

NUVEEN SELECT MATURITIES MUNICIPAL FUND
Form N-Q
February 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT
COMPANY

Investment Company Act file number 811-07056

Nuveen Select Maturities Municipal Fund
(Exact name of registrant as specified in charter)

Nuveen Investments
333 West Wacker Drive, Chicago, Illinois 60606
(Address of principal executive offices) (Zip code)

Kevin J. McCarthy
Vice President and Secretary
333 West Wacker Drive, Chicago, Illinois 60606
(Name and address of agent for service)

Registrant's telephone number, including area code: 312-917-7700

Date of fiscal year end: 3/31

Date of reporting period: 12/31/15

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Schedule of Investments

Portfolio of Investments

Nuveen Select Maturities Municipal Fund
(NIM)
December 31, 2015 (Unaudited)

Principal Amount (000)	Description (1)	Optional Call Provisions (2)	Ratings (3)	Value
	LONG-TERM INVESTMENTS – 98.4%			
	MUNICIPAL BONDS – 98.4%			
	Alabama – 0.2%			
\$ 125	Mobile Spring Hill College Educational Building Authority, Alabama, Revenue Bonds, Spring Hill College Project, Series 2015, 5.000%, 4/15/27	4/25 at 100.00	N/R	\$ 120,805
110	Montgomery Medical Clinic Board, Alabama, Health Care Facility Revenue Bonds, Jackson Hospital & Clinic, Series 2015, 4.000%, 3/01/36 (WI/DD, Settling 1/14/16)	3/26 at 100.00	BBB	110,042
235	Total Alabama			230,847
	Alaska – 0.1%			
155	Alaska State, Sport Fishing Revenue Bonds, Refunding Series 2011, 5.000%, 4/01/21	4/20 at 100.00	A1	174,527
	Arizona – 2.9%			
255	Arizona Health Facilities Authority, Hospital System Revenue Bonds, Phoenix Children's Hospital, Refunding Series 2012A: 5.000%, 2/01/20	No Opt. Call	BBB+	287,150
290	5.000%, 2/01/27	2/22 at 100.00	BBB+	320,001
70	Arizona Health Facilities Authority, Revenue Bonds, Scottsdale Lincoln Hospitals Project, Series 2014A, 5.000%, 12/01/24	No Opt. Call	A2	84,353
425	Arizona Sports and Tourism Authority, Tax Revenue Bonds, Multipurpose Stadium Facility Project, Refunding Senior Series 2012A: 5.000%, 7/01/25	7/22 at 100.00	A1	478,338
685	5.000%, 7/01/26	7/22 at 100.00	A1	766,008

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685	5.000%, 7/01/27 Pima County Industrial Development Authority, Arizona, Revenue Bonds, Tucson	7/22 at 100.00	A1	761,734
100	Electric Power Company Project, Series 2013A, 4.000%, 9/01/29 Salt Verde Financial Corporation, Arizona, Senior Gas Revenue Bonds, Citigroup Energy Inc. Prepay Contract Obligations, Series 2007:	3/23 at 100.00	A3	104,920
150	5.000%, 12/01/17	No Opt. Call	BBB+	160,293
135	5.250%, 12/01/19	No Opt. Call	BBB+	152,372
95	5.000%, 12/01/32	No Opt. Call	BBB+	111,342
500	5.000%, 12/01/37	No Opt. Call	BBB+	580,525
3,390	Total Arizona Arkansas – 0.4% Independence County, Arkansas, Pollution Control Revenue Bonds, Arkansas Power and Light Company Project, Series 2013, 2.375%, 1/01/21 California – 6.7% Alameda Corridor Transportation Authority, California, Revenue Bonds, Refunding			3,807,036
500	Senior Lien Series 2013A, 5.000%, 10/01/23 California Health Facilities Financing Authority, Revenue Bonds, Lucile Salter Packard	No Opt. Call	A–	518,490
300	Children’s Hospital, Series 2008A, 1.450%, 8/15/33 (Mandatory put 3/15/17) California Health Facilities Financing Authority, Revenue Bonds, Lucile Salter Packard	No Opt. Call	A	367,020
125	Children’s Hospital, Series 2008C, 1.450%, 8/15/23 (Mandatory put 3/15/17) California Pollution Control Financing Authority, Solid Waste Disposal Revenue Bonds, Waste Management Inc., Refunding Series 2015B-2, 3.125%, 11/01/40 (Mandatory put 11/03/25) California Pollution Control Financing Authority, Solid Waste Disposal Revenue Bonds, Waste	No Opt. Call	AA	126,136
145	California Pollution Control Financing Authority, Solid Waste Disposal Revenue Bonds, Waste	No Opt. Call	AA	146,318
105	Management Inc., Series 2015A-1, 3.375%, 7/01/25 (Alternative Minimum Tax) California Pollution Control Financing Authority, Solid Waste Disposal Revenue Bonds, Waste	No Opt. Call	A–	107,732
290	California Pollution Control Financing Authority, Solid Waste Disposal Revenue Bonds, Waste	No Opt. Call	A–	306,556
205	California Pollution Control Financing Authority, Solid Waste Disposal Revenue Bonds, Waste	No Opt. Call	A–	209,971

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	Management, Inc. Project, Refunding Series 2015B-1, 3.000%, 11/01/25 (Alternative Minimum Tax)			
525	California State, General Obligation Bonds, Various Purpose Series 2010, 5.500%, 3/01/40	3/20 at 100.00	AA-	609,042
125	California Statewide Communities Development Authority, California, Revenue Bonds, Loma Linda University Medical Center, Series 2014A, 5.250%, 12/01/29	12/24 at 100.00	BB+	138,148
260	California Statewide Communities Development Authority, Revenue Bonds, Kaiser Permanente, Series 20012E-1, 5.000%, 4/01/44 (Mandatory put 5/01/17)	No Opt. Call	A+	274,643
250	Delano, California, Certificates of Participation, Delano Regional Medical Center, Series 2012, 5.000%, 1/01/24	No Opt. Call	BBB-	275,468
710	Golden State Tobacco Securitization Corporation, California, Tobacco Settlement Asset-Backed Bonds, Series 2007A-1, 4.500%, 6/01/27	6/17 at 100.00	B+	706,528
100	Lake Elsinore Public Financing Authority, California, Local Agency Revenue Bonds, Canyon Hills Improvement Area A & C, Series 2014C, 5.000%, 9/01/32	9/24 at 100.00	N/R	109,662
365	Lake Elsinore Redevelopment Agency, California, Special Tax Bonds, Community Facilities District 90-2, Series 2007A, 4.500%, 10/01/24 – AGM Insured	10/17 at 100.00	AA	382,681
250	Moulton Niguel Water District, California, Certificates of Participation, Refunding Series 2003: 5.000%, 9/01/21 (Pre-refunded 9/01/16) – AMBAC Insured	9/16 at 100.00	AAA	257,660
250	5.000%, 9/01/22 (Pre-refunded 9/01/16) – AMBAC Insured	9/16 at 100.00	AAA	257,660
500	5.000%, 9/01/23 (Pre-refunded 9/01/16) – AMBAC Insured	9/16 at 100.00	AAA	515,320
1,000	Mount San Antonio Community College District, Los Angeles County, California, General Obligation Bonds, Election of 2008, Series 2013A, 0.000%, 8/01/28	2/28 at 100.00	AA	883,060
2,000	Palomar Pomerado Health, California, General Obligation Bonds, Series 2009A, 0.000%, 8/01/25 –	No Opt. Call	AA	1,458,780

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	AGC Insured			
	Riverside County Transportation			
	Commission, California, Toll Revenue			
35	Senior Lien Bonds, Series	6/23 at 100.00	BBB-	40,252
	2013A, 5.750%, 6/01/44			
	San Diego Community College District,			
	California, General Obligation Bonds,			
2,000	Refunding Series	No Opt. Call	AA+	896,400
	2011, 0.000%, 8/01/37			
	San Joaquin Hills Transportation Corridor			
	Agency, Orange County, California, Toll			
415	Road Revenue	1/25 at 100.00	BBB-	463,385
	Bonds, Refunding Senior Lien Series			
	2014A, 5.000%, 1/15/29			
	Washington Township Health Care District,			
	California, Revenue Bonds, Refunding			
215	Series 2015A,	No Opt. Call	Baa1	250,514
	5.000%, 7/01/25			
10,170	Total California			8,782,936
	Colorado – 1.1%			
	E-470 Public Highway Authority, Colorado,			
	Senior Revenue Bonds, Series 2000B:			
300	0.000%, 9/01/29 – NPF Insured	No Opt. Call	AA-	187,344
235	0.000%, 9/01/33 – NPF Insured	No Opt. Call	AA-	122,219
	E-470 Public Highway Authority, Colorado,			
	Senior Revenue Bonds, Series 2007A-1,			
10	5.250%,	No Opt. Call	AA-	10,950
	9/01/18 – NPF Insured			
	E-470 Public Highway Authority, Colorado,			
	Toll Revenue Bonds, Series 2004B, 0.000%,			
1,000	3/01/36 –	9/20 at 41.72	AA-	347,360
	NPF Insured			
	Plaza Metropolitan District 1, Lakewood,			
	Colorado, Tax Increment Revenue Bonds,			
500	Refunding	No Opt. Call	N/R	539,800
	Series 2013, 5.000%, 12/01/20			
	Regional Transportation District, Colorado,			
	Denver Transit Partners Eagle P3 Project			
200	Private	7/20 at 100.00	A-	225,480
	Activity Bonds, Series 2010, 6.000%,			
	1/15/41			
2,245	Total Colorado			1,433,153
	Connecticut – 0.7%			
	Connecticut Health and Educational			
	Facilities Authority, Revenue Bonds, Yale			
900	University, Series	No Opt. Call	AAA	899,010
	2010A-3, 0.875%, 7/01/49 (Mandatory put			
	2/08/18)			
	Delaware – 0.1%			
170	Delaware Health Facilities Authority,	7/23 at 100.00	BBB	182,174
	Revenue Bonds, Nanticoke Memorial			

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	Hospital, Series 2013, 5.000%, 7/01/28 District of Columbia – 0.9% District of Columbia Student Dormitory Revenue Bonds, Provident Group – Howard Properties LLC	10/22 at 100.00	BB+	121,498
120				
	Issue, Series 2013, 5.000%, 10/01/30 District of Columbia Tobacco Settlement Corporation, Tobacco Settlement Asset-Backed Bonds, Series 2001, 6.500%, 5/15/33	No Opt. Call	Baa1	1,094,166
880				
1,000	Total District of Columbia Florida – 5.2% Citizens Property Insurance Corporation, Florida, Coastal Account Senior Secured Bonds, Series 2015A-1:			1,215,664
		12/21 at 100.00	AA–	644,958
545	5.000%, 6/01/22			
		12/24 at 100.00	AA–	441,500
365	5.000%, 6/01/25 Citizens Property Insurance Corporation, Florida, High Risk Account Revenue Bonds, Series 2007A, 5.000%, 3/01/16 – NPMG Insured (ETM)	No Opt. Call	AA– (4)	604,764
600				
	Citizens Property Insurance Corporation, Florida, High Risk Assessment Revenue, Senior Secured Bonds, Series 2009A-1, 5.375%, 6/01/16	No Opt. Call	A+	193,920
190				
	Citizens Property Insurance Corporation, Florida, High-Risk Account Revenue Bonds, Coastal Account Senior Secured Series 2011A-1, 5.000%, 6/01/18	No Opt. Call	AA–	212,125
195				
	Citizens Property Insurance Corporation, Florida, Personal and Commercial Lines Account Bonds, Senior Secured Series 2012A-1:	No Opt. Call	AA–	54,391
50	5.000%, 6/01/18			
455	5.000%, 6/01/20	No Opt. Call	AA–	520,029
	Collier County Educational Facilities Authority, Florida, Revenue Bonds, Hodges University, Series 2013, 6.000%, 11/01/33	11/23 at 100.00	BBB–	412,643
370				
	Florida Department of Environmental Protection, Florida Forever Revenue Bonds, Series 2007B, 5.000%, 7/01/19 – NPMG Insured	7/17 at 101.00	AA–	643,008
600				
150	Halifax Hospital Medical Center, Daytona Beach, Florida, Hospital Revenue Bonds,	6/16 at 100.00	A–	152,285

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	Series 2006, 5.250%, 6/01/26 Halifax Hospital Medical Center, Daytona Beach, Florida, Hospital Revenue Bonds, Series 2006, 5.250%, 6/01/26 (Pre-refunded 6/01/16) Miami-Dade County, Florida, Public Facilities Revenue Bonds, Jackson Health System, Series 2009:	6/16 at 100.00	N/R (4)	377,467
370				
10	5.500%, 6/01/29 – AGM Insured	6/19 at 100.00	AA	11,274
10	5.625%, 6/01/34 – AGC Insured	6/19 at 100.00	AA	11,258
	North Sumter County Utility Dependent District, Florida, Utility Revenue Bonds, Series 2010, 5.000%, 10/01/20 Palm Beach County Health Facilities Authority, Florida, Hospital Revenue Bonds, BRCH	No Opt. Call	A	826,695
750				
75	Corporation Obligated Group, Refunding Series 2014, 5.000%, 12/01/31 Port Everglades Authority, Florida, Port Facilities Revenue Bonds, Series 1986, 7.125%, 11/01/16 (ETM)	12/24 at 100.00	BBB+	84,623
45	South Miami Health Facilities Authority, Florida, Hospital Revenue, Baptist Health System	No Opt. Call	Aaa	47,303
720	Obligation Group, Refunding Series 2007, 5.000%, 8/15/27 Tampa, Florida, Cigarette Tax Allocation Bonds, H. Lee Moffitt Cancer Center Project, Refunding & Capital Improvement Series 2012A:	8/17 at 100.00	AA	763,560
120	5.000%, 9/01/22	No Opt. Call	A+	141,730
350	5.000%, 9/01/23	9/22 at 100.00	A+	408,086
185	5.000%, 9/01/25	9/22 at 100.00	A+	215,910
6,155	Total Florida Georgia – 1.0% Cherokee County Water and Sewerage Authority, Georgia, Revenue Bonds, Series 1995, 5.200%, 8/01/25 (Pre-refunded 8/01/22) – NPMFG Insured			6,767,529
240	Fulton County Development Authority, Georgia, Revenue Bonds, Robert W. Woodruff Arts Center, Inc. Project, Series 2015A, 3.500%, 3/15/36	8/22 at 100.00	AA- (4)	269,683
40	Private Colleges and Universities Authority, Georgia, Revenue Bonds, Mercer University,	3/26 at 100.00	A2	39,904
900		10/22 at 100.00	Baa2	1,054,188

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1,180	Refunding Series 2012C, 5.250%, 10/01/23 Total Georgia Guam – 0.1%			1,363,775
140	Guam Waterworks Authority, Water and Wastewater System Revenue Bonds, Series 2013, 5.500%, 7/01/43 Hawaii – 0.5%	7/23 at 100.00	A–	159,418
400	Hawaii Department of Budget and Finance, Special Purpose Revenue Bonds, Hawaiian Electric Company Inc., Series 2015, 3.250%, 1/01/25 (Alternative Minimum Tax)	No Opt. Call	A–	408,472
200	Hawaii Department of Budget and Finance, Special Purpose Revenue Bonds, Hawaii Pacific University, Series 2013A, 6.250%, 7/01/27	7/23 at 100.00	BB+	221,938
600	Total Hawaii Illinois – 14.1%			630,410
300	Chicago, Illinois, General Airport Revenue Bonds, O’Hare International Airport, Senior Lien Refunding Series 2015A, 5.000%, 1/01/33 (Alternative Minimum Tax)	1/25 at 100.00	A	334,731
325	Cook County, Illinois, General Obligation Bonds, Refunding Series 2012C, 5.000%, 11/15/21 Huntley, Illinois, Special Service Area 9, Special Tax Bonds, Series 2007, 5.100%, 3/01/28 –	No Opt. Call	AA	363,740
2,000	AGC Insured Illinois Finance Authority, Gas Supply Refunding Revenue Bonds, The Peoples Gas Light and Coke Company Project, Series 2010B, 1.875%, 2/01/33 (Mandatory put 8/01/20)	3/17 at 100.00	AA	2,086,217
625	Illinois Finance Authority, Revenue Bonds, Centegra Health System, Series 2012, 5.000%, 9/01/27	No Opt. Call	Aa3	628,700
455	Illinois Finance Authority, Revenue Bonds, Centegra Health System, Series 2014A, 4.625%, 9/01/39	9/22 at 100.00	BBB	492,201
280	Illinois Finance Authority, Revenue Bonds, Northwest Community Hospital, Series 2008A, 5.500%, 7/01/38	9/24 at 100.00	BBB	291,446
275	Illinois Finance Authority, Revenue Bonds, OSF Healthcare System, Series 2007A, 5.750%, 11/15/37 (Pre-refunded 11/15/17)	7/18 at 100.00	A+	297,377
890		11/17 at 100.00	A (4)	969,299
250		4/17 at 100.00	Baa3	256,388

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	Illinois Finance Authority, Revenue Bonds, Roosevelt University, Series 2007, 5.250%, 4/01/22			
	Illinois State, General Obligation Bonds, February Series 2014:			
370	5.000%, 2/01/25	2/24 at 100.00	A-	406,896
325	5.000%, 2/01/26	2/24 at 100.00	A-	355,280
	Illinois State, General Obligation Bonds, Refunding Series 2007B, 5.000%, 1/01/16	No Opt. Call	A-	290,000
290				
	Illinois State, General Obligation Bonds, Refunding Series 2008, 4.250%, 4/01/16	No Opt. Call	A-	448,863
445				
	Illinois State, General Obligation Bonds, Refunding Series 2012:			
	5.000%, 8/01/20	No Opt. Call	A-	426,305
390				
	5.000%, 8/01/21	No Opt. Call	A-	367,441
335				
	5.000%, 8/01/22	No Opt. Call	A-	1,103,470
1,000				
	5.000%, 8/01/23	No Opt. Call	A-	321,071
290				
	Illinois State, General Obligation Bonds, Series 2006A:			
		12/16 at		
	5.000%, 6/01/24	100.00	A-	25,705
25				
		12/16 at		
	5.000%, 6/01/27	100.00	A-	10,193
10				
	Illinois State, General Obligation Bonds, Series 2006, 5.000%, 1/01/17	1/16 at 100.00	A-	231,325
230				
	Illinois State, General Obligation Bonds, Series 2012A, 4.000%, 1/01/20	No Opt. Call	A-	314,112
300				
	Illinois State, General Obligation Bonds, Series 2013:			
	5.500%, 7/01/25	7/23 at 100.00	A-	313,155
280				
	5.500%, 7/01/26	7/23 at 100.00	A-	266,906
240				
	Illinois Toll Highway Authority, Toll Highway Revenue Bonds, Refunding Senior Lien Series	1/26 at 100.00	Aa3	521,972
440				
	2016A, 5.000%, 12/01/31 (WI/DD, Settling 1/14/16)			
	Illinois Toll Highway Authority, Toll Highway Revenue Bonds, Senior Lien Series 2015B,	1/26 at 100.00	AA-	520,938
450				
	5.000%, 1/01/37			
	Kane & DeKalb Counties Community Unit School District 301, Illinois, General Obligation Bonds,	No Opt. Call	Aa3	1,307,578
1,380				
	Series 2006, 0.000%, 12/01/18 – NPF Insured			
	Peoria Public Building Commission, Illinois, School District Facility Revenue Bonds, Peoria	12/18 at 79.62	AA	746,310
1,000				
	County School District 150 Project, Series 2009A, 0.000%, 12/01/22 – AGC Insured			

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	Railsplitter Tobacco Settlement Authority, Illinois, Tobacco Settlement Revenue Bonds, Series 2010:			
720	5.000%, 6/01/19	No Opt. Call	A	799,632
1,000	5.250%, 6/01/21	No Opt. Call	A	1,164,570
60	6.250%, 6/01/24	6/16 at 100.00	A	61,436
	Regional Transportation Authority, Cook, DuPage, Kane, Lake, McHenry and Will Counties,			
580	Illinois, General Obligation Bonds, Series 1994D, 7.750%, 6/01/19 – FGIC Insured Southwestern Illinois Development Authority, Local Government Program	No Opt. Call	AA	648,927
205	Revenue Bonds, Southwestern Illinois Flood District Council Project, Series 2016B, 4.000%, 10/15/40 (WI/DD, Settling 1/06/16) Springfield, Illinois, Electric Revenue Bonds, Senior Lien Series 2015:	10/25 at 100.00	A	205,650
230	5.000%, 3/01/33	3/25 at 100.00	A	263,049
145	5.000%, 3/01/34 – AGM Insured	3/25 at 100.00	AA	165,341
	Sterling, Whiteside County, Illinois, General Obligation Bonds, Alternate Revenue Source,			
500	Series 2012, 4.000%, 11/01/22 Will, Grundy, Kendall, LaSalle, Kankakee, Livingston and Cook Counties Community College	No Opt. Call	A+	558,525
355	District 525 Joliet Junior College, Illinois, General Obligation Bond, Series 2008, 5.750%, 6/01/28 Williamson & Johnson Counties Community Unit School District 2, Marion, Illinois, Limited Tax	6/18 at 100.00	AA	386,244
515	General Obligation Lease Certificates, Series 2011, 7.000%, 10/15/22	10/19 at 103.00	BBB	576,537
17,510	Total Illinois Indiana – 2.6%			18,527,530
165	Indiana Finance Authority, Educational Facilities Revenue Bonds, Drexel Foundation For Educational Excellence, Inc., Series 2009A, 6.000%, 10/01/21	10/19 at 100.00	B–	160,941
425	Indiana Finance Authority, Private Activity Bonds, Ohio River Bridges East End Crossing Project, Series 2013B, 5.000%, 1/01/19 (Alternative Minimum Tax)	1/17 at 100.00	BBB+	441,805
175	Indiana Finance Authority, Tax-Exempt Private Activity Revenue Bonds, I-69 Section 5 Project,	9/24 at 100.00	BBB	197,019

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	Series 2014, 5.250%, 9/01/34 (Alternative Minimum Tax)			
140	Indianapolis, Indiana, Thermal Energy System Revenue Bonds, Refunding First Lien Series 2014A, 5.000%, 10/01/31	10/24 at 100.00	A	161,868
255	Jasper County, Indiana, Pollution Control Revenue Refunding Bonds, Northern Indiana Public Service Company Project, Series 1994A Remarketed, 5.850%, 4/01/19 – NPFGE Insured	No Opt. Call	AA–	285,452
250	Lake County Building Corporation, Indiana, First Mortgage Bonds, Series 2012, 4.750%, 2/01/21	No Opt. Call	N/R	263,475
250	Vanderburgh County, Indiana, Redevelopment District Tax Increment Revenue bonds, Refunding Series 2014, 5.000%, 2/01/29	8/24 at 100.00	A	289,358
865	Whiting, Indiana, Environmental Facilities Revenue Bonds, BP Products North America Inc. Project, Series 2008, 1.850%, 6/01/44 (Mandatory put 10/01/19)	No Opt. Call	A	870,346
600	Whiting, Indiana, Environmental Facilities Revenue Bonds, BP Products North America Inc. Project, Series 2015, 5.000%, 11/01/45 (Mandatory put 11/01/22) (Alternative Minimum Tax)	No Opt. Call	A	701,316
3,125	Total Indiana Iowa – 0.7%			3,371,580
500	Ames, Iowa, Hospital Revenue Bonds, Mary Greeley Medical Center, Series 2011, 5.250%, 6/15/27	6/20 at 100.00	A2	552,790
335	Iowa Finance Authority, Iowa, Midwestern Disaster Area Revenue Bonds, Iowa Fertilizer Company Project, Series 2013, 5.000%, 12/01/19	No Opt. Call	BB–	354,805
835	Total Iowa Kansas – 0.1%			907,595
100	Wyandotte County/Kansas City Unified Government Board of Public Utilities, Kansas, Utility System Revenue Bonds, Refunding & Improvement Series 2014A, 5.000%, 9/01/22	No Opt. Call	A+	119,829
45	Wyandotte County-Kansas City Unified Government, Kansas, Sales Tax Special Obligation Capital Appreciation Revenue Bonds Redevelopment Project Area B – Major	No Opt. Call	A–	33,642

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	Multi-Sport Athletic Complex Project, Subordinate Lien Series 2010, 0.000%, 6/01/21			
145	Total Kansas Kentucky – 1.4%			153,471
	Kentucky Economic Development Finance Authority, Louisville Arena Project			
350	Revenue Bonds, Louisville Arena Authority, Inc., Series 2008-A1, 5.750%, 12/01/28 – AGC Insured	6/18 at 100.00	AA	376,075
	Kentucky Public Transportation Infrastructure Authority, First Tier Toll			
500	Revenue Bonds, Downtown Crossing Project, Series 2013A, 5.000%, 7/01/17	No Opt. Call	Baa3	527,930
	Lexington-Fayette Urban County Government Public Facilities Corporation, Kentucky State Lease	6/21 at 100.00	Aa3	389,123
340	Revenue Bonds, Eastern State Hospital Project, Series 2011A, 5.250%, 6/01/29			
	Louisville-Jefferson County Metropolitan Government, Kentucky, Environmental Facilities	No Opt. Call	A	201,514
200	Revenue, Louisville Gas & Electric Company Project, Series 2007B, 1.600%, 6/01/33 (Mandatory put 6/01/17)			
	Louisville-Jefferson County Metropolitan Government, Kentucky, Pollution Control Revenue	No Opt. Call	A1	322,102
320	Bonds, Louisville Gas and Electric Company Project, Series 2003A, 1.650%, 10/01/33 (Mandatory put 4/03/17)			
1,710	Total Kentucky Louisiana – 2.0%			1,816,744
	De Soto Parrish, Louisiana, Pollution Control Revenue Bonds, Southwestern Electric Power	No Opt. Call	BBB	239,342
240	Company Project, Refunding Series 2010, 1.600%, 1/01/19			
	Louisiana Citizens Property Insurance Corporation, Assessment Revenue Bonds, Series 2006B, 5.000%, 6/01/23 (Pre-refunded 6/01/16) – AMBAC Insured	6/16 at 100.00	A1 (4)	61,153
60	Louisiana Citizens Property Insurance Corporation, Assessment Revenue Bonds, Series 2006-C1: 5.875%, 6/01/23	6/18 at 100.00	AA	171,343
155	6.000%, 6/01/24	6/18 at 100.00	AA	11,099
10				

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435	Louisiana Public Facilities Authority, Revenue Bonds, Ochsner Clinic Foundation Project, Series 2007A, 5.250%, 5/15/38	5/17 at 100.00	Baa1	453,731
205	Louisiana Public Facilities Authority, Revenue Bonds, Ochsner Clinic Foundation Project, Series 2007A, 5.250%, 5/15/38 (Pre-refunded 5/15/17)	5/17 at 100.00	N/R (4)	217,653
350	Louisiana Public Facilities Authority, Revenue Bonds, Ochsner Clinic Foundation Project, Series 2015: 5.000%, 5/15/22	No Opt. Call	Baa1	402,532
200	5.000%, 5/15/24	No Opt. Call	Baa1	233,530
110	New Orleans, Louisiana, General Obligation Bonds, Refunding Series 2015, 5.000%, 12/01/25	No Opt. Call	A+	133,676
100	New Orleans, Louisiana, Sewerage Service Revenue Bonds, Series 2015, 5.000%, 6/01/32	6/25 at 100.00	A	114,795
525	Saint Charles Parish, Louisiana, Gulf Opportunity Zone Revenue Bonds, Valero Project, Series 2010, 4.000%, 12/01/40 (Mandatory put 6/01/22)	No Opt. Call	BBB	565,630
2,390	Total Louisiana Maine – 0.0%			2,604,484
35	Portland, Maine, General Airport Revenue Bonds, Refunding Series 2013, 5.000%, 7/01/22	No Opt. Call	BBB+	40,107
200	Massachusetts – 1.2% Massachusetts Development Finance Agency Revenue Bonds, Lawrence General Hospital Issue, Series 2014A, 5.000%, 7/01/27	7/24 at 100.00	BBB–	213,700
500	Massachusetts Development Finance Agency, Revenue Bonds, Orchard Cove, Series 2007, 5.000%, 10/01/19	10/17 at 100.00	N/R	517,680
100	Massachusetts Development Finance Agency, Revenue Bonds, Roxbury Latin School, Series 2014A, 3.250%, 7/01/33	7/25 at 100.00	AA–	102,346
100	Massachusetts Port Authority, Special Facilities Revenue Bonds, Delta Air Lines Inc., Series 2001A: 5.200%, 1/01/20 – AMBAC Insured (Alternative Minimum Tax)	1/16 at 100.00	N/R	100,217
470	5.000%, 1/01/27 – AMBAC Insured (Alternative Minimum Tax)	1/16 at 100.00	N/R	471,274

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	Massachusetts School Building Authority, Dedicated Sales Tax Revenue Bonds, Series 2007A: 5.000%, 8/15/18 (Pre-refunded 8/15/17) – AMBAC Insured	8/17 at 100.00	AA+ (4)	106,768
100				
	5.000%, 8/15/20 (Pre-refunded 8/15/17) – AMBAC Insured	8/17 at 100.00	AA+ (4)	74,738
70				
1,540	Total Massachusetts Michigan – 2.2%			1,586,723
	Detroit Downtown Development Authority, Michigan, Tax Increment Refunding Bonds, Development Area 1 Projects, Series 1996C-1, 0.000%, 7/01/23	No Opt. Call	BB	261,084
400				
	Detroit, Michigan, General Obligation Bonds, Series 2001A-1, 5.375%, 4/01/18 – NPFGB Insured	4/16 at 100.00	A3	155,367
155				
	Detroit, Michigan, Senior Lien Sewerage Disposal System Revenue Bonds, Series 2001B, 5.500%, 7/01/29 – FGIC Insured	No Opt. Call	AA–	186,089
150				
	Michigan Finance Authority, Detroit, Michigan, Local Government Loan Program, Unlimited Tax General Obligation Bonds, Series 2014G-2A, 5.375%, 4/01/18 – NPFGB Insured	1/16 at 100.00	AA–	847,003
845				
	Michigan Finance Authority, Local Government Loan Program Revenue Bonds, Detroit Water & Sewerage Department Sewage Disposal System Local Project, Second Lien Series 2015C, 5.000%, 7/1/34	7/25 at 100.00	BBB+	168,827
150				
	Wayne County Airport Authority, Michigan, Revenue Bonds, Detroit Metropolitan Airport, Refunding Series 2010C, 5.000%, 12/01/16	No Opt. Call	A	519,635
500				
	Wayne County Airport Authority, Michigan, Revenue Bonds, Detroit Metropolitan Wayne County Airport, Refunding Series 2015F, 5.000%, 12/01/33 (Alternative Minimum Tax)	12/25 at 100.00	A	783,572
705				
2,905	Total Michigan Missouri – 3.5%			2,921,577
	Jackson County, Missouri, Special Obligation Bonds, Harry S. Truman Sports Complex, Series 2006: 4.500%, 12/01/25 (Pre-refunded 12/01/16) – AMBAC Insured	12/16 at 100.00	Aa3 (4)	404,453
390				
	5.000%, 12/01/26 (Pre-refunded 12/01/16) – AMBAC Insured	12/16 at 100.00	Aa3 (4)	557,272
535				

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515	5.000%, 12/01/27 (Pre-refunded 12/01/16) – AMBAC Insured	12/16 at 100.00	Aa3 (4)	536,439
330	5.000%, 12/01/28 (Pre-refunded 12/01/16) – AMBAC Insured	12/16 at 100.00	Aa3 (4)	343,738
1,060	4.500%, 12/01/31 (Pre-refunded 12/01/16) – AMBAC Insured	12/16 at 100.00	Aa3 (4)	1,099,284
100	Missouri Health and Educational Facilities Authority, Educational Facilities Revenue Bonds, Saint Louis College of Pharmacy, Series 2013, 5.250%, 5/01/33	5/23 at 100.00	BBB+	111,228
30	Missouri Health and Educational Facilities Authority, Educational Facilities Revenue Bonds, Saint Louis College of Pharmacy, Series 2015B, 4.000%, 5/01/32	11/23 at 100.00	BBB+	30,340
1,070	Saint Louis, Missouri, Airport Revenue Bonds, Lambert-St. Louis International Airport, Series 2005, 5.500%, 7/01/19 – NPF Insured	No Opt. Call	AA–	1,217,756
240	St. Louis County, Missouri, GNMA Collateralized Mortgage Revenue Bonds, Series 1989A, 8.125%, 8/01/20 (Pre-refunded 7/01/20) (Alternative Minimum Tax)	7/20 at 100.00	AA+ (4)	272,981
4,270	Total Missouri Montana – 0.3%			4,573,491
260	Billings, Montana, Tax Increment Urban Renewal Revenue Bonds, Expanded North 27th Street, Series 2013A, 5.000%, 7/01/33	1/23 at 100.00	N/R	268,788
150	University of Montana, Revenue Bonds, Series 1996D, 5.375%, 5/15/19 – NPF Insured (ETM)	5/16 at 100.00	AA– (4)	161,223
410	Total Montana Nebraska – 0.1%			430,011
100	Douglas County School District 10 Elkhorn, Nebraska, General Obligation Bonds, Public Schools Series 2012, 4.000%, 6/15/23	6/22 at 100.00	AA–	112,168
1,470	Nevada – 2.2% Clark County, Nevada, Airport Revenue Bonds, Subordinate Lien Series 2010B, 5.750%, 7/01/42	1/20 at 100.00	A+	1,702,995
250	Las Vegas Redevelopment Agency, Nevada, Tax Increment Revenue Bonds, Series 2009A, 8.000%, 6/15/30	6/19 at 100.00	BBB	283,803
50	Las Vegas, Nevada, Local Improvement Bonds, Special Improvement District 607 Providence,	No Opt. Call	N/R	53,980

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	Refunding Series 2013, 5.000%, 6/01/22 Washoe County, Nevada, General Obligation Bonds, Reno-Sparks Convention & Visitors Authority,	7/21 at 100.00	AA	892,916
775	Refunding Series 2011, 5.000%, 7/01/23			
2,545	Total Nevada New Hampshire – 0.1% Business Finance Authority of the State of New Hampshire, Water Facility Revenue Bonds,	1/26 at 100.00	A	107,515
105	Pennichuck Water Works, Inc. Project, Series 2015A, 4.250%, 1/01/36 (Alternative Minimum Tax) New Jersey – 6.1% Bayonne Redevelopment Agency, New Jersey, Revenue Bonds, Royal Caribbean Cruises Project,	No Opt. Call	BB+	65,350
65	Series 2006A, 4.750%, 11/01/16 (Alternative Minimum Tax) Gloucester County Pollution Control Financing Authority, New Jersey, Pollution Control Revenue	No Opt. Call	BBB–	283,210
250	Bonds, Logan Project, Refunding Series 2014A, 5.000%, 12/01/24 (Alternative Minimum Tax) New Jersey Economic Development Authority, Cigarette Tax Revenue Bonds, Series 2004, 5.500%, 6/15/16 – RAAI Insured (ETM) New Jersey Economic Development Authority, Cigarette Tax Revenue Refunding Bonds, Series 2012:	No Opt. Call	Aaa	122,837
120	4.000%, 6/15/19	No Opt. Call	BBB+	157,053
150	5.000%, 6/15/20	No Opt. Call	BBB+	305,654
280	5.000%, 6/15/21	No Opt. Call	BBB+	164,526
150	5.000%, 6/15/22	No Opt. Call	BBB+	370,215
335	5.000%, 6/15/23	6/22 at 100.00	BBB+	384,146
350	5.000%, 6/15/24	6/22 at 100.00	BBB+	229,024
210	5.000%, 6/15/25	6/22 at 100.00	BBB+	552,463
510	5.000%, 6/15/26	6/22 at 100.00	BBB+	161,723
150	4.250%, 6/15/27	6/22 at 100.00	BBB+	102,084
100	5.000%, 6/15/28	No Opt. Call	BBB+	319,788
300	New Jersey Economic Development Authority, Private Activity Bonds, The Goethals Bridge	1/24 at 100.00	BBB	245,617
220	Replacement Project, Series 2013, 5.000%, 1/01/28 (Alternative Minimum Tax) New Jersey Economic Development Authority, School Facilities Construction Financing Program	6/25 at 100.00	A–	1,093,960
1,000				

