2017

FEMSA

ANNUAL REPORT 2017

Fomento Económico Mexicano, S.A.B. de C.V., or **FEMSA**, is a leading multinational company headquartered in Monterrey, Mexico, that participates in the beverage and retail industries.

We hold a controlling stake[1] in Coca-Cola FEMSA, the largest franchise bottler of Coca-Cola products in the world by sales volume with operations in ten countries. We are also the second largest shareholder of Heineken—one of the world's leading brewing companies with operations in over 70 countries—with a 14.76 percent economic interest in the Heineken Group.

FEMSA Comercio is the largest operator of small-format stores in the Americas, and is comprised of a Retail Division, operating various store chains, including OXXO, the largest proximity retail chain in Latin America; a Fuel Division, operating the OXXO GAS chain of retail service stations in Mexico; and a Health Division, which includes drugstores and related operations in Chile, Mexico and Colombia.

FEMSA Negocios Estratégicos (FEMSA Strategic Businesses) provides logistical support to Coca-Cola FEMSA, FEMSA Comercio and external clients. It is comprised of Solistica, providing an integrated logistics platform in several Latin American countries; Imbera, offering leading commercial refrigeration solutions with global reach; and PTM, manufacturing plastic transformation projects for the food and beverage, automotive and retail industries, as well as operating one of the largest plastic recycling companies in Mexico.

Contents

1 47.2% economic interest, representing 63% of shares with voting rights.




Refreshment. Convenience. Value Creation.

FEMSA is driven by a corporate philosophy characterized by identifying and satisfying consumer demands, generating income for our shareholders, expanding social development and minimizing our environmental impact.[2] Our 2017 integrated Annual Report reflects our commitment to strong corporate governance and transparency.

Our financial and sustainability results are for the twelve months ended December 31, 2017 compared to the twelve months ended December 31, 2016. This report was prepared in accordance with the Global Reporting Initiative (GRI) Standards and, as signatories to the United Nations Global Compact, represents our Communication on Progress for 2017.

2 *http://www.femsa.com/en/meet-femsa/our-beginning/who-we-are/*

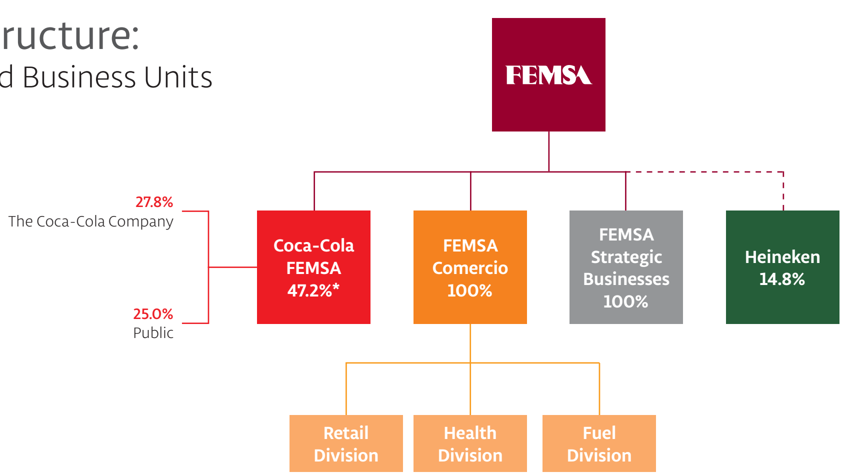
FEMSA at a Glance

Our Presence:

Business Units
- FEMSA Comercio
- Coca-Cola FEMSA
- FEMSA Comercio and Coca-Cola FEMSA
- FEMSA Strategic Businesses

FEMSA operates in 11 countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, Nicaragua, Panama, the Philippines and Venezuela.

Corporate Structure:
Equity Stakes and Business Units



Operational Overview:

FEMSA COMERCIO
Retail Division
OXXO, the largest C-store chain in the Americas by units

Mexico and Colombia

Customers per day (millions)	Points of Sale	Distribution Facilities	Headcount
11.8	**16,526**	**20**	**129,123**

Mexico, Chile and Colombia

Customers per year (millions)	Points of Sale	Distribution Facilities	Headcount
173	**2,225**	**5**	**21,601**

FEMSA COMERCIO
Health Division
Drugstores and related operations in Mexico, Chile and Colombia

FEMSA COMERCIO
Fuel Division
OXXO GAS chain of retail service stations in Mexico

Mexico

Customers per year (millions)	Points of Sale	Headcount
153	**452**	**5,931**

Country / Region	Population Served (millions)	Points of Sale	Plants	Distribution Facilities
Mexico	72.1	853,430	17	145
Central America [1]	21.7	118,414	5	36
Colombia	49.6	372,785	7	24
Venezuela	32.1	158,563	4	24
Brazil	88.4	396,220	10	40
Argentina	12.3	48,396	2	3
Philippines	104.9	818,502	19	52
Total	**381.1**	**2,766,310**	**64**	**324**

COCA-COLA FEMSA
Largest Coca-Cola franchise bottler in the world by volume

1. Includes Costa Rica, Guatemala, Nicaragua and Panama

Value Creation Highlights

FEMSA's mission is to create economic and social value through business enterprises and institutions. This includes consistently attracting and meeting consumer demand, generating financial returns for our shareholders and promoting higher social growth.

Economic Value

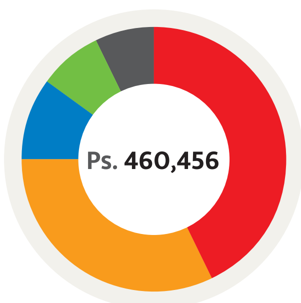
Our 2017 financial results reflect the economic value we continue to create in the countries where FEMSA operates.

Millions of pesos	2017 (1)	2017	2016	%Change	2015	%Change
Total revenues	**23,445**	**460,456**	399,507	15.3%	311,589	28.2%
Income from operations (2)	**2,110**	**41,439**	37,427	10.7%	33,735	10.9%
Operating margin		**9.0%**	9.4%		10.8%	
Consolidated net income	**1,895**	**37,206**	27,175	36.9%	23,276	16.8%
Controlling interest net income (3)	**2,160**	**42,408**	21,140	100.6%	17,683	19.5%
Controlling interest earnings per BD unit (4)	**0.6**	**11.9**	5.9	100.9%	4.9	20.4%
Controlling interest earnings per ADS (5)	**6.0**	**118.5**	59.1	100.5%	49.4	19.6%
EBITDA	**3,127**	**61,418**	54,987	11.7%	46,626	17.9%
EBITDA margin		**13.3%**	13.8%		15.0%	
Total assets	**29,967**	**588,541**	545,623	7.9%	409,332	33.3%
Total liabilities	**12,812**	**251,629**	259,453	-3.0%	167,476	54.9%
Total equity	**17,155**	**336,912**	286,170	17.7%	241,856	18.3%
Capital expenditures	**1,282**	**25,180**	22,155	13.7%	18,885	17.3%
Total cash and cash equivalents (6)	**4,936**	**96,944**	43,637	122.2%	29,396	48.4%
Short-term debt	**692**	**13,590**	7,281	86.7%	5,895	23.5%
Long-term debt	**5,996**	**117,758**	131,967	-10.8%	85,969	53.5%
Headcount (7)		**295,027**	266,144	10.9%	246,158	8.1%

1. U.S. dollar figures are converted from Mexican pesos using the noon-buying rate published by U.S. Federal Reserce Board, which was Ps. 19.6395 per US$1.00 as of December 29, 2017.
2. Company's key performance indicator.
3. Represents the net income that is assigned to the controlling shareholders of the entity.
4. "BD" units each of which represents one series "B" share, two series "D-B" shares and two series "D-L" shares. Data based on outstanding 2,161,177,770 BD units and 1,417,048,500 B units.
5. American Depositary Shares, a U.S. dollar-denominated equity share of a foreing-based company available for purchase on the American Stock Exchange.
6. Cash consists of non-interest bearing bank deposits and cash equivalents consist principally of short-term bank deposits and fixed rate investments.
7. Includes headcount from Coca-Cola FEMSA, FEMSA Comercio and Other Businesses of FEMSA.

FEMSA consolidated

Total Revenues by Business Unit
millions of Mexican pesos

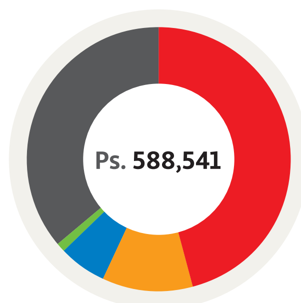


- Coca-Cola FEMSA 43%

FEMSA Comercio:
- Retail Division 32%
- Health Division 10%
- Fuel Division 8%

- Others* 7%

Total assets by Business Unit
millions of Mexican pesos

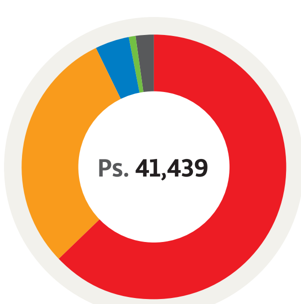


- Coca-Cola FEMSA 46%

FEMSA Comercio:
- Retail Division 11%
- Health Division 6%
- Fuel Division 1%

- Others* 36%

Income from Operations by Business Unit [1]
millions of Mexican pesos

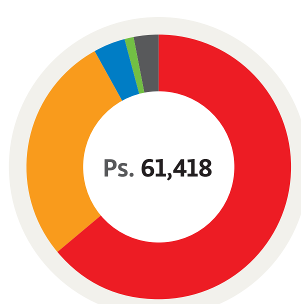


- Coca-Cola FEMSA 63%

FEMSA Comercio:
- Retail Division 30%
- Health Division 4%
- Fuel Division 1%

- Others* 2%

EBITDA [2] by Business Unit
millions of Mexican pesos



- Coca-Cola FEMSA 64%

FEMSA Comercio:
- Retail Division 28%
- Health Division 4%
- Fuel Division 1%

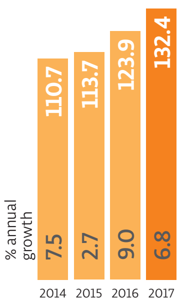
- Others* 3%

FEMSA is driven by a corporate philosophy characterized by identifying and satisfying consumer demands, generating income for our shareholders, expanding social development and minimizing our environmental impact. Our integrated Annual Report 2017, reflects our solid corporate governance and transparency.

* *Includes FEMSA Strategic Businesses*
1. *Company's key performance indicator.*
2. *EBITDA equals to Income from operations plus depreciation, amortization and other non-cash items.*

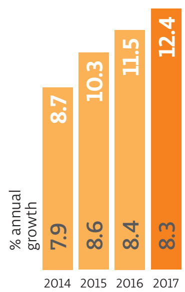
Economic Value

FEMSA Comercio ■ Retail Division ■ Health Division ■ Fuel Division

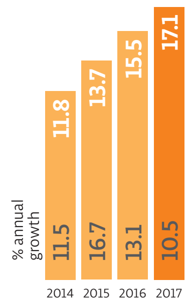


Headcount
thousands

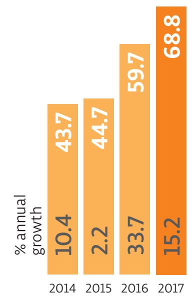
Total Revenues
billions of Mexican pesos



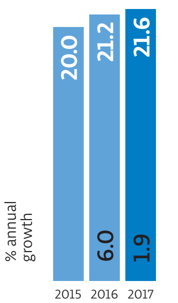
Income from Operations [1]
billions of Mexican pesos



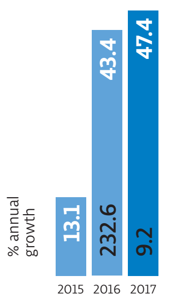
EBITDA [2]
billions of Mexican pesos



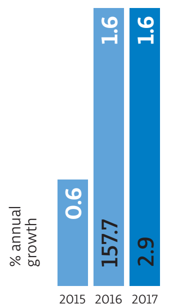
Total Assets
billions of Mexican pesos



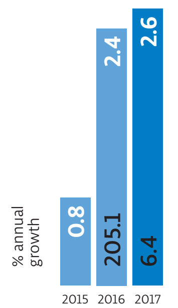
Headcount
thousands



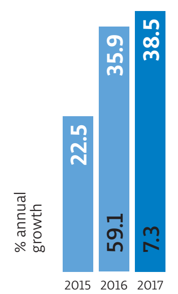
Total Revenues
billions of Mexican pesos



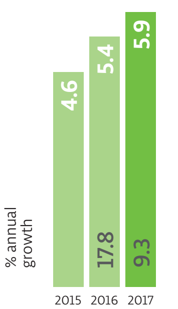
Income from Operations [1]
billions of Mexican pesos



