will be for our non-Mexican territories. We believe that internally generated funds will be sufficient to meet our budgeted capital expenditure for 2019. Our capital expenditure plan for 2019 may change based on market and other conditions, our results and financial resources.

Historically, The Coca-Cola Company has contributed resources in addition to our own capital expenditures. We generally use these contributions for initiatives that promote volume growth of *Coca-Cola* trademark beverages, including the placement of coolers with retailers. Such contributions may result in a reduction in our selling expenses line. Contributions by The Coca-Cola Company are made on a discretionary basis. Although we believe that The Coca-Cola Company will make additional contributions in the future to assist our capital expenditure program based on past practice and the benefits to The Coca-Cola Company as owner of the *Coca-Cola* brands from investments that support the strength of the brands in our territories, we can give no assurance that any such contributions will be made.

Hedging Activities

We hold or enter into derivative instruments to hedge our exposure to market risks related to changes in interest rates, foreign currency exchange rates and commodity price risk. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk.**

The following table provides a summary of the fair value of derivative instruments as of December 31, 2018. The fair market value is estimated using market prices that would apply to terminate the contracts at the end of the period and are confirmed by external sources, which generally are also our counterparties to the relevant contracts.

	Fair Value as of December 31, 2018				
	Maturity less than 1 year	**Maturity 1 3 years**	**Maturity 4 5 years**	**Maturity in excess of 5 years**	**Total fair value**
	(in millions of Mexican pesos)				
Cross Currency Swaps					
U.S. dollars to Mexican pesos		(386)	(135)	(160)	(681)
U.S. dollars to Brazilian reais	(498)	(1,090)	390		(1,198)
Interest Rate Swaps					
Brazilian variable interest rate to fixed rate	49	222			271
Options					
U.S. dollars to Mexican pesos	(23)				(23)
U.S. dollars to Colombian pesos	(1)				(1)
Forwards					
U.S. dollars to Mexican pesos	45				45
U.S. dollars to Brazilian reais	(39)				(39)
U.S. dollars to Colombian pesos	(59)				(59)
U.S. dollars to Argentine pesos	14				14
U.S. dollars to Uruguayan pesos	(4)				(4)
Commodity Hedge Contracts					
Sugar	88				88
Aluminum	17				17
PET resin	131				131

Item 6. Directors, Senior Management and Employees

Directors

Management of our business is vested in our board of directors and in our chief executive officer. In accordance with our bylaws and Article 24 of the Mexican Securities Market Law, our board of directors will consist of no more than 21 directors, elected at the annual ordinary shareholders meeting for terms of one year. Up to 13 directors may be elected by the Series A shares voting as a class; up to five directors may be elected by the Series D shares voting as a class; and up to three directors may be elected by the Series L shares voting as a class. Directors may only be elected by a majority of shareholders of the appropriate series, voting as a class. Our bylaws further provide that for every 10.0% of issued and paid Series B shares held by shareholders, either individually or as a group, such shareholders shall have the right to appoint and revoke one director and her corresponding alternate, pursuant to Article 50 of the

Mexican Securities Market Law. The shareholders meeting will decide, in the event the Series B shares, individually or as a group, are entitled to appoint a director, which series of shares is to reduce the number of directors that such series is entitled to appoint; provided that, the number of directors entitled to be appointed by the Series D shares shall remain unchanged, unless otherwise agreed. In accordance with our bylaws and Article 24 of the Mexican Securities Market Law, at least 25.0% of the members of our board of directors must be independent (as defined by the Mexican Securities Market Law). The board of directors may designate interim directors in the case that a director is absent or an elected director and corresponding alternate are unable to serve; the interim directors serve until the next shareholders meeting, at which the shareholders elect a replacement.

Our bylaws provide that the board of directors shall meet at least four times a year. Since our major shareholders amended their Shareholders Agreement in February 2010, our bylaws were modified accordingly establishing that actions by the board of directors must be approved by at least a majority of the directors present and voting, except under certain limited circumstances which must include the favorable vote of at least two directors elected by the Series D shares. **See Item 7. Major Shareholders and Related**

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Party Transactions Major Shareholders The Shareholders Agreement. The chairman of the board of directors, the chairman of our Audit Committee, the chairman of our Corporate Practices Committee, or at least 25.0% of our directors may call a board of directors meeting and include matters in the meeting agenda.