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	Bonds, Refunding Series 2015XX, 5.000%, 6/15/27			
100	New Jersey Health Care Facilities Financing Authority, State Contract Bonds, Hospital Asset	10/18 at 100.00	A-	105,027
	Transformation Program, Series 2008A, 5.250%, 10/01/38			
1,280	New Jersey Transportation Trust Fund Authority, Transportation System Bonds, Capital	No Opt. Call	A-	521,382
	Appreciation Series 2010A, 0.000%, 12/15/33			
1,515	New Jersey Transportation Trust Fund Authority, Transportation System Bonds, Series 2010D,	No Opt. Call	A-	1,685,574
	5.000%, 12/15/23			
320	New Jersey Turnpike Authority, Revenue Bonds, Series 2012B, 5.000%, 1/01/19	No Opt. Call	A+	355,325
170	Salem County Pollution Control Financing Authority, New Jersey, Pollution Control Revenue	No Opt. Call	BBB-	187,022
	Bonds, Chambers Project, Refunding Series 2014A, 5.000%, 12/01/23 (Alternative Minimum Tax)			
250	South Jersey Port Corporation, New Jersey, Marine Terminal Revenue Bonds, Refunding Series	No Opt. Call	A3	248,778
	2012Q, 3.000%, 1/01/22			
195	Tobacco Settlement Financing Corporation, New Jersey, Tobacco Settlement Asset-Backed Bonds, Series 2007-1A:	6/17 at 100.00	BB	197,822
100	4.500%, 6/01/23	6/17 at 100.00	B+	100,040
8,120	4.625%, 6/01/26			7,958,620
	Total New Jersey New Mexico – 1.0%			
715	Farmington, New Mexico, Pollution Control Revenue Refunding Bonds, Southern California Edison	No Opt. Call	Aa3	722,457
	Company, Four Corners Project, Series 2005A, 1.875%, 4/01/29 (Mandatory put 4/01/20)			
490	New Mexico Municipal Energy Acquisition Authority, Gas Supply Revenue Bonds, Refunding	8/19 at 100.00	Aa3	549,638
	Sub-Series 2014A, 5.000%, 11/01/39 (Mandatory put 8/01/19)			
1,205	Total New Mexico			1,272,095
	New York – 5.9%			
220	Brooklyn Arena Local Development Corporation, New York, Payment in Lieu of	1/20 at 100.00	BBB-	249,539

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	Taxes Revenue			
	Bonds, Barclays Center Project, Series			
	2009, 6.000%, 7/15/30			
	Buffalo and Erie County Industrial Land			
	Development Corporation, New York,			
	Revenue Bonds,			
	Catholic Health System, Inc. Project, Series			
	2015:			
145	5.000%, 7/01/23	No Opt. Call	BBB+	169,330
195	5.000%, 7/01/24	No Opt. Call	BBB+	229,593
	Dormitory Authority of the State of New			
	York, Third General Resolution Revenue			
770	Bonds, State	5/22 at 100.00	AA	919,180
	University Educational Facilities Issue,			
	Series 2012A, 5.000%, 5/15/25			
	Haverstraw Stony Point Central School			
	District, Rockland County, New York,	10/23 at		
140	General Obligation	100.00	AA	137,172
	Bonds, Refunding Series 2015, 3.000%,			
	10/15/33 – AGM Insured			
	Hudson Yards Infrastructure Corporation,			
	New York, Revenue Bonds, Senior Fiscal			
435	2012 Series	2/21 at 100.00	A	504,748
	2011A, 5.750%, 2/15/47			
	Long Island Power Authority, New York,			
	Electric System General Revenue Bonds,			
	Series 2000A:			
195	0.000%, 6/01/22 – AGM Insured	No Opt. Call	AA	171,680
135	0.000%, 6/01/24 – AGM Insured	No Opt. Call	AA	111,271
	Long Island Power Authority, New York,			
	Electric System General Revenue Bonds,			
	Series 2006B:			
25	5.000%, 12/01/35 (Pre-refunded 6/01/16) –	6/16 at 100.00	AA (4)	25,477
	AGM Insured			
200	5.000%, 12/01/35 (Pre-refunded 6/01/16)	6/16 at 100.00	A– (4)	203,812
	Long Island Power Authority, New York,			
	Electric System General Revenue Bonds,			
405	Series 2006C,	9/16 at 100.00	A– (4)	416,972
	5.000%, 9/01/35 (Pre-refunded 9/01/16)			
	New York State Energy Research and			
	Development Authority, Pollution Control			
825	Revenue Bonds,	No Opt. Call	AA–	833,663
	New York State Electric and Gas			
	Corporation, Series 2005A, 2.375%, 7/01/26			
	(Mandatory put			
	5/01/20) (Alternative Minimum Tax)			
	New York State Thruway Authority,			
	General Revenue Junior Indebtedness			
1,445	Obligations, Series	No Opt. Call	A–	1,623,458
	2013A, 5.000%, 5/01/19			

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	New York State Tobacco Settlement Financing Corporation, Tobacco Settlement Asset-Backed and State Contingency Contract-Backed Bonds, Series 2011B:			
360	5.000%, 6/01/17	No Opt. Call	AA	381,632
565	5.000%, 6/01/18	No Opt. Call	AA	618,517
	New York State Tobacco Settlement Financing Corporation, Tobacco Settlement Asset-Backed and State Contingency Contract-Backed Bonds, Series 2013B:			
285	5.000%, 6/01/21	6/16 at 100.00	AA	290,652
220	5.000%, 6/01/22	6/17 at 100.00	AA	233,039
	New York Transportation Development Corporation, New York, Special Facility Revenue Refunding Bonds, Terminal One Group Association, L.P. Project, Series 2015:			
60	5.000%, 1/01/22	No Opt. Call	A-	70,130
60	5.000%, 1/01/23	No Opt. Call	A-	70,802
	Triborough Bridge and Tunnel Authority, New York, General Purpose Revenue Bonds, Refunding Series 2013B, 5.000%, 11/15/21			
400		No Opt. Call	AA-	479,904
7,085				7,740,571
	Total New York North Carolina – 1.2% North Carolina Municipal Power Agency 1, Catawba Electric Revenue Bonds, Series 2015C, 5.000%, 1/01/29 North Dakota – 0.8% Burleigh County, North Dakota, Health Care Revenue Bonds, Saint Alexius Medical Center Project, Series 2014A:			
200	5.000%, 7/01/29 (Pre-refunded 7/01/21)	7/21 at 100.00	N/R (4)	237,932
650	5.000%, 7/01/31 (Pre-refunded 7/01/21)	7/21 at 100.00	N/R (4)	773,279
850				1,011,211
	Ohio – 3.4% Buckeye Tobacco Settlement Financing Authority, Ohio, Tobacco Settlement Asset-Backed Revenue Bonds, Senior Lien, Series 2007A-1, 5.000%, 6/01/17			
80		No Opt. Call	Aa1	84,106
	Buckeye Tobacco Settlement Financing Authority, Ohio, Tobacco Settlement Asset-Backed Revenue Bonds, Senior Lien, Series 2007A-2, 5.125%, 6/01/24			
1,325		6/17 at 100.00	B-	1,195,402
480		6/23 at 100.00	Baa2	517,243

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	Fairfield County, Ohio, Hospital Facilities Revenue Bonds, Fairfield Medical Center Project, Series 2013, 5.000%, 6/15/43			
40	Lake County, Ohio, Hospital Facilities Revenue Bonds, Lake Hospital System, Inc., Refunding Series 2008C, 5.500%, 8/15/24	8/18 at 100.00	A3	44,094
225	Lake County, Ohio, Hospital Facilities Revenue Bonds, Lake Hospital System, Inc., Refunding Series 2008C, 5.500%, 8/15/24 (Pre-refunded 8/15/18)	8/18 at 100.00	N/R (4)	251,388
25	New Albany Community Authority, Ohio, Community Facilities Revenue Refunding Bonds, Series 2012C: 4.000%, 10/01/18	No Opt. Call	A1	26,618
30	4.000%, 10/01/19	No Opt. Call	A1	32,479
40	4.000%, 10/01/20	No Opt. Call	A1	43,816
45	5.000%, 10/01/21	No Opt. Call	A1	52,111
35	5.000%, 10/01/22	No Opt. Call	A1	41,079
175	Ohio Air Quality Development Authority, Ohio, Pollution Control Revenue Refunding Bonds, FirstEnergy Generation Corp. Project, Series 2006A, 3.750%, 12/01/23 (Mandatory put 12/03/18)	No Opt. Call	BBB-	180,327
100	Ohio Air Quality Development Authority, Ohio, Pollution Control Revenue Refunding Bonds, FirstEnergy Generation Corp. Project, Series 2009B, 3.100%, 3/01/23 (Mandatory put 3/01/19)	No Opt. Call	BBB-	100,780
2,000	Ohio Turnpike Commission, Turnpike Revenue Bonds, Infrastructure Projects, Junior Lien Convertible Series 2013A-3, 0.000%, 2/15/34	2/31 at 100.00	A+	1,789,440
100	Tuscarawas County Economic Development and Finance Alliance, Ohio, Higher Education Facilities Revenue Bonds, Ashland University, Refunding & Improvement Series 2015, 5.375%, 3/01/27	3/25 at 100.00	N/R	101,876
4,700	Total Ohio Pennsylvania – 5.8%			4,460,759
935	Beaver County Industrial Development Authority, Pennsylvania, Pollution Control Revenue	No Opt. Call	BBB-	938,768

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	Refunding Bonds, FirstEnergy Nuclear Generation Project, Series 2006B, 2.500%, 12/01/41 (Mandatory put 6/01/17)			
200	Luzerne County Industrial Development Authority, Pennsylvania, Guaranteed Lease Revenue Bonds, Series 2009, 7.750%, 12/15/27	12/19 at 100.00	N/R	209,154
10	Montgomery County Higher Education and Health Authority, Pennsylvania, Hospital Revenue Bonds, Abington Memorial Hospital Obligated Group, Series 2009A, 5.000%, 6/01/17	No Opt. Call	A	10,552
500	Montgomery County Industrial Development Authority, Pennsylvania, Pollution Control Revenue Bonds, PECO Energy Company Project, Refunding Series 1996A, 2.600%, 3/01/34 (Mandatory put 9/01/20)	No Opt. Call	BBB	504,535
500	Montgomery County Industrial Development Authority, Pennsylvania, Pollution Control Revenue Bonds, PECO Energy Company Project, Refunding Series 1999A, 2.500%, 10/01/30 (Mandatory put 4/01/20)	No Opt. Call	BBB	502,605
500	Pennsylvania Economic Development Financing Authority, Health System Revenue Bonds , Albert Einstein Healthcare, Series 2009A, 6.250%, 10/15/23 (Pre-refunded 10/15/19)	10/19 at 100.00	Baa2 (4)	575,885
500	Pennsylvania Economic Development Financing Authority, Parking System Revenue Bonds, Capitol Region Parking System, Junior Guaranteed Series 2013B, 5.500%, 1/01/27	1/24 at 100.00	AA	609,365
250	Pennsylvania Economic Development Financing Authority, Parking System Revenue Bonds, Capitol Region Parking System, Junior Insured Series 2013C, 5.500%, 1/01/26 – AGM Insured	1/24 at 100.00	AA	307,538
230	Pennsylvania Economic Development Financing Authority, Private Activity Revenue Bonds, Pennsylvania Rapid Bridge Replacement Project, Series 2015, 5.000%, 12/31/25 (Alternative Minimum Tax)	No Opt. Call	BBB	266,899
225		7/17 at 100.00	Aaa	239,522

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225	Pennsylvania Economic Development Financing Authority, Unemployment Compensation Revenue Bonds, Series 2012B, 5.000%, 1/01/22	3/16 at 100.00	AA (4)	242,471
125	Pennsylvania Higher Educational Facilities Authority, Revenue Bonds, University of the Arts, Series 1999, 5.150%, 3/15/20 – RAAI Insured (ETM)	12/16 at 100.00	AA	128,055
580	Pennsylvania Public School Building Authority, Lease Revenue Bonds, School District of Philadelphia, Series 2006B, 4.500%, 6/01/32 – AGM Insured	12/20 at 100.00	AA–	667,719
880	Pennsylvania Turnpike Commission, Motor License Fund-Enhanced Subordinate Special Revenue Bonds, Series 2010A-2, 5.500%, 12/01/34	No Opt. Call	AA– (4)	999,680
875	Philadelphia Gas Works, Pennsylvania, Revenue Bonds, Twelfth Series 1990B, 7.000%, 5/15/20 – NPPFG Insured (ETM)	5/19 at 100.00	AA	996,888
330	St. Mary Hospital Authority, Pennsylvania, Health System Revenue Bonds, Catholic Health East, Series 2009D, 6.250%, 11/15/34	No Opt. Call	A–	373,260
6,865	Union County Hospital Authority, Pennsylvania, Hospital Revenue Bonds, Evangelical Community Hospital Project, Refunding and Improvement Series 2011, 5.750%, 8/01/21			7,572,896
200	Total Pennsylvania Rhode Island – 0.2% Rhode Island Health and Educational Building Corporation, Revenue Bonds, Care New England Health System, Series 2013A, 5.500%, 9/01/28	9/23 at 100.00	BBB	210,712
515	South Carolina – 4.4% Greenville County School District, South Carolina, Installment Purchase Revenue Bonds, Series 2006, 5.000%, 12/01/24	12/16 at 100.00	AA	534,858
1,540	Piedmont Municipal Power Agency, South Carolina, Electric Revenue Bonds, Refunding Series 1991, 6.750%, 1/01/19 – FGIC Insured (ETM)	No Opt. Call	A3 (4)	1,798,809
3,040	Piedmont Municipal Power Agency, South Carolina, Electric Revenue Bonds, Refunding Series	No Opt. Call	A3	3,511,559

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5,095	1991, 6.750%, 1/01/19 – FGIC Insured Total South Carolina South Dakota – 0.8% South Dakota Health and Educational Facilities Authority, Revenue Bonds,			5,845,226
1,000	Sanford Health, Series 2007, 5.000%, 11/01/27 (Pre-refunded 5/01/17) Tennessee – 0.2% Knox County Health, Educational and Housing Facility Board, Tennessee, Hospital Revenue Refunding Bonds, Covenant Health, Series 2012A:	5/17 at 100.00	A+ (4)	1,056,440
105	4.000%, 1/01/22	No Opt. Call	A	116,410
180	5.000%, 1/01/23	No Opt. Call	A	212,981
285	Total Tennessee Texas – 11.4% Bexar Metropolitan Water District, Texas, Waterworks System Revenue Bonds, Refunding Series 2007:			329,391
130	5.000%, 5/01/23 – SYNCORA GTY Insured	5/17 at 100.00	A+	136,881
15	5.000%, 5/01/24 – SYNCORA GTY Insured	5/17 at 100.00	A+	15,788
40	5.000%, 5/01/25 – SYNCORA GTY Insured	5/17 at 100.00	A+	42,057
10	Bexar Metropolitan Water District, Texas, Waterworks System Revenue Bonds, Refunding Series 2010, 5.875%, 5/01/40	5/20 at 100.00	A+	11,577
135	Bexar Metropolitan Water District, Texas, Waterworks System Revenue Bonds, Series 2006, 4.500%, 5/01/25 – NPMFG Insured	5/16 at 100.00	AA–	136,742
45	Bexar Metropolitan Water District, Texas, Waterworks System Revenue Refunding Bonds, Series 2009:			
145	5.000%, 5/01/29	5/19 at 100.00	A+	49,133
	5.000%, 5/01/39	5/19 at 100.00	A+	158,729
25	Brazos River Authority, Texas, Collateralized Pollution Control Revenue Bonds, Texas Utilities Electric Company, Series 2003D, 5.400%, 10/01/29 (Mandatory put 10/01/16) (5)	3/16 at 100.00	N/R	875
525	Central Texas Regional Mobility Authority, Revenue Bonds, Senior Lien Series 2011, 6.250%, 1/01/46	1/21 at 100.00	BBB+	607,903
1,000	Central Texas Regional Mobility Authority, Revenue Bonds, Senior Lien, Series 2015A, 5.000%, 1/01/31	7/25 at 100.00	BBB+	1,149,990
1,875		8/16 at 100.00	AAA	1,929,053

	Denton Independent School District, Denton County, Texas, General Obligation Bonds, Series 2006A, 5.000%, 8/15/20 (Pre-refunded 8/15/16)			
155	Harris County-Houston Sports Authority, Texas, Revenue Bonds, Refunding Second Lien Series 2014C, 5.000%, 11/15/24	No Opt. Call	A3	184,658
395	Harris County-Houston Sports Authority, Texas, Revenue Bonds, Refunding Senior Lien Series 2014A, 5.000%, 11/15/26 – AGM Insured	11/24 at 100.00	AA	471,140
35	Houston, Texas, Airport System Special Facilities Revenue Bonds, United Airlines, Inc. Terminal E Project, Refunding Series 2014, 5.000%, 7/01/29	7/24 at 100.00	BB–	38,026
140	Houston, Texas, Hotel Occupancy Tax and Special Revenue Bonds, Convention and Entertainment Facilities Department, Refunding Series 2011B, 5.250%, 9/01/25	9/16 at 100.00	A2	143,965

860 Includes Colombia, Brazil and Argentina.

- (3) Includes the effects of inflation.
- (4) Includes the Philippines.
- (5) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

In 2017, 2016 and 2015, we focused our capital expenditures on investments in (i) increasing production capacity; (ii) placing coolers with retailers; (iii) returnable bottles and cases; (iv) improving the efficiency of our distribution infrastructure; and (v) information technology. Through these measures, we continuously seek to improve our profit margins and overall profitability.

We have budgeted approximately US\$650 million for our capital expenditures in 2018. Our capital expenditures in 2018 are primarily intended for:

investments in production capacity;

Table of Contents

market investments;

returnable bottles and cases;

improvements throughout our distribution network; and

investments in information technology.

We estimate that of our projected capital expenditures for 2018, approximately 40.0% will be for our Mexican territories and the remaining will be for our non-Mexican territories. We believe that internally generated funds will be sufficient to meet our budgeted capital expenditure for 2018. Our capital expenditure plan for 2018 may change based on market and other conditions, our results and financial resources.

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

Table of Contents**Hedging Activities**

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

The following table provides a summary of the fair value of derivative instruments as of December 31, 2017. The fair market value is estimated using market prices that would apply to terminate the contracts at the end of the period and are confirmed by external sources, which generally are also our counterparties to the relevant contracts.

	Fair Value as of December 31, 2017				Total fair value
	Maturity less than 1 year	Maturity 1 3 years	Maturity 4 5 years	Maturity in excess of 5 years	
Cross Currency Swaps					
U.S. dollars to Mexican pesos		(567)	(139)	(50)	(756)
U.S. dollars to Brazilian reais	3,863	330	(24)		4,169
Interest Rate Swaps					
Brazilian variable interest rate to fixed rate		48	33		81
Options					
U.S. dollars to Mexican pesos	(12)				(12)
Forwards					
U.S. dollars to Mexican pesos	(113)				(113)
U.S. dollars to Brazilian reais	(51)				(51)
U.S. dollars to Colombian pesos	3				3
U.S. dollars to Argentine pesos	7				7
Commodity Hedge Contracts					
Sugar	4	(3)			1

Table of Contents**Item 6. Directors, Senior Management and Employees****Directors**

Management of our business is vested in our board of directors and in our chief executive officer. In accordance with our bylaws and Article 24 of the Mexican Securities Market Law, our board of directors will consist of no more than 21 directors and their respective alternates, elected at the annual ordinary shareholders meeting for renewable terms of one year. Our board of directors currently consists of 21 directors and 18 alternate directors; 13 directors and their respective alternate directors are elected by holders of the Series A shares voting as a class; five directors and their respective alternate directors are elected by holders of the Series D shares voting as a class; and up to three directors and their respective alternate directors are elected by holders of the Series L shares voting as a class. Directors may only be elected by a majority of shareholders of the appropriate series, voting as a class.

In accordance with our bylaws and Article 24 of the Mexican Securities Market Law, at least 25.0% of the members of our board of directors must be independent (as defined by the Mexican Securities Market Law). The board of directors may designate interim directors in the case that a director is absent or an elected director and corresponding alternate are unable to serve; the interim directors serve until the next shareholders meeting, at which the shareholders elect a replacement.

Our bylaws provide that when Series B shares are issued, which has not yet occurred, for every 10.0% of issued and paid shares of capital stock of our company held by shareholders of such Series B shares, either individually or as a group, such shareholders shall have the right to designate and revoke one director and the corresponding alternate, pursuant to Article 50 of the Mexican Securities Market Law.

Our bylaws provide that the board of directors shall meet at least four times a year. Since our major shareholders amended their Shareholders Agreement in February 2010, our bylaws were modified accordingly establishing that actions by the board of directors must be approved by at least a majority of the directors present and voting, except under certain limited circumstances which must include the favorable vote of at least two directors elected by the Series D shares. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.** The chairman of the board of directors, the chairman of our audit or Corporate Practices Committee, or at least 25.0% of our directors may call a board of directors meeting to include matters in the meeting agenda.

At our general ordinary shareholders meeting held on March 9, 2018, the following directors were appointed or confirmed: 13 directors and their respective alternates as applicable, were appointed or confirmed by holders of Series A shares, five directors and their respective alternates as applicable, were appointed or confirmed by holders of Series D shares and three directors and their respective alternates as applicable, were appointed or confirmed by holders of Series L shares. Our board of directors is currently comprised of 21 members.

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

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

Series A Directors

José Antonio	Born:	February 1954
Vicente	First elected:	1993, as director; 2001 as chairman.
	Term expires:	2019

Fernández Carbajal

Chairman

Principal occupation: Executive Chairman of the board of directors of FEMSA.
Other directorships: Chairman of the board of directors of Fundación FEMSA, A.C. and Instituto Tecnológico y de Estudios Superiores de Monterrey, or ITESM. Chairman Emeritus of the US Mexico Foundation. Member of the board of directors of Heineken Holding, N.V., and Grupo Televisa, S.A.B. de C.V. and vice-chairman of the supervisory board of Heineken, N.V., Chairman of the Americas committee and member of the preparatory committee and selection and appointment committee of Heineken, N.V. Member of the board of directors of Industrias Peñoles, S.A.B. de C.V., Co-Chairman of the advisory board of Woodrow Wilson Center, Mexico Chapter and member of the board of trustees of the Massachusetts Institute of Technology Corporation.

Table of Contents

	Business experience:	Joined the strategic planning department of FEMSA in 1988, after which he held managerial positions at FEMSA Cerveza's commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991 and Chief Executive Officer in 1995, a position he held until December 31, 2013. As of January 1, 2014, he was appointed Executive Chairman of the board of directors of FEMSA.
	Education:	Holds a degree in Industrial Engineering and a Master in Business Administration, or MBA, from ITESM.
	Alternate director:	Eva María Garza Lagüera Gonda ⁽³⁾
Miguel Eduardo Padilla Silva	Born:	January 1955
	First elected:	2016
	Term expires:	2019
<i>Director</i>	Principal occupation:	Chief Executive Officer of FEMSA.
	Other directorships:	Member of the board of directors of FEMSA, and member of the board of directors of Grupo Lamosa, S.A.B. de C.V., Club Industrial, A.C., Universidad Tec Milenio and Coppel, S.A. de C.V.
	Business experience:	He held the position of Chief Financial and Corporate Officer of FEMSA from 2016 to 2017 and Chief Executive Officer of FEMSA Comercio from 2004 to 2016. Also, he held the positions of Planning and Control Officer of FEMSA from 1997 to 1999 and Chief Executive Officer of the Strategic Procurement Business Division of FEMSA from 2000 to 2003. He had a 20-year career in Alfa, S.A.B. de C.V., or Alfa, and held a position in Terza, S.A. de C.V. as Chief Executive Officer.
	Education:	Holds a degree in Mechanical Engineering from ITESM, a MBA from Cornell University and executive management studies at Instituto Panamericano de Alta Dirección de Empresa, or IPADE.
	Alternate director:	Francisco José Calderón Rojas

Table of Contents

Javier Gerardo Born: July 1959
 First elected: 2006
 Astaburuaga Term expires: 2019
 Sanjines

Director

Principal occupation: Vice-President of Corporate Development of FEMSA.
 Business experience: Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance. He held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer and for two years he served as FEMSA Cerveza's Director of Sales for the north region of Mexico, prior to his current position and until 2003, when he was appointed FEMSA Cerveza's Co-Chief Executive Officer. He held the position of Chief Financial and Corporate Officer of FEMSA from 2006 to 2015.
 Other directorships: Member of the board of directors of Heineken N.V. and FEMSA. Member of the audit committee of Heineken N.V., finance and investments committee of ITESM and of the investments committee of Grupo Acosta Verde.
 Education: Holds a degree in accounting from ITESM and is licensed as a Certified Public Accountant, or CPA.
 Alternate director: Mariana Garza Lagüera Gonda⁽²⁾

Federico Reyes Born: September 1945
 First elected: 1992
 García Term expires: 2019

Director

Principal occupation: Independent consultant.
 Business experience: At FEMSA, he held the position of Executive Vice-President of Corporate Development from 1992 to 1993, Chief Financial Officer from 1999 to 2006, and Corporate Development Officer until 2015.
 Other directorships: Alternate member of the board of directors of FEMSA, and member of the board of directors of Fundación FEMSA and Tec Salud.
 Education: Holds a degree in Business and Finance from ITESM.
 Alternate director: Alejandro Bailleres Gual

John Anthony Santa Born: August 1957
 Maria Otazua First elected: 2014
 Term expires: 2019

Director

Principal occupation: Our Chief Executive Officer.
 Business experience: Has served as our Strategic Planning and Business Development Officer and Chief Operating Officer of our Mexican operations. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of our South America division. He also has experience in several areas of our company,

namely development of new products and mergers and acquisitions. Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management.

Other directorships: Member of the board of directors of Genera, S.A.B. de C.V., or Genera and member of the board of directors and commercial committee of Banco Compartamos, S.A., Institución de Banca Múltiple.

Education: Holds a Bachelor's degree in Business Administration and a MBA with a major in Finance from Southern Methodist University.

Alternate director: Héctor Treviño Gutiérrez

Paulina Garza

Born: March 1972

First elected: 2009

Lagüera Gonda⁽²⁾

Term expires: 2019

Director

Business experience: Private investor

Other directorships: Alternate member of the board of directors of FEMSA. Member of the board of directors of Controladora Pentafem, S.A.P.I. de C.V., Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliaria La Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V. and Peñitas, S.A. de C.V.

Table of Contents

	Education:	Holds a degree in Business Administration from ITESM.
	Alternate director:	Alfonso Garza Garza ⁽¹⁾
Ricardo Guajardo Touché <i>Director</i>	Born:	May 1948
	First elected:	1988
	Term expires:	2019
	Principal occupation:	Chairman of the board of directors of Solfi, S.A. de C.V.
	Other directorships:	Member of the board of directors of FEMSA, Grupo Valores Operativos Monterrey, S.A.P.I. de C.V., El Puerto de Liverpool, S.A.B. de C.V., Alfa, Grupo Financiero BBVA Bancomer, BBVA Bancomer, S.A., Institución de Banca Múltiple, or BBVA Bancomer, Grupo Aeroportuario del Sureste, S.A.B. de C.V., Grupo Bimbo, S.A.B. de C.V., or Bimbo, Grupo Coppel, S.A. de C.V., ITESM and Vitro, S.A.B. de C.V.
	Business experience:	Has held senior executive positions at FEMSA, Grupo AXA, S.A. de C.V. and Grupo Valores de Monterrey, S.A.B. de C.V.
	Education:	Holds a degree in Electrical Engineering from ITESM and the University of Wisconsin and a Master's degree from the University of California at Berkeley.
	Alternate director:	Daniel Alberto Rodríguez Cofré
Alfonso González Migoya <i>Independent Director</i>	Born:	January 1945
	First elected:	2006
	Term expires:	2019
	Principal occupation:	Chairman of the board of directors of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (Volaris), and managing partner of Acumen Empresarial, S.A. de C.V.
	Other directorships:	Member of the board of directors of FEMSA, Nemark, S.A.B. de C.V., Bolsa Mexicana de Valores, S.A.B. de C.V., Banregio Grupo Financiero, S.A., Grupo Cuprum, S.A. de C.V., Berel, S.A. de C.V., Servicios Corporativos Javer, S.A.P.I. de C.V., Grupo Senda Autotransporte, S.A. de C.V. and ITESM.
	Business experience:	Served as Corporate Director of Alfa from 1995 to 2005 and as Chairman of the board of directors and Chief Executive Officer of Grupo Industrial Saltillo, S.A.B. de C.V. from 2009 to 2014.
	Education:	Holds a degree in Mechanical Engineering from ITESM and a MBA from the Stanford University Graduate School of Business.
	Alternate director:	Ernesto Cruz Velázquez de León (independent director)
Enrique F. Senior Hernández <i>Independent Director</i>	Born:	August 1943
	First elected:	2004
	Term expires:	2019
	Principal occupation:	Managing Director of Allen & Company, LLC.
	Other directorship:	Alternate member of the board of directors of FEMSA, and member of the board of directors of Televisa, Cinemark USA, Inc. and Univision Communications, Inc.
	Business experience:	Among other clients, has provided financial advisory services to FEMSA and Coca-Cola FEMSA.

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Education: Holds a law degree from Yale University, an Honorary Law Doctorate from Emerson College and a MBA from Harvard University Business School.

Alternate director: Herbert A. Allen III (independent director)

Table of Contents

Luis Rubio Freidberg <i>Independent Director</i>	Born:	August 1955
	First elected:	2015
	Term expires:	2019
	Principal occupation:	President of the Organization México Evalúa
	Other directorships:	President of the board of directors of Consejo Mexicano de Asuntos Internacionales (COMEXI). He is also a member of the board of directors of Xanthrus, The India Fund-Asia Tigers, The Tinker Foundation and Transparencia Mexicana.
	Business experience:	He is a contributing editor of the newspaper Reforma. In the 1970s he was Planning Director at Citibank in Mexico and served as an adviser to Mexico's Secretary of the Treasury.
	Education:	Holds a degree in Financial Administration, a multinational MBA and a Master's degree and PhD in political science from Brandeis University.
	Alternate director:	Jaime A. El Koury (independent director)
Daniel Javier Servitje Montull <i>Independent Director</i>	Born:	April 1959
	First elected:	1998
	Term expires:	2019
	Principal occupation:	Chief Executive Officer and Chairman of the board of directors of Bimbo.
	Other directorships:	Member of the board of directors of Grupo Financiero Banamex, S.A. de C.V., Instituto Mexicano para la Competitividad, A.C., The Consumer Goods Forum, and Latin America Conservation Council (The Nature Conservancy). Member of Stanford GSB Advisory Council and Wal-Mart Mexico Advisory Board of Suppliers. Chairman of the board of directors of Corporación Aura Solar, S.A.P.I. de C.V., Servicios Comerciales de Energía, S.A. de C.V., and Aura Solar II Corp.
	Business experience:	Served as Vice-President of Bimbo.
	Education:	Holds a degree in Business Administration from the Universidad Iberoamericana in Mexico and a MBA from the Stanford University Graduate School of Business.
	Alternate director:	Victor Alberto Tiburcio Celorio (independent director)
José Luis Cutrale <i>Director</i>	Born:	September 1946
	First elected:	2004
	Term expires:	2019
	Principal occupation:	Chairman of the board of directors of Sucocítrico Cutrale, Ltda.
	Other directorships:	Member of the board of directors of Cutrale North America, Inc., Cutrale Citrus Juice USA, Inc., Citrus Products, Inc. and Chiquita Brands International and member of the Brazilian American Chamber of Commerce.
	Business experience:	Founding partner of Sucocítrico Cutrale and member of the Brazilian American Chamber of Commerce.
	Education:	Holds a degree in Business Administration.
	Alternate director:	José Luis Cutrale, Jr.

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<p>Luis Alfonso Nicolau Gutiérrez <i>Director</i></p>	<p>Born: June 1961</p> <p>First elected: 2018</p> <p>Term expires: 2019</p> <p>Principal occupation: Partner at Ritch, Mueller, Heather y Nicolau, S.C., law firm; member of the firm's executive committee.</p> <p>Other directorships: Member of the boards of directors of Morgan Stanley, Casa de Bolsa, S.A. de C.V., Grupo Financiero Credit Suisse, S.A. de C.V., UBS Asesores México, S.A.</p> <p>de C.V., Grupo Posadas, S.A.B. de C.V., Ignia Fund (<i>Fideicomiso Ignia</i>),</p> <p>Pizzas del Valle de México, S.A de C.V. (Shakey's Pizza Mexico) and KIO Networks. Member of the investment committee of Ignia Fund</p> <p>and Promotora Social México and an independent member of the supervisory board of Bolsa Mexicana de Valores, S.A.B. de C.V.</p>
<p>Business experience:</p>	<p>Has been a partner at Ritch Mueller since 1990, specializes in mergers and acquisitions, debt and equity capital markets transactions and banking and finance. He is a leading expert in assisting underwriters and issuers in debt and equity offerings in Mexico and abroad. Also, he worked as a foreign associate for Johnson & Gibbs, Dallas and Shearman & Sterling, New York.</p>

Table of Contents

Education: Holds a Law degree from the Escuela Libre de Derecho and a Master in Law from Columbia University.

Series D Directors

José Octavio Reyes
Lagunes

Born: March 1952
First elected: 2016
Term expires: 2019

Director

Principal occupation: Retired.
Other directorships: Member of the board of directors and President of the resources committee of MasterCard Worldwide and member of the board of directors and member of the sustainability committee of Coca-Cola Hellenic Bottling Company.

Business experience: He began his career with The Coca-Cola Company in 1980 as Manager of Strategic Planning at Coca-Cola de México, was appointed Manager of the *Sprite* and *Diet Coke* brands at the corporate headquarters in Atlanta in 1987, became Marketing Director for the Brazil Division in 1990, was named Marketing and Operations Vice President of the Mexico Division and became President of the Mexico Division in 1996. He served as President of the Latin American Group of The Coca-Cola Company from 2002 to 2012.

Education: Holds a degree in Chemical Engineering from the Universidad Nacional Autónoma de México and a MBA from ITESM.

Alternate director: T. Robin Rodgers Moore

Charles Brent Hastie

Born: July 1973
First elected: 2017
Term expires: 2019

Director

Principal occupation: Senior Vice President, Chief Financial and Supply Chain Officer of Coca-Cola North America.

Other directorships: Member of the executive committee of Piedmont Coca-Cola Bottling Partnership.