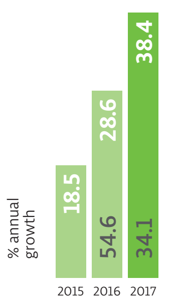
EBITDA [2]
billions of Mexican pesos



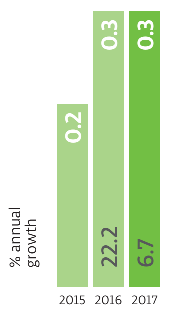
Total Assets
billions of Mexican pesos



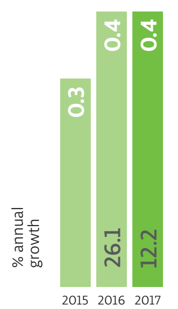
Headcount
thousands



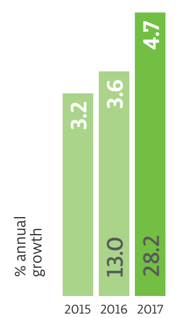
Total Revenues
billions of Mexican pesos



Income from Operations [1]
billions of Mexican pesos

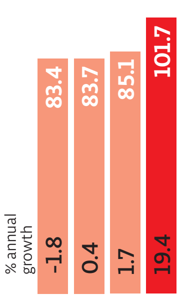


EBITDA [2]
billions of Mexican pesos

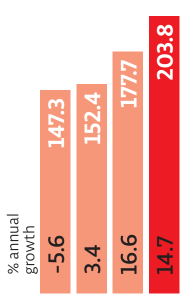


Total Assets
billions of Mexican pesos

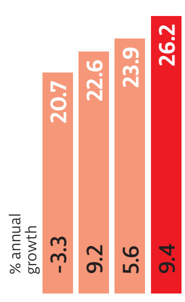
Coca-Cola FEMSA



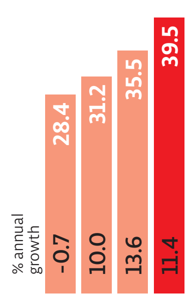
Headcount *
thousands



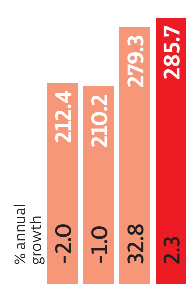
Total Revenues
billions of Mexican pesos



Income from Operations [1]
billions of Mexican pesos



EBITDA [2]
billions of Mexican pesos



Total Assets
billions of Mexican pesos

* *As of 2017, it includes Coca-Cola FEMSA Philippines.*

1. *Company's key performance indicator.*
2. *EBITDA equals to Income from operations plus depreciation, amortization and other non-cash items.*

Social Value

We create value for our stakeholders not only through successful economic performance, but also by generating the social, environmental and economic conditions necessary to operate today and to grow sustainably over time. In 2017, we continued to more fully integrate sustainability into our business strategy.

		2017	2016	2015
OUR PEOPLE	Average hours of training per employee	**33.92**	25.60	26.60
	Accident Index [1]	**2.10**	2.13	3.94
	Organizational Climate Result [2]	**80.80**	81.50	81.40
OUR PLANET	Energy Intensity (Gigajoules / Total Revenues in Ps. million)	**41.26**	40.46	53.01
	Greenhouse gas emissions intensity (Tons of equivalent CO_2 / Total Revenues in Ps. million)	**3.36**	3.59	5.33
	Water efficiency (liters of water used per liter of beverage produced)	**1.65**	1.72	1.79
OUR COMMUNITY	Economic spill to the community [3]	Ps. **253.2** billion US$ **12.8** billion	Ps. 258.2 billion US$ 12.5 billion	Ps. 184.4 billion US$ 10.7 billion
	Percentage of procurement budget on local suppliers [4]	**87%**	82%	85%
	Direct beneficiaries of FEMSA Foundation programs [5]	**1,248,123**	1,124,319	631,250

1. Number of incidents per 100 employees, based on the number of FEMSA direct employees reported to the Occupational Health and Safety Administration System. Includes information on all countries.
2. According to FEMSA's Organizational Climate Diagnostic.
3. Includes human resources remuneration, provider payments, public administration sector remuneration, external donations and donations to the community.
4. Local suppliers are defined as suppliers from the country where the purchase is made.
5. The number of direct beneficiaries is accumulated.

(from left to right)
Carlos Salazar Lomelín
Former Chief Executive Officer
José Antonio Fernández Carbajal
Executive Chairman of the Board
Eduardo Padilla Silva
Chief Executive Officer

Dear Shareholders

The year 2017 was notable for the developments that contributed to FEMSA's growth, the challenges that we overcame and the positive impacts we were able to make.

We ended the year by thanking Carlos Salazar Lomelín for his many years of service at FEMSA following his retirement from the position of Chief Executive Officer. Carlos has served a long and productive career at FEMSA for nearly 45 years, during which time he led many of our operations, including as Chief Executive Officer of FEMSA Cerveza for 8 years and as Chief Executive Officer of Coca-Cola FEMSA for 14 years. He was instrumental in transforming the company into the beverage and retail leader that it is today, and he will continue to share his leadership and expertise with us as my advisor and as a member of the Board of Directors of FEMSA.

As of January 1, 2018, we also welcomed Eduardo Padilla Silva—most recently FEMSA's Chief Financial and Corporate Officer—as FEMSA's new Chief Executive Officer. Eduardo joined FEMSA in 1997 and, since then, has held several senior positions at FEMSA, including Chief Executive Officer of FEMSA Comercio for 16 years. During his tenure in that role, Eduardo oversaw significant growth, including the establishment of OXXO as the leading proximity retail format in Mexico, as well as FEMSA's expansion into the drugstore and service station formats. These developments have been integral to shaping our company into what it is today and hold great promise for our future growth. I am confident that Eduardo's talent and energy will successfully lead us through the next chapter of our story as well.

FEMSA continued to evolve in 2017. We successfully monetized a small portion of our Heineken shares, thereby strengthening our balance sheet and efficiently improving our financial flexibility. We also unified our logistics operations under the new name of Solistica, within our FEMSA Strategic Businesses Unit. This move further consolidates our position as a leader in third-party integrated logistics services across Latin America and puts us in a stronger position to deliver expanded solutions to our clients.

This year we continued to leverage our diverse brand portfolio and operational expertise to realize strong performance on a consolidated level, despite challenging macroeconomic conditions in several key markets. Total revenues in 2017 increased 15.3 percent over the previous year to Ps. 460.5 billion (US$ 23.4 billion), mainly driven by steady operational growth. Income from operations increased 10.7 percent to Ps. 41.4 billion (US$ 2.1 billion), while net consolidated income increased 36.9 percent to Ps. 37.2 billion (US$ 1.9 billion). Net majority income per BD Unit was Ps. 11.85 in 2017 (US$ 6.03 per ADS).

These results were made possible by the strength of our business units. In FEMSA Comercio—comprised of the Retail, Health and Fuel divisions—we continued to build and strengthen our competitive position in multiple regions. In Retail, we opened 1,301 net new OXXO stores—our fastest pace to date—and further expanded the OXXO brand beyond Mexico in Colombia and Chile. In Health, our operations in Mexico and expansions in Colombia and Chile further secured our position as a leading drugstore operator in Latin America, with a total of 2,225 stores achieving a 9.2 percent increase in revenue and a 6.7 percent increase in same-store sales. In Fuel, we continued to play a key role in the rapid transformation of Mexico's energy sector with the addition of 70 net new OXXO GAS service stations in Mexico, and an 19.8 percent increase in same-station sales.

Coca-Cola FEMSA successfully navigated market pressures in 2017 and focused on strengthening its beverage portfolio and remaining nimble and responsive to evolving consumer preferences. Our Mexico and Central America divisions continued implementing our operating model transformational initiatives, including digitizing our platform, scaling supply chain solutions and innovating information technology strategies. In Brazil, we are encouraged by our results highlighted by our affordability strategy that enabled us to grow volumes, regain market share in sparkling beverages- reaching a record high by year-end-and improve our profitability.

We know our economic impacts are tied closely to our social impacts. This year we came together as a company and a community to respond to several natural disasters that caused tremendous loss in our key Mexico market, including two devastating earthquakes. FEMSA launched three separate disaster-response initiatives to provide needed assistance and resources, and the FEMSA Foundation contributed critical supplies to shelters and food banks in the hardest-hit areas in Mexico.

Leading in sustainability performance and disclosure is an important priority for FEMSA. In 2017, we took steps to further embed sustainability best practices across our operations. In

Consolidated revenues totaled **Ps. 460.5** billion in 2017, up 15.3%

2017 we invested a total amount of Ps. 2.7 billion (US$ 138.3 million) in our sustainability efforts. These funds are allocated both externally to our communities and internally toward employee development and environmental stewardship.

We have been a signatory of the United Nations Global Compact (UNGC) since 2005, and we adhere to the UNGC's ten principles to protect human rights, uphold ethical labor practices, preserve the environment and combat corruption. Our 2017 Annual Report represents our 12th UNGC Communication on Progress and it references the Global Reporting Initiative (GRI) Standards.

Throughout our company's history, FEMSA's culture has maintained a deep respect for human dignity over and above financial considerations. Our corporate philosophy is to serve our customers, generate returns for our shareholders, expand social development and minimize our environmental impact. As such, we operate under the fundamental principle of creating both financial and social value for our stakeholders.

This year's integrated Annual Report highlights the most important connections between our financial success and our social and environmental impacts. We invite you to read on and learn more about the important ways in which we succeeded in these areas in 2017, as well as the goals and priorities we have identified to make even more progress in 2018 and beyond. We welcome your feedback and look forward to embarking with you on another exciting year ahead.

José Antonio Fernández Carbajal
Executive Chairman of the Board

FEMSA Comercio

Steady growth, sustainable performance

The past decade of strong, steady growth in our FEMSA Comercio retail operations has helped to position our company to continue delivering value to our stakeholders in the coming years. FEMSA Comercio contributed 50 percent of FEMSA's consolidated revenues in 2017 (up from 38 percent in 2007) and contributed 33 percent of EBITDA in 2017 (up from 18 percent in 2007), reflecting an increasingly balanced core portfolio over time and favorably diversifying our financial performance. Despite rising inflation in Mexico, the rapid transformation of Mexico's fuel industry, and a number of severe natural disasters in 2017, our retail operations made solid progress in a resilient consumer environment and are well positioned to continue creating value and driving long-term earnings growth.

On average, the Retail Division opens one new OXXO store every seven hours.

Retail Division

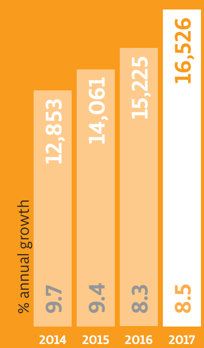
Every day, nearly 12 million people make a purchase at one of our more than 16,500 OXXO proximity retail stores in Mexico and Colombia. With a strong brand and best-in-class margins and returns, OXXO is the third-largest retailer in Mexico in terms of revenues and the largest store chain in the Americas by units. We saw revenue growth in the Retail Division of 12.4 percent by year-end 2017.

Trajectory for success

On average, the Retail Division opens one new OXXO store every seven hours. In 2017, we again added new stores at an accelerated pace, opening a record of 1,301 net new stores—and creating approximately 10,000 direct new jobs in the process—while maintaining above-trend growth in same-store sales for the third year in a row.

Our trajectory for continued growth remains very strong in many regions of Mexico where store penetration remains

1,301
net new OXXO stores in 2017



Total OXXO stores

+3,150
average SKUs per store

relatively low. We have developed proprietary models to assist in identifying optimal store locations, store formats, and product categories. We expect to continue to generate solid returns in new stores by strictly monitoring our cost-of-capital parameters and by consistently implementing our proven operating processes and practices.

In 2017, we also continued to prepare for long-term growth and expansion of the OXXO brand beyond Mexico. In our stores in Colombia and Chile, we are deploying our considerable expertise in the convenience-store format while optimizing our local value proposition and understanding of how best to serve our consumers across markets. Gaining this knowledge will help support the next stage of potential expansions to other regional markets in South America.

Expanding convenience

Driving the sustained growth of the OXXO brand is FEMSA's dedicated focus on creating value for stakeholders while refining our business model and offerings to meet the market's needs. Consumers who have relied on OXXO to quench their thirst, satisfy a snack craving or pick up a prepared meal now increasingly appreciate the one-stop convenience of purchasing other products or using essential services while at one of our stores. For example, providing a place to securely make deposits and withdrawals from bank accounts, receive remittances from relatives living abroad, and pay utility bills are ways our company is investing in the social and relationship capital of our customers to earn their trust. In turn, these added service offerings are driving same-store traffic growth and expanding the gross margin. In 2017, our

Correspondent Banking network included 12 partner banking institutions, and the number of issued Saldazo debit card accounts reached more than 9 million.

To ensure that we maintain a motivated workforce, we are also making investments in the human capital of our organization. We are taking steps to ensure that our OXXO employees are working in stores closer to their home, thereby saving them time and money, while potentially contributing to a reduction in traffic congestion and greenhouse gas emissions related to commuting. In 2017, we also took steps to increase compensation, training, and diversity among our OXXO employees as part of our plan for employee engagement and retention. Though these new policies and investments in human capital partially contributed to a slight contraction of OXXO's operating margin in 2017, we believe that our value-centered approach will reduce turnover and related costs of hiring and training in the longer term.