At our general ordinary shareholders meeting held on March 14, 2019, the following directors were appointed or confirmed: 11 directors were appointed or confirmed by the Series A shares, four directors were appointed or confirmed by the Series D shares and three directors were appointed or confirmed by the Series L shares. Our board of directors is currently comprised of 18 members.

See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions for information on relationships with certain directors and senior management.

As of the date of this annual report, our board of directors had the following members:

<u>Series A Directors</u>

José Antonio Vicente Fernández Carbajal	Born:	February 1954
	Gender:	Male
	First elected:	1993, as director; 2001 as chairman.
Chairman	Term expires:	2020
	Principal occupation:	Executive Chairman of the board of directors of FEMSA.
	Other directorships:	Chairman of the board of directors of Fundación FEMSA, A.C. and Instituto Tecnológico y de Estudios Superiores de Monterrey, or ITESM. Chairman Emeritus of the US Mexico Foundation. Member of the board of directors of Heineken Holding, N.V. and vice-chairman of the supervisory board of Heineken, N.V. Chairman of the America s committee and member of the preparatory committee and selection and appointment committee of Heineken, N.V. Member of the board of directors of Industrias Peñoles, S.A.B. de C.V. Co-Chairman of the advisory board of Woodrow Wilson Center, Mexico Chapter and member of the board of trustees of the Massachusetts Institute of Technology Corporation.
	Business experience:	Joined the strategic planning department of FEMSA in 1988, after which he held managerial positions at FEMSA Cerveza s commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991 and Chief Executive Officer in 1995, a position he held until December 31, 2013. As of January 1, 2014, he was appointed Executive Chairman of the board of directors of FEMSA.
	Education:	Holds a degree in Industrial Engineering and a Master in Business Administration, or MBA, from ITESM.

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Federico José Reyes García *Director*	Born:	September 1945
	Gender:	Male
	First elected:	1993
	Term expires:	2020
	Principal occupation:	Independent consultant.
	Other directorships:	Alternate member of the board of directors of FEMSA, and member of the board of directors of Fundación FEMSA and Tec Salud.
	Business experience:	At FEMSA, he held the position of Executive Vice-President of Corporate Development from 1992 to 1993, Chief Financial Officer from 1999 to 2006, and Corporate Development Officer until 2015.
	Education:	Holds a degree in Business and Finance from ITESM.
	Alternate director:	Javier Gerardo Astaburuaga Sanjines
John Anthony Santa Maria Otazua *Director*	Born:	August 1957
	Gender:	Male
	First elected:	2014
	Term expires:	2020
	Principal occupation:	Our Chief Executive Officer.
	Business experience:	Has served as our Strategic Planning and Business Development Officer and Chief Operating Officer of our Mexican operations. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of our South America division. He also has experience in several areas of our company, namely development of new products and mergers and acquisitions. Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management.
	Other directorships:	Member of the board of directors of Gentera, S.A.B. de C.V., or Gentera and member of the board of directors and commercial committee of Banco Compartamos, S.A., Institución de Banca Múltiple.
	Education:	Holds a Bachelor s degree in Business Administration and a MBA with a major in Finance from Southern Methodist University.
Ricardo Guajardo Touché *Independent Director*	Born:	May 1948
	Gender:	Male
	First elected:	1993
	Term expires:	2020
	Principal occupation:	Chairman of the board of directors of Solfi, S.A. de C.V.
	Other directorships:	Member of the board of directors of FEMSA, El Puerto de Liverpool, S.A.B. de C.V., Alfa, Grupo Financiero BBVA Bancomer, BBVA Bancomer, S.A., Institución de Banca Múltiple, or BBVA Bancomer, Grupo Aeroportuario del Sureste, S.A.B. de C.V., Grupo Bimbo, S.A.B. de C.V., or Bimbo, Grupo Coppel, S.A. de C.V., ITESM and Vitro, S.A.B. de C.V.
	Business experience:	Has held senior executive positions at FEMSA, Grupo AXA, S.A. de C.V. and Grupo Valores de Monterrey, S.A.B. de C.V.