Business experience: He first joined The Coca-Cola Company in 2006 and his previous leadership

assignments included Chief Strategy Officer for Coca-Cola Refreshments;

President of active lifestyle brands, where he was responsible for managing the

glacéau business; and Vice President, Commercial Leadership of Still Beverages, and Vice President of Strategy and Planning, all for the North America Group. Prior to joining The Coca-Cola Company he was a Principal with McKinsey & Company in Atlanta, Brazil and South Africa. Additionally, he worked at Bain Capital as Vice President in the Portfolio Group. Recently, he was Senior Vice President of Strategic and Business Planning for The

		Coca-Cola Company.
	Education:	Holds a Bachelor's degree in Chemical Engineering from the Georgia Institute of Technology, graduating summa cum laude, and holds a MBA with honors from Harvard University.
	Alternate director:	Franz Alscher
Charles H. McTier	Born:	January 1939
<i>Independent</i>	First elected:	1998
<i>Director</i>	Term expires:	2019
	Principal occupation:	Retired.
	Business experience:	Was associated with the Robert W. Woodruff Foundation for over forty years, serving as its President from 1988-2006 and served as a trustee from 2006-2015. Served on the board of directors of nine U.S. Coca-Cola bottling companies in the 1970s and 1980s.
	Education:	Holds a Bachelor's degree in Business Administration from Emory University.
Brian Smith	Born:	December 1955
<i>Director</i>	First elected:	2017
	Term expires:	2019
	Principal occupation:	President of The Coca-Cola Company Europe, Middle East and Africa Group.
	Other directorships:	Member of the board of directors, the compensation committee and audit committee of Evertec, Inc.

Table of Contents

	Business experience:	Joined The Coca-Cola Company in 1997 as Latin America Group Manager for Mergers and Acquisitions until 2001. From July 2001 to July 2002 he worked as Executive Assistant to the Chief Operating Officer and Vice-Chairman of The Coca-Cola Company. From August 2002 to October 2008 he was President of the Brazil Division and from 2008 to 2012 he was President of the Mexico Division. Before his current position, he was Group President of Latin America from 2013 to 2016.
	Education:	Holds a MBA from the University of Chicago.
	Alternate director:	Marie D. Quintero-Johnson
Bárbara Garza Lagüera Gonda ⁽²⁾	Born:	December 1959
	First elected:	1999
	Term expires:	2019
<i>Director</i>	Principal occupation:	Private investor.
	Other directorships:	Alternate member of the board of directors of FEMSA. Vice-Chairman of the board of directors of ITESM Campus Mexico City. Member of the board of directors of Fresnillo, Plc., Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario La Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V., Controladora Pentafem, S.A.P.I. de C.V., BECL, S.A. de C.V., Soluciones Financieras (SOLFI), Fondo para la Paz, Museo Franz Mayer and member of the supervision commission of the Fondo Nacional para la Cultura y las Artes (FONCA).
	Education:	Holds a degree in Business Administration from ITESM.
	Alternate director:	Maximino José Michel González

Table of Contents***Series L Directors***

Robert Alan Fleishman Cahn	Born: First elected: Term expires:	February 1962 2012 2019
<i>Independent Director</i>	Principal occupation:	Chief Executive Officer of Grupo Tampico, S.A.P.I. de C.V.
	Other directorships:	Secretary of the board of directors of Grupo Tampico, S.A.P.I. de C.V. and its subsidiaries, and member of the regional board of Banco Nacional de México, S.A. and BBVA Bancomer. Member of the board of directors of Fundación Fleishman.
	Education:	Holds a Bachelor's degree in Business from the University of Texas and an executive development program certificate from the Wharton School at the University of Pennsylvania.
	Alternate:	Herman Harris Fleishman Cahn (independent director)
José Manuel Canal Hernando	Born: First elected: Term expires:	February 1940 2003 2019
<i>Independent Director</i>	Principal occupation:	Independent consultant on corporate governance matters, statutory examiner and director of several public and private companies.
	Business experience:	Former managing partner at Arthur Andersen (Ruiz, Urquiza y Cía, S.C.) from 1981 to 1999, acted as statutory examiner of FEMSA from 1984 to 2002, founder and chairman of the Mexican Accounting Standards Board.
	Other directorships:	Member of the board of directors of FEMSA, Estafeta Mexicana, S.A. de C.V. and Tapón Corona, S.A. de C.V., member of the board of directors and chairman of the audit committee of Grupo Kuo, S.A.B. de C.V., member of the board of directors and member of the audit committee of Grupo Industrial Saltillo, S.A.B. de C.V., member of the board of directors, member of the audit committee and chairman of the risk committee of Genera, and statutory examiner of Grupo BBVA Bancomer and Bank of America.
	Education:	Holds a degree in Accounting from the Universidad Nacional Autónoma de México and is licensed as a CPA.
Francisco Zambrano Rodríguez	Born: First elected: Term expires:	January 1953 2003 2019
<i>Independent Director</i>	Principal occupation:	Managing Partner of FORTE Estate Planning S.C.
	Other directorships:	Co-Chief Executive Officer and member of the board of directors of Desarrollo Inmobiliario y de Valores, S.A. de C.V., Corporativo Zeta DIVASA, S.A.P.I. and IPFC Inmuebles, S.A.P.I. de C.V. Member of the supervisory board of ITESM.
	Business experience:	Has extensive experience in investment banking and private investment services in Mexico, real estate projects, and as patrimonial and probate consultant.
	Education:	

Alternate director: Sergio Deschamps Ebergenyi (independent director)
Holds a degree in Chemical Engineering from ITESM and a MBA from the University of Texas at Austin.

- (1) Cousin of Eva María Garza Lagüera Gonda, Paulina Garza Lagüera Gonda, Mariana Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda.
- (2) Sister of Eva Maria Garza Lagüera Gonda and sister-in-law of José Antonio Fernández Carbajal.
- (3) Wife of José Antonio Fernández Carbajal.

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

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

Table of Contents**Executive Officers**

The following are the executive officers of our company:

John Anthony Santa	Born:	August 1957
	Joined:	1995
Maria Otazua	Appointed to current position:	2014
<i>Chief Executive Officer</i>	Business experience with us:	Has served as our Strategic Planning and Business Development Officer and Chief Operating Officer of our Mexican operations. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of our South America division. He also has experience in several areas of our company, namely development of new products and mergers and acquisitions.
	Other business experience:	Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management.
	Education:	Holds a Bachelor's degree in Business Administration and a MBA with a major in Finance from Southern Methodist University.
Héctor Treviño Gutiérrez	Born:	August 1956
	Joined:	1981
<i>Chief Financial Officer</i>	Appointed to current position:	1993
	Other business experience:	At FEMSA, was in charge of the International Financing department, served as Manager of Financial Planning and Manager of International Financing, Chief Officer of Strategic Planning and Chief Officer of Business Development and headed the Corporate Development department.
	Education:	Holds a degree in Chemical Engineering from ITESM and a MBA from the Wharton School of Business.
Constantino Spas Montesinos	Born:	May 1970
	Joined:	2018
<i>Strategic Planning Officer</i>	Appointed to current position:	2018
	Other business experience:	He has 24 years of experience in the food and beverage sector in companies such as Grupo Mavesa and Empresas Polar in Venezuela, Kraft Foods, SAB Miller in Latin America and Bacardi in Mexico, occupying different positions in marketing, as regional officer and as VP Managing Director.
	Education:	Holds a Bachelor's degree in Business Administration from Universidad Metropolitana in Caracas and a MBA from Emory University-Goizueta Business School in Atlanta, Georgia.

Tanya Cecilia Avellan Pinoargote	Born:	May 1966
	Joined:	2002
<i>Information Technology and Commercial Officer</i>	Appointed to current position:	2014
	Business experience with us:	Served as Strategic Planning Officer at FEMSA, Chief Operations Officer at our Central America division and Commercial Planning and Strategic Development Officer.
	Other business experience:	Has undertaken responsibilities in different multinational companies with vast experience in mass consumer goods.
	Education:	Holds a degree in Communications from Universidad Politécnica del Ecuador and a MBA specialized in marketing from INCAE Business School.

Table of Contents

<p>Karina Paola Awad Pérez <i>Human Resources Officer</i></p>	<p>Born: February 1968 Joined: 2018 Appointed to current position: 2018 Business experience with us: Joined our company in 2018 as Human Resources Officer. Other business experience: Has served for more than 20 years in several areas of human resources. In 2010, she occupied the position of Vice President of Human Resources for Wal-Mart Chile and in 2013 she was named Senior Vice President of Human Resources for Wal-Mart Mexico and Central America. Education: Holds a degree in psychology from the Pontificia Universidad Católica de Chile and a MBA from the UAI de Chile.</p>
<p>José Ramón de Jesús Martínez Alonso <i>Corporate Affairs Officer</i></p>	<p>Born: July 1961 Joined: 2012 Appointed to current position: 2016 Business experience with us: In 2012, he joined our company as Corporate Affairs Officer for México and Central America division. He further occupied the position as Strategic Planning Officer for South America division and previous to his current position he occupied the position as Chief Operating Officer for Brazil. Other business experience: More than 30 years of experience in the Coca-Cola system. He began his career at Panamco where he developed various activities related with the business operation including sugar production and concentrates. In 1994, he occupied the position as Operations Officer of Panamco in Mexico and the following year he occupied the position as Operations Officer of Panamco in Venezuela. From 2005 to 2012, he was Chief Executive Officer of the <i>Asociación Mexicana de Embotelladores de Coca-Cola (ASCOCA)</i>. Education: Holds a degree in Chemical Engineering from La Salle University, an MBA from IPADE and postgraduate studies in production administration from the Georgia Institute of Technology; Strategic Direction from Stanford University; and Finance Management from John E. Anderson Graduate School of the University of California, Los Angeles.</p>
<p>Rafael Ramos Casas <i>Supply Chain and Engineering Officer</i></p>	<p>Born: April 1961 Joined: 1999 Appointed to current position: 2018 Business experience with us: Has served as Supply Chain Officer of FEMSA and OXXO. He held several positions in Propimex for our division in Mexico. Other business experience: He has experience with a different bottler company in Mexico in positions such as Chief Operating Officer, Manufacturing</p>

		Director and plant manager.
	Education:	Holds a degree in Biochemical Engineering with a minor in Administration and a Master's degree in Business Administration of Agricultural Enterprises.
Xiemar Zarazua López	Born:	June 1963
	Joined:	2017
<i>Chief Operating Officer Mexico</i>	Appointed to current position:	2017
	Business experience with us:	Joined our company in January 2017 as Chief Operating Officer of Mexico.
	Other business experience:	Has served for more than 30 years in The Coca-Cola Company in different positions including Chief Executive Officer of the Brazil Business Unit from 2008 to 2016 and Chief Executive Officer of the Latin America Business Unit from 2006 to 2008. He also served in different areas in Mexico and Central America.
	Education:	Holds a Bachelor's degree in Economics from Universidad Autónoma de Nuevo León and Finance postgraduate studies from ITESM.

Table of Contents

Eduardo Guillermo Hernández Peña <i>Chief Operating Officer Latin America</i>	Born: Joined: Appointed to current position: Business experience with us: Other business experience: Education:	October 1965 2015 2018 Has served as New Businesses Officer and Strategic Planning Officer. At Empresas Polar he held several positions in the beer, wine and food business. From 2012 to 2015 he served as Chief Executive Officer of Gloria, S.A. Holds a Bachelor's degree in Business Administration from Universidad Metropolitana of Venezuela, a degree in Marketing from Harvard University and a MBA from Northwestern University.
Ian Marcel Craig García <i>Chief Operating Officer Brazil</i>	Born: Joined: Appointed to current position: Business experience with us: Other business experience: Education:	May 1972 1994 2016 Has served as Chief Operating Officer of Argentina. Has served as Chief Financial Officer of our South America division, and also as Corporate Finance and Treasury Director of Coca-Cola FEMSA. Within the group he has worked in a Corporate Finance position and Beer Division Supply Chain position. Also, he worked in other companies in the area of strategic planning. Holds a Bachelor's degree in Industrial Engineering from ITESM, a MBA from the University of Chicago Booth School of Business and a Master's degree in International Commercial Law from ITESM.
Washington Fabricio Ponce García <i>Chief Operating Officer Asia</i>	Born: Joined: Appointed to current position: Business experience with us: Other business experience: Education:	April 1968 1998 2015 Has served as head of our Colombian operations prior to his assignment in the Philippines. Has served as Managing Director of Central America, Argentina, Brazil, Colombia and Strategic Planning Director for our operations in Latin America. He worked for three years with Bain & Company. Holds a Master's degree in Business Economics from INCAE, Costa Rica.
Stanislas Pierre Marie Auber <i>New Businesses Officer</i>	Born: Joined: Appointed to current position:	December 1963 2017 2017

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	Other business experience:	Has served for more than 20 years in the global beverage industry and he has held several managerial positions in Latin America. He also has experience as project consultant in France and the United States of America.
	Education:	Holds a MBA from ESSEC Business School (France).
Rafael Alberto Suárez Olaguibel <i>Operational Integration Officer</i>	Born:	April 1960
	Joined:	1986
	Appointed to current position:	2017
	Business experience with us:	Has served as Chief Operating Officer of Latin America and Latincentro Divisions, Commercial Planning and Strategic Development Officer, Chief Operating Officer of Mexico, Chief Operating Officer of Argentina, Distribution and Sales Director of Valley of Mexico and Marketing Director of Valley of Mexico.

Table of Contents

Other business experience:	Has worked as Franchises Manager and in other positions at The Coca-Cola Company in Mexico.
Education:	Holds a degree in Economics and a MBA from ITESM.

Compensation of Directors and Officers

For the year ended December 31, 2017, the aggregate compensation of all of our executive officers paid or accrued for services in all capacities was approximately Ps.280.6 million. The aggregate compensation amount includes approximately Ps.113.7 million of cash bonus awards and bonuses paid to certain of our executive officers pursuant to our incentive plan for stock purchases. **See Bonus Program.**

The aggregate compensation for directors during 2017 was Ps.17.0 million. For each meeting attended we paid US\$13,000 to each director with foreign residence and US\$9,000 to all other directors with residence in Mexico in 2017.

We paid US\$5,000 to each of the members of the Audit, Finance and Planning and the Corporate Practices Committees per each meeting attended, and we paid US\$6,500 to the chairman of the Audit Committee per meeting attended.

Our executive officers and senior executives participate in our benefit plans in the same terms as our other employees. Members of our board of directors do not participate in our benefit plans. As of December 31, 2017, amounts accrued for all employees under our pension and retirement plans were Ps.4,369 million, of which Ps.1,692 million are already funded.

Bonus Program

Cash-based payment bonus plan. Our bonus program for executives officers and senior executives is based on complying with certain goals established annually by management, which include quantitative and qualitative objectives as well as the completion of special projects.

The quantitative objectives represent approximately 50.0% of the bonus and are based on the Economic Value Added, or EVA, methodology. The quantitative objectives established for our executive officers and senior executives are based on a combination of the EVA generated by our company and the EVA generated by our parent company, FEMSA. The quantitative objectives established for managers are based only on the EVA generated by our company. The qualitative goals and special projects represent the remaining 50.0% of the annual bonus and are based on the critical success factors established at the beginning of the year for each eligible participant. The bonus amount is determined based on each eligible participant's level of responsibility. This formula is calculated considering the level of responsibility within the organization, the employees' evaluation and competitive compensation in the market.

The incentive plan target is expressed in months of salary and the final amount payable is computed based on a percentage of compliance with the goals established every year. The bonuses are recorded as a part of the income statement and are paid in cash the following year.

Share-based payment bonus plan. We have a stock incentive plan for the benefit of our executive officers and senior executives. This plan uses as its main evaluation metric the EVA methodology. Under the EVA stock incentive plan, eligible executive officers and senior executives are entitled to receive a special annual bonus to purchase FEMSA and Coca-Cola FEMSA shares traded in the Mexican Stock Exchange, based on the executive's responsibility in the organization and their business's EVA result. The special bonus is granted to eligible executive officers and senior executives on an annual basis and after withholding applicable taxes. We contribute the individual executive's special

bonus in cash to the administrative trust (which is controlled and consolidated by FEMSA), which then uses the funds to purchase FEMSA and Coca-Cola FEMSA shares (as instructed by the Corporate Practices Committee). The acquired shares are deposited in a trust, and the executive officers and senior executives accessed them one year after they are vested, at 33.0% per year. The executive officers and senior executives may access their acquired shares ratably over a three-year period. Fifty percent of our annual executive bonus under our stock incentive plan is to be used to purchase FEMSA shares and the remaining 50.0% to purchase our company's shares.

During the years ended December 31, 2017, 2016 and 2015, the cash-based and share-based bonus expense paid to executive officers, senior executives and managers pursuant to our bonus program amounted to Ps.701 million, Ps.706 million and Ps.549 million, respectively.

Share Ownership

As of April 13, 2018, several of our directors and alternate directors were trust participants under the Irrevocable Trust No. 463 established at Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero, as trustee, which is the owner of approximately 74.9% of the voting stock of FEMSA, which in turn owns 47.2% of our outstanding capital stock. As a result of the

Table of Contents

voting trusts internal procedures, the voting trust as a whole is deemed to have beneficial ownership with sole voting power of all the shares deposited in the voting trust, and each of the trust participants are deemed to have beneficial ownership with shared voting power over those same deposited shares. These directors and alternate directors are Alfonso Garza Garza, Paulina Garza Lagüera Gonda, Bárbara Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Eva María Garza Lagüera Gonda, Max Michel González and Francisco José Calderón Rojas. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders.** None of our other directors, alternate directors or executive officers is the beneficial owner of more than 1% of any class of our capital stock. See Note 16 to our consolidated financial statements.

Board Practices

Our bylaws state that the board of directors will meet at least four times a year to discuss our operating results and progress in achieving strategic objectives. It is the practice of our board of directors to meet following the end of each quarter. Our board of directors can also hold extraordinary meetings. **See Item 10. Additional Information Bylaws.**

Under our bylaws, directors serve one-year terms although they continue in office for up to 30 days until successors are appointed. If no successor is appointed during this period, the board of directors may appoint interim members, who will be ratified or substituted at the next shareholders meeting after such event occurs. None of the members of our board of directors or senior management of our subsidiaries has service agreements providing for benefits upon termination of employment.

Our board of directors is supported by committees, which are working groups approved at our annual shareholders meeting that analyze issues and provide recommendations to the board of directors regarding their respective areas of focus. The executive officers interact periodically with the committees to address management issues. The following are the three committees of the board of directors:

Finance and Planning Committee. The Finance and Planning Committee works with management to set our annual and long-term strategic and financial plans and monitors adherence to these plans. It is responsible for setting our optimal capital structure and recommends the appropriate level of borrowing as well as the issuance of securities. Financial risk management is another responsibility of the Finance and Planning Committee. Ricardo Guajardo Touché is the chairman of the Finance and Planning Committee. The other members include: Federico Reyes García, Charles Brent Hastie, Enrique F. Senior Hernández and Miguel Eduardo Padilla Silva. The secretary non-member of the Finance and Planning Committee is Héctor Treviño Gutiérrez, our Chief Financial Officer.

Audit Committee. The Audit Committee is responsible for reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee; the internal auditing function also reports to the Audit Committee. The Audit Committee has implemented 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. To carry out its duties, the Audit Committee may hire independent counsel and other advisors. As necessary, we compensate the independent auditor and any outside advisor hired by the Audit Committee and provide funding for ordinary administrative expenses incurred by the Audit Committee in the

course of its duties. José Manuel Canal Hernando is the chairman of the Audit Committee and the audit committee financial expert. Pursuant to the Mexican Securities Market Law, the chairman of the Audit Committee is elected at our shareholders meeting. The other members are: Alfonso González Migoya, Charles H. McTier, Victor Alberto Tiburcio Celorio, Francisco Zambrano Rodríguez and Ernesto Cruz Velázquez de León. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Market Law and applicable New York Stock Exchange listing standards. The secretary non-member of the Audit Committee is José González Ornelas, vice-president of FEMSA's internal corporate control department.

Corporate Practices Committee. The Corporate Practices Committee, which consists exclusively of independent directors, is responsible for preventing or reducing the risk of performing operations that could damage the value of our company or that benefit a particular group of shareholders. The committee may call a shareholders meeting and include matters on the agenda for that meeting that it deems appropriate, approve policies on related party transactions, approve the compensation plan of the chief executive officer and relevant officers, and support our board of directors in the elaboration of related reports. The chairman of the Corporate Practices Committee is Daniel Javier Servitje Montull. Pursuant to the Mexican Securities Market Law, the chairman of the Corporate Practices Committee is elected at our shareholders meeting. The other members include: Jaime A. El Koury, Luis Rubio Freidberg and Luis A. Nicolau Gutiérrez. The secretary non-member of the Corporate Practices Committee is Karina Paola Awad Pérez.

We also have an Advisory Board whose main role is to advise and propose initiatives to our board of directors through the Chief Executive Officer. This Advisory Board is mainly comprised of former shareholders of the various bottling businesses that merged with us, whose experience constitutes an important contribution to our operations.

Table of Contents**Employees**

As of December 31, 2017, our headcount was as follows: 51,857 in Mexico and Central America, 27,779 in South America (excluding Venezuela) and 16,566 in the Philippines. As of such date, the headcount of KOF Venezuela was 5,373. In the headcount we include the employees of third party distributors. The table below sets forth headcount by category for the periods indicated:

	As of December 31,		
	2017⁽¹⁾	2016	2015
Executives	1,216	935	1,024
Non-union	29,873	25,916	24,479
Union	57,245	51,134	49,855
Employees of third party distributors	13,241	7,155	8,354
Total	101,575	85,140	83,712

(1) Includes employees of KOF Venezuela.

As of December 31, 2017, and taking into account employees of KOF Venezuela, approximately 56.4% of our employees, most of whom were employed in Mexico, were members of labor unions. We had 298 separate collective bargaining agreements with 164 labor unions. In general, we have a good relationship with the labor unions throughout our operations, even though we operate in complex environments, such as Argentina. **See Item 8. Financial Information Consolidated Statements and Other Financial Information.**

Insurance Policies

We maintain a number of different types of insurance policies for all employees. These policies mitigate the risk of having to pay death benefits in the event of an industrial accident. We maintain directors and officers insurance policies covering all directors and certain key executive officers for liabilities incurred in their capacities as directors and officers.

Table of Contents**Item 7. Major Shareholders and Related Party Transactions****MAJOR SHAREHOLDERS**

Our outstanding capital stock consists of three classes of securities: Series A shares held by FEMSA, Series D shares held by The Coca-Cola Company and Series L shares held by the public. The following table sets forth our major shareholders as of April 13, 2018:

Owner	Outstanding Capital Stock	Percentage Ownership of Outstanding Capital Stock	Percentage of Voting Rights
FEMSA (Series A shares) ⁽¹⁾	992,078,519	47.2%	63.0%
The Coca-Cola Company (Series D Shares) ⁽²⁾	583,545,678	27.8%	37.0%
Public (Series L shares) ⁽³⁾	525,208,065	25.0%	
Total	2,100,832,262	100.0%	100.0%

- (1) FEMSA owns these shares through its wholly owned subsidiary Compañía Internacional de Bebidas, S.A. de C.V. Approximately 74.9% of the voting stock of FEMSA is owned by the technical committee and trust participants under Irrevocable Trust No. 463 established at Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero, as Trustee. As a consequence of the voting trust's internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power of the shares deposited in the voting trust: BBVA Bancomer, S.A., as Trustee under Trust No. F/25078-7 (controlled by the estate of Max Michel Suberville), J.P. Morgan Trust Company (New Zealand) Limited as Trustee under a trust controlled by Paulina Garza Lagüera Gonda, Max Brittingham, Maia Brittingham, Bárbara Garza Lagüera Gonda, Bárbara Braniff Garza Lagüera, Eugenia Braniff Garza Lagüera, Lorenza Braniff Garza Lagüera, Mariana Garza Lagüera Gonda, Paula Treviño Garza Lagüera, Inés Treviño Garza Lagüera, Eva Maria Garza Lagüera Gonda, Eugenio Fernández Garza Lagüera, Daniela Fernández Garza Lagüera, Eva María Fernández Garza Lagüera, José Antonio Fernández Garza Lagüera, Eva Gonda Rivera, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by the Garza Lagüera family), Consuelo Garza Lagüera de Garza, Alfonso Garza Garza, Juan Pablo Garza García, Alfonso Garza García, María José Garza García, Eugenia Maria Garza García, Patricio Garza Garza, Viviana Garza Zambrano, Patricio Garza Zambrano, Marigel Garza Zambrano, Ana Isabel Garza Zambrano, Juan Carlos Garza Garza, José Miguel Garza Celada, Gabriel Eugenio Garza Celada, Ana Cristina Garza Celada, Juan Carlos Garza Celada, Eduardo Garza Garza, Eduardo Garza Páez, Balbina Consuelo Garza Páez, Eugenio Andrés Garza Páez, Eugenio Garza Garza, Camila Garza Garza, Ana Sofía Garza Garza, Celina Garza Garza, Marcela Garza Garza, Carolina Garza Villarreal, Alepage, S.A. (controlled by Consuelo Garza Lagüera de Garza), Alberto Bailleres González, Maria Teresa Gual de Bailleres, Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), BBVA Bancomer, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres), Magdalena Michel de David, the estate of Max Michel Suberville, Max David Michel, Juan David Michel, Monique David de VanLathem, Renee Michel de Guichard, Magdalena Guichard Michel, Rene Guichard Michel, Miguel Guichard Michel, Graciano Guichard Michel, Juan Guichard Michel, BBVA Bancomer, S.A., as Trustee under Trust No. F/710004 (controlled by Magdalena Michel de David), BBVA Bancomer, S.A., as Trustee under Trust No. F/700005 (controlled by Renee Michel de Guichard), Franca Servicios, S.A. de C.V. (controlled by the Calderón Rojas family), and BBVA Bancomer, S.A. as Trustee under

Trust No. F/29013-0 (controlled by the Calderón Rojas family).

- (2) The Coca-Cola Company indirectly owns these shares through its wholly owned subsidiaries, The Inmex Corporation and Dulux CBAI 2003 B.V.
- (3) Holders of Series L shares are only entitled to vote in limited circumstances. Holders of ADSs are entitled, subject to certain exceptions, to instruct The Bank of New York Mellon, the ADS depository, as to the exercise of the limited voting rights pertaining to the Series L shares underlying their ADSs. See **Item 10. Additional Information Bylaws.**

As of April 13, 2018, the Bill and Melinda Gates Foundation Trust held 62,147,190 of our Series L shares, which represented 11.83% of the total amount of our Series L shares.

Our Series A shares, owned by FEMSA, are held in Mexico and our Series D shares, owned by The Coca-Cola Company, are held outside of Mexico.

A portion of the purchase price paid for our acquisition of Vonpar was contributed by the sellers into a Mexican company, which was merged into Coca-Cola FEMSA on May 4, 2017 in exchange for approximately 27.9 million newly issued Series L shares. Another portion of the purchase price was paid through the issuance and delivery of a three-year promissory note to the sellers for a total amount of 1,090 million Brazilian reais (approximately Ps.6,707 million as of December 31, 2017). The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into Coca-Cola FEMSA in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to us having a sufficient number of Series L shares available for issuance. For further information see Notes 4.1.1, 9 and 19.7 to our consolidated financial statements.

Table of Contents

As of December 31, 2017, we had 18,267,110 ADSs outstanding (each ADS represents 10 Series L shares), and 34.8% of our outstanding Series L shares were represented by ADSs. As of March 31, 2018, we had 18,189,959 ADSs outstanding, 34.6% of our outstanding Series L shares were represented by ADSs, held by 319 holders (including The Depository Trust Company) with registered addresses outside of Mexico.

The Shareholders Agreement

We operate pursuant to a shareholders agreement among two subsidiaries of FEMSA, The Coca-Cola Company and certain of its subsidiaries. This agreement, together with our bylaws, sets forth the basic rules pursuant to which we operate.

In February 2010, our main shareholders, FEMSA and The Coca-Cola Company, amended the shareholders agreement, and our bylaws were amended accordingly. The amendment mainly related to changes in the voting requirements for decisions on: (1) ordinary operations within an annual business plan and (2) appointment of the chief executive officer and all officers reporting to him, all of which now may be taken by the board of directors by simple majority voting. Also, the amendment provided that payment of dividends, up to an amount equivalent to 20.0% of the preceding years' retained earnings, may be approved by a simple majority of the shareholders. Any decision on extraordinary matters, as they are defined by our bylaws and which include any new business acquisition, business combinations or any change in the existing line of business, among other things, shall require the approval of the majority of the members of the board of directors, with the vote of two of the members appointed by The Coca-Cola Company. Also, any decision related to such extraordinary matters or any payment of dividends above 20.0% of the preceding years' retained earnings shall require the approval of a majority of Series A and Series D shares voting together as a single class.

Under our bylaws and shareholders agreement, our Series A shares and Series D shares are the only shares with full voting rights and, therefore, control actions by our shareholders.

The shareholders agreement also sets forth the principal shareholders' understanding as to the effect of adverse actions of The Coca-Cola Company under the bottler agreements. Our bylaws and shareholders agreement provide that a majority of the directors appointed by the holders of Series A shares, upon making a reasonable, good faith determination that any action of The Coca-Cola Company under any bottler agreement between The Coca-Cola Company and our company or any of our subsidiaries is materially adverse to our business interests and that The Coca-Cola Company has failed to cure such action within 60 days of notice, may declare a simple majority period, as defined in our bylaws, at any time within 90 days after giving notice. During the simple majority period certain decisions, namely the approval of material changes in our business plans, the introduction of a new, or termination of an existing line of business, and related party transactions outside the ordinary course of business, to the extent the presence and approval of at least two Series D directors would otherwise be required, can be made by a simple majority vote of our entire board of directors, without requiring the presence or approval of any Series D director. A majority of the Series A directors may terminate a simple majority period but, once having done so, cannot declare another simple majority period for one year after the termination. If a simple majority period persists for one year or more, the provisions of the shareholders agreement for resolution of irreconcilable differences may be triggered, with the consequences outlined in the following paragraph.

In addition to the rights of first refusal provided for in our bylaws regarding proposed transfers of Series A shares or Series D shares, the shareholders agreement contemplates three circumstances under which one principal shareholder may purchase the interest of the other in our company: (1) a change in control in a principal shareholder, (2) the existence of irreconcilable differences between the principal shareholders or (3) the occurrence of certain specified events of default.

In the event that (1) one of the principal shareholders buys the other's interest in our company in any of the circumstances described above or (2) the ownership of our shares of capital stock other than the Series L shares of the subsidiaries of The Coca-Cola Company or FEMSA is reduced below 20.0% and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement requires that our bylaws be amended to eliminate all share transfer restrictions and all special-majority voting and quorum requirements, after which the shareholders agreement would terminate.

The shareholders agreement also contains provisions relating to the principal shareholders understanding as to our growth. It states that it is The Coca-Cola Company's intention that we will be viewed as one of a small number of its anchor bottlers in Latin America. In particular, the parties agree that it is desirable that we expand by acquiring additional bottler territories in Mexico and other Latin American countries in the event any become available through horizontal growth. In addition, The Coca-Cola Company has agreed, subject to a number of conditions, that if it obtains ownership of a bottler territory that fits with our operations, it will give us the option to acquire such territory. The Coca-Cola Company has also agreed to support reasonable and sound modifications to our capital structure to support horizontal growth. The Coca-Cola Company's agreement as to horizontal growth expires upon either the elimination of the super-majority voting requirements described above or The Coca-Cola Company's election to terminate the agreement as a result of a default.

Table of Contents

The Coca-Cola Memorandum

In connection with the acquisition of Panamco in 2003, we established certain understandings primarily relating to operational and business issues with both The Coca-Cola Company and FEMSA that were memorialized in writing prior to completion of the acquisition. Although The Coca-Cola Memorandum has not been amended, we continue to develop our relationship with The Coca-Cola Company (i.e. through, *inter alia*, acquisitions and taking on new product categories), and we therefore believe that The Coca-Cola Memorandum should be interpreted in the context of subsequent events, some of which have been noted in the description below. The terms are as follows:

The shareholder arrangements between FEMSA and The Coca-Cola Company and certain of its subsidiaries will continue in place. On February 1, 2010, FEMSA amended its shareholders agreement with The Coca-Cola Company. **See The Shareholders Agreement.**

FEMSA will continue to consolidate our financial results under Mexican financial reporting standards. (We have complied with Mexican law by transitioning to IFRS as of 2011 and FEMSA currently consolidates our financial results under IFRS).

The Coca-Cola Company and FEMSA will continue to discuss in good faith the possibility of implementing changes to our capital structure in the future.

There will be no changes in concentrate pricing or marketing support by The Coca-Cola Company up to May 2004. After such time, The Coca-Cola Company has complete discretion to implement any changes with respect to these matters, but any decision in this regard will be discussed with us and will take our operating condition into consideration.

The Coca-Cola Company may require the establishment of a different long-term strategy for Brazil. If, after taking into account our performance in Brazil, The Coca-Cola Company does not consider us to be part of this long-term strategic solution for Brazil, then we will sell our Brazilian franchise to The Coca-Cola Company or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures. We currently believe the likelihood of this term applying is remote.

FEMSA, The Coca-Cola Company and we will meet to discuss the optimal Latin American territorial configuration for the Coca-Cola bottler system. During these meetings, we will consider all possible combinations and any asset swap transactions that may arise from these discussions. In addition, we will entertain any potential combination as long as it is strategically sound and done at fair market value.

We would like to keep open strategic alternatives that relate to the integration of sparkling beverages and beer. The Coca-Cola Company, FEMSA and we would explore these alternatives on a market-by-market basis at the appropriate time.

The Coca-Cola Company agreed to sell to a subsidiary of FEMSA sufficient shares to permit FEMSA to beneficially own 51.0% of our outstanding capital stock (assuming that this subsidiary of FEMSA does not sell any shares and that there are no issuances of our stock other than as contemplated by the acquisition). As a result of this understanding, in November 2006, FEMSA acquired, through a subsidiary, 148,000,000 of our Series D shares from certain subsidiaries of The Coca-Cola Company, representing 9.4% of the total outstanding voting shares and 8.0% of our total outstanding equity, at a price of US\$2.888 per share for an aggregate amount of US\$427.4 million. Pursuant to our bylaws, the acquired shares were converted from Series D shares to Series A shares.

We may be entering some markets where significant infrastructure investment may be required. The Coca-Cola Company and FEMSA will conduct a joint study that will outline strategies for these markets, as well as the investment levels required to execute these strategies. Subsequently, it is intended that FEMSA and The Coca-Cola Company will reach an agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome for either partner.

We entered into a stand-by credit facility in December 2003 with The Coca-Cola Export Corporation, which expired in December 2006 and was never used.

Cooperation Framework with The Coca-Cola Company

In July 2016, we announced a new, comprehensive cooperation framework with The Coca-Cola Company. This cooperation framework seeks to maintain a mutually beneficial business relationship over the long term, which will allow both companies to focus on continuing to drive the business forward and generate profitable growth. The cooperation framework contemplates the following main objectives:

Long-term guidelines in relationship economics: Concentrate prices for sparkling beverages in Mexico will gradually increase over a three-year period beginning in July 2017 through July 2020. Based on our internal estimates for revenues and sales volume mix, we currently expect the incremental cost in Mexico to be the Mexican peso equivalent to approximately US\$35 million per year for each year during such period.

Table of Contents

Other Concentrate Price Adjustments. Potential future concentrate price adjustments for sparkling beverages and flavored water in Mexico will consider investment and profitability levels that are beneficial both to us and The Coca-Cola Company.

Marketing and commercial strategies. We and The Coca-Cola Company are committed to implement marketing and commercial strategies, and productivity programs to maximize profitability. We believe that these initiatives will partially mitigate the effects of concentrate price adjustments.

The Coca-Cola Company also recognizes our strong operating model and execution capabilities. With respect to The Coca-Cola Company's Bottling Investments Group territories it may divest in the future, we have reached an understanding with The Coca-Cola Company to assess, on a preferred basis, the acquisition of available territories.