Spotlight on Sustainability: FEMSA is focused on reducing waste in our retail operations and supporting our community. Two examples of our efforts to accomplish this include:

1. Replacing or eliminating excess and unnecessary packaging as much as possible, while promoting the use of recycled and recyclable packaging materials; and
2. Donating packaged food prior to its expiration date to local food banks, in collaboration with *Bancos de Alimentos de México*.

Health Division

With acquisitions in key markets over the past several years, FEMSA continues to build a strong presence in the health and drugstore segment in Latin America. We first entered this market segment in 2013, with the acquisition of two regional drugstore chains in Mexico. In 2015, we expanded further with two additional acquisitions, including a majority stake in the Chilean pharmacy and distribution chain, Grupo Socofar, which operates an integrated platform in Chile and Colombia.

Our current growth strategy for the Health Division is to further consolidate our market presence and facilitate continued international expansion by leveraging both our effective small-box retail processes and our operational and logistics expertise. With 2,225 stores as of year-end 2017, we are becoming a key drugstore operator in Latin America. Revenues increased by 9.2 percent during the year, with same-store sales increasing by 6.7 percent.

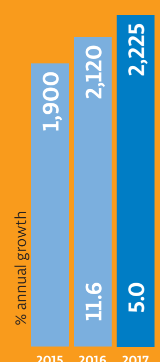
Strengthening our position

In Mexico, we currently operate more than 1,100 drugstores under different leading regional brands. In 2017, we continued to make significant preparations for future growth and consolidation by building the infrastructure that is required to integrate our legacy drugstore operations into a single platform and to standardize our business model across these different regional brands.

In South America, through Grupo Socofar, we operate more than 700 Cruz Verde pharmacies and 181 Maicao beauty stores in Chile, as well as more than 200 Cruz Verde drugstores in Colombia. Our Chilean operations have a solid competitive position, best-in-class operating practices and significant

2,225
stores in Mexico, Chile and Colombia

105
net new stores in 2017



Total number of stores for Health Division

vertical integration. Our experience in this market has greatly expanded our knowledge base, and this represents an ideal platform from which to grow and puts us in a strong position for future regional expansion.

Fuel Division

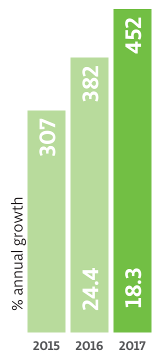
Following Mexico's historic energy reform program beginning in December 2013—which opened the oil and gas market to foreign capital for the first time in more than 75 years—FEMSA recognized the unique opportunity to participate in the transformation of the country's fuel industry through the operation of a large network of service stations. Beginning in March 2015, we started transitioning from our legacy operation of approximately 200 service stations on behalf of third parties, to growing our own base of stations mainly through long-term lease agreements. We saw clear alignment in this endeavor with our retail service expertise, as well as the opportunity to leverage OXXO's brand equity.

Expanding our service stations network

As of the end of 2017, our Fuel Division now operates a total of 452 OXXO GAS service stations. To further consolidate our presence in the market and create additional value for shareholders, in 2017 we invested in the expansion of our infrastructure and continued to roll out our OXXO GAS branding to new stations.

70

net new service stations in 2017



Total OXXO GAS Service Stations

Our OXXO GAS outlets build trust with customers through reliable, high-quality service backed by our strong brand. We also engender loyalty through special promotions available only to our customers.

Navigating market pressures

The number of vehicles on Mexico's roads has grown steadily over the last few decades and, with it, demand for gasoline. Domestic refining output has not kept pace with demand, and gasoline imports have increased as a result. That fact, combined with the currency conditions present in early 2017—namely a steep depreciation of the Mexican peso vis à vis the U.S. dollar—contributed to a sharp increase in the price of gasoline and diesel in January 2017 by an average of approximately 17 percent.

This unique set of circumstances led to a contraction in gross margin in the Fuel Division in the first two quarters of 2017, with gross profits per liter remaining relatively flat versus the previous year, in peso terms. In the second half, we saw stronger sequential improvement in profitability due to more flexible pricing structures and a stronger exchange rate. For the full year, revenues increased 34.1 percent, with same-station sales growth of 19.8 percent.

Looking ahead, as the oil and gas industry continues to transition to an open-market model, we will remain focused on improving our customer value proposition, expanding our network of service stations and enhancing underlying profitability by fine-tuning our business model and revenue management capabilities in ways that highlight our strengths and expertise in retail dynamics.

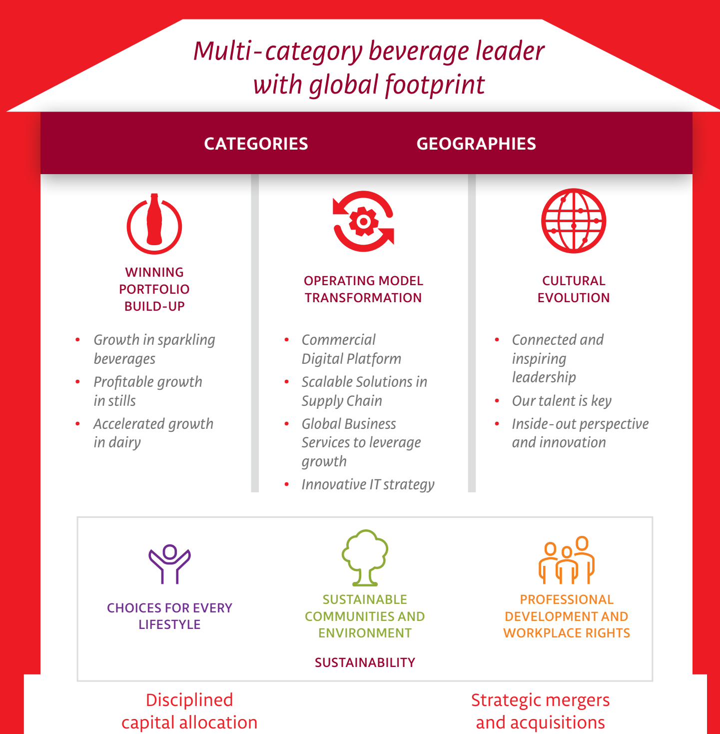
Spotlight on Sustainability: We are continually working to find efficiencies and save resources at our OXXO GAS service stations:

- Since 2011, we have installed LED lighting at OXXO GAS stations, which use less electricity, provide better lighting conditions and create safer and more comfortable spaces.
- Since 2015, we have expanded the installation of efficient toilets in service station restrooms, including dry urinals that save an average of 3.8 liters of water per flush.
- In 2017, we deployed a new waste management program to separate organic and inorganic waste.
- As of the end of 2017, we have planted more than 1,000 trees at OXXO GAS stations.

Coca-Cola FEMSA

Guiding our business growth

As a strategic partner to The Coca-Cola Company and the largest Coca-Cola franchise bottler in the world, by sales volume, Coca-Cola FEMSA holds a leadership position within the beverage industry with a multi-category portfolio and global footprint. Our Strategic Framework steers our long-term business growth strategy by promoting company-wide collaboration and sharing best practices. As we grow, both organically and through strategic acquisitions, we aim to create value for all our stakeholders by realizing new operational efficiencies and innovations. In this way, we are focused on strengthening our multi-category portfolio, transforming our operational capabilities, and evolving toward a unified corporate culture. We are also integrating a stronger emphasis on sustainability and proactive environmental management across our business strategy.



Winning portfolio buildup

In 2017, we generated over 25 billion transactions serving sparkling beverages, juices, isotonic sports and energy drinks, teas, waters, dairy products and plant-based beverages to more than 381 million consumers. To continue to expand our level of service in diverse markets, we are focused on building a winning portfolio of beverages, as well as anticipating—and responding to—evolving consumer preferences.

We are revitalizing our sparkling beverage offerings, diversifying in still and dairy beverage options, and exploring new, innovative categories. Innovation is a cornerstone of our path toward strategic growth and development. In 2017, as part of our portfolio innovations that offer our consumers more suitable options for their lifestyles, we launched:

31%
of the brands in our portfolio have vitamins, fiber, minerals, or nutritional supplements

In 2017, approximately
1.6 million
people had been benefited by our Healthy Habits programs and initiatives

- *Coca-Cola Sin Azúcar* in Mexico, a sugar-free alternative that comes in a variety of portion sizes.
- *Fanta Guaraná* in Brazil to offer our consumers a lower sugar alternative and revitalize our flavored carbonated soft drink category.

We also continue to complement the organic growth of Coca-Cola FEMSA with value-creating acquisitions.

We know that with multi-category beverage leadership also comes great responsibility. We are taking steps to promote healthy habits in our communities and encouraging people to combine good nutrition with physical activity in their lives. Our strategy is centered on three levels of action:

- Local initiatives: In 2015, we set a goal to benefit five million people by 2020 through programs supporting healthy habits and nutrition awareness. In 2017, approximately 1.6 million people had been benefited in our programs, with an investment of US$ 6 million. To date our progress on this goal is 62%.
- Multi-sector initiatives: In 2016, we launched the Latin American Commitment for a Healthy Future, a multi-sector coalition that promotes initiatives and educational tools to empower school-aged children and their families to make good decisions about their eating habits and physical activity.
- Responsible marketing: In addition to strict nutritional labeling standards and limited advertising in media to children, we also adhere to the Responsible Marketing policies and the Global School Beverage Guidelines of The Coca-Cola Company.

Together with The Coca-Cola Company and the Coca-Cola System in Latin America, we added AdeS plant-based beverages to our expanding offerings in the region. AdeS will complement and strengthen our still beverage portfolio, providing consumers with a broader range of choices. As a nutritious, dairy-free product, AdeS is well-positioned to benefit from favorable dynamics in the broader dairy-alternative beverage segment, as well as positive consumption trends for premium, nutritious, and natural products.

Ensuring product affordability

To better serve and strengthen our connection with consumers, particularly in the challenging macroeconomic environment of 2017, we rolled out affordability initiatives across our operations through our strong platform of affordable, returnable multi-serve packaging alternatives. In Mexico, Brazil and Colombia, we reinforced the coverage of these returnable presentations, as we look to provide the right package at the right price for every consumer.

Additionally, we continue implementing our Magic Price Points strategy to intensify our connection with consumers. This approach helps ensure affordability of our single-serve portfolio at "magic price" points. As a result, we were able to improve consumer segmentation through revenue management, increase profitability and gain or maintain market share, as we did in Argentina, Brazil and Colombia.

Operating Model Transformation

As we work to create a leaner and more agile organization, we are building a sustainable competitive advantage by developing and deploying next-generation strategic capabilities through our Centers of Excellence (CoEs).

In our Commercial CoE, we continue to accelerate the transformation of our operating model, highlighted by the implementation of our upgraded KOFmmercial Digital Platform (KDP), which is based on four pillars: advanced analytics for revenue transformation; dynamic initiative management; omnichannel integration of customer connection points; and improved route-to-market to maximize customer value creation while managing costs. We rolled out the KDP platform in Mexico in early 2017 and have now expanded to Brazil, the Philippines, Colombia, Costa Rica, Nicaragua and Panama. In 2018, we will continue upgrading and rolling out KDP throughout our markets.

We delivered hard manufacturing savings of

US$ 145 million

over the past three years

Our Distribution & Logistics CoE redefined its organizational structure into KOF Logistics Services (KLS), which designs and deploys our Supply Chain Planning model to standardize processes, enhance centralized organizational capabilities and incorporate cutting-edge technological tools. We continue to invest in new technology platforms, such as the Digital Distribution System, which delivers increased resource optimization, improved employee and driver safety, and higher customer satisfaction. The CoE's safety strategy includes initiatives that support the entire company, including transforming our safety culture, managing key risks and professionalizing the safety function. These safety initiatives are adding value by reducing the amount of resources we use and improving the safety of our communities. After implementing Digital Distribution in Mexico in 2017, we have now expanded the platform to Brazil and aim to continue implementing in our remaining territories by 2019.

In our Manufacturing CoE, we continued the development and rollout of our proprietary Manufacturing Management Model to bolster efficiency and productivity, which includes our Plant Operating Model, Centralized Plant Maintenance Planning, Standardized Maintenance System and Manufacturing Execution System. We are also creating a culture of safety, and working to advance our safety programs, which has resulted in fewer accidents. These initiatives not only create a better work environment for our employees, but also drive cost savings.

41%

of the brands in our portfolio are low or no calorie beverages

Spotlight on Sustainability: To conserve the amount of resources and energy needed for our operations, our goal is to use recycled materials in 25% of our total PET presentation production by 2020. As of 2017, we are approaching the achievement of our goal, using 21% recycled materials in the production of our PET presentations.

Cultural Evolution

Through our continuous evolution, we are creating a strong, unified corporate culture, founded on the cornerstones of leadership, talent and innovation. Together, we share a passion for excellence—embracing diversity across our increasingly multicultural operations. We are focused on identifying the strengths and opportunities of our workforce and leadership team, with an aim to empower employees by giving them the tools and capabilities they need to succeed in their roles.