	Education:	Holds a degree in Electrical Engineering from ITESM and the University of Wisconsin and a Master s degree from the University of California at Berkeley.
Alfonso González Migoya	Born:	January 1945
	Gender:	Male
	First elected:	2006
Independent Director	Term expires:	2020
	Principal occupation:	Chairman of the board of directors of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (Volaris), and managing partner of Acumen Empresarial, S.A. de C.V.
	Other directorships:	Member of the board of directors of FEMSA, Nemak, S.A.B. de C.V., Bolsa Mexicana de Valores, S.A.B. de C.V., Regional, S.A.B. de C.V., Grupo Cuprum, S.A.P.I. de C.V., Berel, S.A. de C.V., Servicios Corporativos Javer, S.A.B. de C.V. and Invercap Holdings, S.A.P.I. de C.V.

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	Business experience:	Served as Corporate Director of Alfa from 1995 to 2005 and as Chairman of the board of directors and Chief Executive Officer of Grupo Industrial Saltillo, S.A.B. de C.V. from 2009 to 2014.
	Education:	Holds a degree in Mechanical Engineering from ITESM and a MBA from the Stanford University Graduate School of Business.
Enrique F. Senior Hernández	Born:	August 1943
	Gender:	Male
	First elected:	2004
Independent Director	Term expires:	2020
	Principal occupation:	Managing Director of Allen & Company, LLC.
	Other directorship:	Alternate member of the board of directors of FEMSA, and member of the board of directors of Grupo Televisa, S.A.B. de C.V., Cinemark USA, Inc. and Univision Communications, Inc.
	Business experience:	Among other clients, has provided financial advisory services to FEMSA and Coca-Cola FEMSA.
	Education:	Holds a law degree from Yale University, an Honorary Law Doctorate from Emerson College and a MBA from Harvard University Business School.
Miguel Eduardo Padilla Silva	Born:	January 1955
	Gender:	Male
	First elected:	2016
Director	Term expires:	2020
	Principal occupation:	Chief Executive Officer of FEMSA.
	Other directorships:	Member of the board of directors of FEMSA, Grupo Lamosa, S.A.B. de C.V., Club Industrial, A.C., Universidad Tec Milenio and Grupo Coppel, S.A. de C.V.
	Business experience:	He held the position of Chief Financial and Corporate Officer of FEMSA from 2016 to 2018 and Chief Executive Officer of FEMSA Comercio from 2004 to 2016. Also, he held the positions of Planning and Control Officer of FEMSA from 1997 to 1999 and Chief Executive Officer of the Strategic Procurement Business Division of FEMSA from 2000 to 2003. He had a 20-year career in Alfa, S.A.B. de C.V., or Alfa, and held a position in Terza, S.A. de C.V. as Chief Executive Officer.
	Education:	Holds a degree in Mechanical Engineering from ITESM, a MBA from Cornell University and executive management studies at Instituto Panamericano de Alta Dirección de Empresa, or IPADE.
Luis Rubio Freidberg	Born:	August 1955
	Gender:	Male
Independent Director	First elected:	2015
	Term expires:	2020
	Principal occupation:	President of México Evalúa, A.C. and Centro de Investigación para el Desarrollo.
	Other directorships:	Member of the board of directors of Xanthrus, The India Fund, Inc. and The Tinker Foundation.
	Business experience:	

		He is a contributing editor of the newspaper Reforma. In the 1970s he was Planning Director at Citibank in Mexico and served as an adviser to Mexico s Secretary of the Treasury.
	Education:	Holds a degree in Financial Administration, a multinational MBA and a Master s degree and PhD in political science from Brandeis University.
	Alternate director:	Jaime A. El Koury (independent director)
Daniel Javier Servitje Montull	Born:	April 1959
	Gender:	Male
	First elected:	1998
Independent Director	Term expires:	2020
	Principal occupation:	Chief Executive Officer and Chairman of the board of directors of Bimbo.