Table of Contents

RELATED PARTY TRANSACTIONS

We believe that our transactions with related parties are on terms comparable to those that would result from arm's length negotiations with unaffiliated parties and are reviewed and approved by our Corporate Practices Committee.

FEMSA

We regularly engage in transactions with FEMSA and its subsidiaries, including sales of our products. The aggregate amount of these sales was Ps.4,761 million, Ps.4,274 million and Ps.3,803 million in 2017, 2016 and 2015, respectively. Substantially all of these sales consist of sales to FEMSA Comercio, which operates the chain of convenience stores under the name OXXO.

We also purchase products and receive services from FEMSA and its subsidiaries. The aggregate amount of these purchases was Ps.7,773 million, Ps.8,328 million and Ps.7,720 million in 2017, 2016 and 2015, respectively. These amounts principally relate to raw materials, assets and services provided to us by FEMSA. In 2017, we renewed our service agreement with another subsidiary of FEMSA, which provides for the continued provision of administrative services relating to insurance, legal and tax advice, relations with governmental authorities and certain administrative and internal auditing services that it has been providing since June 1993. In November 2000, we entered into a service agreement with a subsidiary of FEMSA for the transportation of finished products from our production facilities to our distribution centers within Mexico. We primarily purchase our glass bottles in Mexico from SIVESA, which until 2015 was a wholly owned subsidiary of Cuauhtémoc Moctezuma Holding, S.A. de C.V., formerly known as FEMSA Cerveza, currently a wholly owned subsidiary of the Heineken Group. The aggregate amount of our purchases from SIVESA amounted to Ps.216 million, Ps.134 million and Ps.216 million in 2017, 2016 and 2015, respectively.

We also purchase products from Heineken and its subsidiaries. The aggregate amount of these purchases was Ps.13,608 million, Ps.8,823 million and Ps.6,944 million in 2017, 2016 and 2015, respectively. These amounts principally relate to beer and other products.

We continue to distribute and sell *Heineken* beer products in our Brazilian territories pursuant to our agreement with Heineken Brazil. This agreement is scheduled to expire in 2022; however, we are currently involved in an arbitration proceeding with Heineken Brazil as a result of the notice received from Heineken Brazil in July 2017 regarding the early termination of the agreement. See **Item 8. Financial Information Legal Proceedings.**

FEMSA is also a party to the understandings we have with The Coca-Cola Company relating to specified operational and business issues. A summary of these understandings is set forth under **Major Shareholders The Coca-Cola Memorandum.**

The Coca-Cola Company

We regularly engage in transactions with The Coca-Cola Company and its affiliates. We purchase all of our concentrate requirements for *Coca-Cola* trademark beverages from The Coca-Cola Company. Total expenses charged to us by The Coca-Cola Company for concentrates were approximately Ps.33,898 million, Ps.38,146 million and Ps.27,330 million in 2017, 2016 and 2015, respectively. Our company and The Coca-Cola Company pay and reimburse each other for marketing expenditures. The Coca-Cola Company also contributes to our coolers, bottles and case investment program. We received contributions to our marketing expenses of Ps.4,023 million, Ps.4,518 million and Ps.3,749 million in 2017, 2016 and 2015, respectively.

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

In Argentina, we purchase plastic preforms, as well as returnable plastic bottles, at competitive prices from Andina Empaques S.A., a local subsidiary of Embotelladora Andina S.A., a bottler of The Coca-Cola Company with operations in Argentina, Chile, Brazil and Paraguay in which The Coca-Cola Company has a substantial interest.

In November 2007, we acquired together with The Coca-Cola Company 100.0% of the shares of capital stock of Jugos del Valle. Jugos del Valle sells fruit juice-based beverages and fruit derivatives. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In 2008, we, The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle. As of April 13, 2018, we held an interest of 26.3% in the Mexican joint business. We purchase products from Jugos del Valle. The aggregate amount of these purchases was Ps.2,604 million, Ps.2,428 million and Ps.2,135 million in 2017, 2016 and 2015, respectively, which principally related to certain juice-based beverages that are part of our product portfolio.

In August 2010, we acquired from The Coca-Cola Company, along with other Brazilian Coca-Cola bottlers, Leão Alimentos, manufacturer and distributor of the *Matte Leão* tea brand. In January 2013, our Brazilian joint business of Jugos del Valle merged with Leão Alimentos. As of April 13, 2018, we held a 24.4% indirect interest in the *Matte Leão* business in Brazil. We purchase products from Leão Alimentos. The aggregate amount of these purchases was Ps.4,010 million, Ps.3,448 million and Ps.3,359 million in 2017, 2016 and 2015, respectively, which principally related to certain juice-based beverages and teas that are part of our product portfolio.

Table of Contents

In February 2009, we acquired together with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, S.A. a subsidiary of SABMiller plc. We acquired the production assets and the distribution territory, and The Coca-Cola Company acquired the *Brisa* brand. Following a transition period, in June 2009, we started to sell and distribute the *Brisa* portfolio of products in Colombia.

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

In March 2011, we acquired together with The Coca-Cola Company, through Compañía Panameña de Bebidas, S.A.P.I. de C.V., Estrella Azul, a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. We continue to develop this business with The Coca-Cola Company.

In August 2012, we acquired, through Jugos del Valle, an indirect minority participation in Santa Clara, a producer of milk and dairy products in Mexico. As of April 13, 2018, we owned an indirect participation of 26.3% in Santa Clara.

In January 2013, as part of our efforts to expand our geographic reach, we acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. We have an option to acquire the remaining 49.0% stake in KOF Philippines at any time through January 2020. We also have a put option to sell our ownership in KOF Philippines to The Coca-Cola Company during the period from January 2018 through January 2019. Since January 25, 2017, we control KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines' business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) KOF Philippines' chief financial officer. We have the right to appoint (and may remove) the chief executive officer and all other officers of KOF Philippines.

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

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

Associated Companies

We also regularly engage in transactions with companies in which we own an equity interest that are not affiliated with The Coca-Cola Company, as described under **The Coca-Cola Company**. We believe these transactions are on terms comparable to those that would result from arm's length negotiations with unaffiliated third parties.

In Mexico, we purchase sparkling beverages in cans from Industria Envasadora de Querétaro, S.A. de C.V., or IEQSA, in which we hold an equity interest of 26.5%. We paid IEQSA Ps.804 million, Ps.798 million and Ps.731 million in 2017, 2016 and 2015, respectively. We also purchase sugar from Beta San Miguel and PIASA, both sugar-cane producers in which, as of April 13, 2018, we held a 2.7% and 36.4% equity interest, respectively. We paid Ps.1,827 million, Ps.1,349 million and Ps.1,264 million to Beta San Miguel in 2017, 2016 and 2015, respectively. We paid Ps.1,885 million, Ps.1,765 million and Ps.1,236 million to PIASA in 2017, 2016 and 2015, respectively. In Mexico, we purchase cans from FAMOSA through PROMESA, a cooperative of Coca-Cola bottlers, in which, as of April 13, 2018, we held a 35.0% interest. In 2014 and part of 2015, FAMOSA was a wholly-owned subsidiary of Cuauhtémoc Moctezuma Holding, S.A. de C.V., a wholly-owned subsidiary of the Heineken Group. We purchased from PROMESA approximately Ps.839 million, Ps.759 million and Ps.587 million in 2017, 2016 and 2015,

respectively.

Other Related Party Transactions

José Antonio Fernández Carbajal, our chairman of the board of directors, is also the chairman of the board of directors of ITESM, a Mexican private university that routinely receives donations from us.

Ricardo Guajardo Touché, a member of our board of directors, is also a member of the board of directors of ITESM.

Allen & Company LLC provides investment banking services to us in the ordinary course of its business. Enrique F. Senior Hernández, one of our directors, is a Managing Director of Allen & Company LLC, and Herbert A. Allen III, an alternate director, is the president of Allen & Company LLC.

Table of Contents

We are insured in Mexico primarily under certain of FEMSA's insurance policies, some of which are issued by Grupo Nacional Provincial S.A., of which the son of the chairman of its board of directors, Alejandro Bailleres Gual is one of our alternate members of the board of directors. FEMSA has informed us that the policies were purchased pursuant to a competitive bidding process.

See Notes 6 and 13 to our consolidated financial statements for more information on our related party transactions, including transactions with parties that fall within the related party definition pursuant to IFRS rules.

Table of Contents

Item 8. Financial Information

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated Financial Statements

See **Item 18. Financial Statements** beginning on page F-1.

Dividend Policy

For a discussion of our dividend policy, see **Item 3. Key Information Dividends and Dividend Policy**.

Significant Changes

Except as disclosed under **Item 5. Operating and Financial Review and Prospects General Exchange Control Regime in Venezuela**, no significant changes have occurred since the date of the annual financial statements included in this annual report.

LEGAL PROCEEDINGS

We are party to various legal proceedings in the ordinary course of business, including with regard to labor, tax and commercial matters. We believe we have appropriate reserves for these litigation proceedings as of December 31, 2017. Other than as disclosed in this annual report, we are not currently involved in any litigation or arbitration proceeding, including any proceeding that is pending or threatened of which we are aware, which we believe will have, or has had, a material adverse effect on our company. Other legal proceedings that are pending against or involve us and our subsidiaries are incidental to the conduct of our and their business. We believe that the ultimate resolution of such other proceedings individually or in an aggregate basis will not have a material adverse effect on our consolidated financial condition or results.

Mexico

Antitrust Matters. During 2000, the COFECE, motivated by complaints filed by PepsiCo and certain of its bottlers in Mexico, began an investigation of The Coca-Cola Company Export Corporation and the Mexican Coca-Cola bottlers for alleged monopolistic practices through exclusivity arrangements with certain retailers. Nine of our Mexican subsidiaries, including those acquired through our merger with Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano, were involved in this matter. After the corresponding legal proceedings in 2008, a Mexican Federal Court rendered an adverse judgment against three of our nine Mexican subsidiaries involved in the proceedings, upholding a fine of approximately Ps.10.5 million imposed by COFECE on each of the three subsidiaries and ordering the immediate suspension of such practices of alleged exclusivity arrangements and conditional dealings. On August 7, 2012, a Federal Court dismissed and denied an appeal that we filed on behalf of one of our subsidiaries after the merger with Grupo Fomento Queretano, which had received an adverse judgment. We filed a motion for reconsideration on September 12, 2012, which was resolved on March 22, 2013 confirming the Ps.10.5 million fine imposed by the COFECE. With respect to the complaints against the remaining six subsidiaries, a favorable resolution was issued in the Mexican Federal Courts and, consequently, the COFECE withdrew the fines and ruled in favor of six of our subsidiaries on the grounds of insufficient evidence to prove individual and specific liability in the alleged antitrust violations.

In addition, among the companies involved in the 2000 complaint filed by PepsiCo and other bottlers in Mexico, were some of our less significant subsidiaries acquired with the Grupo Yoli merger. On June 30, 2005, the COFECE

imposed a fine on one of our subsidiaries for approximately Ps.10.5 million. A motion for reconsideration on this matter was filed on September 21, 2005, which was resolved by the COFECE confirming the original resolution on December 1, 2005. A constitutional challenge (*amparo*) was filed against said resolution and a Federal Court issued a favorable resolution in our benefit. Both the COFECE and PepsiCo filed appeals against said resolution and a Circuit Court in Acapulco, Guerrero resolved to request the COFECE to issue a new resolution regarding the Ps.10.5 million fine. COFECE then fined our subsidiary again, for the same amount. A new *amparo* claim was filed against said resolution. On May 17, 2012, such new *amparo* claim was resolved, again in favor of one of our subsidiaries, requesting the COFECE to recalculate the amount of the fine. The COFECE maintained the amount of the fine in a new resolution which we challenged through a new *amparo* claim filed on July 31, 2013 before a District Judge in Acapulco, Guerrero and are still awaiting final resolution.

In June and July 2010, Ajemex, S.A. de C.V., or Ajemex, filed two complaints with the COFECE against The Coca-Cola Export Corporation and certain *Coca-Cola* bottlers, including us, alleging the continued performance of monopolistic practices in breach of COFECE's resolution dated June 30, 2005. On January 23, 2015, The Coca-Cola Export Corporation and the *Coca-Cola* bottlers provided evidence to COFECE against these allegations. The COFECE ruled upon these proceedings in favor of The Coca-Cola Export Corporation and the *Coca-Cola* bottlers. On April 6, 2015, Ajemex filed an *amparo* claim against said resolution, which was dismissed and denied by a Federal District Judge. No further action was pursued by Ajemex, and the resolution became final.

Table of Contents**Brazil**

In July 2017, Heineken Brazil issued a notice of termination with respect to the agreement under which we distribute and sell *Heineken* beer products in our Brazilian territories. Because the agreement is scheduled to expire in 2022, this dispute was submitted to an arbitration proceeding. We continue to operate and Heineken Brazil continues to be obligated to perform under this agreement while the proceedings are ongoing. An unfavorable outcome in this proceeding would result in the termination of the agreement, causing a significant impact on our operations in Brazil.

Item 9. The Offer and Listing

The following table sets forth, for the periods indicated, the reported high and low nominal sale prices for the Series L shares on the Mexican Stock Exchange and the reported high and low nominal sale prices for the ADSs on the NYSE:

	Mexican Stock Exchange		New York Stock Exchange	
	Mexican pesos per Series L Share	Mexican pesos per Series L Share	U.S. dollars per ADS	U.S. dollars per ADS
	High ⁽¹⁾	Low ⁽¹⁾	High ⁽¹⁾	Low ⁽¹⁾
2013:				
Full year	219.70	146.23	178.66	111.66
2014:				
Full year	155.38	121.59	120.08	84.22
2015:				
Full year	132.03	113.51	89.91	65.90
2016:				
Full year	152.92	116.91	87.29	62.17
First quarter	143.56	116.91	83.13	64.48
Second quarter	152.09	142.89	87.29	76.95
Third quarter	152.92	139.13	82.61	71.03
Fourth quarter	151.68	127.92	81.65	62.17
2017:				
Full year	159.67	127.22	90.90	59.91
First quarter	139.84	128.33	73.39	59.91
Second quarter	154.81	134.53	85.16	71.73
Third quarter	159.67	137.88	90.90	75.85
Fourth quarter	141.07	127.22	77.46	67.05
October	141.07	129.51	77.46	68.39
November	131.26	127.40	69.60	67.05
December	136.95	127.22	71.52	67.85
2018				
January	146.21	134.58	78.97	69.62
February	144.67	127.0	78.65	67.42
March	131.07	118.92	69.97	64.79

(1) High and low closing prices for the periods presented.

Table of Contents

TRADING ON THE MEXICAN STOCK EXCHANGE

The Mexican Stock Exchange or the *Bolsa Mexicana de Valores, S.A.B. de C.V.*, located in Mexico City, is currently the only stock exchange operating in Mexico. Trading takes place principally through automated systems that are open between the hours of 8:30 a.m. and 3:00 p.m. Mexico City time, each business day. Beginning in March 2008, during daylight savings time, trading hours change to match the NYSE trading hours, opening at 7:30 a.m. and closing at 2:00 p.m. local time. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the Series L shares in the form of ADSs that are directly or indirectly quoted on a stock exchange outside of Mexico.

Settlement is effected two business days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the Mexican Stock Exchange. Most securities traded on the Mexican Stock Exchange, including our shares, are on deposit with S.D. Ineval Instituto para el Depósito de Valores, S.A. de C.V., which we refer to as Ineval, a privately owned securities depository that acts as a clearinghouse for Mexican Stock Exchange transactions.

The *Bolsa Institucional de Valores* is a new Mexican stock exchange scheduled to launch operations in 2018.

Table of Contents

Item 10. Additional Information

BYLAWS

The following is a summary of the material provisions of our bylaws and applicable Mexican law. The last amendment of our bylaws was approved on October 10, 2011. For a description of the provisions of our bylaws relating to our board of directors and executive officers, see **Item 6. Directors, Senior Management and Employees.**

The main changes made to our bylaws on October 10, 2011, were to Article 25 which increased the number of our board members from 18 to 21 and the number of directors that each series is entitled to appoint, and Article 26 which provides that the shareholders meeting that approves Series B shares issuance will determine which series of shares is to reduce the number of directors that such series is entitled to appoint. Article 6 of our bylaws was also amended to include the number of shares included in our minimum fixed capital stock without the right to withdraw.

Organization and Register

We were incorporated on October 30, 1991, as a stock corporation with variable capital (*sociedad anónima de capital variable*) in accordance with the Mexican General Corporations Law (*Ley General de Sociedades Mercantiles*). On December 5, 2006, we became a publicly traded stock corporation with variable capital (*sociedad anónima bursátil de capital variable*) and amended our bylaws in accordance with the Mexican Securities Market Law. We were registered in the Public Registry of Property and Commerce (*Registro Público de la Propiedad y del Comercio*) of Monterrey, Nuevo León, Mexico on November 22, 1991 under mercantile number 2986, folio 171, volume 365, third book of the commerce section. In addition, due to the change of address of our company to Mexico City, we have also been registered in the Public Registry of Property and Commerce of Mexico City since June 28, 1993 under mercantile number 176,543.

Purposes

The main corporate purposes of our company include the following:

to establish, promote and create corporations or companies of any type, as well as to acquire and possess shares or equity participations in such entities;

to carry out all types of transactions involving bonds, shares, equity, participations and securities of any type;

to provide or receive advisory, consulting or other types of services;

to conduct business with equipment, raw materials and any other items necessary to the companies in which we have an interest in or with whom we have commercial relations;

to acquire and dispose of trademarks, tradenames, commercial names, copyrights, patents, inventions, franchises, distributions, concessions and processes;

to possess, build, lease and operate real and personal property, install or by any other title operate plants, warehouses, workshops, retail or deposits necessary to comply with our corporate purpose;

to subscribe, buy and sell stocks, bonds and securities among other things; and

to draw, accept, make, endorse or guarantee negotiable instruments, issue bonds secured with real property or unsecured, and to make us jointly liable, to grant security of any type with regard to obligations entered into by us or by third parties, and in general, to perform the acts, enter into the agreements and carry out other transactions as may be necessary or conducive to our business purpose.

Voting Rights, Transfer Restrictions and Certain Minority Rights

Series A and Series D shares have full voting rights and are subject to transfer restrictions. Although no Series B shares have been issued, our bylaws provide for the issuance of Series B shares with full voting rights that are freely transferable. Series L shares are freely transferable but have limited voting rights. None of our shares are exchangeable for shares of a different series. The rights of all series of our capital stock are substantially identical except for:

restrictions on transfer of the Series A and Series D shares;

limitations on the voting rights of Series L shares;

the respective rights of the Series A, Series D and Series L shares, voting as separate classes in a special meeting, to elect specified numbers of our directors and alternate directors;

the respective rights of Series D shares to participate in the voting of extraordinary matters, as they are defined by our bylaws; and

prohibitions on non-Mexican ownership of Series A shares. **See Item 6. Directors, Senior Management and Employees, and Additional Transfer Restrictions Applicable to Series A and Series D shares.**

Table of Contents

Under our bylaws, holders of Series L shares are entitled to vote in limited circumstances. They may appoint for election and elect up to three of our maximum of 21 directors and, in certain circumstances where holders of Series L shares have not voted for the director elected by holders of the majority of these series of shares, they may be entitled to elect and remove one director, through a general shareholders meeting, for every 10.0% they own of all issued, subscribed and paid shares of the capital stock of our company, pursuant to the Mexican Securities Market Law. **See Item 6. Directors, Senior Management and Employees.** In addition, they are entitled to vote on certain matters, including certain changes in our corporate form, mergers involving our company when our company is the merged entity or when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of the Series L shares in the Mexican Stock Exchange or any other foreign stock exchange and those matters for which the Mexican Securities Market Law expressly allow them to vote.

Holders of our shares in the form of ADSs will receive notice of shareholders meetings from our ADS depository in sufficient time to enable such holders to return voting instructions to the ADS depository in a timely manner. Our past practice, which we intend to continue, has been to inform the depository to timely notify holders of our shares in the form of ADSs of upcoming votes and ask for their instructions.

A quorum of 82.0% of our subscribed and paid shares of capital stock (including the Series L shares) and the vote of at least a majority of our capital stock voting (and not abstaining) at such extraordinary meeting is required for:

changes in the corporate form of our company from one type of company to another (other than changing from a variable capital to fixed-capital corporation and vice versa);

any merger where we are not the surviving entity or any merger with an entity whose principal corporate purposes are different from those of our company or our subsidiaries; and

cancellation of the registration of our Series L shares with the Mexican Registry of Securities, or RNV, maintained by the CNBV or with other foreign stock exchanges on which our shares may be listed.

In the event of cancellation of the registration of any of our shares in the RNV, whether by order of the CNBV or at our request with the prior consent of 95.0% of the holders of our outstanding capital stock, our bylaws and the Mexican Securities Market Law require us to make a public offer to acquire these shares prior to their cancellation.

Holders of Series L shares may attend, but not address, meetings of shareholders at which they are not entitled to vote.

Under our bylaws and the Mexican General Corporations Law, holders of shares of any series are entitled to vote as a class in a special meeting governed by the same rules that apply to extraordinary meetings on any action that would have an effect on the rights of holders of shares of such series. There are no procedures for determining whether a particular proposed shareholder action requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

Pursuant to the Mexican Securities Market Law, we are subject to a number of minority shareholder protections. These minority protections include provisions that permit:

for every 10.0% of our outstanding capital stock entitled to vote (including in a limited or restricted manner) held by holders, either individually or as a group, such holders may require the chairman of the board of directors or of the Audit or Corporate Practices Committees to call a shareholders meeting;

holders of at least 5.0% of our outstanding capital stock may bring an action for liability against our directors, the secretary of the board of directors or certain key officers;

for every 10.0% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, held by holders, either individually or as a group, such holders at any shareholders meeting to request that resolutions with respect to any matter on which they considered they were not sufficiently informed be postponed;

holders of 20.0% of our outstanding capital stock to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote and file a petition for a court order to suspend the resolution temporarily within 15 days following the adjournment of the meeting at which the action was taken, provided that (1) the challenged resolution violates Mexican law or our bylaws, (2) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution and (3) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder; and

for every 10.0% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, held by holders, either individually or as a group, such holders to appoint one member of our board of directors and one alternate member of our board of directors up to the maximum number of directors that each series is entitled to appoint under our bylaws.

Table of Contents

Shareholders Meetings

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary meetings are those called to consider certain matters specified in Article 182 of the Mexican General Corporations Law, Article 53 of the Mexican Securities Market Law and in our bylaws. These matters include, among others: amendments to the bylaws, liquidation, dissolution, merger and transformation from one form of company to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. In addition, our bylaws require an extraordinary meeting to consider the cancellation of the registration of our shares with the RNV or with other foreign stock exchanges on which our shares may be listed, the amortization of distributable earnings into capital stock, and an increase in our capital stock. All other matters, including increases or decreases affecting the variable portion of our capital stock, are considered at an ordinary meeting.

Pursuant to Mexican law, an ordinary annual meeting must be held at least once each year (1) to consider the approval of the financial statements of our company for the preceding fiscal year, (2) to determine the allocation of the profits of the preceding fiscal year and (3) to appoint the members of the board of directors of our company. The holders of Series A and Series D shares are entitled to vote in such ordinary annual meeting regarding all three matters mentioned above, and the holders of Series L shares are exclusively entitled to vote in relation to the appointment of members of the board of directors (i.e. three directors and their respective alternate directors). Further, any transaction to be entered into by us or our subsidiaries within the next fiscal year that represents 20.0% or more of our consolidated assets must be approved at an ordinary shareholders meeting at which holders of Series L shares shall be entitled to vote.

Mexican law provides for a special meeting of shareholders to allow holders of shares of a specific series to vote as a class on any action that would prejudice exclusively the rights of holders of such series. Holders of Series A, Series D and Series L shares at their respective special meetings or at an annual ordinary meeting, must appoint, remove or ratify directors, as well as determine their compensation.

The quorum for ordinary and extraordinary meetings at which holders of Series L shares are not entitled to vote is 76.0% of the holders of subscribed and paid Series A and Series D shares, and the quorum for an extraordinary meeting at which holders of Series L shares are entitled to vote is 82.0% of the subscribed and paid shares of capital stock.

The quorum for special meetings of any series of shares is 75.0% of the holders of the subscribed and paid capital stock of such shares, and action may be taken by holders of a majority of such series of shares.

Resolutions adopted at an ordinary or extraordinary shareholders meeting are valid when adopted by holders of at least a majority of the subscribed and paid in capital stock voting (and not abstaining) at the meeting, unless in the event of any decisions defined as extraordinary matters by the bylaws or any payment of dividends above 20.0% of the preceding years' retained earnings, which shall require the approval of a majority of shareholders of each of Series A and Series D shares voting together as a single class. Resolutions adopted at a special shareholders meeting are valid when adopted by the holders of at least a majority of the subscribed and paid shares of the series of shares entitled to attend the special meeting.

Shareholders meetings may be called by the board of directors, the Audit Committee or the Corporate Practices Committee and, under certain circumstances, a Mexican court. For every 10.0% or more of our capital stock held by holders, either individually or as a group, such holders may require the chairman of the board of directors, or the chairmen of the Audit Committee or Corporate Practices Committee to call a shareholders meeting. A notice of meeting and an agenda must be published in a newspaper of general circulation in Mexico City at least 15 days prior

to the meeting. Notices must set forth the place, date and time of the meeting and the matters to be addressed and must be signed by whoever convened the meeting. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice. To attend a meeting, shareholders must deposit their shares with us or with Indeval or an institution for the deposit of securities prior to the meeting as indicated in the notice. If entitled to attend the meeting, a shareholder may be represented by an attorney-in-fact.

Additional Transfer Restrictions Applicable to Series A and Series D Shares

Our bylaws provide that no holder of Series A or Series D shares may sell its shares unless it has disclosed the terms of the proposed sale and the name of the proposed buyer and has previously offered to sell the shares to the holders of the other series for the same price and terms as it intended to sell the shares to a third party. If the shareholders being offered shares do not choose to purchase the shares within 90 days of the offer, the selling shareholder is free to sell the shares to the third party at the price and under the specified terms. In addition, our bylaws impose certain procedures in connection with the pledge of any Series A or Series D shares to any financial institution that are designed, among other things, to ensure that the pledged shares will be offered to the holders of the other series at market value prior to any foreclosure. Finally, a proposed transfer of Series A or Series D shares other than a proposed sale or a pledge, or a change of control of a holder of Series A or Series D shares that is a subsidiary of a principal shareholder, would trigger rights of first refusal to purchase the shares at market value. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.**

Table of Contents

Dividend Rights

At the annual ordinary meeting of holders of Series A and Series D shares, the board of directors submits our financial statements for the previous fiscal year, together with a report thereon by the board of directors. Once the holders of Series A and Series D shares have approved the financial statements, they determine the allocation of our net income for the preceding year. Mexican law requires the allocation of at least 5.0% of net income to a legal reserve, which is not subsequently available for distribution until the amount of the legal reserve equals 20.0% of our capital stock. Thereafter, the holders of Series A and Series D shares may determine and allocate a certain percentage of net income to any general or special reserve, including a reserve for open-market purchases of our shares. The remainder of net income is available for distribution in the form of dividends to the shareholders.

All shares outstanding and fully paid (including Series L shares) at the time a dividend or other distribution is declared are entitled to share equally in the dividend or other distribution. No series of shares is entitled to a preferred dividend. Shares that are only partially paid, participate in a dividend or other distributions in the same proportion that the shares have been paid at the time of the dividend or other distributions. Treasury shares are not entitled to dividends or other distributions.

Change in Capital

According to our bylaws, any change in our authorized capital stock requires a resolution of a shareholders meeting. We are permitted to issue shares representing fixed capital and shares representing variable capital. The fixed portion of our capital stock may be increased or decreased only by amendment of our bylaws adopted by a resolution at an extraordinary shareholders meeting. The variable portion of our capital stock may be increased or decreased by resolution of an ordinary shareholders meeting without amending our bylaws. All changes in the fixed or variable capital have to be registered in our capital variation registry book, as required by the applicable law.

A capital stock increase may be effected through the issuance of new shares for payment in cash or in kind, or by capitalization of indebtedness or of certain items of equity. Treasury stock may only be sold pursuant to a public offering.

Preemptive Rights

The Mexican Securities Market Law permits the issuance and sale of shares through a public offering without granting shareholders preemptive rights, if permitted by the bylaws and upon, among other things, authorization of the CNBV and the approval of the extraordinary shareholders meeting called for such purpose. Under Mexican law and our bylaws, except in these circumstances and other limited circumstances (including mergers, sale of repurchased shares, convertible securities into shares and capital increases by means of payment in kind for shares or shares issued in return for the cancellation of debt), in the event of an increase in our capital stock, a holder of record generally has the right to subscribe shares of a series held by such holder sufficient to maintain such holder's existing proportionate holding of shares of that series. Preemptive rights must be exercised during a term fixed by the shareholders at the meeting declaring the capital increase, which term must last at least 15 days following the publication of notice of the capital increase through an electronic system of the Mexican Ministry of Economy. As a result of applicable United States securities laws, holders of ADSs may be restricted in their ability to participate in the exercise of preemptive rights under the terms of the deposit agreement. Shares subject to a preemptive rights offering, with respect to which preemptive rights have not been exercised, may be sold by us to third parties on the same terms and conditions previously approved by the shareholders or the board of directors. Under Mexican law, preemptive rights cannot be waived in advance or be assigned, or be represented by an instrument that is negotiable separately from the corresponding shares.

Limitations on Share Ownership

Ownership of shares of Mexican companies by non-Mexican residents is regulated by the 1993 Foreign Investment Law and its regulations, as amended. The Mexican Foreign Investment Commission is responsible for enforcing and supervising compliance with the Mexican Foreign Investment Law and its regulations.

As a general rule, the Mexican Foreign Investment Law allows foreign holdings of up to 100.0% of the capital stock of Mexican companies, except for those companies engaged in certain specified restricted industries. The Mexican Foreign Investment Law and its regulations require that Mexican shareholders retain the power to determine the administrative control and the management of corporations in industries in which special restrictions on foreign holdings are applicable. Foreign investment in our shares is not limited under either the Mexican Foreign Investment Law or its regulations.

Although the Mexican Foreign Investment Law grants broad authority to the Mexican Foreign Investment Commission to allow foreign investors to own more than 49.0% of the capital of Mexican enterprises after taking into consideration public policy and economic concerns, our bylaws provide that Series A shares must at all times constitute no less than 51.0% of all outstanding common shares with full voting rights (excluding Series L shares) and may only be held by Mexican investors. Under our bylaws, in the event Series A shares are subscribed or acquired by any other shareholders holding shares of any other series, and the shareholder is of a citizenship other than Mexican, these Series A shares are automatically converted into shares of the same series of stock that this shareholder owns, and this conversion will be considered perfected at the same time as the subscription or acquisition.

Table of Contents

Other Provisions

Authority of the Board of Directors. The board of directors is our main managing body and is authorized to take any action in connection with our operations not expressly reserved to our shareholders. Pursuant to the Mexican Securities Market Law, the board of directors must approve, observing at all moments their duty of care and duty of loyalty, among other matters the following:

any related party transactions outside the ordinary course of our business;

significant asset transfers or acquisitions;

guarantees or collateral that represent 30.0% of our consolidated assets;

appointment of officers and managers deemed necessary, as well as the creation of the necessary committees;

the annual business plan and the five-year business plan; internal policies; and

other transactions that represent 1% of our consolidated assets.

Meetings of the board of directors are validly convened and held if a majority of the members are present. Resolutions passed at these meetings will be valid if approved by a majority of the directors voting (and not abstaining). The majority of the members, which shall include the vote of at least two Series D shares directors, shall approve any extraordinary decision including any new business acquisition or combination or any change in the existing line of business, among others. Subject to the voting requirements, the chairman of the board of directors may cast a tie-breaking vote in such matters in which the Series D shares directors are not entitled to vote.

See Item 6. Directors, Senior Management and Employees Directors and Item 6. Directors, Senior Management and Employees Board Practices.

Redemption. Our fully paid shares are subject to redemption in connection with either (1) a reduction of capital stock or (2) a redemption with distributable earnings, which, in either case, must be approved by our shareholders at an extraordinary shareholders meeting. The shares subject to any such redemption would be selected by us by lot or in the case of redemption with distributable earnings, by purchasing shares by means of a tender offer conducted on the Mexican Stock Exchange, in accordance with the Mexican General Corporations Law and the Mexican Securities Market Law.

Repurchase of Shares. According to our bylaws, and subject to the provisions of the Mexican Securities Market Law and under rules promulgated by the CNBV, we may repurchase our shares.

In accordance with the Mexican Securities Market Law, our subsidiaries may not purchase, directly or indirectly, shares of our capital stock or any security that represents such shares.

Forfeiture of Shares. As required by Mexican law, our bylaws provide that non-Mexican holders of our shares are (1) considered to be Mexican with respect to such shares that they acquire or hold and (2) may not invoke the protection of their own governments in respect of the investment represented by those shares. Failure to comply with our bylaws may result in a penalty of forfeiture of a shareholder's capital stock in favor of the Mexican state. Under this provision, a non-Mexican holder of our shares (including a non-Mexican holder of ADSs) is deemed to have agreed not to invoke the protection of its own government by asking such government to interpose a diplomatic claim against the Mexican state with respect to its rights as a shareholder, but is not deemed to have waived any other rights it may have, including any rights under the United States securities laws, with respect to its investment in our company. If a shareholder should invoke governmental protection in violation of this agreement, its shares could be forfeited to the Mexican state.

Duration. Our bylaws provide that our company's term is for 99 years from its date of incorporation, unless extended through a resolution of an extraordinary shareholders meeting.

Fiduciary Duties Duty of Care. The Mexican Securities Market Law provides that the directors shall act in good faith and in our best interest and in the best interest of our subsidiaries. In order to fulfill its duty, the board of directors may:

request information about us or our subsidiaries that is reasonably necessary to fulfill its duties;

require our officers and certain other persons, including the external auditors, to appear at board of directors meetings to report to the board of directors;

postpone board of directors' meetings for up to three days when a director has not been given sufficient notice of the meeting or in the event that a director has not been provided with the information provided to the other directors; and

require a matter be discussed and voted upon by the full board of directors in the presence of the secretary of the board of directors.

Table of Contents

Our directors may be liable for damages for failing to comply with their duty of care if such failure causes economic damage to us or our subsidiaries and the director (1) failed to attend board of directors or committee meetings and as a result of, such failure, the board of directors is unable to take action, unless such absence is approved by the shareholders meeting, (2) failed to disclose to the board of directors or the committees material information necessary for the board of directors to reach a decision, unless legally prohibited from doing so or required to do so to maintain confidentiality, and (3) failed to comply with the duties imposed by the Mexican Securities Market Law or our bylaws.

Fiduciary Duties Duty of Loyalty. The Mexican Securities Market Law provides that the directors and secretary of the board of directors shall keep confidential any non-public information and matters about which they have knowledge as a result of their position. Also, directors should abstain from participating, attending or voting at meetings related to matters where they have a conflict of interest.

The directors and secretary of the board of directors will be deemed to have violated the duty of loyalty, and will be liable for damages, when they obtain an economic benefit by virtue of their position. Further, the directors will fail to comply with their duty of loyalty if they:

vote at a board of directors meeting or take any action on a matter involving our assets where there is a conflict of interest;

fail to disclose a conflict of interest during a board of directors meeting;

enter into a voting arrangement to support a particular shareholder or group of shareholders against the other shareholders;

approve transactions without complying with the requirements of the Mexican Securities Market Law;

use company property in violation of the policies approved by the board of directors;

unlawfully use material non-public information; and

usurp a corporate opportunity for their own benefit or the benefit of a third party, without the prior approval of the board of directors.