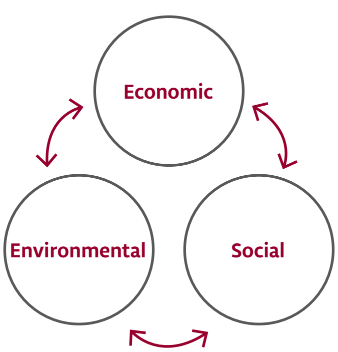
2017 Cultural Evolution Highlights	
Organizational Health Index Survey	Coca-Cola FEMSA launched its fourth annual employee engagement survey and gathered feedback from more than 21,000 participants. We registered a five-point increase in our overall organizational health from our baseline survey in 2014.
Talent Management and Development	In 2017, we invested US$ 12.7 million in employee training initiatives, accounting for 3.4 million of total training hours. Additionally through the Universidad FEMSA online platform, we offered to our people more than 5,000 different resources such as: events, courses, videos and diverse online materials aligned with the best practices of our Centers of Excellence.
Volunteering	By 2020, our goal is to achieve one million hours of volunteer work through the KOF Volunteers program. At year-end 2017, we have accumulated 681,224 volunteer hours since 2016—representing 68.2% of our goal.

Sustainability

Creating sustainable value

FEMSA defines sustainability as the ability to generate the social, environmental and economic conditions needed to operate today and grow over time in harmony with the environment and society. We base our actions on an underlying commitment to ethics and values, and we organize our sustainability approach along three pillars: Our People, Our Planet and Our Community.

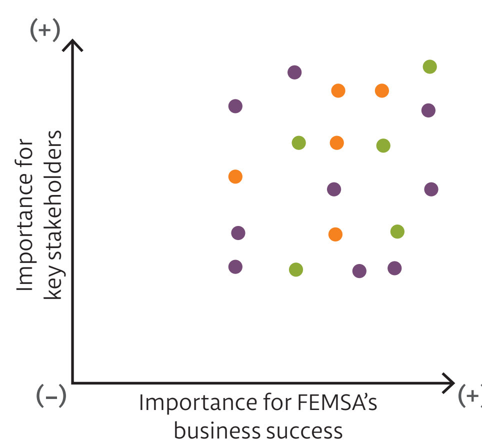
Since 2005 we have been signatories of the United Nations Global Compact, through which we pledge to follow and promote its 10 principles relating to human rights, labor practices, the environment and anti-corruption. We also support the United Nations Sustainable Development Goals (SDGs), which were launched in 2015 and represent an ambitious plan to make our world more inclusive, prosperous, sustainable, and resilient. The SDGs call for countries to



19

Focus topics

in which we generate a greater positive impact



improve the lives of people everywhere by mobilizing efforts to improve the most critical issues in the world by 2030, including poverty, inequality and climate change. The eleven countries in which FEMSA operates have accepted the SDGs and will be using them to define their 2030 agendas. But to fully make a global impact, businesses and civil society must also take action. In 2017, FEMSA began an analysis to gain a better understanding of what the SDGs mean for our core business and how we can best contribute to them. In 2018, we will also be considering how the SDGs can help guide our own corporate sustainability goals.

Our approach to materiality

FEMSA's Strategic Sustainability Framework is based on the priorities and issues that are most important to our business and the stakeholders with whom we engage. Our key stakeholder groups include employees, consumers, suppliers, shareholders, government entities, community members and NGOs. Additional stakeholder groups include industry experts, peer companies and the media.

We first conducted a company-wide materiality analysis in 2012, which included an analysis of our business strategy, emerging risks, industry trends and best practices, and direct engagement with FEMSA business-unit executives and other external stakeholder representatives. We identified 19 focus topics, which correspond to nine action areas across our three pillars. We engage our stakeholders on an ongoing basis throughout the year to confirm and update our material issues assessment. Because each of our business units is distinct, we have now begun the process of conducting materiality analyses by business unit, beginning with Coca-Cola FEMSA, OXXO, Solistica, Imbera and PTM.

PILLARS		FOCUS TOPICS
OUR PEOPLE	Culture and values	Culture and values
	Training and development	Workplace health and safety
		Compensation
		Training and development
	Comprehensive development	Comprehensive development
OUR PLANET	Water	Water management
	Energy	Energy use
		Environmental impact of transportation and logistics
	Waste and recycling	Packaging and recycling
		Waste
OUR COMMUNITY	Healthy lifestyles	Nutrition and physical activity
	Community development	Responsible marketing and communications
		Offering sustainable products/services
		Local environmental impact
		Safety in our surroundings
		Social well-being in communities
	Sustainable sourcing	Supplier development
		Environmental impact of suppliers
		Labor rights and working conditions of suppliers

Our People

178,084
recruitments,
48% are women.

+10 million
hours of ongoing
training.

At FEMSA, we are committed to growing as a high-performance organization where talent, culture and leadership are the key levers for the development of our people and the fulfillment of our strategic objectives. Accordingly, we seek to promote the professional development of our employees and to provide them with the training and resources they need to do their jobs safely and successfully.

We focus on three areas of action that make up the Our People pillar: Culture and Values, Training and Development and Comprehensive Development.

> In 2017, we invested Ps. 1.6 billion (US$ 81.9 million) in our people, with 89% for culture and values training and 11% for comprehensive development.

Culture and Values

We promote a culture of leadership characterized by respect and by setting a positive example.

Our corporate culture—and our capacity to create economic and social value—is guided by our values:

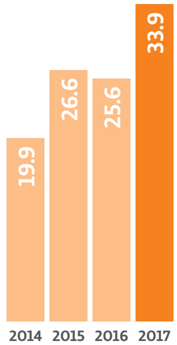
- Respect for, and comprehensive development of, our employees
- Integrity and austerity
- Passion for customer service
- Creation of social value

All employees are expected to uphold and demonstrate these values within our culture of legality and leadership. We respect and uphold the laws and societal standards of every country in which we do business, and we have zero tolerance for corruption. Our FEMSA Leadership Model—a set of nine key competencies—ensures that all employees have the necessary skills to contribute to our business strategy.

Training, Development and Safety

We are focused on developing the capabilities of our employees in a safe and fulfilling environment, so they can respond to challenges and achieve their highest potential as individuals and professionals.

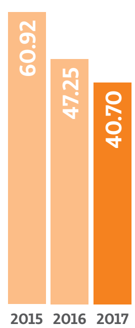
We offer online and in-person courses and other tools to develop leadership skills and technical knowledge for our employees. In 2017, we formalized our processes for competency reviews, leadership style assessments and performance measurement tools.



Average hours of training per employee

The wellbeing of our employees, particularly while at work, is of utmost importance to FEMSA. We uphold strict standards related to occupational health, hygiene, and safety, and all our business units operate according to the guidelines and requirements of our internal occupational health and safety standards.

Accident rate
(Safety)



General diseases rate
(Health)

Indexes are based on the number of incidents per 100 employees, calculated on the number of FEMSA direct employees reported to Occupational Health and Safety Administration System. Includes information on all countries.

Comprehensive Development

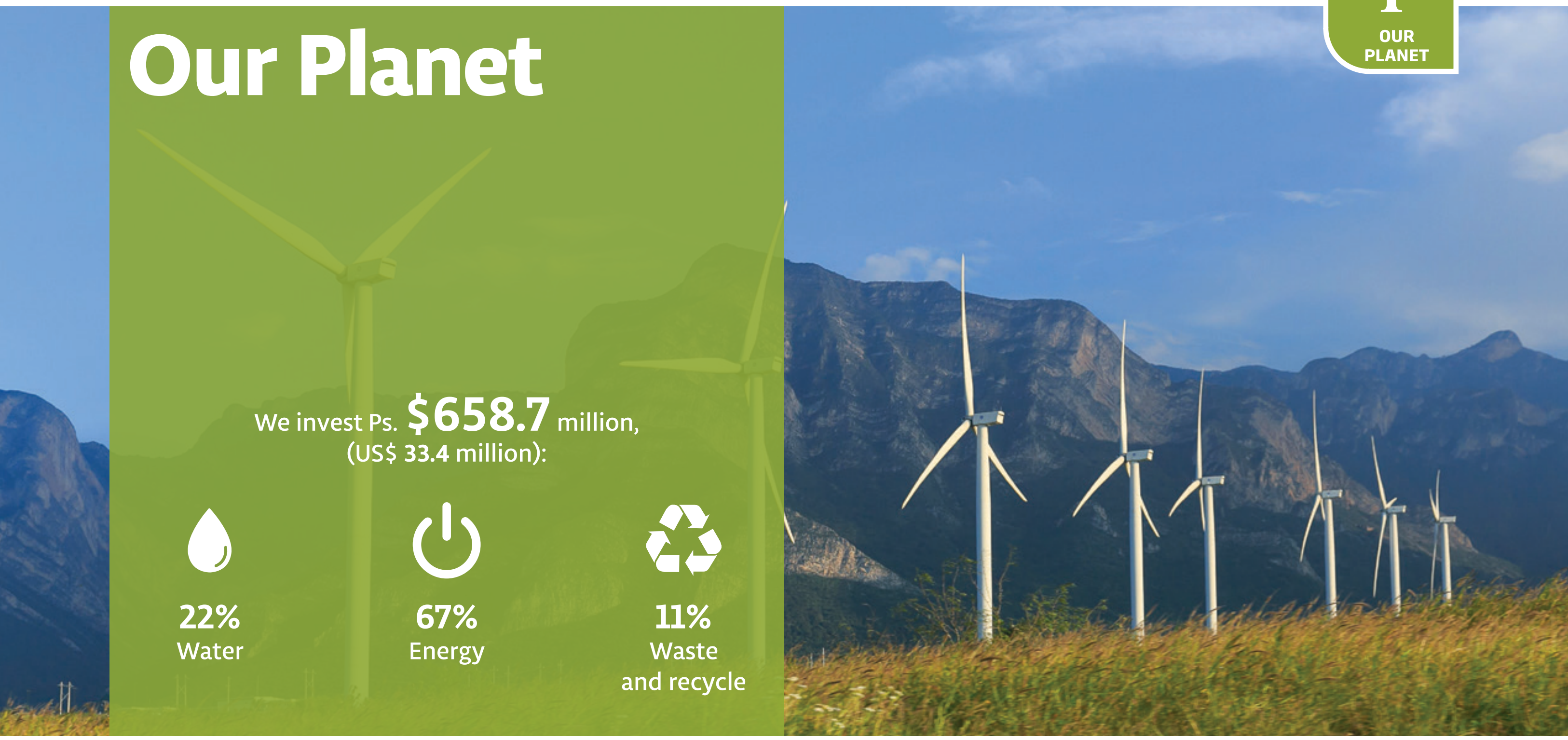
We promote wellness and a high quality of life for our employees, their families and the communities in which they live and work.

We know that the advancement of our employees takes place both within and outside the company, so we support a holistic FEMSA Social Development System, which is comprised of seven dimensions of wellness related to Family, Social, Health, Labor, Economic, Education and Values.

One of the barometers of our progress toward advancing the comprehensive development of our workforce is through our employee engagement survey. This employee engagement survey is annually open to 50 percent of our employees (covering 100 percent of our employees every two years). In 2017, 102,300 employees responded to the survey, an approximately 89.8 percent participation rate among eligible participants. We collect feedback on our organizational climate, as it relates to satisfaction levels and potential areas of concern. This information supports workplace improvements and serves as an input to our quality-of-life programs.

We believe that talent is among the most relevant competitive advantages we can secure to ensure the long-term success and sustainability of our business. We are positioning talent management as a part of our business strategy, generating the organizational capacity to fully support it and transforming it into a cultural attribute of our organization.

Our Planet



We invest Ps. **$658.7** million, (US$ 33.4 million):

22% Water

67% Energy

11% Waste and recycle

A key aspect of our sustainability strategy and risk management approach includes identifying the major environmental impacts of our operations across our value chain. We are taking steps to improve our processes through the more efficient use of resources. We focus our actions around three key priority areas for our company and our stakeholders, including:

- **Water:** We optimize our water consumption to reduce our water footprint.
- **Energy:** We work to reduce greenhouse (GHG) emissions from our operations.
- **Waste and recycling:** We optimize our waste management and reduce the impact of the waste created in our processes.

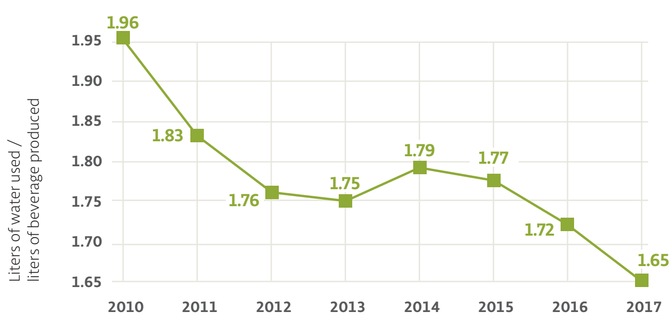
Optimizing Resources

Because water quality and availability are crucial to the beverage business, we focus on reducing consumption, improving resource management and conserving the watershed.