	Other directorships:	Member of the board of directors of Grupo Financiero Banamex, S.A. de C.V., Instituto Mexicano para la Competitividad, A.C., The Consumer Goods Forum, and Latin America Conservation Council (The Nature Conservancy). Member of Stanford GSB Advisory Council and Wal-Mart Mexico Advisory Board of Suppliers. Chairman of the board of directors of Corporación Aura Solar, S.A.P.I. de C.V., Servicios Comerciales de Energía, S.A. de C.V., and Aura Solar II Corp.
	Business experience:	Served as Vice-President of Bimbo.
	Education:	Holds a degree in Business Administration from the Universidad Iberoamericana in Mexico and a MBA from the Stanford University Graduate School of Business.
José Luis Cutrale	Born:	September 1946
	Gender:	Male
Director	First elected:	2004
	Term expires:	2020
	Principal occupation:	Chairman of the board of directors of Sucocítrico Cutrale, Ltda.
	Other directorships:	Member of the board of directors of Cutrale North America, Inc., Cutrale Citrus Juice USA, Inc., Citrus Products, Inc. and Chiquita Brands International,
	Business experience:	Founding partner of Sucocítrico Cutrale, Ltda.
	Education:	Holds a degree in Business Administration.
	Alternate director:	José Luis Cutrale, Jr.
Luis Alfonso Nicolau Gutiérrez	Born:	June 1961
	Gender:	Male
Independent Director	First elected:	2018
	Term expires:	2020
	Principal occupation:	Partner at Ritch, Mueller, Heather y Nicolau, S.C. and member of the firm s executive committee.
	Other directorships:	Member of the boards of directors of Morgan Stanley, Casa de Bolsa, S.A. de C.V. UBS Asesores México, S.A. de C.V., Grupo Posadas, S.A.B. de C.V. Ignia s Public Fund (*Fideicomiso Ignia*), Gentera, S.A.B. de C.V., Grupo Cementos de Chihuahua, S.A.B. de C.V., Grupo Coppel, S.A. de C.V. and KIO Networks. Member of the investment committee of Ignia Fund and Promotora Social México and independent member of the supervisory board of Bolsa Mexicana de Valores, S.A.B. de C.V.
	Business experience:	Has been a partner at Ritch Mueller since 1990, specializes in mergers and acquisitions, debt and equity capital markets transactions and banking and finance. He is a leading expert in assisting underwriters and issuers in debt and equity offerings in Mexico and abroad. Also, he worked as a foreign associate for Johnson & Gibbs, Dallas and Shearman & Sterling, New York.
	Education:	Holds a Law degree from the Escuela Libre de Derecho and a Master in Law from Columbia University.

Series D Directors

José Octavio Reyes Lagunes	Born:	March 1952
	Gender:	Male
Director	First elected:	2016
	Term expires:	2020
	Principal occupation:	Retired.
	Other directorships:	Member of the board of directors and President of the resources committee of MasterCard Worldwide. Member of the board of directors and member of the sustainability committee of Coca-Cola Hellenic Bottling Company.

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	Business experience:	He began his career with The Coca-Cola Company in 1980 as Manager of Strategic Planning at Coca-Cola de México, was appointed Manager of the *Sprite* and *Diet Coke* brands at the corporate headquarters in Atlanta in 1987, became Marketing Director for the Brazil Division in 1990, was named Marketing and Operations Vice President of the Mexico Division and became President of the Mexico Division in 1996. He served as President of the Latin American Group of The Coca-Cola Company from 2002 to 2012.
	Education:	Holds a degree in Chemical Engineering from the Universidad Nacional Autónoma de México and a MBA from ITESM.
	Alternate director:	Theresa Robin Rodgers Moore
John Murphy	Born:	February 1962
	Gender:	Male
Director	First elected:	2019
	Term expires:	2020
	Principal occupation:	Executive Vice President and Chief Financial Officer of The Coca-Cola Company.
	Other directorships:	Member of the board of directors of Coca-Cola Beverages Japan Holdings Inc., China Beverages Ltd. and Lindley Corporation.
	Business experience:	From 2016 to 2018 he served as president of the Asia Pacific Group of The Coca-Cola Company and from 2013 to 2016 as president of the South Latin business unit. Prior to this role, from 2008 to 2012, he was president of the Latin Center business unit. During his three-decade career with The Coca-Cola Company, he has held a variety of general management, finance and strategic planning roles.
	Education:	Holds a Bachelor s degree in Business Studies from Trinity College in Dublin and a diploma in professional accounting from the University College in Dublin. He qualified as a chartered accountant of the Irish Institute of Chartered Accountants.
	Alternate director:	Sunil Krishna Ghatnekar
Charles H. McTier	Born:	January 1939
	Gender:	Male
Independent Director	First elected:	1998
	Term expires:	2020
	Principal occupation:	Retired.
	Business experience:	Was associated with the Robert W. Woodruff Foundation for over forty years, serving as its President from 1988-2006 and served as a trustee from 2006-2015. Served on the board of directors of nine U.S. Coca-Cola bottling companies in the 1970s and 1980s.
	Education:	Holds a Bachelor s degree in Business Administration from Emory University.
Brian John Smith	Born:	December 1955