Appraisal Rights. Whenever the shareholders approve a change of corporate purpose, change of nationality or change the corporate form of our company, any shareholder entitled to vote on such change that has voted against it, may withdraw as a shareholder of our company and have its shares redeemed at a price per share calculated as specified under applicable Mexican law, provided that it exercises its right within 15 days following the adjournment of the meeting at which the change was approved. In this case, the shareholder would be entitled to the reimbursement of its shares, in proportion to our assets in accordance with the last approved balance sheet. Because holders of Series L shares are not entitled to vote on certain types of these changes, these withdrawal rights are available to holders of

Series L shares in fewer cases than to holders of other series of our capital stock.

Liquidation. Upon our liquidation, one or more liquidators may be appointed to wind up our affairs. All fully paid and outstanding shares of capital stock (including Series L shares) will be entitled to participate equally in any distribution upon liquidation. Shares that are only partially paid participate in any distribution upon liquidation in the proportion that they have been paid at the time of liquidation. There are no liquidation preferences for any series of our shares.

Actions Against Directors. Shareholders (including holders of Series L shares) representing, in the aggregate, not less than 5.0% of the capital stock may directly bring an action against directors.

In the event of actions derived from any breach of the duty of care and the duty of loyalty, liability is exclusively in our favor. The Mexican Securities Market Law establishes that liability may be imposed on the members and the secretary of the board of directors, as well as to the relevant officers.

Notwithstanding, the Mexican Securities Market Law provides that the members of the board of directors will not incur, individually or jointly, in liability for damages and losses caused to our company, when their acts were made in good faith, provided that (1) the directors complied with the requirements of the Mexican Securities Market Law and with our bylaws, (2) the decision making or voting was based on information provided by the relevant officers, the external auditor or the independent experts, whose capacity and credibility do not offer reasonable doubt; (3) the negative economic effects could not have been foreseen, based on the information available; and (4) the resolutions of the shareholders meeting were observed.

Limited Liability. The liability of shareholders for our company's losses is limited to their participation in our company.

Table of Contents

MATERIAL AGREEMENTS

We manufacture, package, distribute and sell *Coca-Cola* trademark beverages under bottler agreements with The Coca-Cola Company. In addition, pursuant to a tradename license agreement with The Coca-Cola Company, we are authorized to use certain trademark names of The Coca-Cola Company. For a discussion of the terms of these agreements, see **Item 4. Information on the Company Bottler Agreements.**

We operate pursuant to a shareholders agreement, as amended from time to time, among certain subsidiaries of FEMSA, The Coca-Cola Company and certain of its subsidiaries. For a discussion of the terms of this agreement, see **Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.**

We purchase the majority of our non-returnable plastic bottles from Alpla, a provider authorized by The Coca-Cola Company, pursuant to an agreement we entered into in April 1998 for our original operations in Mexico. Under this agreement, we rent plant space to Alpla, where it produces plastic bottles to certain specifications and quantities for our use.

In July 2015, after a bidding process, we executed new agreements with Hewlett Packard for the outsourcing of technology services in all of our territories. These agreements are valid until July 2020, unless terminated by us through previous notice to Hewlett Packard.

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

See **Item 5. Operating and Financial Review and Prospects Summary of Significant Debt Instruments** for a brief discussion of certain terms of our significant debt agreements.

See **Item 7. Major Shareholders and Related Party Transactions Related Party Transactions** for a discussion of other transactions and agreements with our affiliates and associated companies.

Table of Contents**TAXATION**

The following summary contains a description of certain U.S. federal income and Mexican federal tax consequences of the purchase, ownership and disposition of our Series L shares or ADSs by a holder that is a citizen or resident of the United States, a U.S. domestic corporation or a person or entity that otherwise will be subject to U.S. federal income tax on a net income basis in respect of the Series L shares or ADSs, which we refer to as a U.S. holder, but it does not purport to be a description of all of the possible tax considerations that may be relevant to a decision to purchase, hold or dispose of the Series L shares or ADSs. In particular, this discussion does not address all Mexican or U.S. federal income tax considerations that may be relevant to a particular investor, nor does it address the special tax rules applicable to certain categories of investors, such as banks, dealers, traders who elect to mark to market, tax-exempt entities, insurance companies, certain short-term holders of Series L shares or ADSs or investors who hold the Series L shares or ADSs as part of a hedge, straddle, conversion or integrated transaction, partnerships or partners therein, non-resident alien individuals present in the United States for 183 days or more or investors who have a functional currency other than the U.S. dollar. U.S. holders should be aware that the tax consequences of holding the Series L shares or ADSs may be materially different for investors described in the preceding sentence. This summary deals only with U.S. holders that will hold the Series L shares or ADSs as capital assets and does not address the tax treatment of a U.S. holder that owns or is treated as owning 10.0% or more of the shares by vote or value (including Series L shares) of our company.

This summary is based upon the federal tax laws of the United States and Mexico as in effect on the date of this annual report, including the provisions of the income tax treaty between the United States and Mexico and the protocols thereto, or the Tax Treaty, which are subject to change. The summary does not address any tax consequences under the laws of any state or locality of Mexico or the United States or the laws of any taxing jurisdiction other than the federal laws of Mexico and the United States. Holders of the Series L shares or ADSs should consult their tax advisers as to the U.S., Mexican or other tax consequences of the purchase, ownership and disposition of Series L shares or ADSs, including, in particular, the effect of any foreign, state or local tax laws.

Mexican Taxation

For purposes of this summary, the term *non-resident holder* means a holder that is not a resident of Mexico and that does not hold the Series L shares, or ADSs in connection with the conduct of a trade or business through a permanent establishment in Mexico. For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her home in Mexico, or if he or she has another home outside Mexico but his or her center of vital interests (as defined in the Mexican Tax Code) is located in Mexico. The center of vital interests of an individual is situated in Mexico when, among other circumstances, more than 50.0% of that person's total income during a calendar year originates from within Mexico. A legal entity is a resident of Mexico if it has its principal place of business or its place of effective management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless such a person can demonstrate that the contrary is true. If a legal entity or an individual is deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to such a permanent establishment will be subject to Mexican taxes, in accordance with applicable tax laws.

Tax Considerations Relating to the Series L shares and the ADSs

Taxation of Dividends. Effective as of January 1, 2014, under Mexican income tax law, dividends, either in cash or in kind, paid to individuals that are Mexican residents, and to individuals and companies that are non-Mexican residents on our Series L shares and our Series L shares represented by ADSs are subject to a 10.0% Mexican withholding tax, or a lower rate if covered by a tax treaty. However, profits that were earned and subject to income tax before January 1, 2014 are exempt from this withholding tax.

Taxation of Dispositions of ADSs or Series L shares. Effective as of January 1, 2014, gains from the sale or disposition of ADSs or Series L shares traded in the stock exchange by individuals that are Mexican residents will be subject to an income tax rate of 10.0%, and gains from the sale or disposition of ADSs or Series L shares traded in the stock exchange by individuals and companies that are non-Mexican residents will be subject to a 10.0% Mexican withholding tax. The cost at which shares were acquired prior to January 1, 2014, is calculated by using the average closing price per share in the last twenty-two days. If the closing price per share in the last twenty-two days is considered unusual as compared to the closing prices in the last six months, then the calculation is made using the average closing price per share in the last six months. However, a holder that is eligible to claim benefits from any tax treaty will be exempt from Mexican withholding tax on gains realized on a sale or other disposition of Series L shares or ADSs, provided certain additional requirements are met.

Gains on the sale or other disposition of Series L shares or ADSs made in other circumstances generally would be subject to Mexican tax, regardless of the nationality or residence of the transferor. However, under the Tax Treaty, a holder that is eligible to claim the benefits of the Tax Treaty will be exempt from Mexican tax on gains realized on a sale or other disposition of Series L shares or ADSs in a transaction that is not carried out through the Mexican Stock Exchange or other approved securities markets, so long as the holder did not own, directly or indirectly, 25.0% or more of our total capital stock (including Series L shares represented by ADSs) within the 12-month period preceding such sale or other disposition and provided that the gains are not attributable to a permanent establishment or a fixed base in Mexico. Deposits of Series L shares in exchange for ADSs and withdrawals of Series L shares in exchange for ADSs will not give rise to Mexican tax.

Table of Contents

Other Mexican Taxes

There are no Mexican inheritance, gift, succession or value added taxes applicable to the ownership, transfer, exchange or disposition of the ADSs or the Series L shares, although gratuitous transfers of Series L shares may in certain circumstances cause a Mexican federal tax to be imposed upon the recipient. There are no Mexican stamp, issue, registration or similar taxes or duties payable by holders of the ADSs or Series L shares.

United States Taxation

Tax Considerations Relating to the Series L shares and the ADSs

In general, for U.S. federal income tax purposes, holders of ADSs will be treated as the owners of the Series L shares represented by those ADSs.

Taxation of Dividends. The gross amount of any distributions paid with respect to the Series L shares represented by ADSs or the Series L shares, to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, generally will be included in the gross income of a U.S. holder as foreign source dividend income on the day on which the dividends are received by the U.S. holder, in the case of the Series L shares, or by the depository, in the case of the Series L shares represented by ADSs, and will not be eligible for the dividends received deduction allowed to corporations under the Internal Revenue Code of 1986, as amended. Because we do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, it is expected that distributions paid to U.S. holders generally will be reported as dividends.

Dividends, which will be paid in Mexican pesos, will be included in the income of a U.S. holder in a U.S. dollar amount calculated, in general, by reference to the exchange rate in effect on the date that they are received by the U.S. holder, in the case of the Series L shares, or by the depository, in the case of the Series L shares represented by ADSs (regardless of whether such Mexican pesos are in fact converted into U.S. dollars on such date). If such dividends are converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received by a U.S. holder or depository that are converted into U.S. dollars on a date subsequent to receipt.

The amount of Mexican tax withheld generally will give rise to a foreign tax credit or deduction for U.S. federal income tax purposes. Dividends generally will constitute passive category income for purposes of the foreign tax credit (or in the case of certain U.S. holders, general category income). The foreign tax credit rules are complex. U.S. holders should consult their own tax advisors with respect to the implications of those rules for their investments in our Series L shares or ADSs.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder in respect of Series L shares or ADSs generally is subject to taxation at the preferential rates applicable to long-term capital gains if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules, or the dividends are paid with respect to ADSs that are readily tradable on an established U.S. securities market and (2) the issuer was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid a passive foreign investment company. The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our

audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2017 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2018 taxable year.

Distributions to holders of additional Series L shares with respect to their Series L shares or ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Taxation of Capital Gains. A gain or loss realized by a U.S. holder on the sale or other disposition of ADSs or Series L shares will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the disposition and such U.S. holder's tax basis in the ADSs or the Series L shares. Any such gain or loss will be a long-term capital gain or loss if the ADSs or Series L shares were held for more than one year on the date of such sale. Long-term capital gain recognized by a U.S. holder that is an individual is subject to reduced rates of federal income taxation. The deduction of capital loss is subject to limitations for U.S. federal income tax purposes. Deposits and withdrawals of Series L shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Table of Contents

Gain, if any, realized by a U.S. holder on the sale or other disposition of Series L shares or ADSs will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if a Mexican withholding tax is imposed on the sale or disposition of the Series L shares, a U.S. holder that does not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of these Mexican taxes. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, Series L shares or ADSs.

United States Backup Withholding and Information Reporting. A U.S. holder of Series L shares or ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain payments to such U.S. holder, such as dividends or the proceeds of a sale or disposition of Series L shares or ADSs unless such holder (1) comes within certain exempt categories and demonstrates this fact when so required, or (2) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules does not constitute a separate tax and will be creditable against the holder's U.S. federal income tax liability.

Specified Foreign Financial Assets. Certain U.S. holders that own specified foreign financial assets with an aggregate value in excess of US\$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the Series L shares and ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Series L shares or ADSs, including the application of the rules to their particular circumstances.

U.S. Tax Consequences for Non-U.S. Holders

Taxation of Dividends and Capital Gains. Subject to the discussion below under *United States Backup Withholding and Information Reporting*, a holder of Series L shares or ADSs that is not a U.S. holder (a non-U.S. holder) generally will not be subject to U.S. federal income or withholding tax on dividends received on Series L shares or ADSs or on any gain realized on the sale of Series L shares or ADSs.

United States Backup Withholding and Information Reporting. While non-U.S. holders generally are exempt from information reporting and backup withholding, a non-U.S. holder may, in certain circumstances, be required to comply with certain information and identification procedures in order to prove this exemption.

Table of Contents

DOCUMENTS ON DISPLAY

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its public reference room in Washington, D.C., at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Filings we make electronically with the SEC are also available to the public on the Internet at the SEC's website at www.sec.gov and at our website at www.coca-colafemsa.com. (This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL, is not and shall not be deemed to be incorporated into this annual report.)

Table of Contents**Item 11. Quantitative and Qualitative Disclosures about Market Risk**

As part of our risk management strategy, we use derivative financial instruments with the purpose of (1) achieving a desired liability structure with a balanced risk profile, (2) managing the exposure to production input and raw material costs and (3) hedging balance sheet and cash flow exposures to foreign currency fluctuation. We do not use derivative financial instruments for speculative or profit-generating purposes. We track the fair value (mark to market) of our derivative financial instruments and its possible changes using scenario analyses.

Interest Rate Risk

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. As of December 31, 2017, we had total indebtedness of Ps.83,360 million, of which 89.9% bore interest at fixed interest rates and 10.1% bore interest at variable interest rates. After giving effect to our swap contracts, as of December 31, 2017, 24.1% (or 9.3% calculated based on the weighted average life of our outstanding debt), was variable-rate. The interest rate on our variable rate debt denominated in U.S. dollars is generally determined by reference to the London Interbank Offer Rate, or LIBOR; the interest rate on our variable rate debt denominated in Mexican pesos has historically been determined by reference to the TIIE; the interest rate on our variable rate debt denominated in Colombian pesos is generally determined by reference to the Banking Reference Index, or IBR; the interest rate on our variable rate debt denominated in Argentine pesos is generally determined by reference to the Buenos Aires Deposits of Large Amounts Rate, or BADLAR; and the interest rate on our variable rate debt denominated in Brazilian reais is generally determined by reference to the Brazilian Interbank Deposit Rate (*Cetip Depósitos Interfinanceiros*). If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our financial instruments that are sensitive to changes in interest rates, without giving effect to interest rate swaps. The table presents weighted average interest rates by expected contractual maturity dates. Weighted average variable rates are based on the reference rates on December 31, 2017, plus spreads, contracted by us. The instruments' actual payments are denominated in U.S. dollars, Mexican pesos, Brazilian reais, Colombian pesos and Argentine pesos. All of the payments in the table are presented in Mexican pesos, our reporting currency, converted at an exchange rate of Ps.19.74 Mexican pesos per U.S. dollar reported by *Banco de México* quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2017.

The table below also includes the fair value of long-term debt based on the discounted value of contractual cash flows. The discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities. Furthermore, the fair value of long-term notes payable is based on quoted market prices on December 31, 2017. As of December 31, 2017, the fair value represents a loss amount of Ps.2,507 million.

Principal by Year of Maturity

	As of December 31, 2017						As of December 31, 2016	
	2018	2019	2020	2021	2022	2023 and thereafter	Total Carrying Value	Total Fair Value
	(in millions of Mexican pesos, except percentages)							

Short and Long-Term Debt and Notes:

**Fixed Rate Debt
and Notes**

U.S. dollars									
(Notes)	8,774		9,844			29,425	48,043	51,938	61,703
Interest Rate(1)	2.38%		4.63%			4.43%	4.09%		3.78%
U.S. dollars									
(Bank Loans)									206
Interest Rate(1)									3.40%
Mexican pesos									
(Certificados Bursátiles)			2,498			15,981	18,479	17,035	9,991
Interest Rate(1)			8.27%			6.74%	6.95%		6.16%
Brazilian reais									
(Bank Loans)	319	220	152	92	78	73	934	957	508
Interest Rate(1)	5.78%	5.78%	5.78%	5.78%	5.78%	5.78%	5.87%		5.06%
Brazilian reais									
(Financial Leasing)									
Interest Rate(1)									
Brazilian reais									
(Notes Payable)(2)		6,707					6,707	6,430	7,022
Interest Rate		0.38%					0.38%		0.38%
Colombian pesos									
(Bank Loans)	728						728	741	758
Interest Rate(1)	9.63%						9.63%		9.63%
Argentine pesos									
(Bank Loans)	106						106	107	644

Table of Contents

	As of December 31, 2017						As of December 31, 2016		
	2018	2019	2020	2021	2022	2023 and thereafter	Total Carrying Value	Total Fair Value	Total Carrying Value
Interest Rate ⁽¹⁾	22.40%						22.40%		31.98%
Total Fixed Rate	9,927	6,927	9,996	2,590	78	45,479	74,997	77,208	80,832
Variable Rate Debt									
U.S. dollars (Bank Loans)				4,032			4,032	4,313	4,218
Interest Rate ⁽¹⁾				2.12%			2.12%		1.60%
Mexican pesos (Certificados Bursátiles)					1,496		1,496	1,500	
Interest Rate ⁽¹⁾					7.70%		7.70%		
Brazilian reais (Bank Loans)	283	284	229	66	7		869	883	1,864
Interest Rate ⁽¹⁾	8.50%	8.50%	8.50%	8.50%	8.50%		8.50%		5.49%
Brazilian reais (Notes Payable)	10	5					15	14	26
Interest Rate ⁽¹⁾	0.44%	0.44%					0.44%		0.44%
Colombian pesos (Bank Loans)	1,951						1,951	1,949	1,929
Interest Rate ⁽¹⁾	7.28%						7.28%		9.42%
Argentine pesos (Bank Loans)									40
Interest Rate ⁽¹⁾									27.84%
Total Variable Rate	2,244	289	229	4,098	1,503		8,363	8,659	8,077
Total Debt	12,171	7,216	10,225	6,688	1,582	45,479	83,360	85,867	88,909
Derivative Financial Instruments:									
Cross-Currency Swaps (Mexican pesos)								757	
Notional to pay				9,769		8,764	18,533		23,154
Notional to receive				9,868		8,684	18,552		27,276

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Interest pay rate		9.12%	9.55%	9.32%	8.27%	
Interest receive rate		4.63%	3.97%	4.32%	3.55%	
Cross-Currency Swaps (Brazilian reais)					(4,168)	
Notional to pay	28,202	6,367	4,711	4,103	43,383	49,462
Notional to receive	24,353	6,263	4,571	4,046	39,233	44,044
Interest pay rate	6.56%	5.20%	6.70%	6.11%	6.33%	12.20%
Interest receive rate	2.65%	0.37%	2.90%	1.97%	2.25%	1.98%
Interest Rate Swaps (Brazilian rates)		4,137	3,786	3,103	11,026	(82)
Interest pay rate		6.29%	8.51%	8.16%		
Interest receive rate		5.20%	6.72%	6.11%		

(1) Interest rates are weighted average contractual annual rates.

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

A hypothetical, instantaneous and unfavorable change of 100 basis points in the average interest rate applicable to our variable-rate financial instruments held during 2017 would have increased our interest expense by approximately Ps.251 million, or 2.94% over our interest expense of 2017, assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest rate swap and cross-currency swap agreements.

Table of Contents**Foreign Currency Exchange Rate Risk**

Our principal exchange rate risk involves changes in the value of the local currencies of each country where we operate, relative to the U.S. dollar. In 2017, the percentage of our consolidated total revenues was denominated as follows:

Total Revenues by Currency in 2017

Currency	%
Mexican peso	39.2
Colombian peso	7.0
Venezuelan bolivar	2.0
Argentine peso	6.8
Brazilian real	28.7
Central America ⁽¹⁾	6.3
Philippine peso	10.1

(1) Includes Guatemalan Quetzales, Nicaraguan Córdobas, Costa Rican Colones and Panamanian Balboas. We estimate that approximately 21.8% of our consolidated costs of goods sold are denominated in U.S. dollars for Mexican subsidiaries and in the aforementioned currencies for our non-Mexican subsidiaries. Substantially all of our costs denominated in a foreign currency, other than the functional currency of each country where we operate, are denominated in U.S. dollars. During 2017, we entered into forward derivative instruments and options to hedge part of our Mexican peso, Brazilian real, Colombian peso and Argentine peso fluctuation risk relative to our raw material costs denominated in U.S. dollars. These instruments are considered hedges for accounting purposes. As of December 31, 2017, 1.39% of our indebtedness was denominated in U.S. dollars, 43.92% in Mexican pesos, 51.52% in Brazilian reais, 3.05% in Colombian pesos and 0.12% in Argentine pesos (including the effects of our derivative contracts as of December 31, 2017, including cross currency swaps from U.S. dollars to Mexican pesos and U.S. dollars to Brazilian reais). Decreases in the value of the different currencies relative to the U.S. dollar will increase the cost of our foreign currency-denominated operating costs and expenses and of the debt service obligations with respect to our foreign currency-denominated debt. A depreciation of the Mexican peso relative to the U.S. dollar will also result in foreign exchange losses, as the Mexican peso value of our foreign currency denominated-indebtedness is increased. **See also Item 3. Key Information Risk Factors Depreciation of the local currencies of the countries where we operate relative to the U.S. dollar could adversely affect our financial condition and results.**

A hypothetical, instantaneous and unfavorable 10.0% devaluation in the value of each local currency in the countries where we operate relative to the U.S. dollar occurring on December 31, 2017, would have resulted in a foreign exchange gain of approximately Ps.18 million, reflecting higher foreign exchange gain generated by the cash balances held in U.S. dollars as of that date, net of the loss based on our U.S. dollar-denominated indebtedness as of December 31, 2017, after giving effect to all of our interest rate swap and cross-currency swap agreements.

As of April 13, 2018, the exchange rates relative to the U.S. dollar of all the countries where we operate have appreciated or depreciated compared to December 31, 2017 as follows:

	Exchange Rate As of April 13, 2018	(Depreciation) or Appreciation
Mexico	18.08	12.5%
Guatemala	7.40	1.6%
Nicaragua	31.22	(6.5)%
Costa Rica	562.07	(0.2)%
Panama	1.00	0.0%
Colombia	2,710.03	9.7%
Brazil	3.41	(4.7)%
Argentina	20.21	(27.2)%
Philippines	52.02	(4.4)%

Table of Contents

A hypothetical, instantaneous and unfavorable 10.0% devaluation in the value of the currencies of each of the countries where we operate relative to the U.S. dollar as of December 31, 2017, would produce a reduction in equity of approximately the following amounts:

	Reduction in Equity (in millions of Mexican pesos)
Mexico	336
Colombia	1,019
Brazil	2,615
Argentina	103
Central America ⁽¹⁾	946
Philippines	2,019

(1) Includes Guatemala, Nicaragua, Costa Rica and Panama.

Equity Risk

As of December 31, 2017, we did not have any equity risk.

Commodity Price Risk

In 2017, we entered into futures and forwards contracts to hedge the cost of sugar in Brazil and Colombia. The notional value of the sugar hedges was Ps.1,136 million as of December 31, 2017, with a negative fair value of Ps.4 million with maturities in 2018. See Note 19 to our consolidated financial statements.

Item 12. Description of Securities Other than Equity Securities**Item 12.A. Debt Securities**

Not applicable.

Item 12.B. Warrants and Rights

Not applicable.

Item 12.C. Other Securities

Not applicable.

Item 12.D. American Depositary Shares

The Bank of New York Mellon serves as the depository for our ADSs. Holders of our ADSs, evidenced by American Depositary Receipts, or ADRs, are required to pay various fees to the depository, and the depository may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

ADS holders are required to pay the depository amounts in respect of expenses incurred by the depository or its agents on behalf of ADS holders, including expenses arising from compliance with applicable law, taxes or other governmental charges, cable, telex and facsimile transmission, or conversion of foreign currency into U.S. dollars. The depository may decide in its sole discretion to seek payment by either billing holders or by deducting the fee from one or more cash dividends or other cash distributions.

ADS holders are also required to pay additional fees for certain services provided by the depository, as set forth in the table below.

Depository service	Fee payable by ADS holders
Issuance and delivery of ADRs, including in connection with share distributions	Up to US\$5.00 per 100 ADSs (or portion thereof)
Withdrawal of shares underlying ADSs	Up to US\$5.00 per 100 ADSs (or portion thereof)
Registration for the transfer of shares	Registration or transfer fees that may from time to time be in effect

In addition, holders may be required to pay a fee for the distribution or sale of securities. Such fee (which may be deducted from such proceeds) would be for an amount equal to the lesser of (1) the fee for the issuance of ADSs that would be charged as if the securities were treated as deposited shares and (2) the amount of such proceeds.

Table of Contents

Direct and indirect reimbursements by the depositary

The depositary may reimburse us for certain expenses we incur in connection with the ADS program, subject to a ceiling agreed between us and the depositary. These reimbursable expenses may include listing fees and fees payable to service providers for the distribution of material to ADR holders.

Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Not applicable.

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our internal control over financial reporting includes those policies and procedures that (i) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely

detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the framework in Internal Controls Integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

Our management assessment and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2017 excludes, in accordance with applicable guidance provided by the SEC, an assessment of the internal control over financial reporting of KOF Philippines consolidated since January 27, 2017. KOF Philippines represented 11.0% and 10.0% of our total and net assets, respectively, as of December 31, 2017, and 10.0% of our revenues, for the year ended December 31, 2017.

Table of Contents

(c) Attestation Report of the Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL
CONTROL OVER FINANCIAL REPORTING

To the Shareholders and the Board of Directors of

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

We have audited Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the 2013 Framework) (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Coca-Cola FEMSA Philippines, Inc. and subsidiaries (collectively CCFPI, a Philippine subsidiary), which is included in the 2017 consolidated financial statements of the Company and constituted 11.0% and 10.0% of total and net assets, respectively, as of December 31, 2017 and 10.0% of revenues, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of CCFPI.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statement of financial position of the Company as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes, and our report dated April 18, 2018, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according to the Código de Ética Profesional del Instituto Mexicano de Contadores Públicos (IMCP Code), and the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that

our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standard Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Table of Contents

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

/s/ MANCERA, S.C.

Mexico City, Mexico

April 18, 2018

(d) Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16.A. Audit Committee Financial Expert

Our shareholders and our board of directors have designated José Manuel Canal Hernando, an independent director as required by the Mexican Securities Market Law and applicable New York Stock Exchange listing standards, as an audit committee financial expert within the meaning of this Item 16.A. **See Item 6. Directors, Senior Management and Employees Directors.**

Item 16.B. Code of Ethics

We have adopted a code of ethics, within the meaning of this Item 16.B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our chief executive officer, chief financial officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at www.coca-colafemsa.com. If we amend the provisions of our code of ethics that apply to our chief executive officer, chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address. In accordance with our code of ethics, we have developed a voice mailbox available to our employees to which complaints may be reported.

Item 16.C. Principal Accountant Fees and Services Audit and Non-Audit Fees

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The following table summarizes the aggregate fees billed to us by Mancera, S.C. and other Ernst & Young practices (collectively, Ernst & Young) during the fiscal years ended December 31, 2017, December 31, 2016 and December 31, 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in		
	millions of Mexican pesos)		
Audit fees	77	72	67
Audit-related fees	10	15	
Tax fees	7	8	1
Total fees	94	95	68

Audit Fees. Audit fees in the above table are the aggregate fees billed by Ernst & Young in connection with the audit of our annual financial statements and the review of our quarterly financial information and statutory audits.

Audit-related Fees. Audit-related fees in the above table are the aggregate fees billed by Ernst & Young for assurance and other services related to the performance of the audit, mainly in connection with bond issuances and other audit related services.

Tax Fees. Tax fees in the above table are fees billed by Ernst & Young for services based upon existing facts and prior transactions in order to assist us in documenting, computing and obtaining government approval for amounts included in tax filings such as transfer pricing documentation and requests for technical advice from taxing authorities.

All Other Fees. For the years ended December 31, 2017, 2016 and 2015, there were no other fees.

Audit Committee Pre-Approval Policies and Procedures

We have adopted pre-approval policies and procedures under which all audit and non-audit services provided by our external auditors must be pre-approved by the Audit Committee as set forth in the Audit Committee's charter. Any service proposals submitted by external auditors need to be discussed and approved by the Audit Committee during its meetings, which take place at least four times a year. Once the proposed service is approved, we or our subsidiaries formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our Audit Committee. In addition, the members of our Audit Committee are briefed on matters discussed by the different committees of our board of directors.

Table of Contents**Item 16.D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

Item 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not directly purchase any of our equity securities in 2017. The following table presents purchases by trusts that FEMSA administers in connection with our bonus incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. See **Item 6. Directors, Senior Management and Employees Bonus Program.**

Purchases of Equity Securities

Period	Total Number of Series L shares Purchased by trusts that FEMSA administers in connection with our bonus incentive plans	Average Price Paid per Series L Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number (or Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
May 2017 to February 2018	215,574	139.54		
Total	215,574	139.54		

Item 16.F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16.G. Corporate Governance

Pursuant to Rule 303A.11 of the Listed Company Manual of the New York Stock Exchange (NYSE), we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Mexican corporation with shares listed on the Mexican Stock Exchange. Our corporate governance practices are governed by our bylaws, the Mexican Securities Market Law and the regulations issued by the CNBV. We also disclose the extent to which we comply with the Mexican Code of Best Corporate Practices (*Código de Mejores Prácticas Corporativas*), which was created by a group of Mexican business leaders and was endorsed by the BMV.

Table of Contents

The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

NYSE Standards

Directors Independence: A majority of the board of directors must be independent. There is an exemption for controlled companies (companies in which more than 50.0% of the voting power is held by an individual, group or another company rather than the public), which would include our company if we were a U.S. issuer.

Executive sessions: Non-management directors must meet at regularly scheduled executive sessions without management.

Our Corporate Governance Practices

Directors Independence: Pursuant to the Mexican Securities Market Law, we are required to have a board of directors with a maximum of 21 members, 25.0% of whom must be independent.

The Mexican Securities Market Law sets forth, in Article 26, the definition of independence, which differs from the one set forth in Section 303A.02 of the Listed Company Manual of the NYSE. Generally, under the Mexican Securities Market Law, a director is not independent if such director: (i) is an employee or a relevant officer of the company or its subsidiaries; (ii) is an individual with significant influence over the company or its subsidiaries; (iii) is a shareholder or participant of the controlling group of the company; (iv) is a client, supplier, debtor, creditor, partner or employee of an important client, supplier, debtor or creditor of the company; or (v) is a family member of any of the aforementioned persons.

In accordance with the Mexican Securities Market Law, our shareholders are required to make a determination as to the independence of our directors at an ordinary meeting of our shareholders, though the CNBV may challenge that determination. Our board of directors is not required to make a determination as to the independence of our directors.

Executive sessions: Under our bylaws and applicable Mexican law, our non-management and independent directors are not required to meet in executive sessions.

Our bylaws state that the board of directors will meet at least four times a year, following the end of each quarter, to discuss our operating results and progress in achieving strategic objectives. Our board of directors

can also hold extraordinary meetings.

Nominating/Corporate Governance Committee: A nominating/corporate governance committee composed entirely of independent directors is required. As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.

Nominating/Corporate Governance Committee: We are not required to have a nominating committee, and the Mexican Code of Best Corporate Practices does not provide for a nominating committee.

However, Mexican law requires us to have a Corporate Practices Committee with at least 3 members. Our Corporate Practices Committee is comprised of four members, and as required by the Mexican Securities Market Law and our bylaws, the four members are independent and the chairman of this committee is elected by our shareholders meeting.

Compensation committee: A compensation committee composed entirely of independent directors is required. As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.

Compensation committee: We do not have a committee that exclusively oversees compensation issues. Our Corporate Practices Committee, composed entirely of independent directors, reviews and recommends management compensation programs in order to ensure that they are aligned with shareholders interests and corporate performance.

Audit committee: Listed companies must have an audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the NYSE independence standards.

Audit committee: Mexican law requires us to have an Audit Committee with at least 3 members. We have an Audit Committee of six members. As required by the Mexican Securities Market Law, each member of the Audit Committee is an independent director, and its chairman is elected by our shareholders meeting.

Table of Contents

Equity compensation plan: Equity compensation plans require shareholder approval, subject to limited exemptions.

Code of business conduct and ethics: Corporate governance guidelines and a code of conduct and ethics are required, with disclosure of any waiver for directors or executive officers.

Equity compensation plan: Shareholder approval is not required under Mexican law or our bylaws for the adoption and amendment of an equity compensation plan. Such plans should provide for general application to all executives.

Code of business conduct and ethics: We have adopted a code of ethics, within the meaning of Item 16.B of SEC Form 20-F. Our code of ethics applies to our chief executive officer, chief financial officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at www.coca-colafemsa.com. If we amend the provisions of our code of ethics that apply to our chief executive officer, chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

Table of Contents

Item 16.H. Mine Safety Disclosure

Not applicable.

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits

(a) List of Financial Statements

	Page
<u>Report of Mancera S.C., a Member Practice of Ernst & Young Global</u>	F-1
<u>Consolidated Statements of Financial Position as of December 31, 2017 and 2016</u>	F-2
<u>Consolidated Income Statements for the Years Ended December 31, 2017, 2016 and 2015</u>	F-3
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015</u>	F-4
<u>Consolidated Statements of Changes in Equity for the Years Ended December 31, 2017, 2016 and 2015</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015</u>	F-6
<u>Notes to the Audited Consolidated Financial Statements*</u>	F-7

* All supplementary schedules relating to the registrant are omitted because they are not required or because the required information, where material, is contained in the Financial Statements or Notes thereto.

(b) List of Exhibits

Exhibit No.	Description
Exhibit 1.1	<u>Amended and restated bylaws (<i>Estatutos Sociales</i>) of Coca-Cola FEMSA, S.A.B. de C.V., approved February 16, 2012 (English translation) (incorporated by reference to Exhibit 1.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 26, 2012 (File No. 1-2260)).</u>
Exhibit 2.1	Deposit Agreement, dated as of September 1, 1993, among Coca-Cola FEMSA, S.A.B. de C.V., The Bank of New York (currently The Bank of New York Mellon), as Depositary, and Holders and Beneficial Owners of American Depository Receipts (incorporated by reference to Exhibit 3.5 to the Registration Statement of FEMSA on Form F-4 filed on April 9, 1998 (File No. 333-8618)).

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- Exhibit 2.2 Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon (incorporated by reference to Exhibit 2.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- Exhibit 2.3 First Supplemental Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A. (incorporated by reference to Exhibit 2.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- Exhibit 2.4 Second Supplemental Indenture dated as of April 1, 2011 among Coca-Cola FEMSA, S.A.B. de C.V., Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V., as Guarantor, and The Bank of New York Mellon (incorporated by reference to Exhibit 2.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 17, 2011 (File No. 1-12260)).
- Exhibit 2.5 Third Supplemental Indenture dated as of September 6, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), as existing guarantor, Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S. de R.L. de C.V., as additional guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 (File No.333-187275)).