Since 2010, the amount of water used by Coca-Cola FEMSA to produce its beverages has steadily fallen.

We also work to optimize the amount of fuels used in our operations. For example, we have reduced fuel consumption per kilometer traveled at our Solistica operations by implementing efficient route planning and integrating new technologies. From 2011-2016, these improvements avoided 729,370 tons of CO_2 emissions from being released into the atmosphere. In 2017 our fuel efficiency consumption in Mexico was 0.51 kilometer traveled per liter.

Liters of water consumed per liters of beverage produced by Coca-Cola FEMSA



Data including all Coca-Cola FEMSA plants at the end of 2017

Percentage of water consumption by source

(%)

	Ground	Supply	Surface
2017	65.0	33.7	1.3
2016	67.6	27.8	4.6
2015	64.8	32.4	2.7
2014	64.1	33.3	2.6

Ground Supply Surface FEMSA Comercio is not included from 2014 to 2016.

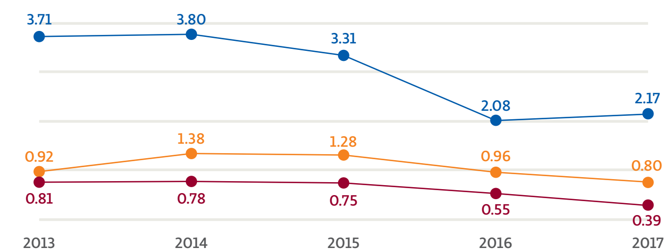
Reducing Impacts

Energy is an important input to our business operations, which is why year after year, we incorporate new processes and tools to optimize its use, further diversify our energy portfolio and reduce our climate impact.

Total intensive emissions Scope 1 (stationary) + Scope 2

Tons of equivalent CO_2 / Total Revenues in Ps. million

● S1 stationary[1] ● S1 non-stationary[2] ● S2[3]



1 Includes the stationary consumption of non-renewable sources.
2 Includes the fuel consumption of own units, Coca-Cola FEMSA consumption is estamated.
3 Includes fuel consumption of renewable and non-renewable sources.

> Our goal is to obtain 85% of our electric energy in Mexico from renewable sources by 2020. We met 26.4% of our energy needs in 2017 through renewable energy from four wind farms.

This year we also moved closer to reaching our goal, participating in the following projects:

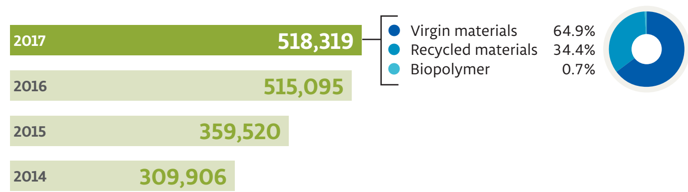
- Amistad Wind Farm in the state of Coahuila, which will have an installed capacity of 197.5 MW and generate 750,000 MWh per year of renewable energy. FEMSA has entered into a power purchase agreement (PPA) to acquire 100% of this energy to supply at least 7,600 FEMSA load points in Mexico. The wind farm is expected to be operational by the third quarter of 2018.
- Eolica del Sur Wind Farm in southern Oaxaca, which will have 396 MW of installed capacity and generate more than 1.3 million MWh per year of renewable energy where we have entered into a PPA to supply 13,800+ load points of FEMSA's and Heineken Mexico's operations in Mexico. The wind farm is expected to be completed by the fourth quarter of 2018.
- We have also entered into a PPA for the San Matias Wind Farm in the state of Baja California, which will have 31 MW of installed capacity and generate 57,000 MWh per year of renewable energy. This wind farm will supply its energy to load points of FEMSA and Heineken Mexico located in this NW region of Mexico and is expected to be operational by the end of the year.

We are taking steps to minimize the waste generated by our operations, including proper management of industrial waste. All our bottling plants operate with a waste-reduction program, and our goal is to recycle 90 percent of the waste associated with each of them by 2020.

We comply with all regulations related to maintaining the proper infrastructure to collect hazardous waste and dispose of it through authorized service providers.

Used materials

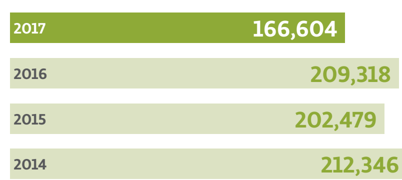
(Tons) In 2017, 34.4 percent of our total materials consumed were recycled.



This information excludes Solistica and Imbera's materials.

Waste management

(Tons)



Our Community

98%
local suppliers

Ps. 93.9
million from Redondeo OXXO

504
local initiatives

Due to the complexity and size of FEMSA's multinational organization, our operations reach a diverse group of people and communities. Developing and maintaining positive, mutually valuable relationships with the communities in which we operate is fundamental to our business strategy and our sustainability goals. This begins with understanding the positive and negative impacts our businesses have in our communities, and then assessing how our business strategy can address the needs of these communities to further promote their sustainability and our own.

> We invested Ps. 454.8 million (US$ 23.0 million) in our community, with 73% for community development and sustainable supply and 27% for healthy lifestyles.

Community development

We contribute to the economic, social and environmental wellbeing of the communities neighboring our operations.

We encourage employees to give back to their communities, and we help organize and facilitate unique opportunities to do so. During 2017, more than 51,063 employee volunteers participated in 1,852 acts of service, totaling more than 367,796 donated hours.

The Model for Addressing Risks and Relations with the Community (MARRCO) support company-wide efforts for more effective dialogue with, and impact on, our local communities.

We use this tool to help build trust and collaboration with our local stakeholders, identify risks and opportunities for value creation and better optimize our actions and programs. MARRCO supports the development of capabilities through multi-disciplinary teams in our plants and distribution centers.

As part of the first phase of this model's implementation in 2016, we set up teams in 23 work centers at Coca-Cola FEMSA, Solistica, Imbera, and PTM in seven countries: Argentina, Brazil, Colombia, Mexico, Nicaragua, Panama and Costa Rica. In 2017, we implemented MARRCO in 18 additional work centers and continued to integrate it into our processes, systems and work culture. This has included expanded training in the methodology and the ability for more parts of our organization to undertake their own risk assessments and define Community Engagement Plans.

Sustainable sourcing

We contribute to the improvement of the labor, social and environmental performance of our suppliers.

Our suppliers are essential to the sustainability of our business, and we are committed to helping them improve their labor, social and environmental performance by providing training and other resources to continually improve processes. In total, we have a network of more than 53,992 suppliers of goods and services for our business and operations, which channeled a total of Ps. 171.8 billion (US$ 8.7 billion) to the productive sectors of other industries.

To ensure that the companies and individuals who supply our company with products and services operate with integrity, we advise our suppliers to adhere to our Supplier Guiding Principles, which describe our expectations related to labor rights, the environment, community, ethics and values. We modeled these principles on widely accepted international standards, including the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact. In 2017, we continued to work on ensuring our suppliers are informed about and abide by these principles.

We are also committed to supporting suppliers who are local to the country in which we are making the purchase. In 2017, our percentage of spend in local suppliers was 86.8 percent.

The OXXO Customer Round-Up Program *(OXXO Redondeo)*, begun in the year 2002, serves as a link between customers and local institutions, creating a circle of mutual support between them. Currently, the program operates in every state of Mexico through OXXO and other FEMSA Retail banners. Through the participation of our employees, who invite customers to participate in donating and rounding up their total, in 2017, Ps. 93.9 million (US$ 1.8 million) were raised, benefiting 256 institutions.

FEMSA Foundation

Building partnerships to scale our impact

FEMSA Foundation's mission is to make a positive impact on the people and communities where we operate by furthering social investment projects that promote sustainability. Specifically, we focus our commitments on the principles of innovation, replicability and scalability for three strategic action areas: water security, early childhood development and cultural programs.

In 2017, our programs benefited 7,945,957 people directly and indirectly in over 600 communities.

We know that the participation and expertise of our strategic partners is crucial to the success of our projects. For every dollar that we currently invest, we are able to leverage approximately 3.46 dollars through our partnerships (an increase from about 1.40 dollars during 2016).

In all the Foundation's programs, we aim for maximum impact with the resources and partnerships available to us. Over the coming year, we will focus on reaching more people by scaling up our existing programs and replicating best practices in new areas.

In 2018, the FEMSA foundation will celebrate its first ten years of accomplishments through special activities and a renewed commitment towards impactful social investments that continue to support a better future for all.

For a water secure region

> One of our goals is to address water challenges in Latin America by utilizing technology-supported decision-making, increasing access to water and sanitation, and enhancing water security through watershed sustainability.

We are increasingly addressing water stewardship in the context of the inextricable linkages between water, energy and food resources. By leveraging a sophisticated modeling tool run by the Water Center for Latin America and the Caribbean, called the Strategic Decisions Hub (or NED, its acronym in Spanish), we are able to generate a 360-degree perspective on water availability and use in the region. This tool supports the decision-making process—guided by a multidisciplinary network of experts—for finding solutions to complex problems.

Our partnership with The Nature Conservancy, the Inter-American Development Bank (IDB) and the Global

Environment Fund has expanded the scope of our water initiatives beyond conservation. As a member of the Latin American Water Funds Partnership, we provide technical and financial assistance for the creation of Water Funds. These funds help communities achieve water security by investing in natural infrastructure and good governance. For example, in Monterrey in September 2017, we gathered 20 key stakeholders—from government, to private enterprise, to agricultural producers and water utility companies—to develop a common agenda on how the community can work together to manage this water resource. From our discussion, we identified 11 areas for this common agenda and we are now executing on the first four:

- Governance structure
- Source protection
- Flood prevention
- Access to water

> As of the end of 2017, the Latin American Water Funds Partnership has leveraged over Ps. 43.5 million (US$ 2.2 million) from more than 100 local partners.

In March 2017, we launched Water Links (Lazos de Agua) together with One Drop, IDB and the Coca-Cola Foundation. Through this multi-stakeholder partnership, we are improving the health and living conditions of the poorest and most vulnerable communities in Latin America. Through a focus on behavior change, we aim to develop sustainable water access and sanitation projects. By helping communities change their habits and learn the practices needed to sustain ongoing investments, we seek to empower them and give them the tools to make this initiative sustainable once the project is complete. By using this model we have assisted 7,299 persons and plan to help more in the coming year.

Promoting early childhood development

> By strengthening early childhood development, our vision is that all children reach their maximum potential and transform the communities where we operate.

All children deserve to achieve their maximum potential, but not all have the resources to do so. In partnership with IDB and Open Society Foundations, we launched the Early Childhood Development Innovation Fund. Designed to benefit children in the most vulnerable of communities, the new fund will finance initiatives to improve the cognitive, linguistic, motor and socio-emotional abilities of children in the first five years of their lives. We are excited to be a part of this collaboration because it will afford us the partnerships and resources necessary to test innovative models and develop opportunities to scale.

We also remain active in Sesame Workshop's *¡Listos a Jugar! (Ready to Play!)*, a multi-platform initiative to promote lifelong, healthy habits through educational entertainment for children from 0 to 6 years of age. We provide financial and advisory support for the many activities provided to teachers and parents, including games focused on nutrition habits, emotional intelligence, self-esteem and physical health. Through this initiative we have reached 7.8 million people in Mexico, Ecuador and Colombia, and we are planning to launch in Brazil in 2018.

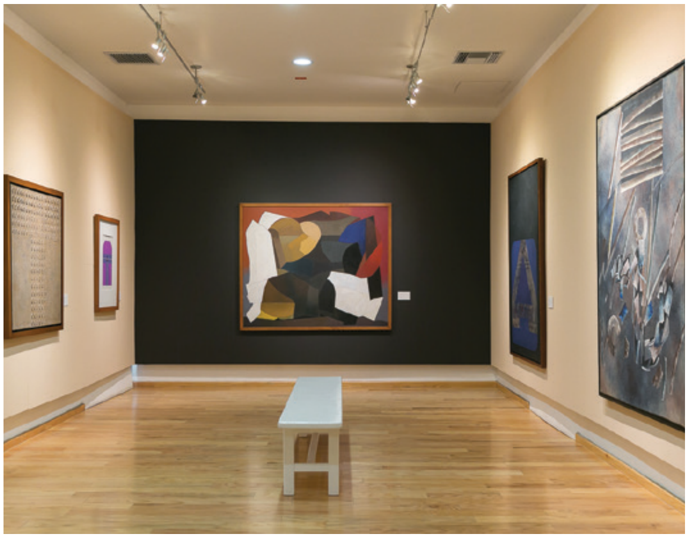
Another one of our goals is to raise awareness in the private sector community about the importance and benefits of implementing early childhood development initiatives for the families of employees. By making these investments, we believe that companies can build a team that is more successful and sustainable, as well as increase employee productivity and satisfaction. In November 2017, in collaboration with LEGO Foundation and United Way Mexico, we hosted a one-day summit and symposium to discuss these early childhood development opportunities with the CEOs and human resources executives of some of the most important companies in Mexico and Latin America. 18 speakers shared knowledge and best practices for promoting early childhood development with over 280 participants and 9,000 remote viewers from six different countries. To learn more about the symposium, please visit: http://ecdsymposium.com/.