Director	Gender:	Male
	First elected:	2017
	Term expires:	2020
	Principal occupation:	President and Chief Operating Officer of The Coca-Cola Company.
	Other directorships:	Member of the board of directors, the compensation committee and audit committee of Evertec, Inc.
	Business experience:	Joined The Coca-Cola Company in 1997 as Latin America Group Manager for Mergers and Acquisitions until 2001. From July 2001 to July 2002 he worked as Executive Assistant to the Chief Operating Officer and Vice-Chairman of The Coca-Cola Company. From August 2002 to October 2008 he was President of the Brazil Division and from 2008 to 2012 he was President of the Mexico Division. From 2013 to 2016 he was Group President of Latin America and from 2016 to 2018, he was Group President for Europe, Middle East and Africa.
	Education:	Holds a MBA from the University of Chicago.
	Alternate director:	Marie D. Quintero-Johnson

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Series L Directors

Herman Harris Fleishman Cahn	Born:	May 1951
	Gender:	Male
	First elected:	2012
Independent Director	Term expires:	2020
	Principal occupation:	President of Grupo Tampico, S.A.P.I. de C.V.
	Other directorships:	Chairman of the board of trustees of Fundación Fleishman, Instituto Fray Andrés de Olmos and Ciudad del Niño San Juan Bosco. Member of the boards of trustees of Universidad Autónoma de Tamaulipas, Tecnológico de Monterrey Campus Tampico, and Instituto Cultural Tampico, A.C. Member of the national board of Teléfonos de México, S.A., and Banco de México. Member of the regional board of Banco Nacional de México, S.A., and BBVA Bancomer.
	Education:	Holds a Bachelor s degree in Business Administration and postgraduate studies.
	Alternate director:	Robert Alan Fleishman Cahn (independent director)
Victor Alberto Tiburcio Celorio	Born:	February 1951
	Gender:	Male
	First elected:	2018
Independent Director	Term expires:	2020
	Principal occupation:	Independent consultant.
	Other directorships:	Member of the board of directors and member of the audit committee of FEMSA, Grupo Palacio de Hierro, S.A.B. de C.V., Grupo Financiero Scotiabank Inverlat, S.A. de C.V., Profuturo Afore, S.A. de C.V., Grupo Nacional Provincial S.A.B., Fresnillo, PLC and Instituto Tecnológico Autónomo de México (ITAM).
	Business experience:	Worked for over forty-three years at Mancera, S.C. (Ernst & Young Mexico), serving as partner for thirty three years and as Chief Executive Officer and Chairman of the board of directors for thirteen years until his retirement in 2013. He was chairman of the board of the Mexican Financial Reporting Standards and served as President of the Mexican Institute of Public Accountants.
	Education:	Holds a degree in Accounting from the Universidad Iberoamericana in Mexico and a MBA from Instituto Tecnológico Autónomo de México (ITAM).
Francisco Zambrano Rodríguez	Born:	January 1953
	Gender:	Male
	First elected:	2003
Independent Director	Term expires:	2020
	Principal occupation:	Managing Partner of FORTE Estate Planning S.C.
	Other directorships:	Alternate member of the board of directors of FEMSA. Co-Chief Executive Officer and member of the board of directors of Desarrollo Inmobiliario y de Valores, S.A. de C.V., Corporativo Zeta DIVASA, S.A.P.I. de C.V. and IPFC Inmuebles, S.A.P.I. de

	C.V. Member of the supervisory board of ITESM.
Business experience:	Has extensive experience in investment banking and private investment services in Mexico, real estate projects, and as patrimonial and probate consultant.
Education:	Holds a degree in Chemical Engineering from ITESM and a MBA from the University of Texas at Austin.

The secretary of the board of directors is Carlos Eduardo Aldrete Ancira and the alternate secretary of the board of directors is Carlos Luis Díaz Sáenz, our general counsel.

In June 2004, a group of Brazilian investors, among them José Luis Cutrale, a member of our board of directors, made a capital contribution equivalent to approximately US$50 million to our Brazilian operations in exchange for approximately 16.9% equity stake in these operations. We have entered into an agreement with Mr. Cutrale pursuant to which he was invited to serve as a director of our company. The agreement also provides for a right of first offer on transfers by the investors, tag-along and drag-along rights and certain rights upon a change of control of either party, with respect to our Brazilian operations.