Table of Contents

Exhibit No.	Description
Exhibit 2.6	<u>Fourth Supplemental Indenture dated as of October 18, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S. de R.L. de C.V., as existing guarantors, Controladora Interamericana de Bebidas, S. de R.L. de C.V., as additional guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 (File No.333-187275)).</u>
Exhibit 2.7	<u>Fifth Supplemental Indenture dated as of November 26, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish paying agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on December 5, 2013 (File No.1-12260)).</u>
Exhibit 2.8	<u>Sixth Supplemental Indenture dated as of January 21, 2014 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish paying agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on January 27, 2014 (File No.1-12260)).</u>
Exhibit 2.9	<u>Seventh Supplemental Indenture dated as of November 23, 2015 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V., as successor guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 2.9 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 15, 2016 (File No. 1-12260)).</u>
Exhibit 4.1	<u>Amended and Restated Shareholders Agreement dated as of July 6, 2002, by and among Compañía Internacional de Bebidas, S.A. de C.V., Grupo Industrial Emprex, S.A. de C.V., The Coca-Cola Company and The Inmex Corporation, (incorporated by reference to Exhibit 4.13 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).</u>
Exhibit 4.2	<u>First Amendment, dated May 6, 2003, to the Amended and Restated Shareholders Agreement, dated as of July 6, 2002, among Compañía Internacional de Bebidas, S.A. de C.V., Grupo Industrial Emprex, S.A. de C.V., The Coca-Cola Company, The Inmex Corporation, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. (incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).</u>
Exhibit 4.3	<u>Second Amendment, dated as of February 1, 2010, to the to the Amended and Restated Shareholders Agreement, dated as of July 6, 2002, by and among Compañía Internacional de Bebidas, S.A. de</u>

C.V., Grupo Industrial Emprex, S.A. de C.V., The Coca-Cola Company, The Inmex Corporation and Dulux CBAI 2003 B.V. (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).

- Exhibit 4.4 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the valley of Mexico (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- Exhibit 4.5 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the valley of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 33-67380)).
- Exhibit 4.6 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Exhibit 4.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- Exhibit 4.7 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 33-67380)).

Table of Contents

Exhibit No.	Description
Exhibit 4.8	<u>Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico (English translation) (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).</u>
Exhibit 4.9	<u>Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Bajio, S.A. de C.V., and The Coca-Cola Company with respect to operations in Bajio, Mexico (English translation) (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).</u>
Exhibit 4.10	Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
Exhibit 4.11	Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
Exhibit 4.12	Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
Exhibit 4.13	Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
Exhibit 4.14	Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
Exhibit 4.15	Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
Exhibit 4.16	Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
Exhibit 4.17	Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.40 to FEMSA's Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
Exhibit 4.18	<u>Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administración de Marcas S.A. de C.V., as proprietor, and The Coca-Cola Export Corporation Mexico branch, as licensee (incorporated by reference to Exhibit 10.3 of Propimex's (formerly</u>

Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).

- Exhibit 4.19 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Exhibit 10.6 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- Exhibit 4.20 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajio S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Exhibit 10.7 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- Exhibit 4.21 Supply Agreement dated June 21, 1993, between Coca-Cola FEMSA, S.A.B. de C.V. and FEMSA Empaques, (incorporated by reference to Exhibit 10.7 to Coca-Cola FEMSA s Registration Statement on Form F-1 filed on August 13, 1993 (File No. 33-67380)).
- Exhibit 4.22 Supply Agreement dated April 3, 1998, between Alpla Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).*
- Exhibit 4.23 Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA, S.A.B. de C.V. and FEMSA Logística (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- Exhibit 4.24 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajio S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 10.8 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).

Table of Contents

Exhibit No.	Description
Exhibit 4.25	<u>Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 10.9 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).</u>
Exhibit 4.26	<u>Memorandum of Understanding, dated as of March 11, 2003, by and among Panamerican Beverages, S.A. de C.V., as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Exhibit 10.14 of Propimex s (formerly Panamerican Beverages Inc.) Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).</u>
Exhibit 4.27	<u>Shareholders Agreement dated as of January 25, 2013, by and among Coca-Cola FEMSA Philippines, Inc., Coca-Cola South Asia Holdings, Inc., Coca-Cola Holdings (Overseas) Limited and Controladora de Inversiones en Bebidas Refrescantes, S.L. (incorporated by reference to Exhibit 4.27 of Coca-Cola FEMSA s Annual Report on Form 20-F filed on March 15, 2013 (File No. 1-12260))</u>
Exhibit 7.1	<u>The Coca-Cola Company memorandum, to Steve Heyer from José Antonio Fernández, dated December 22, 2002 (incorporated by reference to Exhibit 10.1 to FEMSA s Registration Statement on Amendment No. 1 to the Form F-3 filed on September 20, 2004 (File No. 333-117795)).</u>
Exhibit 7.2	<u>Calculation of Ratio of Earnings to Fixed Charges.</u>
Exhibit 8.1	<u>Significant Subsidiaries.</u>
Exhibit 12.1	<u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 18, 2018.</u>
Exhibit 12.2	<u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 18, 2018.</u>
Exhibit 13.1	<u>Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 18, 2018.</u>

* Portions of Exhibit 4.22 were omitted pursuant to a request for confidential treatment. Such omitted portions were filed separately with the Securities and Exchange Commission.

This was a paper filing, and is not available on the SEC website.

Omitted from the exhibits filed with this annual report are certain instruments and agreements with respect to long-term debt of Coca-Cola FEMSA, none of which authorizes securities in a total amount that exceeds 10.0% of the total assets of Coca-Cola FEMSA. We hereby agree to furnish to the SEC copies of any such omitted instruments or agreements upon request by the SEC.

Table of Contents

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

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

By: /s/ Héctor Treviño Gutiérrez
Héctor Treviño Gutiérrez

Chief Financial Officer

Date: April 18, 2018

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated April 18, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico according to the Código de Ética Profesional del Instituto Mexicano de Contadores Públicos (IMCP Code), and the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

/s/ MANCERA, S.C.

We have served as the Company's auditor since 2008

Mexico City, Mexico

April 18, 2018

F-1

Table of Contents**COCA-COLA FEMSA, S.A.B. DE C.V. AND SUBSIDIARIES****Consolidated Statements of Financial Position***At December 31, 2017 and 2016**Amounts expressed in millions of U.S. dollars (\$) and in millions of mexican pesos (Ps.)*

	Note	December 2017 (*)	December 2017	December 2016
ASSETS				
Current assets:				
Cash and cash equivalents	5	\$ 956	Ps. 18,767	Ps. 10,476
Accounts receivable, net	6	895	17,576	15,005
Inventories	7	579	11,364	10,744
Recoverable taxes	23	263	5,172	4,373
Other current financial assets	8	38	737	1,511
Other current assets	8	103	2,041	3,344
Total current assets		2,834	55,657	45,453
Non-current assets:				
Investments in other entities	9	639	12,540	22,357
Property, plant and equipment, net	10	3,861	75,827	65,288
Intangible assets, net	11	6,326	124,243	123,964
Deferred tax assets	23	408	8,012	5,981
Other non-current financial assets	12	65	1,277	4,733
Other non-current assets	12	413	8,121	11,480
Total non-current assets		11,712	230,020	233,803
TOTAL ASSETS		\$ 14,546	Ps. 285,677	Ps. 279,256
LIABILITIES AND EQUITY				
Current liabilities:				
Bank loans and notes payable	17	\$ 105	Ps. 2,057	Ps. 1,573
Current portion of non-current debt	17	515	10,114	1,479
Interest payable		25	487	520
Suppliers		1,016	19,956	21,489
Accounts payable		580	11,397	6,355
Taxes payable		360	7,074	7,560
Other current financial liabilities	24	230	4,509	892
Total current liabilities		2,831	55,594	39,868
Non-current liabilities:				

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Bank loans and notes payable	17	3,625	71,189	85,857
Post-employment and other non-current employee benefits	15	154	3,029	2,319
Deferred tax liabilities	23	87	1,714	1,205
Other non-current financial liabilities	24	60	1,169	5,745
Provisions and other non-current liabilities	24	624	12,272	15,029
Total non-current liabilities		4,550	89,373	110,155
Total liabilities		7,381	144,967	150,023
Equity:				
Capital stock	21	105	2,060	2,048
Additional paid-in capital		2,320	45,560	41,490
Retained earnings		3,146	61,786	81,579
Other equity instruments		(25)	(485)	(485)
Cumulative other comprehensive income (loss)		695	13,648	(2,495)
Equity attributable to equity holders of the parent		6,241	122,569	122,137
Non-controlling interest in consolidated subsidiaries	20	924	18,141	7,096
Total equity		7,165	140,710	129,233
TOTAL LIABILITIES AND EQUITY		\$ 14,546	Ps. 285,677	Ps. 279,256

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

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

Table of Contents**Consolidated Income Statements**

For the years ended December 31, 2017, 2016 and 2015

Amounts expressed in millions of U.S. dollars (\$) and in millions of mexican pesos (Ps.) except per share amounts

	Note	2017 (*)	2017	2016	2015
Net sales		\$ 10,355	Ps. 203,374	Ps. 177,082	Ps. 151,914
Other operating revenues		21	406	636	446
Total revenues		10,376	203,780	177,718	152,360
Cost of goods sold		5,708	112,094	98,056	80,330
Gross profit		4,668	91,686	79,662	72,030
Administrative expenses		457	8,983	7,423	6,405
Selling expenses		2,848	55,927	48,039	41,879
Other income	18	223	4,371	1,281	620
Other expenses	18	1,682	33,032	5,093	2,368
Interest expense	17	449	8,809	7,471	6,337
Interest income		45	887	715	414
Foreign exchange gain (loss), net		41	810	(1,792)	(1,459)
Gain (loss) on monetary position for subsidiaries in hyperinflationary economies		81	1,591	2,417	(33)
Market value gain on financial instruments	19	13	246	51	142
(Loss) income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method		(365)	(7,160)	14,308	14,725
Income taxes	23	232	4,554	3,928	4,551
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	9	3	60	147	155
Net (loss) income		\$ (594)	Ps. (11,654)	Ps. 10,527	Ps. 10,329
Attributable to:					
Equity holders of the parent		\$ (652)	Ps. (12,802)	Ps. 10,070	Ps. 10,235
Non-controlling interest		58	1,148	457	94
Net (loss) income		\$ (594)	Ps. (11,654)	Ps. 10,527	Ps. 10,329
Equity holders of the parent (U.S. dollars and mexican pesos):					
Earnings per share					
Basic net controlling interest (loss) income	22	\$ (0.31)	Ps. (6.12)	Ps. 4.86	Ps. 4.94
	22	(0.31)	(6.12)	4.85	4.94

**Diluted net controlling interest (loss)
income**

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

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

F-3

Table of Contents**Consolidated Statements of Comprehensive Income**

For the years ended December 31, 2017, 2016 and 2015

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

	Note	2017 (*)	2017	2016	2015
Consolidated net (loss) income		\$ (594)	Ps. (11,654)	Ps. 10,527	Ps. 10,329
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Valuation of the effective portion of derivative financial instruments, net of taxes	19	(14)	(266)	715	(27)
Exchange differences on the translation of foreign operations and associates		776	15,207	16,052	(5,407)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		762	14,941	16,767	(5,434)
Items that will not be reclassified to profit or loss in subsequent periods:					
Remeasurements of the net defined benefit liability, net of taxes	15	1	28	(123)	138
Net other comprehensive income (loss) not being reclassified to profit or loss in subsequent periods		1	28	(123)	138
Total other comprehensive income (loss), net of tax		763	14,969	16,644	(5,296)
Consolidated comprehensive income for the year, net of tax		\$ 169	Ps. 3,315	Ps. 27,171	Ps. 5,033
Attributable to:					
Equity holders of the parent		\$ 170	Ps. 3,341	Ps. 24,818	Ps. 5,437
Non-controlling interest		(1)	(26)	2,353	(404)
Consolidated comprehensive income for the year, net of tax		\$ 169	Ps. 3,315	Ps. 27,171	Ps. 5,033

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

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

Table of Contents**Consolidated Statements of Changes in Equity**

For the years ended December 31, 2017, 2016 and 2015

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

					Exchange Valuation Differences on the Effective Translation Portion of Foreign of the Net Benefit Liability	Equity Attributable To Equity Holders of the Parent	Non- Controlling Interest	Total Equity		
Contributable	Additional Paid-in Capital Stock	Retained Earnings	Other Equity Instruments	Derivative Financial Instruments	Operations and Associates					
Balances at January 1, 2015	Ps. 2,048	Ps. 41,490	Ps. 74,624	Ps.	Ps. (148)	Ps. (11,731)	Ps. (566)	Ps. 105,717	Ps. 4,401	Ps. 110,118
Net income			10,235					10,235	94	10,329
Other comprehensive income, net of tax										
Total comprehensive income			10,235		(77)	(4,853)	132	(4,798)	(498)	(5,291)
Dividends declared			(6,405)					(6,405)	(11)	(6,416)
Balances at December 31, 2015	2,048	41,490	78,454		(225)	(16,584)	(434)	104,749	3,986	108,735
Net income			10,070					10,070	457	10,527
Other comprehensive income, net of tax										
Total comprehensive income			10,070		664	14,207	(123)	14,748	1,896	16,644
Dividends declared			(6,945)					(6,945)	(69)	(7,014)
Increase in non-controlling interest									826	826
				(485)				(485)		(485)

Acquisition of Company (Note										
Balances at December 31, 2016	2,048	41,490	81,579	(485)	439	(2,377)	(557)	122,137	7,096	129,239
Net (loss) Income			(12,802)					(12,802)	1,148	(11,654)
Other Comprehensive Income, net of tax					(192)	(9,778)	(10)	(9,980)	(1,174)	(11,154)
Consolidation Venezuela (Note 3.3)						26,123		26,123		26,123
Total Comprehensive Income			(12,802)		(192)	16,345	(10)	3,341	(26)	3,315
Acquisition of Company (Note	12	4,070						4,082		4,082
Dividends Declared			(6,991)					(6,991)	(1)	(6,992)
Consolidation Philippines									11,072	11,072
Balances at December 31, 2017	Ps. 2,060	Ps. 45,560	Ps. 61,786	Ps. (485)	Ps. 247	Ps. 13,968	Ps. (567)	Ps. 122,569	Ps. 18,141	Ps. 140,710

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

Table of Contents**Consolidated Statements of Cash Flows***For the years ended December 31, 2017, 2016 and 2015**Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)*

	2017 (*)	2017	2016	2015
Cash flows from operating activities:				
Income before income taxes	\$ (362)	Ps. (7,100)	Ps. 14,455	Ps. 14,880
Adjustments for:				
Non-cash operating expenses	235	4,611	2,329	1,435
Depreciation	521	10,216	7,579	6,310
Amortization	73	1,441	1,087	834
(Loss) on disposal of long-lived assets	(7)	(128)	(22)	(217)
Write-off of long-lived assets	9	174	40	332
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	(3)	(60)	(147)	(155)
Interest income	(45)	(887)	(715)	(414)
Interest expense	237	4,649	4,388	3,718
Foreign exchange (gain) loss, net	(41)	(810)	1,792	1,459
Non-cash movements in post-employment and other non-current employee benefits obligations	25	500	580	68
Impairment of Venezuela	94	1,843		
Deconsolidation of Venezuela	1,342	26,333		
Consolidation of Philippines	(153)	(2,996)		
Monetary position (gain) loss, net	(81)	(1,591)	(2,417)	33
Market value loss on financial instruments	207	4,073	2,817	3,096
(Increase) decrease:				
Accounts receivable and other current assets	(180)	(3,530)	(2,727)	(1,010)
Other current financial assets	(97)	(1,903)	(3,552)	(2,849)
Inventories	(25)	(482)	(2,142)	(1,784)
Increase (decrease):				
Suppliers and other accounts payable	189	3,718	11,199	3,329
Other liabilities	48	934	931	249
Employee benefits paid	(20)	(384)	(258)	(193)
Income taxes paid	(274)	(5,385)	(2,771)	(5,919)
Net cash flows from operating activities	1,692	33,236	32,446	23,202
Investing activities:				
Acquisition and mergers, net of cash acquired (see Note 4)	206	4,038	(13,198)	
Deconsolidation of Venezuela (see Note 3.3)	(9)	(170)		
Interest received	45	887	715	414
Acquisitions of long-lived assets	(564)	(11,069)	(10,308)	(10,545)
Proceeds from the sale of long-lived assets	16	322	324	233

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Acquisition of intangible assets	(191)	(3,753)	(2,385)	(956)
Other non-current assets	(13)	(258)		(72)
Dividends received from investments in associates and joint ventures (Note 9)	2	33	5	13
Investment in shares	(47)	(920)	(2,068)	(32)
Net cash flows used in investing activities	(555)	(10,890)	(26,915)	(10,945)
Financing activities:				
Proceeds from borrowings	636	12,488	8,040	1,907
Repayment of borrowings	(668)	(13,109)	(4,948)	(9,076)
Interest paid	(234)	(4,589)	(4,122)	(3,568)
Dividends paid	(356)	(6,992)	(7,013)	(6,416)
Other financing activities	(135)	(2,655)	(2,517)	8,586
Proceeds from issuing shares (see Note 4)	208	4,082		
Increase in non-controlling interest			826	
Net cash flows (used in) financing activities	(549)	(10,775)	(9,734)	(8,567)
Net increase (decrease) in cash and cash equivalents	588	11,571	(4,203)	3,690
Initial balance of cash and cash equivalents	534	10,476	15,989	12,958
Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies	(166)	(3,280)	(1,310)	(659)
Ending balance of cash and cash equivalents	\$ 956	Ps. 18,767	Ps. 10,476	Ps. 15,989

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

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

Table of Contents**Notes to the Consolidated Statements**

For the years ended December 31, 2017, 2016 and 2015

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

Note 1. Activities of the Company

Coca-Cola FEMSA, S.A.B. de C.V. (Coca-Cola FEMSA) is a Mexican corporation, mainly engaged in acquiring, holding and transferring all types of bonds, shares and marketable securities.

Coca-Cola FEMSA is indirectly owned by Fomento Economico Mexicano, S.A.B. de C.V. (FEMSA), which holds 47.2% of its capital stock and 63% of its voting shares and The Coca-Cola Company (TCCC), which indirectly owns 27.8% of its capital stock and 37% of its voting shares. The remaining 25% of Coca-Cola FEMSA's shares trade on the Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV: KOF) and its American Depositary Shares (ADS) (equivalent to ten series L shares) trade on the New York Stock Exchange, Inc. The address of its registered office and principal place of business is Mario Pani No. 100 Col. Santa Fe Cuajimalpa, Delegacion Cuajimalpa de Morelos, Mexico City, 05348, Mexico.

Coca-Cola FEMSA and its subsidiaries (the Company), as an economic unit, are engaged in the production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela, Brazil, Argentina and Philippines.

As of December 31, 2017 and 2016 the most significant subsidiaries which the Company controls are:

Company	Activity	Country	Ownership	Ownership
			percentage 2017	percentage 2016
Propimex, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	100.00%	100.00%
Controladora Interamericana de Bebidas, S. de R.L. de C.V.	Holding	Mexico	100.00%	100.00%
Spal Industria Brasileira de Bebidas, S.A.	Manufacturing and distribution	Brazil	96.06%	96.06%
Distribuidora y Manufacturera del Valle de México, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	100.00%	100.00%
Servicios Refresqueros del Golfo, S. de R.L. de C.V.	Manufacturing and distribution	Mexico	100.00%	100.00%

Note 2. Basis of Preparation**2.1 Statement of compliance**

The consolidated financial statements of Coca-Cola FEMSA S.A.B. de C.V. and its subsidiaries for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Company's consolidated financial statements and notes were authorized for issuance by the Company's Chief Executive Officer John Santa Maria Otazua and Chief Financial and Administrative Officer Héctor Treviño Gutiérrez on February 21, 2018. Those consolidated financial statements and notes were then approved by the Company's Board of Directors meeting on February 21, 2018 and by the Shareholders on March 9, 2018. The accompanying consolidated financial statements were approved for issuance in the Company's annual report on Form 20-F by the Company's Chief Executive Officer and Chief Financial Officer on April 13, 2017 and subsequent events have been considered through that date (See Note 28).

2.2 Basis of measurement and presentation

The consolidated financial statements have been prepared on the historical cost basis except for the following:

Derivative financial instruments

Trust assets of post-employment and other non-current employee benefit plans

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

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

Table of Contents

2.2.1 Presentation of consolidated income statement

The Company classifies its costs and expenses by function in the consolidated income statement in order to conform to industry practices.

2.2.2 Presentation of consolidated statements of cash flows.

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

2.2.3 Convenience translation to U.S. dollars (\$)

The consolidated financial statements are stated in millions of Mexican pesos (Ps.) and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position as of December 31, 2017, the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2017 were converted into U.S. dollars at the exchange rate of Ps 19.64 per U.S. dollar as published by the Federal Reserve Bank of New York on December 29, 2017, the last date in 2017 for which information is available. This arithmetic conversion should not be construed as representations that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate. As of March 05, 2018 (the issuance date of these financial statements) such exchange rate was Ps. 18.89 per U.S. dollar, an appreciation of 3.81% since December 31, 2017.

2.3 Critical accounting judgments and estimates

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

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

Judgements

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

2.3.1 Key sources of estimation uncertainty

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

2.3.1.1 Impairment of indefinite lived intangible assets, goodwill and other depreciable long-lived assets

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

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

2.3.1.2 Useful lives of property, plant and equipment and intangible assets with definite useful lives

Property, plant and equipment, including returnable bottles which expected to provide benefits over a period of more than one year, as well as intangible assets with definite useful lives are depreciated/ amortized over their estimated useful lives. The Company bases its estimates on the experience of its technical personnel as well as its experience in the industry for similar assets; see Notes 3.12, 10 and 11.

Table of Contents

2.3.1.3 Post-employment and other non-current employee benefits

The Company regularly evaluates the reasonableness of the assumptions used in its post-employment and other non-current employee benefit computations. Information about such assumptions is described in Note 15.

2.3.1.4 Income taxes

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Company recognizes deferred tax assets for unused tax losses and other credits and regularly reviews them for recoverability, based on its judgment regarding the probability of the expected timing and level of future taxable income, the expected timing of the reversals of existing taxable temporary differences and future tax planning strategies, see Note 23.

2.3.1.5 Tax, labor and legal contingencies and provisions

The Company is subject to various claims and contingencies related to tax, labor and legal proceedings as described in Note 24. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a provision and/ or discloses the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a provision for the estimated loss. Management's judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

2.3.1.6 Valuation of financial instruments

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

The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient, reliable and verifiable data, recognized in the financial sector. The Company bases its forward price curves upon market price quotations. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 19.

2.3.1.7 Business combinations

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

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

deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, Income Taxes and IAS 19, Employee Benefits, respectively;

liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, Share- Based Payment at the acquisition date, see Note 3.24;

assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard; and

indemnifiable assets are recognized at the acquisition date on the same basis as the indemnifiable liability subject to any contractual limitations.

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

2.3.1.8 Investments in associates

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

Table of Contents

exercise significant influence. Management considers the existence of the following circumstances, which may indicate that the Company is in a position to exercise significant influence over a less than 20 per cent-owned corporate investee:

representation on the board of directors or equivalent governing body of the investee;

participation in policy-making processes, including participation in decisions about dividends or other distributions;

material transactions between the Company and the investee;

interchange of managerial personnel; or

provision of essential technical information.

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

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

the Company's extent of ownership is significant relative to other shareholdings (i.e. a lack of concentration of other shareholders);

the Company's significant shareholders, its parent, fellow subsidiaries, or officers of the Company, hold additional investment in the investee; and

the Company is a part of significant investee committees, such as the executive committee or the finance committee.

2.3.1.9 Joint Arrangements

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

a) If all the parties, or a group of the parties, control the arrangement, considering definition of joint control, as described in Note 3.1; and

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

As mentioned in Note 4 and 9, until January 2017, the Company accounted for its 51% investment in Coca-Cola FEMSA Philippines, Inc. (CCFPI) as a joint venture, based on the facts that until such date the Company and TCCC: (i) make all operating decisions jointly during the initial four-year period and (ii) potential voting rights to acquire the remaining 49% of CCFPI were not probable to be exercised in the foreseeable future because the related call option remains out of the money .

2.3.1.10 Venezuela Exchange Rates and Consolidation

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

As also explained in Note 3.3 below, effective December 31, 2017 the Company deconsolidated its operations in Venezuela due to the to the political and economic conditions in that country and began accounting for the operations under the fair value method. Consequently beginning January 1, 2018, all changes in the fair value of the investment, including foreign currency translations differences will be recognized for Venezuela's operations in other comprehensive income.

2.4 Changes in accounting policies

The Company has applied the following amendments to the standards, which are effective for annual periods beginning on or after January 2017, their application has no significant effects:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

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

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. (See Note 17.1).

Table of Contents

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that the Company needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Note 3. Significant Accounting Policies

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2017. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

Exposure, or rights, to variable returns from its involvement with the investee, and

The ability to use its power over the investee to affect its returns

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

The contractual arrangement with the other vote holders of the investee

Rights arising from other contractual arrangements

The Company's voting rights and potential voting rights

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

statements of income and comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

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

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

Derecognizes the assets (including goodwill) and liabilities of the subsidiary

Derecognizes the carrying amount of any non-controlling interests

Derecognizes the cumulative translation differences recorded in equity

Recognizes the fair value of the consideration received

Recognizes the fair value of any investment retained

Recognizes any surplus or deficit in profit or loss

Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities

Table of Contents

3.1.1 Acquisitions of non-controlling interests

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

3.2 Business combinations

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

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

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

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

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

Sometimes obtaining control of an acquiree in which equity interest is held immediately before the acquisition date is considered as a business combination achieved in stages also referred to as a step acquisition. The Company remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss. Also, the changes in the value of equity interest in the acquiree recognized in other comprehensive income shall be recognized on the same basis as required if the Company had disposed directly of the previously held equity interest, see Note 3.11.2.

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

- i. The acquiree repurchases a sufficient number of its own shares for the Company to obtain control.
- ii. Minority veto rights lapse that previously kept the Company from controlling an acquiree in which it held the majority voting rights.
- iii. The Company and the acquiree agree to combine their businesses by contract alone in which it transfers no consideration in exchange for control and no equity interest is held in the acquiree, either on the acquisition date or previously.

3.3 Foreign currencies and consolidation of foreign subsidiaries, investments in associates and joint ventures

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

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

The variations in the net investment in foreign subsidiaries generated by exchange rate fluctuation are included in other comprehensive income, which is recorded in equity as part of the cumulative translation adjustment within the cumulative other comprehensive income.

Intercompany financing balances with foreign subsidiaries that are considered as non-current investments, since there is no plan to pay such financing in the foreseeable future. Monetary position and exchange rate fluctuation regarding this financing is included in the cumulative translation adjustment, which is recorded in equity as part of the cumulative translation adjustment within the cumulative other comprehensive income.

Table of Contents

Exchange differences on transactions entered into in order to hedge certain foreign currency risks. Foreign exchange differences on monetary items are recognized in profit or loss. Their classification in the income statement depends on their nature. Differences arising from fluctuations related to operating activities are presented in the other expenses line (see Note 18) while fluctuations related to non-operating activities such as financing activities are presented as part of foreign exchange gain (loss) line in the income statement.

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

For hyperinflationary economic environments, the inflation effects of the origin country are recognized pursuant to IAS 29 Financial Reporting in Hyperinflationary Economies, and subsequently translated into Mexican pesos using the year-end exchange rate for the consolidated statements of financial position and consolidated income statement and comprehensive income; and

For non-inflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month only if the exchange rate does not fluctuate significantly. In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint ventures that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

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

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

Country or Zone	Moneda Funcional	Average Exchange Rate for			Exchange Rate as of	
		2017	2016	2015	December 31, 2017	December 31, 2016
Mexico	Mexican peso	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00
Guatemala	Quetzal	2. 57	2. 46	2. 07	2. 69	2. 75
Costa Rica	Colon	0. 03	0. 03	0. 03	0. 03	0. 04

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Panama	U.S Dollar	18.	93	18.	66	15.	85	19.	74	20.	66
Colombia	Colombian peso	0.	01	0.	01	0.	01	0.	01	0.	01
Nicaragua	Cordoba	0.	63	0.	65	0.	58	0.	64	0.	70
Argentina	Argentine peso	1.	15	1.	26	1.	71	1.	06	1.	30
Venezuela (a)	Bolivar		(a)		(a)		(a)		(a)		(a)
Brazil	Reais	5.	94	5.	39	4.	81	5.	97	6.	34
Philippines	Philippines peso	0.	38	0.	39	0.	35	0.	40	0.	41

(1) Exchange rates published by the central bank of each country

(a) Venezuela

Effective December 31, 2017, the Company determined that deteriorating conditions in Venezuela had led the Company to no longer meet the accounting criteria to consolidate its Venezuelan operations. Such deteriorating conditions had significantly impacted the Company's ability to manage its capital structure its capacity to import and purchase raw materials and had imposed limitations on the portfolio dynamics. In addition, government controls over pricing of certain products, labor law restrictions and an inability to obtain US Dollars and imports affected the normal course of our business. Therefore, and due to the fact that Company will continue to operate in Venezuela, as of December 31, 2017, the Company changed the method of accounting for its investment in Venezuela from consolidation to fair value method measured using a Level 3 concept and recognized at December 31, 2017.

As a result of the deconsolidation, the Company recorded an extraordinary loss in other expenses line of Ps. 28,177 at December 31, 2017. This amount includes the reclassification of Ps. 26,123 (see Note 20) previously recorded in accumulated foreign currency translation losses in equity, to the income statement and impairment charges of Ps. 2,053. The impairment charges include the following: Ps. 745 of distribution rights, Ps. 1,098 of property plan and equipment and Ps 210 of remeasurement at fair-value of the Venezuelan's investment. Prior to deconsolidation, during 2017, the Company's Venezuela operations contributed Ps. 4,005 to net sales and losses of Ps. (2,223) to net income. See also Note 25 for additional information about the Venezuelan operations.

Table of Contents

Beginning in January 1, 2018, the Company will recognized its investment in Venezuela under the fair value method upon pursuant to the new IFRS 9 Financial Instrument, standard. As a result of this change, beginning on January 1, 2018, the Company will no longer include the results of the Venezuelan operations in its future Consolidated Financial Statements.

Exchange rate

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

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

As of December 31, 2016 the Company had US\$629 million in monetary liabilities recorded using the DIPRO (Divisa Protegida) exchange rate at 10 bolivars per US dollar, mainly because at that date the Company believes it continued to qualify at that rate to pay for the import of various products into Venezuela and its ability to renegotiate with their main vendors, if necessary, the settlement of such liabilities in bolivars, and US\$104 million recorded at DICOM (Divisas Complementarias) exchange rate at 673.76 bolivars per US dollar.

Step-two: In order to integrate the results of the Venezuelan operations into the consolidated figures of the Company, such Venezuelan results were translated from venezuelan bolivars into mexican pesos.

On December 2017, the Company translated the Venezuela entity figures using an exchange rate of bolivars. 22,793 per USD, as such exchange rate better represents the economic conditions in Venezuela. The Company considers that this exchange rate provides more useful and relevant information with respect to Venezuela's financial position, financial performance and cash flows. On January 30, 2018, a new auction of the DICOM conducted by the Venezuela government resulted in an estimated exchange rate of Bolivars. 30,987 per Eu (equivalent to 25,000 per USD).

3.4 Recognition of the effects of inflation in countries with hyperinflationary economic environments

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

Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, intangible assets, including related costs and expenses when such assets are consumed or depreciated.

Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, net income, retained earnings and items of other comprehensive income by the necessary amount to maintain the purchasing power equivalent in the currency of the corresponding hyperinflationary country on the dates such capital was contributed or income was generated up to the date those consolidated financial statements are presented; and

Including the monetary position gain or loss in consolidated net income.

The Company restates the financial information of subsidiaries that operate in hyperinflationary economic environment using the consumer price index (CPI) of each country. As disclosed in Note 3.3 the Company deconsolidated the operations in Venezuela. Consequently, the Company will no longer include the results of the Venezuelan operations in its future Consolidated Financial Statements. However, the Venezuela entity will continue operating.

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

Country	Cumulative Inflation 2015- 2017	Type of Economy	Cumulative Inflation 2014- 2016	Type of Economy	Cumulative Inflation 2013- 2015	Type of Economy
Mexico	12.7%	Non-hyperinflationary	9.9%	Non-hyperinflationary	10.5%	Non-hyperinflationary
Guatemala	13.5%	Non-hyperinflationary	10.6%	Non-hyperinflationary	10.8%	Non-hyperinflationary
Costa Rica	2.5%	Non-hyperinflationary	5.1%	Non-hyperinflationary	8.1%	Non-hyperinflationary
Panama	2.3%	Non-hyperinflationary	2.8%	Non-hyperinflationary	5.1%	Non-hyperinflationary
Colombia	17.5%	Non-hyperinflationary	17.0%	Non-hyperinflationary	12.8%	Non-hyperinflationary
Nicaragua	12.3%	Non-hyperinflationary	13.1%	Non-hyperinflationary	15.8%	Non-hyperinflationary
Argentina						
(a)	101.5%	Non-hyperinflationary	99.7%	Non-hyperinflationary	59.2%	Non-hyperinflationary
Venezuela	30,690%	Hyperinflationary	2,263.0%	Hyperinflationary	562.9%	Hyperinflationary
Brazil	21.1%	Non-hyperinflationary	25.2%	Non-hyperinflationary	24.7%	Non-hyperinflationary
Philippines	7.5%	Non-hyperinflationary	5.7%	Non-hyperinflationary	8.3%	Non-hyperinflationary

(a) Argentina

Table of Contents

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

(i) CPI for the City and Greater Buenos Aires Area (New CPI-CGBA), for which the IMF noted improvements in quality, this new consumer price index will only be provided for periods after April 2016 and does not provide national coverage.

(ii) Coeficiente de Estabilización de Referencia (CER or Reference Stabilization Ratio) to calculate the three-year cumulative inflation rate in Argentina, the CER is used by the government of Argentina to adjust the rate they pay on certain adjustable rate bonds they issue. At April 31, 2017, the three-year cumulative inflation rate based on CER data is estimated to be approximately 95.5%.

(iii) National Wholesale Price Index (WPI) with a cumulative inflation for three years of 92.2% at November 2016 but not including information for November and December 2015 since it was not published by the National Bureau of Statistics of Argentina (INDEC). The WPI has historically been viewed as the most relevant inflation measure for companies by practitioners in Argentina. As a result of the existence of multiple inflation indices, the Company believes it necessitates an increased level of judgment in determining whether the economy of Argentina should be considered highly inflationary.

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

3.5 Cash and cash equivalents

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

The Company also maintains restricted cash held as collateral to meet certain contractual obligations (see Note 8). Restricted cash is presented within other current financial assets given that the restrictions are short-term in nature.

3.6 Financial assets

Financial assets are classified into the following specified categories: fair value through profit or loss (FVTPL), held-to-maturity investments, available-for-sale and loans and receivables. The classification depends on the nature and purpose of holding the financial assets and is determined at the time of initial recognition.

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

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

The Company's financial assets include cash and cash equivalents, loans and receivables, derivative financial instruments and other financial assets (Current and non-current).

3.6.1 Effective interest rate method (EIR)

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

Table of Contents

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

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

3.6.3 Loans and receivables

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

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. For the years ended December 31, 2017, 2016 and 2015 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 4, Ps. 3 and Ps. -, respectively.

3.6.4 Other financial assets

Other financial assets are non-current accounts receivable and derivative financial instruments. Other financial assets with a relevant period are measured at amortized cost using the effective interest method, less any impairment.

3.6.5 Impairment of financial assets

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

Evidence of impairment may include indicators as follows:

Significant financial difficulty of the issuer or counterparty; or

Default or delinquent in interest or principal payments; or

It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

The disappearance of an active market for that financial asset because of financial difficulties.

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

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

3.6.6 Derecognition

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

The rights to receive cash flows from the financial asset have expired, or

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

Table of Contents

3.6.7 Offsetting of financial instruments

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

Currently has an enforceable legal right to offset the recognized amounts, and

Intends to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3.7 Derivative financial instruments

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

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

3.7.1 Hedge accounting

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

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

3.7.2 Cash flow hedges

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

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

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

3.7.3 Fair value hedges

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

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

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

Table of Contents

3.8 Fair value measurement

The Company measures financial instruments, such as, derivatives, and certain non-financial assets such as trusts assets of labor obligations at fair value at each balance sheet date. Also, fair values of bank loans and notes payable carried at amortized cost are disclosed in Note 17.