Arts and culture advocacy

> Our goal is to preserve, promote, and share the FEMSA Collection in order to contribute to a further understanding and appreciation of modern and contemporary Latin American art.

At FEMSA, we believe in the power of art and its ability to positively transform the way people interact with their surroundings. This is why, 40 years after its institution, the FEMSA Collection continues its endeavor of sharing the legacy of its artworks with diverse audiences in different geographies through an exhibition program and various other initiatives.

The FEMSA Collection gathers more than 1,200 works of art that document the evolution, diversity, and heritage of



the arts that have unfolded in Latin America since the 20th century. Throughout 2017, more than 1 million people visited exhibitions in Mexico, Costa Rica, Guatemala, and Panama made possible by our exhibition program, as well as other museums around the world, where works from the Collection were displayed as part of our loan program.

In addition to safeguarding the FEMSA Collection, the FEMSA Cultural Program manages two significant initiatives: the FEMSA Biennial and Estancia FEMSA – Casa Luis Barragán.

The FEMSA Biennial was launched in 1992 with the purpose of recognizing, strengthening, encouraging and providing a platform for artistic creation in Mexico. Since then, it has evolved into a collaborative model that seeks to generate a dialogue that connects local cultural context and the global contemporary art scene. Now in its 13th edition, the FEMSA Biennial takes place from 2017 through 2019 in the state of Zacatecas, in partnership with various local cultural institutions and museums.

Estancia FEMSA – Casa Luis Barragán is a cultural and artistic platform hosted by Casa Luis Barragán in Mexico City, the former residence of Luis Barragán, one of the most relevant architects of the 20th century. It presents a series of exhibitions, performances and editorial content to promote dialogue on the historical context offered by the house, as well as the possibilities of the modern and contemporary art disciplines.

Corporate Governance

FEMSA seeks to adhere to the highest ethical standards of governance practices. We are committed to the quality, accuracy and reliability of our practices for disclosing information, financial transparency and accountability. Our corporate practices comply with the laws of the countries where we operate. We comply with the standards set forth in the Mexican Securities Law (Ley del Mercado de Valores), and the applicable United States securities laws, including the Sarbanes-Oxley Act. Additionally we observe recommendations of the Mexican Code of Best Practices, issued by the Business Coordinating Council (Consejo Coordinador Empresarial).

Board of Directors

The Board of Directors is responsible for establishing our corporate strategy, defining and overseeing the implementation of our vision and values, and approving related-party transactions, including transactions outside the ordinary course of business and internal policies.

Series "B" Directors

José Antonio Fernández Carbajal [C]
Executive Chairman of the Board of Directors of Fomento Económico Mexicano, S.A.B. de C.V.
Elected 1984
Alternate: Federico Reyes García [C]

Javier Gerardo Astaburuaga Sanjines [C]
Vice-President of Corporate Development of Fomento Económico Mexicano, S.A.B. de C.V.
Elected 2006

Mariana Garza Lagüera Gonda
Private Investor
Elected 1998
Alternate: Paulina Garza Lagüera Gonda

Eva María Garza Lagüera Gonda
Private Investor
Elected 1999
Alternate: Othón Páez Garza

José Fernando Calderón Rojas
Chief Executive Officer and Chairman of the Board of Directors of Franca Servicios, S.A. de C.V., Servicios Administrativos de Monterrey, S.A. de C.V., Regio Franca, S.A. de C.V., and Franca Industrias, S.A. de C.V.
Elected 1984
Alternate: Francisco José Calderón Rojas

Alfonso Garza Garza
Vice President of Strategic Businesses of Fomento Económico Mexicano, S.A.B. de C.V.
Elected 2001
Alternate: Juan Carlos Garza Garza

Max Michel González
Operations Manager at Servicios Liverpool, S.A. de C.V.
Elected 1996
Alternate: Bertha Michel González

Alberto Bailleres González
Chairman of the Boards of Directors of the companies of Grupo BAL, S.A. de C.V.
Elected 1989
Alternate: Arturo Fernández Pérez

Francisco Javier Fernández Carbajal [C]
Chief Executive Officer of Servicios Administrativos Contry, S.A. de C.V.
Elected 2004
Alternate: Daniel Alberto Rodríguez Cofré

Ricardo Guajardo Touché [B, C, I]
Chairman of the Board of Directors of Solfi, S.A. de C.V.
Elected 1988

Alfonso González Migoya, [A, I]
Chairman of the Board of Directors of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (Volaris).
Elected 2006
Alternate: Sergio Deschamps Ebergenyi [I]

Carlos Salazar Lomelín
Member of the Board of Directors of Fomento Económico Mexicano, S.A.B. de C.V., Coca-Cola FEMSA, S.A.B. de C.V., Grupo Financiero BBVA Bancomer, S.A. de C.V. and Fundación FEMSA, A.C.
Elected 2014
Alternate: Eduardo Padilla Silva

Bárbara Garza Lagüera Gonda
Private Investor; President of the Acquisitions Committee of Colección FEMSA
Elected 1998
Alternate: Juan Guichard Michel

Ricardo E. Saldívar Escajadillo B, C, I
President of the Board of Directors and former Chief Executive Officer of The Home Depot Mexico
Elected 2006

Alfonso de Angoitia Noriega I
Executive Vice-Chairman and Chairman of the Finance Committee of Grupo Televisa, S.A.B.
Elected 2015

Series "D" Directors

Armando Garza Sada I
Chairman of the Board of Directors of Grupo Alfa, S.A.B. de C.V., Alpek, S.A.B. de C.V. and Nemak, S.A.B. de C.V.
Elected 2003
Alternate: Enrique F. Senior Hernández C, I

Moisés Naím B, I
Distinguished Fellow at the Carnegie Endowment for International Peace; Producer and host of Efecto Naím; author and journalist
Elected 2011
Alternate: Francisco Zambrano Rodríguez A, I

José Manuel Canal Hernando A, I
Independent Consultant
Elected 2003

Michael Larson I
Chief Investment Officer for William H. Gates III
Elected 2011

Robert E. Denham B, C, I
Partner at Munger, Tolles & Olson, LLP
Elected 2001
Alternate Director: Ernesto Cruz Velázquez de León A, I

Carlos Eduardo Aldrete Ancira
Secretary

Alejandro Gil Ortiz
Alternate Secretary

A: Audit Committee;
B: Corporate Practices Committee;
C: Strategy and Finance Committee;
I: Independent Director

Committees

Our Board of Directors is supported by committees that analyze issues and provide recommendations to the Board of Directors regarding their respective areas of focus, which include economic, social and environmental matters.

Audit Committee*	Corporate Practices Committee*	Strategy and Finance Committee
Responsible for: • reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control, and auditing requirements; • the appointment, compensation, retention, and oversight of the independent auditor, who reports directly to the Audit Committee; • identifying and following up on contingencies and legal proceedings.	Responsible for: • preventing or reducing the risk of transactions that could damage the value of the company or benefit a particular group of shareholders; • approving policies for the use of the company's assets or any related party transactions and the compensation of the Chief Executive Officer and senior executives, as well as supporting the Board of Directors in the preparation of reports on accounting practices.	Responsible for: • evaluating the investment and financing policies proposed by the Chief Executive Officer; • evaluating risk factors to which the corporation is exposed, as well as its management policies.

*Committee members are independent directors, as required by Mexican Securities Law.
The Audit Committee has procedures for receiving, retaining, and addressing complaints regarding accounting, internal control, and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters.

Executive Management

Our management team is focused on driving business growth by creating economic, social and environmental value for all our stakeholders.

Each of our executive leaders has significant professional experience within the industries where our businesses operate.

José Antonio Fernández Carbajal
Executive Chairman of the Board
Mr. Fernández joined FEMSA in 1988. He was appointed CEO in 1995 and Chairman in 2001, serving in both positions until January 2014. He is Vice Chairman of the Heineken N.V. Supervisory Board and member of the Heineken Holding N.V. Board, and also serves as Chairman of Coca-Cola FEMSA, FEMSA Foundation, Tecnológico de Monterrey and the US-Mexico Foundation. He is a member of the Board of Industrias Peñoles and Grupo Televisa, co-chairs the Mexico Institute of the Woodrow Wilson Center and he is a member of the board of trustees of the Massachusetts Institute of Technology. His degrees in Industrial Engineering and Systems and MBA were both earned from Tecnológico de Monterrey.

Eduardo Padilla Silva
Chief Executive Officer of FEMSA
Mr. Padilla joined FEMSA in 1997 and was named to his current position in January 2018. Previously he served as Chief Financial and Corporate Officer of FEMSA, CEO of FEMSA Comercio, CEO of FEMSA Strategic Procurement and FEMSA's Director of Planning and Control. Mr. Padilla earned a Bachelor's degree in Mechanical Engineering from Tecnológico de Monterrey and an MBA from Cornell University. He also holds a Master's degree from IPADE.

Javier Gerardo Astaburuaga Sanjines
Vice President of Corporate Development of FEMSA
Mr. Astaburuaga joined FEMSA in 1982. His roles in the company have included co-CEO of FEMSA Cerveza, Director of Sales for Northern Mexico, CFO of FEMSA Cerveza and Chief Financial and Corporate Officer of FEMSA. He was appointed to his current position in April 2015. Mr. Astaburuaga earned his Bachelor's degree in Public Accounting from Tecnológico de Monterrey.

Alfonso Garza Garza
Vice President of Strategic Businesses of FEMSA
Mr. Garza joined FEMSA in 1985 and held various positions including CEO of FEMSA Empaques. In 2012 he was appointed to his current position. He served as President of the Employers Confederation of Mexico (Coparmex) for the state of Nuevo León (2011-2013), and has served as National Vice President since 2009. He is Chairman of the Talent and Culture Committee of Tecnológico de Monterrey, and member of the Board of Coca-Cola FEMSA and Tecnológico de Monterrey. Mr. Garza earned a Bachelor's degree in Industrial Engineering from Tecnológico de Monterrey and completed postgraduate coursework at IPADE.

Genaro Borrego Estrada
Vice President of Corporate Affairs of FEMSA
Mr. Borrego joined FEMSA in 2008 after serving as Governor of the Mexican State of Zacatecas (1986-1992), head of the Mexican Social Security Institute (IMSS)(1993-2000) and Senator to the Federal Congress representing the State of Zacatecas (2000-2006). He holds a degree in Industrial Relations from Universidad Iberoamericana.

José González Ornelas
Vice President of Administration and Corporate Control of FEMSA
Mr. González joined FEMSA in 1973 and assumed his current position in 2001. His previous roles have included CFO of FEMSA Cerveza, Director of Planning and Corporate Development of FEMSA and CEO of FEMSA Logística. He serves as Secretary of the Audit Committee of both FEMSA's and Coca-Cola FEMSA's Boards of Directors, and is a member of the Board of Productora de Papel, S.A. He holds a BA in Accounting from Universidad Autónoma de Nuevo León and completed postgraduate studies in Business Administration at IPADE.

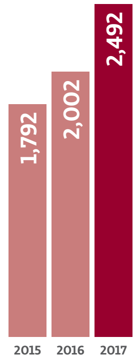
John Anthony Santa Maria Otazúa
Chief Executive Officer of Coca-Cola FEMSA
Mr. Santa Maria was appointed to his current position in 2014, having joined Coca-Cola FEMSA in 1995 and having served in several senior management positions since then, including COO of the company's Mexico Division, and Strategic Planning and Business Development Officer. Mr. Santa Maria earned a Bachelor´s degree and an MBA with a major in Finance from Southern Methodist University.

Daniel Alberto Rodríguez Cofré
Chief Executive Officer of FEMSA Comercio
Mr. Rodríguez joined FEMSA in 2015 as Chief Financial and Corporate Officer, and was named to his current position in January 2016. Prior to joining the company he was CFO and then CEO of CENCOSUD (Centros Comerciales Sudamericanos S.A.), among other senior finance and management positions in Latin America, Europe and Africa. He is a member of the Board of Coca-Cola FEMSA and an alternate member of the Board of FEMSA. Mr. Rodríguez holds a forest engineering degree from Austral University of Chile and an MBA from Adolfo Ibañez University.

Code of Ethics

Our Code of Ethics[1] defines our expectations for ethical decision-making and professional business conduct, including employment policies, health and safety, our relations with the community, use of resources, compliance with regulation, relations with third parties and responsibilities under the Code of Ethics. The Code is applicable to all our collaborators and officers—including our Chief Executive Officer—and each is required to confirm their understanding of, and adherence to, these standards.

In accordance with the provisions set forth in our Code of Ethics, we maintain a whistleblower system, through which FEMSA detects any illegal practices, inappropriate conduct or Code of Ethics violations. Managed 24 hours a day, every day, by an independent party, this system offers our stakeholders four confidential, anonymous communication channels: phone, website, e-mail or online chat.