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Executive Officers

The following are the executive officers of our company:

John Anthony Santa	Born:	August 1957
	Gender:	Male
Maria Otazua	Joined:	1995
	Appointed to current position:	2014
Chief Executive Officer		
	Business experience with us:	Has served as our Strategic Planning and Business Development Officer and Chief Operating Officer of our Mexican operations. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of our South America division. He also has experience in several areas of our company, namely development of new products and mergers and acquisitions.
	Other business experience:	Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management.
	Education:	Holds a Bachelor s degree in Business Administration and a MBA with a major in Finance from Southern Methodist University.
Constantino Spas Montesinos	Born:	May 1970
	Gender:	Male
Chief Financial Officer	Joined:	2018
	Appointed to current position:	2019
	Business experience with us:	Served as our Strategic Planning Officer.
	Other business experience:	Has 24 years of experience in the food and beverage sector in companies such as Grupo Mavesa and Empresas Polar in Venezuela, Kraft Foods, SAB Miller in Latin America and Bacardi in Mexico, occupying different positions in marketing, as regional officer and as VP Managing Director.
	Education:	Holds a Bachelor s Degree in Business Administration from Universidad Metropolitana in Caracas and a MBA from Emory University-Goizueta Business School in Atlanta, Georgia.
Xiemar Zarazua López	Born:	June 1963
	Gender:	Male
Business Strategy Officer	Joined:	2017
	Appointed to current position:	2019

	Business experience with us:	Joined our company in January 2017 as Chief Operating Officer of Mexico.
	Other business experience:	Has served for more than 30 years in The Coca-Cola Company in different positions including Chief Executive Officer of the Brazil Business Unit from 2008 to 2016 and Chief Executive Officer of the Latin America Business Unit from 2006 to 2008. He also served in different areas in Mexico and Central America.
	Education:	Holds a Bachelor s degree in Economics from Universidad Autónoma de Nuevo León and Finance postgraduate studies from ITESM.
Tanya Cecilia Avellan Pinoargote	Born:	May 1966
	Gender:	Female
Information Technology and Commercial Officer	Joined:	2002
	Appointed to current position:	2015
	Business experience with us:	Joined our company in 2002 as Strategic Planning Officer. In 2007 was appointed Commercial Planning and Strategic Development Officer and in 2009 was appointed Chief Operations Officer at our Central America division. From 2011 to 2014 she served as Strategic Planning Officer at FEMSA.
	Other business experience:	Worked for 8 years at Bain and Company and has undertaken responsibilities in different multinational companies with vast experience in mass consumer goods.
	Education:	Holds a degree in Communications from Universidad Politécnica del Ecuador and a MBA specialized in marketing from INCAE Business School.

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Karina Paola Awad Pérez	Born:	February 1968
	Gender:	Female
Human Resources Officer	Joined:	2018
	Appointed to current position:	2018
	Business experience with us:	Joined our company in 2018 as Human Resources Officer.
	Other business experience:	Has served for more than 25 years in several areas of human resources. In 2010, she occupied the position of Vice President of Human Resources for Wal-Mart Chile and in 2013 she was named Senior Vice President of Human Resources for Wal-Mart Mexico and Central America.
	Education:	Holds a degree in psychology from the Pontificia Universidad Católica de Chile and a MBA from the UAI de Chile.
José Ramón de Jesús Martínez Alonso	Born:	July 1961
	Gender:	Male
	Joined:	2012
Corporate Affairs Officer	Appointed to current position:	2016
	Business experience with us:	In 2012, he joined our company as Corporate Affairs Officer for Mexico and Central America division. He further occupied the position as Strategic Planning Officer for South America division and previous to his current position he occupied the position as Chief Operating Officer for Brazil.
	Other business experience:	More than 30 years of experience in the Coca-Cola system. He began his career at Panamco where he developed various activities related with the business operation including sugar production and concentrates. In 1994, he occupied the position as Operations Officer of Panamco in Mexico and the following year he occupied the position as Operations Officer of Panamco in Venezuela. From 2005 to 2012, he was Chief Executive Officer of the *Asociación Mexicana de Embotelladores* de Coca-Cola (ASCOCA).
	Education:	Holds a degree in Chemical Engineering from La Salle University, an MBA from IPADE and postgraduate studies in production administration from the Georgia Institute of Technology; Strategic Direction from Stanford University; and Finance Management from John E. Anderson Graduate School of the University of California, Los Angeles.