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

In the principal market for the asset or liability, or

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

The Company determines the policies and procedures for both recurring fair value measurement, such as those described in Note 19 and unquoted liabilities such as debt described in Note 17.

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

3.9 Inventories and cost of goods sold

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

Inventories represent the acquisition or production cost which is incurred when purchasing or producing a product, and are based on the weighted average cost formula.

Cost of goods sold is based on weighted average cost of the inventories at the time of sale. Cost of goods sold includes expenses related to the purchase of raw materials used in the production process, as well as labor costs (wages and other benefits), depreciation of production facilities, equipment and other costs, including fuel, electricity, equipment maintenance and inspection.

3.10 Other current assets

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

Prepaid assets principally consist of advances to suppliers of raw materials, advertising, promotional, leasing and insurance costs, and are recognized as other current assets at the time of the cash disbursement, and are unrecognized in the consolidated statement of financial position and recognized in the appropriate consolidated income statement caption when the risks and rewards of the related goods have been transferred to the Company or services have been received, respectively.

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

Table of Contents

The Company has agreements with customers for the right to sell and promote the Company's products over a certain period. The majority of these agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract, with amortization presented as a reduction of net sales. During the years ended December 31, 2017, 2016 and 2015, such amortization aggregated to Ps. 759 Ps. 582 and Ps. 317, respectively.

3.11 Investments in other entities***3.11.1 Investments in associates***

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

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

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

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

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

3.11.2 Joint arrangements

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

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. As of December 31, 2017 and 2016 the Company does not have an interest in joint operations.

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

3.11.3 Investment in Venezuela

As disclosed in Note 3.3 on December 31, 2017 the Company changed the method of accounting for its investment in Venezuela from consolidation to fair value method using a Level 3 concept and recognized at December 31, 2017 an impairment on its investment of Ps. 210.

3.12 Property, plant and equipment

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

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

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

Table of Contents

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

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

	Years	
Buildings	40	50
Machinery and equipment	10	20
Distribution equipment	7	15
Refrigeration equipment	5	7
Returnable bottles	1.5	4
Other equipment	3	10

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

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

Returnable and non-returnable bottles:

The Company has two types of bottles: returnable and non-returnable.

Non-returnable: Are recorded in consolidated income statement at the time of the sale of the product.

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

There are two types of returnable bottles:

Those that are in the Company's control within its facilities, plants and distribution centers; and

Those that have been placed in the hands of customers and still belong to the Company.

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

such agreements are expensed when placed in the hands of retailers.

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

3.13 Borrowing costs

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

interest expense; and

exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

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

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

3.14 Intangible assets

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

Table of Contents

Intangible assets with finite useful lives are amortized and mainly consist of information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over their expected useful lives. Expenditures that do not fulfill the requirements for capitalization are expensed as incurred.

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

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

The Company's intangible assets with an indefinite life mainly consist of rights to produce and distribute Coca-Cola trademark products in the Company's territories. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers.

As of December 31, 2017, the Company had nine bottler agreements in Mexico: (i) the agreements for the Valley of Mexico territory, which are up for renewal in May 2018 and June 2023, (ii) the agreement for the Southeast territory, which is up for renewal in June 2023, (iii) three agreements for the Central territory, which are up for renewal in May 2018 (two agreements), and May 2025, (iv) the agreement for the Northeast territory, which is up for renewal in May 2018, and (v) two agreements for the Bajio territory, which are up for renewal in May 2018 and May 2025. As of December 31, 2017, the Company had nine bottler agreements in Brazil, which are up for renewal in May 2018 (seven agreements) and April 2024 (two agreements); and one bottler agreement in each of Argentina, which is up for renewal in September 2024; Colombia, which is up for renewal in June 2024; Venezuela, which is up for renewal in August 2026; Guatemala, which is up for renewal in March 2025; Costa Rica, which is up for renewal in September 2027; Nicaragua, which is up for renewal in May 2026 Panama, which is up for renewal in November 2024; and the Philippines, which is up for renewal in December 2022. The bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent the Company from selling Coca-Cola trademark beverages in the affected territory and would have an adverse effect on the Company's business, financial conditions, results from operations and prospects.

3.15 Non-current assets held for sale

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

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

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

3.16 Impairment of long-lived assets

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

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

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

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

Table of Contents

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

As of December, 31 2017 the Company recognized an impairment loss in long-lived assets used in the operation in Venezuela relating to property, plant and equipment for Ps.1,098 and distribution rights for Ps.745. See Note 10 and 11, respectively.

3.17 Leases

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

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

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

3.18 Financial liabilities and equity instruments

3.18.1 Classification as debt or equity

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

3.18.2 Equity instruments

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

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

3.18.3 Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

3.18.4 Loans and borrowings

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

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

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Table of Contents

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

3.19 Provisions

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

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

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

The Company recognizes a provision for a loss contingency when it is probable (i.e. the probability that the event will occur is greater than the probability that it will not) that certain effects related to past events, would materialize and can be reasonably quantified. These events and their financial impact are also disclosed as loss contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized, see Note 24.

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

3.20 Post-employment and other non-current employee benefits

Post-employment and other non-current employee benefits, which are considered to be monetary items, include obligations for pension and post-employment plans and seniority premiums, all based on actuarial calculations, using the projected unit credit method.

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

For defined benefit retirement plans and other non-current employee benefits, such as the Company's sponsored pension and retirement plans and seniority premiums, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. All remeasurements effects of the Company's defined benefit obligation such as actuarial gains and losses and return on plan assets are

recognized directly in other comprehensive income (OCI). The Company presents service costs within cost of goods sold, administrative and selling expenses in the consolidated statements of income. The Company presents net interest cost within interest expense in the consolidated statements of income. The projected benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as of the end of each reporting period. Certain subsidiaries of the Company have established plan assets for the payment of pension benefits and seniority premiums through irrevocable trusts of which the employees are named as beneficiaries, which serve to decrease the funded status of such plans related obligations.

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

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

- a. When it can no longer withdraw the offer of those benefits; and
- b. When it recognizes costs for a restructuring that is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits.

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

Table of Contents

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

.3.21 Revenue recognition

Sales of products are recognized as revenue upon delivery to the customer, and once all the following conditions are satisfied:

The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

The amount of revenue can be measured reliably;

It is probable that the economic benefits associated with the transaction will flow to the Company; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Rendering of services and other

Revenue arising from services relating to sales of waste material and packing of raw materials are recognized in the other operating income caption in the consolidated income statement.

The Company recognized these transactions as revenues in accordance with the requirements established in the IAS 18, delivery of goods and rendering of services, which are:

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

d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably. Interest income revenue arising from the use by others of entity's assets yielding interest is recognized once all the following conditions are satisfied:

It is probable that the economic benefits associated with the transaction will flow to the entity; and

The amount of the revenue can be measured reliably.

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

3.22 Administrative and selling expenses

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

Selling expenses include:

Distribution: labor costs (salaries and other related benefits), outbound freight costs, warehousing costs of finished products, depreciation of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2017, 2016 and 2015, these distribution costs amounted to Ps. 25,041, Ps. 20,250 and Ps. 20,205, respectively;

Sales: labor costs (salaries and other benefits including PTU) and sales commissions paid to sales personnel;

Marketing: promotional expenses and advertising costs.

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

3.23 Income taxes

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

3.23.1 Current income taxes

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

3.23.2 Deferred income taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, including tax loss carryforwards and certain tax credits, to the extent that it is probable that future taxable profits, reversal of existing taxable temporary differences and future tax planning strategies will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes, the Company recognizes in connection with the acquisition accounting a deferred tax asset for the tax effect of the excess of the tax basis over the related carrying value.

Table of Contents

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

In Mexico, the income tax rate is 30% for 2017, 2016 and 2015. As a result of the Mexican Tax Reform discussed below, it will also be 30% for 2018

3.24 Share-based payments transactions

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

Share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the share-based payments is expensed and recognized based on the graded vesting method over the vesting period.

3.25 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its shares. As described in Note 22, the Company has potentially dilutive shares and therefore presents its basic and diluted earnings per share. Basic EPS is

calculated by dividing the net income attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

3.26 Issuance of stock

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

Note 4. Mergers and Acquisitions

4.1 Mergers and Acquisitions

The Company has consummated certain business mergers and acquisitions during 2017 and 2016, that were recorded using the acquisition method of accounting. The results of the acquired operations have been included in the consolidated financial statements since the date on which the Company obtained control of the respective business, as disclosed below. Therefore, the consolidated statements of income and the consolidated statements of financial position in the years of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2017 and 2016 show the merged and acquired operations net of the cash acquired in those mergers and acquisitions. For the years ended December 31, 2015, the Company did not have any acquisitions or mergers.

While all of the acquired companies disclosed below are bottlers of Coca-Cola trademarked beverages, such acquired entities were not under common ownership or control prior to the acquisition.

Table of Contents**4.1.1 Acquisition of Vonpar**

On December 6, 2016, the Company through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Vonpar S.A. (herein Vonpar) for a consideration transferred of Ps. 20,992. Vonpar was a bottler of Coca-Cola trademark products which operated mainly in Rio Grande do Sul and Santa Catarina, Brazil. This acquisition was made to reinforce the Company's leadership position in Brazil.

Of the purchase price of approximately Ps. 20,992 (R\$3,508); Spal paid an amount of approximately Ps. 10,370 (R\$1,730) in cash on December 6, 2016.

On the same date Spal additionally paid Ps. 4,124 (R\$688) in cash, of which in a subsequent and separate transaction the sellers committed to capitalize for an amount of Ps. 4,082 into Coca-Cola FEMSA in exchange for approximately 27.9 million KOF series L shares at an implicit value of Ps. 146.27. In May 4, 2017, the Company merger with POA Eagle, S.A. de C.V., a Mexican company 100% owned by the sellers of Vonpar in Brazil, as per the announcement made on September 23, 2016. As a result of this merger, POA Eagle, S.A. de C.V. shareholders received 27.9 million newly issued KOF series L shares in exchange for cash accounts of POA Eagle, S.A. de C.V. for an amount of \$4,082 million Mexican pesos.

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

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

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

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

	Final
Total current assets, including cash acquired of Ps. 1,287	Ps. 4,390
Total non-current assets	11,344
Distribution rights	14,793
Total assets	30,527

Total liabilities	11,708
Net assets acquired	18,819
Goodwill	2,173
Total consideration transferred	Ps. 20,992
Amount to be paid through Promissory Notes	(6,992)
Cash acquired of Vonpar	(1,287)
Amount recognized as embedded financial instrument	485
Net cash paid	13,198

- (1) As a result of the purchase price allocation which was finalized in 2017, additional fair value adjustments from those recognized in 2016 have been recognized as follow: Total non-current assets amounted of Ps. 490, distribution rights of Ps. 5,192 and goodwill of Ps. (6,168).

F-26

Table of Contents

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

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

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

Unaudited Pro Forma Financial Data.

The following unaudited 2016 consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Vonpar, as if the acquisition had occurred on January 1, 2016; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired group of companies.

	Unaudited Pro Forma Financial Information for the year ended December 31, 2016
Total revenues	Ps. 187,139
Income before taxes	15,819
Net income	11,539
Earnings per share	4.86

4.1.2 Acquisition of Philippines

In January 2013, the Company acquired a 51.0% non-controlling majority stake in CCFPI from The Coca-Cola Company. The Company has a Call Option to acquire the remaining 49.0% stake in CCFPI at any time during the seven years following the closing date. The Company also has a Put Option to sell its ownership in CCFPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Pursuant to the Company's shareholders' agreement with The Coca-Cola Company, during a four-year period that ended on January 25, 2017, all decisions relating to CCFPI were approved jointly with The Coca-Cola Company. Since January 25, 2017, the Company controls CCFPI's as all decisions relating to the day-to-day operation and management of CCFPI's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) CCFPI's chief financial officer. The Company has the right to appoint (and may remove) the chief executive officer and all other officers of CCFPI. Commencing on February 1, 2017, the Company started consolidating CCFPI's financial results in its financial statements.

The Company fair value of CCFPI net assets acquired to the date of acquisition (February 2017) is as follows:

F-27

Table of Contents

Total current assets, including cash acquired of Ps. 4,038	Ps. 9,645
Total non-current assets	18,909
Distribution rights	4,144
Total assets	32,698
Total liabilities	(10,101)
Net assets acquired	22,597
Net assets acquired attributable to the parent company (51%)	11,524
Non-controlling interest (49%)	(11,073)
Fair value of the equity of CCFPI at the acquisition date	22,110
Carrying value of CCFPI investment derecognized	11,690
Loss as a result of remeasuring to fair value the equity interest	(166)
Gain on recycling of other comprehensive income translation effects	2,996
Total net effect in P&L	Ps. 2,830

As a result of taking control over CCFPI, during 2017, the accumulated effect corresponding to translation adjustments recorded in the other comprehensive income for an amount of Ps. 2,996 were recognized in the income statement.

Unaudited Pro Forma Financial Data.

The following unaudited 2017 consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the consolidation of Philippines, as if the consolidation had occurred on January 1, 2017; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired group of companies.

	Unaudited Pro Forma Financial Information for the year ended December 31, 2017
Total revenues	Ps. 205,436
Loss before taxes	(7,109)
Net loss	(11,559)

Selected income statement information of Philippines for the period from the acquisition date through to December 31, 2017 is as follows:

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

Note 5. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and cash equivalents, which are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, with a maturity date of three months or less at their acquisition date. Cash and cash equivalents at the end of the reporting period consists of the following:

	2017	2016
Cash and bank balances	Ps. 9,497	Ps. 5,429
Cash equivalents (see Note 3.5)	9,270	5,047
	Ps. 18,767	Ps. 10,476

Table of Contents

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

Note 6. Accounts Receivable

	2017	2016
Trade receivables	Ps. 13,131	Ps. 11,769
The Coca-Cola Company (related party) (Note 13)	2,054	1,857
Loans to employees	96	145
FEMSA and subsidiaries (related parties) (Note 13)	402	549
Other related parties (Note 13)	317	368
Shareholders Vonpar (Note 13)	1,219	
Other	825	768
Allowance for doubtful accounts on trade receivables	(468)	(451)
	Ps. 17,576	Ps. 15,005

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

During 2017, the Company took advantage of a Brazilian tax amnesty program. The settlement of certain outstanding matters under that amnesty program generated a benefit of Ps. 1,874 such benefit has been offset against the corresponding indemnifiable assets.

6.1 Trade receivables

Trade receivable representing rights arising from sales and loans to employees or any other similar concept, are presented net of discounts and the allowance for doubtful accounts.

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

Aging for trade receivables past due but not impaired	2017	2016
60-90 days	Ps. 89	Ps. 142
90-120 days	40	5
120 + days	5	25
Total	Ps. 134	Ps. 172

6.2 Changes in the allowance for doubtful accounts

2017	2016	2015
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Balance at beginning of the year	Ps. 451	Ps. 283	Ps. 367
Allowance for the year	40	6	52
Charges and write-offs of uncollectible accounts	(62)	(3)	(62)
Added in business combinations	86	94	
Effects of changes in foreign exchange rates	(45)	71	(74)
Effect Venezuela (Note 3.3)	(2)		
Balance at end of the year	Ps. 468	Ps. 451	Ps. 283

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

Aging of impaired trade receivables	2017	2016
60-90 days	Ps. 5	Ps. 6
90-120 days	14	13
120+ days	451	432
Effect of Venezuela (Note 3.3)	(2)	
Total	Ps. 468	Ps. 451

6.3 Payments from The Coca-Cola Company:

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Company's refrigeration equipment and returnable bottles investment program. Contributions received by the Company for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the carrying amount of refrigeration equipment and returnable bottles items. For the years ended December 31, 2017, 2016 and 2015 contributions due were Ps. 4,023, Ps. 4,518 and Ps. 3,749, respectively.

Table of Contents**Note 7. Inventories**

	2017	2016
Finished products	Ps. 3,691	Ps. 3,209
Raw materials	4,092	3,974
Non strategic spare parts	1,838	2,113
Inventories in transit	1,208	1,207
Packing materials	490	171
Other	45	70
	Ps. 11,364	Ps. 10,744

For the years ended at 2017, 2016 and 2015, the Company recognized write-downs of its inventories for Ps. 185, Ps. 301 and Ps. 199, respectively to net realizable value.

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

	2017	2016	2015
Changes in inventories of finished goods and work in progress	Ps. 21,412	Ps. 18,154	Ps. 20,053
Raw materials and consumables used	80,318	62,534	51,904
Total	Ps. 101,730	Ps. 80,688	Ps. 71,957

Note 8. Other Current Assets and Other Current Financial Assets**8.1 Other Current Assets:**

	2017	2016
Prepaid expenses	Ps. 1,849	Ps. 3,144
Agreements with customers	192	179
Other		21
	Ps. 2,041	Ps. 3,344

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

	2017	2016
Advances for inventories	Ps. 1,243	Ps. 2,704

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Advertising and promotional expenses paid in advance	367	141
Advances to service suppliers	142	227
Prepaid insurance	39	49
Others	58	23
	Ps. 1,849	Ps. 3,144

Advertising and promotional expenses was recorded in the consolidated income statements for the years ended December 31, 2017, 2016 and 2015 amounted to Ps. 4,504, Ps. 5,030 and Ps. 3,447, respectively.

8.2 Other Current Financial Assets:

	2017	2016
Restricted cash	Ps. 504	Ps. 774
Derivative financial instruments (See Note 19)	233	737
	Ps. 737	Ps. 1,511

As of December 31, 2017 and 2016, restricted cash were in the following currencies:

	2017	2016
Venezuelan bolivars	Ps.	Ps. 183
Brazilian reais	65	73
Colombian pesos	439	518
Total restricted cash	Ps. 504	Ps. 774

Table of Contents

Restricted cash in Brazil relates to short term deposits in order to fulfill the collateral requirements for accounts payable.

During 2016 due to a jurisdictional order with the municipal sewage system services, the Colombian authorities withheld all the cash that Company has in some specific bank account, such amount was reclassified as a restricted cash according with Company's accounting policy pending resolution of the order.

Note 9. Investments in Other Entities

As of December 31, 2017 and 2016 the investment in other entities is integrated as follows:

	2017	2016
Investment in Associates and Joint Ventures	Ps. 11,501	Ps. 22,357
Venezuela Investment	1,039	
	Ps. 12,540	Ps. 22,357

Effective December 31, 2017, the Company determined that deteriorating conditions in Venezuela had led the Company to not longer meet the accounting criteria to consolidate its Venezuelan operation, the impacts of such deconsolidation are discussed on Note 3.3 above.

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

Investee	Principal Activity	Place of Incorporation	Ownership Percentage		Carrying Amount	
			2017	2016	2017	2016
Joint ventures:						
Compañía Panameña de Bebidas, S.A.P.I. de C.V.	Beverages	Mexico	50.0%	50.0%	Ps.2,036	Ps.1,911
Dispensadoras de Café, S.A.P.I. de C.V.	Services	Mexico	50.0%	50.0%	153	145
	Bottling and					
Estancia Hidromineral Itabirito, LTDA	Distribution	Brazil	50.0%	50.0%		96
Fountain Agua Mineral, LTDA	Beverages	Brazil	50.0%	50.0%	784	765
Coca-Cola FEMSA Philippines, Inc.	Bottling	Philippines		51.0%		11,460
Associates:						
Promotora Industrial Azucarera, S.A. de C.V. (PIASA ⁽¹⁾)	Sugar production	Mexico	36.4%	36.4%	2,933	2,657
	Beverages	Mexico	26.3%	26.3%	1,560	1,574

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Jugos del Valle, S.A.P.I. de C.V. ⁽¹⁾						
Leao Alimentos e Bebidas, LTDA ⁽¹⁾	Beverages	Brazil	24.4%	27.7%	3,001	3,282
UBI 3 Participacoes, LTDA ⁽¹⁾	Beverages	Brazil	26%		391	
Industria Envasadora de Querétaro, S.A. de C.V. (IEQSA ⁽¹⁾)	Caned bottling	Mexico	26.5%	26.5%	177	177
Industria Mexicana de Reciclaje, S.A. de C.V. (IMER ⁽¹⁾)	Recycling	Mexico	35.0%	35.0%	121	100
KSP Participacoes, LTDA ⁽¹⁾	Beverages	Brazil	38.7%	38.7%	117	126
Other	Various	Various	Various	Various	228	64
					Ps.11,501	Ps.22,357

Accounting method:

(1) The Company has significant influence due to the fact that it has power to participate in the financial and operating policy decisions of the investee.

During 2017 the Company received dividends from Industria Envasadora de Querétaro, S.A. de C.V. (IEQSA) and Promotora Mexicana de Embotelladores, S.A. de C.V. in the amount of Ps. 16 and Ps. 17.

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

On March 28, 2017 as part of AdeS acquisition the Company acquired an indirect participacion in equity method investees in Brazil and Argentina for an aggregate amount of Ps.587. During 2017, Itabirito merged with Spal this transaction did not generated any cash flow.

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

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

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

As disclosed in Note 4.1.2, commencing on February 1, 2017, the Company started consolidating CCFPI s financial results in its financial statements.

Table of Contents

For the years ended December 31, 2017, 2016 and 2015 the equity method recognized for associates was Ps. 235, Ps. 31 and Ps. 185, respectively.

For the years ended December 31, 2017, 2016 and 2015 the equity method recognized for joint ventures was Ps. (175), Ps. 116 and Ps. (30), respectively.

Note 10. Property, Plant and Equipment, net

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Leasehold			Total
						Progress	Improvements	Other	
Cost as of January 1, 2015	Ps.4,694	Ps.12,550	Ps.30,827	Ps.14,127	Ps. 9,402	Ps.6,485	Ps.607	Ps.1,062	Ps.79,754,
Additions	358	1,201	1,121	1,175	1,655	4,524		511	10,545
Transfer of completed projects in progress	59	1,289	3,111	1,168	662	(6,338)	49		
Disposals	(54)	(46)	(1,284)	(972)	(103)		(47)	(39)	(2,545)
Effects of changes in foreign exchange rates	(595)	(1,352)	(4,051)	(1,217)	(266)	(1,007)	(13)	(848)	(9,349)
Changes in value on the recognition of inflation effects	245	503	964	295	301	91		229	2,628
Capitalization of borrowing costs						57			57
Cost as of December 31, 2015	Ps.4,707	Ps.14,145	Ps.30,688	Ps.14,576	Ps.11,651	Ps.3,812	Ps.596	Ps.915	Ps.81,090

Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Investments in Fixed Assets in Leasehold			Total
						Progress	Improvements	Other	
Cost as of January 1,	Ps. 4,707	Ps. 14,145	Ps. 30,688	Ps. 14,576	Ps. 11,651	Ps. 3,812	Ps. 596	Ps. 915	Ps. 81,090

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2016									
Additions	7	204	1,415	337	2,236	5,737	4	367	10,307
Additions from business combinations		517	864	105	23		4		1,513
Transfer of completed projects in progress	46	1,031	2,403	1,978	779	(6,265)	28		
Disposals	(43)	(17)	(1,647)	(574)	(139)		(43)	(18)	(2,481)
Effects of changes in foreign exchange rates	252	2,575	4,719	1,953	1,271	546	56	(132)	11,240
Changes in value on the recognition of inflation effects	853	1,470	2,710	851	122	415		942	7,363
Capitalization of borrowing costs			61			(37)			24
Cost as of December 31, 2016	Ps. 5,822	Ps. 19,925	Ps. 41,213	Ps. 19,226	Ps. 15,943	Ps. 4,208	Ps. 645	Ps. 2,074	Ps. 109,056

F-32

Table of Contents

Cost	Land	Buildings	Machinery		Returnable	Investments			Total
			Equipment	Refrigeration Equipment		Assets in Progress	in Fixed Leasehold Improvements	Other	
Cost as of January 1, 2017	Ps. 5,822	Ps. 19,925	Ps. 41,213	Ps. 19,226	Ps. 15,943	Ps. 4,208	Ps. 645	Ps. 2,074	Ps. 109,056
Additions	110	775	275	758	3,202	5,762	11	176	11,069
Additions from business combinations	5,115	1,691	5,905	482	3,323	820	146		17,482
Transfer of completed projects in progress	5	653	2,964	1,968	558	(6,174)	28	(2)	
Disposals	(115)	(527)	(1,227)	(800)	(193)		(3)	(11)	(2,876)
Effects of changes in foreign exchange rates	(1,046)	(1,993)	(2,740)	(1,523)	(1,216)	(747)	(52)	(1,233)	(10,550)
Changes in value on the recognition of inflation effects	518	1,022	2,056	689	(2)	226		638	5,147
Effects Venezuela (Note 3.3)	(544)	(817)	(1,300)	(717)	(83)	(221)		(646)	(4,328)
Cost as of December 31, 2017	Ps. 9,865	Ps. 20,729	Ps. 47,146	Ps. 20,083	Ps. 21,532	Ps. 3,874	Ps. 775	Ps. 996	Ps. 125,000

Accumulated Depreciation	Land	Buildings	Machinery		Returnable	Investments			Total
			Equipment	Refrigeration Equipment		Assets in Progress	in Fixed Leasehold Improvements	Other	
Accumulated depreciation as of January 1, 2015	Ps.	Ps. (2,744)	Ps. (13,229)	Ps. (7,541)	Ps. (5,205)	Ps.	Ps. (122)	Ps. (386)	Ps. (29,227)
Depreciation for the year		(341)	(2,369)	(1,432)	(1,984)		(41)	(143)	(6,310)
Disposals		70	1,093	946	80		7	2	2,198
Effects of changes in foreign		498	2,142	1,041	167		21	212	4,081

exchange rates									
Changes in value on the recognition of inflation effects		(187)	(425)	(166)	(436)			(86)	(1,300)

Accumulated depreciation as of December 31, 2015	Ps.	Ps. (2,704)	Ps. (12,788)	Ps. (7,152)	Ps. (7,378)	Ps.	Ps. (135)	Ps. (401)	Ps. (30,558)
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Accumulated Depreciation	Land	Buildings	Investments in Fixed Assets				Other	Total	
			Machinery and Refrigeration Equipment	Returnable Bottles	Programs	Leasehold Improvements			
Accumulated depreciation as of January 1, 2016	Ps.	Ps. (2,704)	Ps. (12,788)	Ps. (7,152)	Ps. (7,378)	Ps.	Ps. (135)	Ps. (401)	Ps. (30,558)
Depreciation for the year		(455)	(2,638)	(2,008)	(2,235)		(43)	(200)	(7,579)
Disposals		11	1,210	672	227		8	9	2,137
Effects of changes in foreign exchange rates		(595)	(2,615)	(1,148)	(845)		(65)	39	(5,229)
Changes in value on the recognition of inflation effects		(592)	(1,087)	(521)	(33)			(306)	(2,539)
Accumulated depreciation as of December 31, 2016	Ps.	Ps. (4,335)	Ps. (17,918)	Ps. (10,157)	Ps. (10,264)	Ps.	Ps. (235)	Ps. (859)	Ps. (43,768)

Table of Contents

Accumulated Depreciation	Investments in Fixed Assets								Total
	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Progressive Improvements	Leasehold Other		
Accumulated depreciation as of January 1, 2017	Ps.	Ps.(4,335)	Ps. (17,918)	Ps. (10,157)	Ps. (10,264)	Ps.	Ps. (235)	Ps. (859)	Ps. (43,768)
Depreciation for the year		(626)	(3,007)	(2,490)	(3,365)		(43)	(685)	(10,216)
Disposals		12	1,555	729	103		2	5	2,406
Effects of changes in foreign exchange rates		548	447	1,157	94		(54)	940	3,132
Changes in value on the recognition of inflation effects		(439)	(1,042)	(553)	(46)			(233)	(2,313)
Effect Venezuela		481	1,186	626	56			335	2,684
Impairment Venezuela		(257)	(841)						(1,098)

**Accumulated
depreciation
as of
December 31,
2017**

Ps.	Ps.	(4,616)	Ps. (19,620)	Ps. (10,688)	Ps. (13,422)	Ps.	Ps. (330)	Ps. (497)	Ps. (49,173)
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Carrying Amount	Investments in Fixed Assets								Total
	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Returnable Bottles	Progressive Improvements	Leasehold Other		
As of December 31, 2015	Ps. 4,707	Ps. 11,441	Ps. 17,900	Ps. 7,424	Ps. 4,273	Ps. 3,812	Ps. 461	Ps. 514	Ps. 50,532
As of December 31, 2016	Ps. 5,822	Ps. 15,590	Ps. 23,295	Ps. 9,069	Ps. 5,679	Ps. 4,208	Ps. 410	Ps. 1,215	Ps. 65,288

As of

December 31,

2017 Ps. 9,865 Ps. 16,113 Ps. 27,526 Ps. 9,395 Ps. 8,110 Ps. 3,874 Ps. 445 Ps. 499 Ps. 75,827

During the years ended December 31, 2017, 2016 and 2015 the Company capitalized Ps. , Ps. 61 and Ps. 57, respectively of borrowing costs in relation to Ps. , Ps. 99 and Ps. 993 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were %, 4.5% and 4.1% respectively.

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

	2017	2016	2015
Interest expense and foreign exchange, net	Ps.	Ps. 6,149	Ps. 7,358
Amount capitalized ⁽¹⁾		69	85
Net amount in consolidated income statements	Ps.	Ps. 6,080	Ps. 7,273

- ⁽¹⁾ Amount of interest capitalized in property, plant and equipment and amortized intangible assets. Commitments related to acquisitions of property, plant and equipment are disclosed in Note 24.

Table of Contents

During the year ended December 31, 2017 and due to the economic and operational conditions worsened in Venezuela, the Company has recognized an impairment in the property plan and equipment for an amount of Ps 1,098, such charge has been recorded in other expenses line in the consolidated income statement

Note 11. Intangible Assets

	Rights to Produce and Distribute Coca-Cola trademark Products	Goodwill	Other indefinite lived intangible assets	Technology Costs and management Development systems	Other amortizables	Total
Balance as of January 1, 2015	Ps. 70,263	Ps. 23,593	Ps. 139	Ps. 2,882	Ps. 1,312	Ps. 98,534
Purchases				73	458	560
Transfer of completed development systems				1,085	(1,085)	
Effect of movements in exchange rates	(4,992)	(2,556)	(19)	(218)	(2)	(7,831)
Changes in value on the recognition of inflation effects	1,121					1,121
Capitalization of borrowing cost				28		28
Cost as of December 31, 2015	Ps. 66,392	Ps. 21,037	Ps. 120	Ps. 3,850	Ps. 683	Ps. 92,412
Balance as of January 1, 2016	Ps. 66,392	Ps. 21,037	Ps. 120	Ps. 3,850	Ps. 683	Ps. 92,412
Purchases				127	609	738
Acquisition from business combinations	9,602	7,856	1,067	247	3	18,884
Transfer of completed development systems				304	(304)	
Disposals				(323)	(2)	(325)
Effect of movements in exchange rates	8,124	4,689	61	363	(193)	13,080
Changes in value on the recognition of inflation effects	1,220					1,220
Capitalization of borrowing cost				11		11
Cost as of December 31, 2016	Ps. 85,338	Ps. 33,582	Ps. 1,248	Ps. 4,579	Ps. 798	Ps. 126,020

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Balance as of January 1, 2017	Ps. 85,338	Ps. 33,582	Ps. 1,248	Ps. 4,579	Ps. 798	Ps. 475	Ps. 126,020
Purchases	1,288		7	179	920	446	2,840
Acquisition from business combinations	3,874			6		64	3,944
	5,192	(6,168)					
Transfer of completed development systems				412	(412)		
Disposals							
Effect of movements in exchange rates	(2,318)	(1,186)	101	(86)	(15)	(52)	(3,556)
Changes in value on the recognition of inflation effects	(727)					175	(552)
Effect Venezuela (Note 3.3)						(139)	(139)
Cost as of December 31, 2017	Ps. 92,647	Ps. 26,228	Ps. 1,356	Ps. 5,090	Ps. 1,291	Ps. 969	Ps. 127,581
Accumulated amortization							
Balances as of January 1, 2015	Ps.	Ps.	Ps.	Ps. (1,273)	Ps.	Ps. (237)	Ps. (1,510)
Amortization expense				(339)		(35)	(374)
Effect of movements in exchange rate				174		52	226
Balances as of December 31, 2015				(1,438)		(220)	(1,658)
Amortization expense				(427)		(35)	(462)
Disposals				249			249
Effect of movements in exchange rate				(148)		(37)	(185)
Balances as of December 31, 2016				(1,764)		(292)	(2,056)
Amortization expense				(605)		(42)	(647)
Disposals							
Effect of movements in exchange rate				46		184	230
Effect Venezuela (Note 3.3)						(120)	(120)
Impairment Venezuela	(745)						(745)
Balances as of December 31, 2017	Ps. (745)	Ps.	Ps.	Ps. (2,323)	Ps.	Ps. (270)	Ps. (3,338)
Balance as of December 31, 2015	Ps. 66,392	Ps. 21,037	Ps. 120	Ps. 2,412	Ps. 683	Ps. 110	Ps. 90,754

Balance as of December 31, 2016	Ps. 85,338	Ps. 33,582	Ps. 1,248	Ps. 2,815	Ps. 798	Ps. 183	Ps. 123,964
Balance as of December 31, 2017	Ps. 91,902	Ps. 26,228	Ps. 1,356	Ps. 2,767	Ps. 1,291	Ps. 699	Ps. 124,243

F-35

Table of Contents

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

On March 28, 2017 the Company acquired distribution rights and other intangibles of AdeS soy-based beverages in its territories in Mexico and Colombia for an aggregate amount of Ps. 1,664. This acquisition was made to reinforce the Company's leadership position

For the year ended December 31, 2017, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 22, Ps. 83 and Ps. 544, respectively.

For the year ended December 31, 2016, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 8, Ps. 106 and Ps. 358, respectively.

For the year ended December 31, 2015, the amortization of intangible assets is recognized in cost of goods sold, selling expenses and administrative expenses and amounted to Ps. 5, Ps. 60 and Ps. 309, respectively.

The Company's intangible assets such as technology costs and management systems are subject to amortization with a range in useful lives from 3 to 10 years.

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

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

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

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

Goodwill and distribution rights are tested for impairments annually. The recoverable amounts of the CGUs are based on value-in-use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU.

The foregoing forecasts could differ from the results obtained over time; however, the Company prepares its estimates based on the current situation of each of the CGUs.

The recoverable amounts are based on value in use. The value in use of CGUs is determined based on the method of discounted cash flows. The key assumptions used in projecting cash flows are: volume, expected annual long-term inflation, and the weighted average cost of capital (WACC) used to discount the projected flows.

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

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

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

Table of Contents

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

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

Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. The Company believes that this forecasted period is justified due to the non-current nature of the business and past experiences.

Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.

A per CGU-specific Weighted Average Cost of Capital (WACC) was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjustment.