Whistleblower System

Number of complaints received at FEMSA and its Business Units

Number of complaints received at FEMSA and its Business Units*

	2015	2016	2017
Number of complaints received	1,792	2,002	2,492
Resolved in same calendar year	65%	82%	70%
Resolved beyond same calendar year	35%	18%	30%

* Complaints include reported situations relating to workplace or sexual harassment, discrimination, human rights violations, theft, corruption, misuse of information, negative impacts on the community and the environment, among others.

1. *http://files.shareholder.com/downloads/FEMSA/5674198996x0x30974/86CD1FD-C202-405C-A003-87D9D7A40DB2/FEMSA_-_Code_of_Ethics_2017_-_eng.pdf*

Financial Summary

Amounts expressed in millions of Mexican pesos (Ps.)
as of December 31, 2017

Income Statement	2017	2016	2015	2014	2013
Net sales	Ps. 459,763	Ps. 398,622	Ps. 310,849	Ps. 262,779	Ps. 256,804
Total revenues	460,456	399,507	311,589	263,449	258,097
Cost of goods sold	290,188	251,303	188,410	153,278	148,443
Gross profit	170,268	148,204	123,179	110,171	109,654
Operating expenses	128,829	110,777	89,444	80,188	79,797
Income from operations (1)	41,439	37,427	33,735	29,983	29,857
Other non-operating expenses (income), net	(1,545)	4,208	954	(508)	326
Financing expenses, net	3,216	4,619	7,618	6,988	4,249
Income before income taxes and share of the profit of associates and joint ventures	39,768	28,600	25,163	23,503	25,282
Income taxes	10,583	7,888	7,932	6,253	7,756
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	8,021	6,463	6,045	5,380	4,629
Consolidated net income	37,206	27,175	23,276	22,630	22,155
Controlling Interest	42,408	21,140	17,683	16,701	15,922
Non-Controlling Interest	(5,202)	6,035	5,593	5,929	6,233
Ratios to total revenues (%)					
Gross margin	37.0%	37.1%	39.5%	41.8%	42.5%
Operating margin	9.0%	9.4%	10.8%	11.4%	11.6%
Consolidated net income	8.1%	6.8%	7.5%	8.6%	8.6%
Other information					
Depreciation	15,613	12,076	9,761	9,029	8,805
Amortization and other non cash charges to income from operations	4,366	5,484	3,130	1,933	1,208
Operative Cash Flow (EBITDA)	61,418	54,987	46,626	40,945	39,870
Capital expenditures (2)	25,180	22,155	18,885	18,163	17,882

Balance Sheet	2017	2016	2015	2014	2013
Assets					
Current assets	181,188	117,951	86,723	79,112	73,569
Investments in associates and joint ventures	96,097	128,601	111,731	102,159	98,330
Property, plant and equipment, net (3)	116,712	102,223	80,296	75,629	73,955
Intangible assets,net	154,093	153,268	108,341	101,527	103,293
Other assets, net	40,451	43,580	22,241	17,746	10,045
Total assets	588,541	545,623	409,332	376,173	359,192
Liabilities					
Short-term bank loans and current portion of long-term bank loans and notes payable	13,590	7,281	5,895	1,553	3,827
Other current liabilities	91,432	79,008	59,451	47,766	45,042
Long-term bank loans and notes payable	117,758	131,967	85,969	82,935	72,921
Employee benefits	5,373	4,447	4,229	4,207	4,074
Deferred tax liabilities	6,133	11,037	6,230	3,643	2,993
Other long-term liabilities	17,343	25,713	5,702	5,947	7,785
Total liabilites	251,629	259,453	167,476	146,051	136,642
Total equity	336,912	286,170	241,856	230,122	222,550
Controlling interest	250,291	211,904	181,524	170,473	159,392
Non-controlling interest	86,621	74,266	60,332	59,649	63,158
Financial ratios (%)					
Liquidity	1.725	1.367	1.327	1.604	1.505
Leverage	0.747	0.907	0.692	0.635	0.614
Capitalization	0.29	0.33	0.28	0.27	0.26
Data per share					
Controlling interest book value (4)	13.990	11.844	10.146	9.528	8.909
Net controlling interest income (5)	2.370	1.182	0.988	0.933	0.890
Dividends paid (6)					
Series B shares	0.431	0.417	0.366	0.000	0.667
Series D shares	0.538	0.521	0.458	0.000	0.833
Number of employees (7)	295,027	266,144	246,158	216,740	209,232
Number of outstanding shares (8)	17,891.13	17,891.13	17,891.13	17,891.13	17,891.13

1. *Company's key performance indicator.*
2. *Includes investments in property, plant and equipment, as well as deferred charges and intangible assets.*
3. *Includes bottles and cases.*
4. *Controlling interest divided by the total number of shares outstanding at the end of each year.*
5. *Net controlling interest income divided by the total number of shares outstanding at the end of the each year.*
6. *Expressed in nominal pesos of each year.*
7. *Includes incremental employees resulting from mergers & acquisitions made during the year.*
8. *Total number of shares outstanding at the end of each year expressed in millions.*

Management's Discussion & Analysis

Fomento Económico Mexicano, S.A.B. de C.V. and Subsidiaries, Monterrey, N.L., Mexico

Audited Financial Results for the twelve months ended December 31, 2017 Compared to the twelve months ended December 31, 2016.

Fomento Económico Mexicano, S.A.B. de C.V. ("FEMSA") is a Mexican holding company. Set forth below is certain audited financial information for FEMSA and its subsidiaries (the "Company" or "FEMSA Consolidated") (NYSE: FMX; BMV: FEMSA UBD, FEMSA BD). The principal activities of the Company are grouped mainly under the following subholding companies (the "Subholding Companies"): Coca-Cola FEMSA, S.A.B de C.V. ("Coca-Cola FEMSA" or "KOF"), (NYSE: KOF, BMV: KOFL) which engages in the production, distribution and marketing of beverages, and FEMSA Comercio, S.A. de C.V. ("FEMSA Comercio"), including its Retail Division which operates small-format chain stores, a Health Division, which includes drugstores and related operations and its Fuel Division which operates retail service stations for fuels, motor oils and others.

The consolidated financial information included in this annual report was prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The 2017 and 2016 results are stated in nominal Mexican pesos ("pesos" or "Ps."). Translations of pesos into US dollars ("US$") are included solely for the convenience of the reader and are determined using the noon buying rate for pesos as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates as of December 29, 2017, which was 19.6395 pesos per US dollar.

This report may contain certain forward-looking statements concerning Company's future performance that should be considered good faith estimates made by the Company. These forward-looking statements reflect management expectations and are based upon currently available data. Actual results are subject to future events and uncertainties, which could materially impact the Company's actual performance.

FEMSA Consolidated

2017 amounts in millions of Mexican pesos

	Total Revenues	% Growth vs'16	Gross Profit	% Growth vs'16
FEMSA Consolidated	460,456	15.3%	170,268	14.9%
Coca-Cola FEMSA	203,780	14.7%	91,686	15.1%
FEMSA Comercio – Retail Division	154,204	12.4%	58,245	14.2%
FEMSA Comercio – Health Division	47,421	9.2%	14,213	11.6%
FEMSA Comercio – Fuel Division	38,388	34.1%	2,767	23.1%

FEMSA's consolidated total revenues increased 15.3% to Ps. 460,456 million in 2017 compared to Ps. 399,507 million in 2016. Coca-Cola FEMSA's total revenues increased 14.7% to Ps. 203,780 million, including the results of the Vonpar acquisition in Brazil and the consolidation of its operations in the Philippines beginning in February, supported by price increases aligned or above inflation in key territories and by the positive translation effect resulting from the appreciation of the Brazilian Real and the Colombian peso despite the depreciation of the Argentine Peso, the Philippine Peso and the Venezuelan Bolivar, all as compared to the Mexican Peso. FEMSA Comercio – Retail Division's revenues increased 12.4% to Ps. 154,204 million, driven by the opening of 1,301 net new OXXO stores combined with an average increase of 6.4% in same-store sales. FEMSA Comercio – Health Division's revenues increased 9.2% to PS. 47,421 million, driven by the opening of 105 net new stores combined with an average increase of 6.7% in same-store sales. FEMSA Comercio – Fuel Division revenues increased 34.1% to Ps. 38,388 million in 2017, driven by the addition of 70 total net new stations in the last twelve months, and a 19.8% increase in same-station sales.

Consolidated gross profit increased 14.9% to Ps. 170,268 million in 2017 compared to Ps. 148,204 million in 2016. Gross margin decreased 10 basis points to 37.0% of total revenues compared to 2016, reflecting the growth of lower margin businesses in FEMSA Comercio.

Consolidated operating expenses increased 16.3% to Ps. 128,829 million in 2017 compared to Ps. 110,777 million in 2016. As a percentage of total revenues, consolidated operating expenses increased from 27.7% in 2016 to 28.0% in 2017.

Consolidated administrative expenses increased 12.1% to Ps. 16,512 million in 2017 compared to Ps. 14,730 million in 2016. As a percentage of total revenues, consolidated administrative expenses decreased 10 basis points, from 3.7% in 2016, compared to 3.6% in 2017.

Consolidated selling expenses increased 16.7% to Ps. 111,456 million in 2017 as compared to Ps. 95,547 million in 2016. As a percentage of total revenues, selling expenses increased 30 basis points, from 23.9% in 2016 to 24.2% in 2017.

Consolidated income from operations increased 10.7% to Ps. 41,439 million in 2017 as compared to Ps. 37,427 million in 2016. As a percentage of total revenues, operating margin decreased 40 basis points, from 9.4% in 2016 to 9.0% in 2017 reflecting: i) the incorporation of structurally lower-margin results from Coca-Cola FEMSA Philippines; ii) an operating margin contraction across businesses; and iii) the integration and faster growth of FEMSA Comercio's three divisions, whose lower margins tend to compress FEMSA's consolidated margins over time.

Some of our subsidiaries pay management fees to us in consideration for corporate services we provide to them. These fees are recorded as administrative expenses in the respective business segments. Our subsidiaries' payments of management fees are eliminated in consolidation and, therefore, have no effect on our consolidated operating expenses.

Net financing expenses decreased to Ps. 3,216 million from Ps. 4,619 million in 2016, mostly driven by a positive result caused by a foreign exchange gain related to the effect of FEMSA's US Dollar-denominated cash position, as impacted by the depreciation of the Mexican Peso during the period. This cash position increased during 2017, mainly as a result from the sale of 5.24% of the combined interest in the Heineken Group; this movement was enough to offset an interest expense increase of 15.3% to Ps. 11,124 million in 2017, compared to Ps. 9,646 million in 2016 resulting from new debt acquisition at Coca-Cola FEMSA in connection to the Vonpar acquisition.

Income before income taxes and share of the profit in Heineken results increased 39.0% to Ps. 39,768 million in 2017 compared with Ps. 28,600 million in 2016, mainly as a result of growth in FEMSA's income from operations, higher non-operating income resulting from the sale of 5.24% of the combined interest in the Heineken Group completed on September 18, 2017, and higher foreign exchange gain related to a higher U.S. dollar-denominated cash position at FEMSA, coming from the aforementioned sale of Heineken shares.

These impacts more than offset higher financing expenses as well as the change in the accounting method for Coca-Cola FEMSA's Venezuelan operation booked in the fourth quarter, which resulted in the reclassification of a recorded foreign currency translation charge in equity. This was a non-cash, one-time impact to the other non-operating expenses line of the income statement, in accordance with IFRS standards.

Our accounting provision for income taxes in 2017 was Ps. 10,583 million, as compared to Ps. 7,888 million in 2016, resulting in an effective tax rate of 26.6% in 2017, as compared to 27.6% in 2016, slightly under our expected medium-term range of 30%. The lower effective tax rate registered during 2017 is mainly related to certain tax efficiencies related with the one-time non-operating income recorded by the partial sale of Heineken Group's shares and the consolidation of Coca-Cola FEMSA Philippines, Inc. both during 2017.

Consolidated net income was Ps. 37,206 million in 2017 compared to Ps. 27,175 million in 2016, resulting from growth in FEMSA's income from operations, higher non-operating income resulting from the sale of 5.24% of the combined interest in the Heineken Group completed on September 18, 2017, and a higher foreign exchange gain related to a higher U.S. dollar-denominated cash position at FEMSA, coming from the aforementioned sale of Heineken shares. Controlling interest amounted to Ps. 42,408 million in 2017 compared to Ps. 21,140 million in 2016. Controlling interest in 2017 per FEMSA Unit[1] was Ps. 11.85 (US$ 6.03 per ADS).

Coca-Cola FEMSA

Coca-Cola FEMSA total revenues increased 14.7% to Ps. 203,780 million in 2017, compared to Ps. 177,718 million in 2016, including the results of the Vonpar acquisition in Brazil and the consolidation of its operations in the Philippines beginning in February. Total revenues were also driven by price increases 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, the Philippine Peso, and the Venezuelan Bolivar; all as compared to the Mexican Peso. On a currency-neutral basis and excluding Venezuela, total revenues grew 3.6%, driven by average price per unit case growth across most of our operations, volume growth in the Philippines, and flat volume performance in Mexico and Central America, which was partially offset by volume declines in South America.

Coca-Cola FEMSA gross profit increased 15.1% to Ps. 91,686 million in 2017, compared to Ps. 79,662 million in 2016, with a gross margin expansion of 20 basis points. In local currency, pricing initiatives, coupled with currency and raw material hedging strategies, offset higher sweetener and concentrate prices in Mexico and the depreciation in the average exchange rate of the Mexican Peso, the Argentine Peso, and the Philippine Peso as applied to U.S dollar-denominated raw material costs. Gross margin reached 45.0% in 2017.

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 employment 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 the local currency, net of applicable taxes. Packaging materials, mainly PET and aluminum, and HFCS, used as a sweetener in some countries, are denominated in U.S. dollars.

Operating expenses increased 17.5% to Ps. 65,511 million in 2017, compared to Ps. 55,742 million in 2016.

Administrative expenses increased 21.0% to Ps. 8,983 million in 2017, compared to Ps. 7,423 million in 2016. Selling expenses increased 16.4% to Ps. 55,927 million in 2017 compared with Ps. 48,039 million in 2016.

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1 *FEMSA Units consist of FEMSA BD Units and FEMSA B Units. Each FEMSA BD Unit is comprised of one Series B Share, two Series D-B Shares and two Series D-L Shares. Each FEMSA B Unit is comprised of five Series B Shares. The number of FEMSA Units outstanding as of December 31, 2017 was 3,578,226,270, equivalent to the total number of FEMSA Shares outstanding as of the same date, divided by 5.*

Income from operations increased 9.4% to Ps. 26,175 million in 2017 compared to Ps. 23,920 million in 2016.

FEMSA Comercio – Retail Division

FEMSA Comercio – Retail Division total revenues increased 12.4% to Ps. 154,204 million in 2017 compared to Ps. 137,139 million in 2016, primarily as a result of the opening of 1,301 net new OXXO stores during 2017, together with an average increase in same-store sales of 6.4%. As of December 31, 2017, there were a total of 16,526 OXXO stores. As referenced above, OXXO same-store sales increased an average of 6.4% compared to 2016, driven by a 3.8% increase in average customer ticket while store traffic increased 2.5%.

Cost of goods sold increased 11.4% to Ps. 95,959 million in 2017, compared to Ps. 86,149 million in 2016. Gross margin increased 60 basis points to reach 37.8% of total revenues. This increase reflects healthy trends in our commercial income activity and the sustained growth of the services category, including income from financial services. As a result, gross profit increased 14.2% to Ps. 58,245 million in 2017 compared with Ps. 50,990 in 2016.

Operating expenses increased 15.9% to Ps. 45,802 million in 2017 compared to Ps. 39,505 million in 2016. The increase in operating expenses was driven by i) our continuing initiatives to improve compensation and reduce turnover of key in-store personnel ii) a sustained increase in electricity tariffs, and iii) higher secure cash transportation costs driven by increased volume and higher fuel prices.

Administrative expenses increased 8.4% to Ps. 3,170 million in 2017, compared to Ps. 2,924 million in 2016; as a percentage of sales, they remained flat at 2.1% in 2017. Selling expenses increased 16.7% to Ps. 42,406 million in 2017 compared with Ps. 36,341 million in 2016; as a percentage of sales they reached 27.5% in 2017.

Income from operations increased 8.3% to Ps. 12,443 million in 2017 compared to Ps. 11,485 million in 2016, resulting in an operating margin contraction of 30 basis points to 8.1% as a percentage of total revenues for the year, compared with 8.4% in 2016.

FEMSA Comercio – Health Division

FEMSA Comercio – Health Division total revenues increased 9.2% to Ps. 47,421 million compared to Ps. 43,411 million in 2016, primarily as a result of the opening of 105 net new stores during 2017, together with an average increase in same-store sales of 6.7%, which was mostly driven by strong performance and positive foreign translation effects from our South American operations. As of December 31, 2017, there were a total of 2,225 drugstores in Mexico, Chile and Colombia.

Cost of goods sold increased 8.3% to Ps. 33,208 million in 2017, compared with Ps. 30,673 million in 2016. Gross margin increased 70 basis points to reach 30.0% of total revenues compared with 29.3% in 2016. As a result, gross profit increased 11.6% to Ps. 14,213 million in 2017 compared with Ps. 12,738 in 2016.

Operating expenses increased 12.8% to Ps. 12,595 million in 2017 compared with Ps. 11,166 million in 2016. The increase in operating expenses was driven by the integration of a single operating platform in Mexico, building our distribution capabilities and increased services at our drugstores such as on-site doctors and home delivery in the key Mexican market.

Administrative expenses decreased 7.1% to Ps. 1,643 million in 2017, compared with Ps. 1,769 million in 2016; as a percentage of sales, they reached 3.5% in 2017. Selling expenses increased 15.9% to Ps. 10,850 million in 2017 compared with Ps. 9,365 million in 2016; as a percentage of sales, they reached 22.9% in 2017.

Income from operations increased 2.9% to Ps. 1,618 million in 2017 compared with Ps. 1,572 million in 2016, resulting in an operating margin contraction of 20 basis points to 3.4% as a percentage of total revenues for the year, compared with 3.6% in 2016.

FEMSA Comercio – Fuel Division

FEMSA Comercio – Fuel Division total revenues increased 34.1% to Ps. 38,388 million in 2017 compared to Ps. 28,616 in 2016, primarily reflecting a national price increase established at the beginning of the year, as well as the opening of 70 net new OXXO GAS service stations during 2017. As of December

31, 2017, there were a total of 452 OXXO GAS service stations. Same-station sales increased an average of 19.8% compared to 2016, as the average price per liter increased by 21.1% reflecting the national price increase mentioned above, while the average volume decreased by 1.1% mainly from consumer reaction to the higher prices.

Cost of goods sold increased 35.1% to Ps. 35,621 million in 2017, compared with Ps. 26,368 million in 2016. Gross margin decreased 70 basis points to reach 7.2% of total revenues. This decrease reflects the effect of gross profit per liter remaining flat in peso terms for the first half of the year, while the consumer price per liter increased significantly, as described in the preceding paragraph. As a result, gross profit increased 23.1% to Ps. 2,767 million in 2017 compared with 2016.

Operating expenses increased 25.2% to Ps. 2,497 million in 2017 compared with Ps. 2,248 in 2016.

Administrative expenses increased 21.3% to Ps. 154 million in 2017, compared with Ps. 127 million in 2016; as a percentage of sales, they remained flat at 0.4% in 2017. Selling expenses increased 24.9% to Ps. 2,330 million in 2017 compared with Ps. 1,865 million in 2016; as a percentage of sales, they reached 6.1% in 2017.

Income from operations increased 6.7% to Ps. 270 million in 2017 compared with Ps. 253 million in 2016, resulting in an operating margin contraction of 20 basis points to 0.7% as a percentage of total revenues for the year, compared with 0.9% in 2016, as expense containment and operational efficiencies only partially offset the contraction in gross margin described above.

Key Events during 2017

The following text reproduces our press releases exactly as originally published.

The Coca-Cola System welcomes AdeS® as the newest member of its expanding ready-to-drink beverage portfolio

On March 28, 2017 The Coca-Cola Company, together with its bottlers in Latin America, announced the closing of the acquisition of Unilever's AdeS® plant-based beverage business. The Coca-Cola Company became the sole owner of the AdeS® brand.

On June 1st, 2016, The Coca-Cola Company and Coca-Cola FEMSA, S.A.B. de C.V. (BMV: KOFL; NYSE: KOF) entered into an agreement with Unilever to acquire the AdeS® business. Other Coca-Cola bottlers joined to participate in the investment prior the closing of the transaction. Founded in 1988 in Argentina, AdeS® is the leading soy-based beverage brand in Latin America. As the first major brand launched in the category, AdeS® pioneered the development of the second largest global market for soy-based beverages. The AdeS® brand currently has a presence in Brazil, Mexico, Argentina, Uruguay, Paraguay, Bolivia, Chile, and Colombia. AdeS® will become part of the expanding beverage platforms of the Coca-Cola System in Latin America.

Coca-Cola FEMSA announces successful merger with Mexican company owned by the sellers of Vonpar

On May 4, 2017 Coca-Cola FEMSA announced that it had successfully merged with POA Eagle, S.A. de C.V., a Mexican company 100% owned by the sellers of Vonpar in Brazil, as per the announcement made on September 23, 2016. As a result of this merger, POA Eagle, S.A. de C.V. shareholders will receive approximately 27.9 million newly issued KOF series L shares. POA Eagle, S.A. de C.V. merged with net assets for an amount of $4,082 million Mexican Pesos. Coca-Cola FEMSA, through its Brazilian subsidiary, Spal Indústria Brasileira de Bebidas, S.A., started consolidating the results of Vonpar in its financial statements as of December 2016.

Senior Leadership Succession Plan

Eduardo Padilla to Succeed Carlos Salazar as Chief Executive Officer in January 2018

On August 29, 2017, FEMSA announced that Carlos Salazar Lomelín, FEMSA's Chief Executive Officer at the time of the announcement, would retire from his position on January 1, 2018, after a long and productive career at the Company spanning almost 45 years.

During his career at FEMSA, Carlos had the opportunity to lead many of the Company's operations including FEMSA Cerveza and Coca-Cola FEMSA. Carlos has been instrumental in transforming FEMSA into a beverage and retail powerhouse with operations across Latin America and a growing presence in Southeast Asia. The Company also announced that Carlos would remain on the Board of Directors of FEMSA and as Advisor to the Chairman of the Board and that Eduardo Padilla Silva, FEMSA's Chief Financial and Corporate Officer at the time of the announcement, would become Chief Executive Officer on January 1, 2018. These appointments represent one more step in FEMSA's long-term talent and succession planning process.

Coca-Cola FEMSA Selected as Part of the Dow Jones Sustainability Emerging Markets Index for the Fifth Consecutive Year

On September 14, Coca-Cola FEMSA announced that it was chosen as a member of the Dow Jones Sustainability Emerging Markets Index for the fifth consecutive year.

Among its relevant sustainability results, the Company has benefited 1.5 million people through its healthy lifestyles programs since 2015; fulfilled the goal of returning 100% of the water used to produce its beverages back to the environment in its Mexico, Brazil, Central America, and Colombia operations; incorporated 20% of recycled resins in its PET packages across its operations; and used clean sources of energy across 29% of its manufacturing operations. In addition, Coca-Cola FEMSA has earned several awards and recognitions for its sustainability performance throughout 2017, including its selection for the FTSE4Good Emerging Market Index of the London Stock Exchange and the Sustainability and Social Responsibility Index of the Mexican Stock Exchange.

Offering of shares in Heineken N.V. and Heineken Holding N.V.

On September 18, 2017 FEMSA announced the completion of the sale of 5.24% of the combined interest in the Heineken Group, comprising a combination of existing issued ordinary shares of both Heineken N.V. and Heineken Holding N.V. The Equity Offering consisted of 22,485,000 Shares in Heineken N.V. representing 3.90% of the issued share capital at a price of €84.50 per share, raising gross proceeds of approximately 1.9 billion Euros and 7,700,000 Shares in Heineken Holding N.V. representing 2.67% of the issued share capital at a price of €78.00 per share, raising gross proceeds of approximately 600 million Euros.

Following the completion of the Equity Offering, FEMSA's shareholding in Heineken N.V. decreased from 12.53% to 8.63% and in Heineken Holding N.V. from 14.94% to 12.26%, for an overall decrease of FEMSA's economic interest in the Heineken Group from 20.00% to 14.76%. Following this offering, FEMSA, under the terms of the Corporate Governance Agreement dated April 30, 2010, retained its existing governance rights, including one seat on the Board of Directors of Heineken Holding N.V. and two seats on the Supervisory Board of Heineken N.V. FEMSA continues to be a significant shareholder in the Heineken Group and a long-term supporter of the group's strategy.

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For more information

We provide additional information and extensive reporting online, including the Audited Financial Statements.
We encourage you to review the following site to learn more about FEMSA: **www.annualreport.femsa.com**

The FEMSA 2017 Annual Report may contain certain forward-looking statements concerning FEMSA and its subsidiaries' future performance and should be considered as good faith estimates of FEMSA and its subsidiaries. These forward-looking statements reflect management's expectations and are based upon currently available data. Actual results are subject to fur ther events and uncer tainties which could materially impact the Company's subsidiaries' actual performance.

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Stock Markets and Symbols
Fomento Económico Mexicano, S.A.B. de C.V. stock trades on the Bolsa Mexicana de Valores (BMV) in the form of units under the symbols FEMSA UBD and FEMSA UB. The FEMSA UBD units also trade on The New York Stock Exchange, Inc. (NYSE) in the form of ADRs under the symbol FMX.

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