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

CGU	Pre-tax WACC	Post tax WACC	Expected Annual Long-Term Inflation 2018-2027	Expected Volume Growth Rates 2018-2027
Mexico	7.3%	5.3%	3.7%	2.2%
Guatemala	13.9%	10.7%	4.7%	7.1%
Nicaragua	16.6%	10.6%	5.0%	4.9%
Costa Rica	11.5%	7.8%	3.3%	2.7%
Panama	8.3%	6.5%	2.3%	3.4%
Colombia	9.1%	6.6%	3.1%	3.2%
Brazil	9.7%	6.2%	4.1%	1.3%
Argentina	11.0%	7.3%	10.7%	3.1%
Philippines	9.7%	5.9%	3.6%	3.4%

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

CGU	Pre-tax WACC	Post tax WACC	Expected Annual Long-Term Inflation 2017-2026	Expected Volume Growth Rates 2017-2026
Mexico	6.8%	6.3%	3.7%	1.2%
Guatemala	9.9%	9.5%	5.0%	13.2%
Nicaragua	10.6%	10.1%	4.2%	5.7%

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Costa Rica	8.4%	8.3%	4.4%	4.7%
Panama	7.8%	7.4%	3.0%	4.9%
Colombia	7.9%	7.5%	3.2%	4.0%
Venezuela	17.5%	17.0%	117.3%	1.0%
Brazil	8.7%	8.1%	4.4%	2.9%
Argentina	9.1%	8.5%	12.2%	4.1%

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

During the year ended December 31, 2017 and due to the economic and operational conditions worsened in Venezuela, the Company has recognized an impairment of the distribution rights in such country for an amount of Ps 745, such charge has been recorded in other expenses line in the consolidated income statement

Sensitivity to Changes in Assumptions

At December 31, 2017 the Company performed an additional impairment sensitivity calculation, taking into account an adverse change in post-tax WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and an additional sensitivity to the volume of a 100 basis points and concluded that no impairment would be recorded.

Table of Contents

CGU	Change in WACC	Change in Volume Growth CAGR ⁽¹⁾	Effect on Valuation
Mexico	+0.16%	-1.0%	Passes by 5.2x
Guatemala	+1.52%	-1.0%	Passes by 7.4x
Nicaragua	+4.27%	-1.0%	Passes by 3.1x
Costa Rica	+0.64%	-1.0%	Passes by 2.3x
Panama	+0.12%	-1.0%	Passes by 12.1x
Colombia	+0.19%	-1.0%	Passes by 2.5x
Brazil	+0.26%	-1.0%	Passes by 3.6x
Argentina	+4.39%	-1.0%	Passes by 299x
Philippines	+0.46%	-1.0%	Passes by 2.1x

⁽¹⁾ Compound Annual Growth Rate (CAGR)

Note 12. Other non-current assets and other non-current financial assets**12.1 Other Non-Current Assets:**

	2017	2016
Non-current prepaid advertising expenses	Ps. 376	Ps. 392
Guarantee deposits ⁽¹⁾	1,835	1,829
Prepaid bonuses	195	150
Advances to acquire property, plant and equipment	266	173
Shared based payment	151	168
Indemnifiable contingencies from business combinations ⁽²⁾	4,510	8,081
Recoverable tax added in business combinations	459	488
Other	329	199
	Ps. 8,121	Ps. 11,480

⁽¹⁾ As it is customary in Brazil, the Company is required to collateralize tax, legal and labor contingencies by guarantee deposits.

⁽²⁾ Corresponds to indemnifiable assets that are warranted by former Vonpar owners as per the share purchase agreement.

12.2 Other Non-Current Financial Assets:

	2017	2016
Other non-current financial assets	Ps. 322	Ps. 118

Derivative financial instruments (See Note 19)	955	4,615
	Ps. 1,277	Ps. 4,733

As of December 31, 2017 and 2016 there are no significant variances between the fair value and the carrying value of long term receivables. The fair value is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for receivable of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy.

Note 13. Balances and Transactions with Related Parties and Affiliated Companies

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note.

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

	2017	2016
Balances:		
Assets (current included in accounts receivable)		
Due from FEMSA and Subsidiaries (see Note 6) ⁽¹⁾ ⁽⁴⁾	Ps. 402	Ps. 549
Due from The Coca-Cola Company (see Note 6) ⁽¹⁾ ⁽⁴⁾	2,054	1,857
Due from Heineken Group ⁽¹⁾	290	304
Other receivables ⁽¹⁾	27	64
Shareholders Vonpar (see Note 6)	1,219	
	Ps. 3,992	Ps. 2,774

Table of Contents

	2017	2016
Liabilities (current included in suppliers and other liabilities and loans)		
Due to FEMSA and Subsidiaries ⁽³⁾ ⁽⁴⁾	Ps. 1,038	Ps. 905
Due to The Coca-Cola Company ⁽²⁾ ⁽³⁾ ⁽⁴⁾	3,731	4,454
Due to Heineken Group ⁽³⁾	1,348	1,414
Other payables ⁽³⁾	330	654
	Ps. 6,447	Ps. 7,427

- (1) Presented within accounts receivable.
(2) Recorded within bank loans.
(3) Recorded within accounts payable and suppliers.
(4) Parent

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

Details of transactions between the Company and other related parties are disclosed as follows:

Transactions	2017	2016	2015
Income:			
Sales to affiliated parties	Ps. 4,761	Ps. 4,274	Ps. 3,803
Interest income received from Compañía Panameña de Bebidas, S.A.P.I. de C.V.		1	
Interest income received from BBVA Bancomer, S.A. de C.V.	138	17	13
Expenses:			
Purchases and other expenses of FEMSA	7,773	8,328	7,720
Purchases of concentrate from The Coca-Cola Company	33,898	38,146	27,330
Purchases of raw material, beer and operating expenses from Heineken	13,608	8,823	6,944
Advertisement expense paid to The Coca-Cola Company	1,392	2,354	1,316
Purchases from Jugos del Valle	2,604	2,428	2,135
Purchase of sugar to Promotora Industrial Azucarera, S.A. de C.V.	1,885	1,765	1,236
Purchase of sugar from Beta San Miguel	1,827	1,349	1,264
Purchase of sugar, cans and aluminum lids to Promotora Mexicana de Embotelladores, S.A. de C.V.	839	759	587
	804	798	731

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Purchase of canned products to Industria Envasadora de Queretaro, S.A. de C.V.			
Purchase of inventories to Leao Alimentos e Bebidas, LTDA	4,010	3,448	3,359
Purchase of resin from Industria Mexicana de Reciclaje, S.A. de C.V.	267	265	220
Donations to Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. ⁽¹⁾ ⁽²⁾	47	1	
Donations to Fundación Femsa, A.C.	2	92	
Interest expense paid to The Coca-Cola Company	11		1
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. ⁽¹⁾		1	22
Other expenses with related parties	202	185	24

(1) One or more members of the Board of Directors or senior management of the Company are also members of the Board of Directors or senior management of the counterparties to these transactions.

(2) 47 Million MXN of donations to ITESM was made through Fundacion FEMSA as intermediary.

F-39

Table of Contents

The benefits and aggregate compensation paid to executive officers and senior management of the Company, recognized as an expense during the reporting period were as follows:

	2017	2016	2015
Current employee benefits	Ps. 621	Ps. 652	Ps. 552
Termination benefits	27	154	32
Shared based payments	316	258	138

Note 14. Balances and Transactions in Foreign Currencies

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different from the functional currency of the Company. As of December 31, 2017 and 2016, assets and liabilities denominated in foreign currencies, expressed in mexican pesos (contractual amounts) are as follows:

Balances	Assets		Liabilities	
	Current	Non-current	Current	Non-current
As of December 31, 2017				
U.S. dollars	5,852		2,783	53,093
Euros			1,547	
As of December 31, 2016				
U.S. dollars	2,097	686	3,544	66,995
Euros			19	

As of year ended December 31, 2017, 2016 and 2015 transactions denominated in foreign currencies, expressed in mexican pesos (contractual amounts) are as follows:

Transactions	Revenues	Purchases of Raw Materials	Interest Expense	Other
Year ended December 31, 2017 Euros		18		
Year ended December 31, 2016 U.S. dollars	736	13,242	2,235	1,796
Year ended December 31, 2015 U.S. dollars	569	11,458	1,965	1,301

Note 15. Post-Employment and Other Non-current Employee Benefits

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

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

15.1 Assumptions

The Company annually evaluates the reasonableness of the assumptions used in its labor liability for post-employment and other non-current employee benefits computations. In Mexico, actuarial calculations for pension and retirement plans and seniority premiums, as well as the associated cost for the period, were determined using the following long-term assumptions:

Mexico	2017	2016	2015
Financial:			
Discount rate used to calculate the defined benefit obligation	7.60%	7.60%	7.00%
Salary increase	4.60%	4.50%	4.50%
Future pension increases	3.50%	3.50%	3.50%
Biometric:			
Mortality	EMSSA 2009⁽¹⁾	EMSSA 2009 ⁽¹⁾	EMSSA 2009 ⁽¹⁾
Disability	IMSS-97⁽²⁾	IMSS-97 ⁽²⁾	IMSS-97 ⁽²⁾
Normal retirement age	60 years	60 years	60 years
Rest of employee turnover	BMAR2007⁽³⁾	BMAR2007 ⁽³⁾	BMAR2007 ⁽³⁾

(1) EMSSA. Mexican Experience of Social Security (for its initials in Spanish)

(2) IMSS. Mexican Experience of Instituto Mexicano del Seguro Social (for its initials in Spanish)

(3) BMAR. Actuary experience

Table of Contents

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

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

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

	Pension and Retirement Plans	Seniority Premiums
2018	324	22
2019	160	21
2020	243	21
2021	169	21
2022	170	23
2023 to 2027	1,639	139

15.2 Balances of the liabilities for post-employment and other non-current employee benefits

	2017	2016
Pension and Retirement Plans:		
Vested benefit obligation	Ps. 389	Ps. 656
Non-vested benefit obligation	1,398	1,318
Accumulated benefit obligation	1,787	1,974
Excess of projected defined benefit obligation over accumulated benefit obligation	2,582	941
Defined benefit obligation	4,369	2,915
Pension plan funds at fair value	(1,692)	(910)
Net defined benefit liability	Ps. 2,677	Ps. 2,005
Seniority Premiums:		
Vested benefit obligation	Ps. 36	Ps. 18
Non-vested benefit obligation	267	175
Accumulated benefit obligation	303	193
Excess of projected defined benefit obligation over accumulated benefit obligation	158	223
Defined benefit obligation	461	416

Seniority premium plan funds at fair value	(109)	(102)
Net defined benefit liability	Ps. 352	Ps. 314
Total post-employment and other non-current employee benefits	Ps. 3,029	Ps. 2,319

15.3 Trust assets

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

Type of instrument	2017	2016
Fixed return:		
Traded securities	14%	24%
Life annuities	12%	18%
Bank instruments	6%	1%
Federal government instruments	50%	39%
Variable return:		
Publicly traded shares	18%	18%
	100%	100%

Table of Contents

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

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

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

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

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

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

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

	2017	2016
Mexico		
Portfolio:		
Debt:		
Grupo Televisa, S.A.B. de C.V.	Ps. 17	Ps. 17
Grupo Financiero Banorte, S.A.B. de C.V.	7	7
Grupo Industrial Bimbo, S.A.B. de C. V.	24	14
Genera, S.A.B. de C.V.	8	8
El Puerto de Liverpool, S.A.B. de C.V.		5
Capital:		
Fomento Económico Mexicano, S.A.B de C.V.	8	7
Gruma, S.A.B. de C.V.	3	
Grupo Industrial Bimbo, S.A.B. de C.V.		6
Genera, S.A.B. de C.V.	4	
El Puerto de Liverpool, S.A.B. de C.V.	5	

During the years ended December 31, 2017, 2016 and 2015, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during the following fiscal year.

15.4 Amounts recognized in the consolidated income statements and the consolidated statements of comprehensive income

	Income statement			Acumulated OCI Remeasurements of the Net Defined Benefit Liability net of taxes	
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	
2017					
Pension and retirement plans	Ps. 241	Ps. 10	Ps.	Ps. 159	Ps. 539
Seniority premiums	44			23	28
Total	Ps. 285	Ps. 10	Ps.	Ps. 182	Ps. 567

	Income statement			Acumulated OCI Remeasurements of the Net Defined Benefit Liability net of taxes	
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	
2016					
Pension and retirement plans	Ps. 145	Ps. 43	Ps. (61)	Ps. 134	Ps. 558
Seniority premiums	45			20	27
Total	Ps. 190	Ps. 43	Ps. (61)	Ps. 154	Ps. 585

Table of Contents

	Income statement			Acummulated OCI Remeasurements of the Net Defined Benefit Liability net of taxes	
	Current Service Cost	Past Service Cost	Gain or Loss on Settlement	Net Interest on the Net Defined Benefit Liability	Net Interest on the Net Defined Benefit Liability
2015					
Pension and retirement plans	Ps. 142	Ps.	Ps. (120)	Ps. 124	Ps. 429
Seniority premiums	45		(9)	20	33
Post-employment	5			9	
Total	Ps. 192	Ps.	Ps. (129)	Ps. 153	Ps. 462

For the years ended December 31, 2017, 2016 and 2015, service costs of Ps. 285, Ps. 190 and Ps. 192 have been included in the consolidated statements of income as cost of goods sold, administration and selling expenses.

Remeasurements of the net defined benefit liability recognized in other comprehensive income are as follows (amounts are net of tax):

	2017	2016	2015
Amount accumulated in other comprehensive income as of the beginning of the periods	Ps. 585	Ps. 462	Ps. 600
Recognized during the year (obligation liability and plan assets)	(169)	75	(49)
Actuarial gains and losses arising from changes in financial assumptions	165	(29)	(77)
Foreign exchange rate valuation (gain)	(14)	77	(12)
Amount accumulated in other comprehensive income as of the end of the period, net of tax	Ps. 567	Ps. 585	Ps. 462

Remeasurements of the net defined benefit liability include the following:

The return on plan assets, excluding amounts included in net interest expense.

Actuarial gains and losses arising from changes in demographic assumptions.

Actuarial gains and losses arising from changes in financial assumptions.

15.5 Changes in the balance of the defined benefit obligation for post-employment and other non-current employee benefits

	2017	2016	2015
Pension and Retirement Plans:			
Initial balance	Ps. 2,915	Ps. 2,687	Ps. 2,701
Current service cost	241	145	142
Effect on curtailment		(61)	(120)
Interest expense	258	194	185
Actuarial gains or losses	190	(7)	(58)
Foreign exchange loss	(69)	141	39
Benefits paid	(385)	(192)	(202)
Acquisitions	1,209		
Past service cost	10	8	
	Ps. 4,369	Ps. 2,915	Ps. 2,687
Seniority Premiums:			
Initial balance	Ps. 416	Ps. 404	Ps. 393
Current service cost	44	45	45
Effect on curtailment			(9)
Interest expense	29	27	26
Actuarial losses	12	(22)	(21)
Benefits paid	(40)	(38)	(30)
	Ps. 461	Ps. 416	Ps. 404
Post-employment:			
Initial balance	Ps.	Ps. 135	Ps. 194
Current service cost			5
Certain liability cost			73
Interest expense			
Reclassification to certain liability cost		(135)	
Actuarial losses			
Foreign exchange gain			(137)
Benefits paid			
	Ps.	Ps.	Ps. 135

Table of Contents**15.6 Changes in the balance of trust assets**

	2017	2016	2015
Pension and retirement plans:			
Balance at beginning of year	Ps.910	Ps.864	Ps.872
Actual return on trust assets	113	15	26
Foreign exchange gain	86	4	2
Life annuities	21	28	27
Benefits paid	(136)	(1)	(63)
Acquisitions	698		
Balance at end of year	Ps.1,692	Ps.910	Ps. 864
Seniority premiums			
Balance at beginning of year	Ps.102	Ps.101	Ps.92
Actual return on trust assets	7	1	9
Balance at end of year	Ps.109	Ps.102	Ps.101

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

15.7 Variation in assumptions

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

Discount rate: The rate that determines the value of the obligations over time.

Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable. The following table presents the impact in absolute terms of a variation of 0.5% in the assumptions on the net defined benefit liability associated with the Company's defined benefit plans. The sensibility of this 0.5% on the significant actuarial assumptions is based on a projected long-term discount rates to Mexico and a yield curve projections of long-term sovereign bonds:

+0.5%:			Income Statement		Acummulated OCI
Discount rate used to calculate the defined benefit obligation and the netinterest on the net defined	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability

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benefit liability (asset)					curtailment				
Pension and retirement plans	Ps.	228	Ps.	10	Ps.	Ps.	157	Ps.	535
Seniority premiums		42					23		36
Total	Ps.	270	Ps.	10	Ps.	Ps.	180	Ps.	571

	Current	Past Service	Gain or	Net Interest on	Remeasurements
Expected salary increase	Service Cost	Cost	Loss on	the Net Defined	of the Net
			Settlement	Benefit Liability	Defined Benefit
			or		Liability
			curtailment		
Pension and retirement plans	Ps. 255	Ps. 45	Ps. (66)	Ps. 275	Ps. 711
Seniority premiums	46			32	38
Total	Ps. 301	Ps. 45	Ps. (66)	Ps. 307	Ps. 749

-0.5%:

F-44

Table of Contents

Discount rate used to calculate the defined benefit obligation and the net interest on the net defined benefit liability (asset)	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability
Pension and retirement plans	Ps. 254	Ps. 11	Ps.	Ps. 162	Ps. 569
Seniority premiums	46			23	40
Total	Ps. 300	Ps. 11	Ps.	Ps. 185	Ps. 609

Expected salary increase	Current Service Cost	Past Service Cost	Gain or Loss on Settlement or curtailment	Net Interest on the Net Defined Benefit Liability	Remeasurements of the Net Defined Benefit Liability
Pension and retirement plans	Ps. 227	Ps. 11	Ps.	Ps. 249	Ps. 692
Seniority premiums	41			29	44
Total	Ps. 268	Ps. 11	Ps.	Ps. 278	Ps. 736

15.8 Employee benefits expense

For the years ended December 31, 2017, 2016 and 2015, employee benefits expenses recognized in the consolidated income statements are as follows:

	2017	2016	2015
Included in cost of goods sold:			
Wages and salaries	Ps. 4,639	Ps. 4,827	Ps. 4,106
Social security costs	1,467	1,234	799
Employee profit sharing	75	142	125
Pension and seniority premium costs (Note 15.4)	53	57	56
Share-based payment expense (Note 16.2)	6	11	4
Included in selling and distribution expenses:			
Wages and salaries	12,695	13,526	11,513
Social security costs	4,456	4,571	2,911
Employee profit sharing	484	485	453
Pension and seniority premium costs (Note 15.4)	183	65	65
Share-based payment expense (Note 16.2)	7	18	6
Included in administrative expenses:			
Wages and salaries	2,625	2,839	2,551
Social security costs	588	472	337
Employee profit sharing	31	56	30
Pension and seniority premium costs (Note 15.4)	56	66	66
Post-employment benefits other (Note 15.4)	312	5	5

Share-based payment expense (Note 16.2)	161	177	254
Total employee benefits expense	Ps. 27,838	Ps. 28,551	Ps. 23,281

Note 16. Bonus Programs

16.1 Quantitative and qualitative objectives

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

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

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

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of achievement of the goals established every year. The bonuses are recorded as a part of the income statement and are paid in cash the following year. During the years ended December 31, 2017, 2016 and 2015 the bonus expense recorded amounted to Ps. 701, Ps. 706 and Ps. 549, respectively.

Table of Contents***16.2 Share-based payment bonus plan***

The Company has a stock incentive plan for the benefit of its senior executives. This plan uses as its main evaluation metric the EVA. Under the EVA stock incentive plan, eligible employees are entitled to receive a special annual bonus (fixed amount), to purchase FEMSA and Coca-Cola FEMSA shares or options, based on the executive's responsibility in the organization, their business EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 33% per year. The 50% of Coca-Cola FEMSA's annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options. For the years ended December 31, 2017, 2016 and 2015, no stock options have been granted to employees. Until 2015 the shares were vested ratably over a five year period. Beginning with January 1, 2016 onwards they will ratably vest over a three year period.

The special bonus is granted to the eligible employee on an annual basis and after withholding applicable taxes. The Company contributes the individual employee's special bonus (after taxes) in cash to the Administrative Trust (which is controlled and consolidated by FEMSA), which then uses the funds to purchase FEMSA and Coca-Cola FEMSA shares (as instructed by the Corporate Practices Committee), which are then allocated to such employee.

Coca-Cola FEMSA accounts for its share-based payment bonus plan as an equity-settled share based payment transaction, since it is its parent company, FEMSA, who ultimately grants and settles with shares these obligations due to executives.

At December 31, the shares granted under the Company's executive incentive plans are as follows:

Incentive Plan	Number of shares		Vesting period
	FEMSA	KOF	
2013	539,020	370,200	2014-2016
2014	489,345	331,165	2015-2017
2015	457,925	415,375	2016-2018
2016	567,671	719,132	2017-2019
2017	326,561	369,791	2018-2020
Total	2,380,522	2,205,663	

For the years ended December 31, 2017, 2016 and 2015, the total expense recognized for the period arising from share-based payment transactions, using the grant date model, was of Ps. 174, Ps. 206 and Ps. 264, respectively.

As of December 31, 2017 and 2016, the asset recorded by Coca-Cola FEMSA in its consolidated statements of financial position amounted to Ps. 151 and Ps. 168, respectively, see Note 12.

Table of Contents**Note 17. Bank Loans and Notes Payables**

In millions of mexican pesos	2018	2019	2020	2021	2022	2023 and Thereafter	Carrying Value December 31, 2017	Fair Value at December 31, 2017	Carrying Value December 31, 2016
Short-term debt:									
Fixed rate debt:									
Argentine pesos									
Bank loans	106						106	107	644
Interest rate	22.40%						22.40%		31.98%
U.S. dollars									
Bank loans									206
Interest rate									3.40%
Subtotal	106						106	107	850
Variable rate debt:									
Colombian peso									
Bank loans	1,951						1,951	1,949	723
Interest rate	7.28%						7.28%		9.14%
Subtotal	1,951						1,951	1,949	723
Short-term debt	2,057						2,057	2,056	1,573
Long-term debt:									
Fixed rate debt:									
Brazilian reais									
Bank loans	319	220	152	92	78	73	934	957	508
Interest rate	5.78%	5.78%	5.78%	5.78%	5.78%	5.78%	5.78%		5.06%
Notes payable ⁽²⁾		6,707					6,707	6,430	7,022
Interest rate		0.38%					0.38%		0.38%
U.S. dollars									
Yankee Bond	8,774		9,844			29,425	48,043	51,938	61,703
Interest rate	2.38%		4.63%			4.43%	4.09%		3.78%
Notes payable									

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Interest rate									
Colombian peso									
Bank loans	728					728	741	758	
Interest rate	9.63%					9.63%		9.63%	
Mexican pesos									
Senior notes		2,498		15,981	18,479		17,035	9,991	
Interest rate		8.27%		6.74%	6.95%			6.16%	
Subtotal	9,821	6,927	9,996	2,590	78	45,479	74,891	77,101	79,982
Variable rate debt:									
U.S. dollars									
Bank loans			4,032			4,032	4,313	4,218	
Interest rate			2.12%			2.12%		1.60%	

F-47

Table of Contents

In millions of mexican pesos	2018	2019	2020	2021	2022	2023 and Thereafter	Carrying Value at December 31, 2017	Fair Value at December 31, 2017	Carrying Value at December 31, 2016
Mexican pesos									
Senior notes					1,496		1,496	1,500	
Interest rate					7.70%		7.70%		
Argentine pesos									
Bank Loans									40
Interest rate									27.84%
Brazilian reais									
Bank Loans	283	284	229	66	7		869	883	1,864
Interest rate	8.50%	8.50%	8.50%	8.50%	8.50%		8.50%		5.49%
Notes payable	10	5					15	14	26
Interest rate	0.44%	0.44%					0.44%		0.44%
Colombian pesos									
Bank Loans ⁽³⁾									1,206
Interest rate									10.47%
Subtotal	293	289	229	4,098	1,503		6,412	6,710	7,354
Long-term debt	10,114	7,216	10,225	6,688	1,581	45,479	81,303	83,811	87,336
Current portion of long term debt	10,114						10,114		1,479
Long-term debt		7,216	10,225	6,688	1,581	45,479	71,189	83,811	85,857

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

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

(3) During 2017 a long term variable bank loan was refinanced for a 1-year term, therefore it was reclassified as short term variable bank loan.

Table of Contents

For the years ended December 31, 2017, 2016 and 2015, the interest expense related to the bank loans and notes payable is comprised as follows and included in the consolidated income statement under the interest expense caption:

	2017	2016	2015
Interest on debts and borrowings	Ps. 4,369	Ps. 4,099	Ps. 3,540
Capitalized interest		(32)	(60)
Finance charges for employee benefits	182	154	155
Derivative instruments	4,161	3,082	2,619
Finance operating charges	97	168	83
	Ps. 8,809	Ps. 7,471	Ps. 6,337

Coca-Cola FEMSA has the following debt bonds: a) registered with the Mexican stock exchange: i) Ps. 2,500 (nominal amount) with a maturity date in 2021 and fixed interest rate of 8.27% and ii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.46% iii) Ps. 1,500 (nominal amount) with a maturity date in 2022 and floating interest rate of TIIE + 0.25% iv) Ps. 8,500 (nominal amount) with a maturity date in 2027 and fixed interest rate of 7.87% and b) registered with the SEC : i) Senior notes of US. \$ 500 with interest at a fixed rate of 4.63% and maturity date on February 15, 2020, ii) Senior notes of US. \$445 with interest at a fixed rate of 2.38% and maturity date on November 26, 2018, iii) Senior notes of US. \$ 900 with interest at a fixed rate of 3.88% and maturity date on November 26, 2023 and iv) Senior notes of US. \$ 600 with interest at a fixed rate of 5.25% and maturity date on November 26, 2043 all of which are guaranteed by our subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R.L. de C.V. (Guarantors). In Note 27 we present supplemental guarantors consolidating financial information.

In August 18th, 2017, Coca-Cola FEMSA, partially prepaid US \$555 of a dollar denominated bond due in 2018, reducing the outstanding Senior note to US \$445 with interest at a fix rate of 2.38%

The Company has financing from different financial institutions under agreements that stipulate different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

17.1 Reconciliation of liabilities arising from financing activities.

	Carrying Value at December 31, 2016	Cash flows		Non-cash flows		Carrying Value at December 31, 2017
		Repayments	Proceeds	Foreign Exchange movement	Translation Effect	
Short-term bank loans	Ps. 1,573	Ps. (1,013)	Ps. 489	Ps.	Ps. 1,008	Ps. 2,057
Short-term notes payable						

Total short-term from financing activities	Ps. 1,573	Ps. (1,013)	Ps. 489	Ps.	Ps. 1,008	Ps. 2,057
Long-term bank loans	8,594	(2,264)	1,999	190	(1,956)	6,563
Long-term notes payable	78,742	(9,832)	10,000	4,015	(8,185)	74,740
Total long-term from financing activities	Ps. 87,336	Ps. (12,096)	Ps. 11,999	Ps. 4,205	Ps. (10,141)	Ps. 81,303
Current portion of long-term debt ^{(1) (2)}	Ps. 1,479					Ps. 10,114
Total from financing activities	Ps. 88,909	Ps. (13,109)	Ps. 12,488	Ps. 4,205	Ps. (9,133)	Ps. 83,360

- (1) Current portion of long term debt at December 31, 2016 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 636, b) bank loans denominated in argentine pesos for an equivalent amount in Ps. 40, c) notes payable denominated in brazilian reais for an equivalent amount in Ps. 10 and d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 793.

Table of Contents

- (2) Current portion of long term debt at December 31, 2017 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 602, b) senior notes denominated in US dollars for an equivalent amount in Ps. 8,774, c) notes payable denominated in brazilian reais for an equivalent amount in Ps. 10 and d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 728.

	Carrying Value at December 31, 2015	Cash flows		Non-cash flows		Carrying Value at December 31, 2016
		Repayments	Proceeds	Foreign Exchange movement	Translation Effect	
Short-term bank loans	Ps. 384	Ps.	Ps. 851	Ps.	Ps. 338	Ps. 1,573
Short-term notes payable						
Total short-term from financing activities	Ps. 384	Ps.	Ps. 851	Ps.	Ps. 338	Ps. 1,573
Long-term bank loans	2,068	(1,988)	141	(50)	8,423	8,594
Long-term notes payable	63,818	(2,500)	7,048	10,346	30	78,742
Long-term lease liabilities	460	(460)				
Total long-term from financing activities	Ps. 66,346	Ps. (4,948)	Ps. 7,189	Ps. 10,296	Ps. 8,453	Ps. 87,336
Current portion of long-term debt ^{(1) (2)}	Ps. 3,086					Ps. 1,479
Total from financing activities	Ps. 66,730	Ps. (4,948)	Ps. 8,040	Ps. 10,296	Ps. 8,791	Ps. 88,909

- (1) Current portion of long term debt at december 31, 2015 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 177, b) bank loans denominated in argentine pesos for an equivalent amount in Ps. 100, c) leases denominated in brazilian reais for an equivalent amount in Ps. 67, d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 246 and e) senior notes denominated in Ps. 2,496.
- (2) Current portion of long term debt at December 31, 2016 includes: a) bank loans denominated in brazilian reais for an equivalent amount in Ps. 636, b) bank loans denominated in argentine pesos for an equivalent amount in Ps. 40, c) notes payable denominated in brazilian reais for an equivalent amount in Ps. 10 and d) bank loans denominated in colombian pesos for an equivalent amount in Ps. 793.

Note 18. Other Income and Expenses

	2017	2016	2015
Other income:			
Gain on sale of long-lived assets	Ps. 322	Ps. 324	Ps. 233
Cancellation of contingencies	268	329	255
Tax Recovery from previous year	597	603	20

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Philippines consolidation impact (Note 4)	2,996		
Other	188	25	112
	Ps. 4,371	Ps. 1,281	Ps. 620
Other expenses:			
Provisions for contingencies	Ps. 943	Ps. 819	Ps. 334
Loss on the retirement of long-lived assets	174	321	332
Loss on sale of long-lived assets	368	358	16
Non-income taxes from Colombia		48	55
Severance payments	302	13	285
Donations	83	54	221
Foreign exchange losses related to operating activities	2,646	2,799	871
Venezuela impact (Note 3.3)	28,176		
Other	340	681	254
	Ps.33,032	Ps. 5,093	Ps. 2,368

F-50

Table of Contents**Note 19. Financial Instruments****Fair Value of Financial Instruments**

The Company uses a three-level fair value hierarchy to prioritize the inputs used to measure the fair value of its financial instruments. The three input levels are described as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The Company measures the fair value of its financial assets and liabilities classified as level 1 and 2, applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes the Company's financial assets and liabilities measured at fair value, as of December 31, 2017 and 2016:

	2017		2016	
	Level 1	Level 2	Level 1	Level 2
Derivative financial instruments asset	Ps. 22	Ps. 1,183	Ps. 375	Ps. 4,977
Derivative financial instruments liability	26	4,468		5,680
Trust assets of labor obligations	1,801		1,012	

19.1 Total debt

The fair value of bank loans is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for debt of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy. The fair value of the Company's publicly traded debt is based on quoted market prices as of December 31, 2017 and 2016, which is considered to be level 1 in the fair value hierarchy (See Note 17).

19.2 Forward agreements to purchase foreign currency

The Company has entered into forward agreements to reduce its exposure to the risk of exchange rate fluctuations among the Mexican peso and other currencies.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these forwards are recorded as part of

cumulative other comprehensive income . Net gain/loss on expired contracts is recognized as part of foreign exchange or cost of goods sold, depending on the nature of the hedge in the consolidated income statements.

Net changes in the fair value of forward agreements that do not meet hedging criteria for hedge accounting are recorded in the consolidated income statements under the caption market value gain on financial instruments .

Table of Contents

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

Maturity Date	Notional Amount	Fair Value	
		(Liability)	Asset
2018	Ps. 6,882	Ps. (22)	Ps. 190

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

Maturity Date	Notional Amount	Fair Value	
		(Liability)	Asset
2017	Ps. 6,559	Ps. (194)	Ps. 362

19.3 Options to purchase foreign currency

The Company has executed call option and collar strategies to reduce its exposure to the risk of exchange rate fluctuations. A call option is an instrument that limits the loss in case of foreign currency depreciation. A collar is a strategy that combines call and put options, limiting the exposure to the risk of exchange rate fluctuations in a similar way as a forward agreement.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these options, corresponding to the intrinsic value, are initially recorded as part of cumulative other comprehensive income. Changes in the fair value, corresponding to the extrinsic value, are recorded in the consolidated income statements under the caption market value gain on financial instruments, as part of the consolidated net income. Net gain/(loss) on expired contracts including the net premium paid, is recognized as part of cost of goods sold when the hedged item is recorded in the consolidated income statements.

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

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

19.4 Cross-currency swaps

The Company has contracted a number of cross-currency swaps to reduce its exposure to risks of exchange rate and interest rate fluctuations associated with its borrowings denominated in U.S. dollars. The fair value is estimated using market prices that would apply to terminate the contracts at the end of the period. For accounting purposes, the cross currency swaps are recorded as both, *Cash Flow Hedges* in regards to the foreign exchange risk, and *Fair Value Hedges* in regards to the interest rate risk and foreign exchange risk. The fair value changes related to exchange rate

fluctuations of the notional of those cross currency swaps and the accrued interest are recorded in the consolidated income statements. The remaining portion of the fair value changes, when designated as *Cash Flow Hedges*, are recorded in the consolidated balance sheet in cumulative other comprehensive income . If they are designated as *Fair Value Hedges* the changes in this remaining portion are recorded in the income statements as market value (gain) loss on financial instruments .

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

F-52

Table of Contents

Maturity Date	Notional Amount	Fair Value	
		(Liability)	Asset
		Dec. 31, 2017	
2018	Ps. 24,354	Ps. (3,863)	Ps.
2019	6,263	(205)	
2020	14,439	(163)	605
2021	4,046		24
2023	1,776		139
2027	6,907	(129)	179

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

Maturity Date	Notional Amount	Fair Value	
		(Liability)	Asset
		Dec. 31, 2016	
2017	Ps. 207	Ps. (10)	Ps.
2018	39,262	(4,837)	3,688
2019	7,022	(265)	
2020	15,118	(246)	798
2021	4,236	(128)	
2027	5,476		125

19.5 Interest Rate swaps

The Company has contracted a number of interest rate swaps to reduce its exposure to interest rate fluctuations associated with its debt denominated in BRL. These interest rate swaps, for accounting purposes are recorded as *Fair Value Hedges* and the interest rate variation is recorded in the consolidated income statement as market value (gain) loss on financial instruments .

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

Maturity Date	Notional Amount	Fair Value	
		(Liability)	Asset
		Dec. 31, 2017	
2019	Ps. 4,024	Ps. (32)	
2020	3,669	(16)	
2021	3,059	(33)	

19.6 Commodity price contracts

The Company has entered into various commodity price contracts to reduce its exposure to the risk of fluctuation in the costs of certain raw material. The fair value is estimated based on the market valuations to terminate the contracts at the end of the period. These instruments are designated as *Cash Flow Hedges* and the changes in their fair value are recorded as part of cumulative other comprehensive income .

The fair value of expired or sold commodity contracts are recorded in cost of goods sold with the hedged items.

At December 31, 2017, the Company had the following sugar price contracts:

Maturity Date	Notional Amount	Fair Value	
		(Liability)	Asset
		Dec 31, 2017	
2018	Ps. 986	Ps. (26)	Ps. 19
2019	150		3

At December 31, 2016, the Company had the following sugar price contracts:

Maturity Date	Notional Amount	Fair Value	
		Asset	
		Dec 31, 2016	
2017	Ps. 572	Ps.	370

Table of Contents

At December 31, 2016, the Company has the following aluminum price contracts:

Maturity Date	Notional Amount	Fair Value Asset Dec 31, 2017
2016	Ps. 74	Ps. 5

19.7 Option embedded in the Promissory Note to fund the Vonpar's acquisition

As disclosed in Note 4.1.1, on December 6, 2016, as part of the purchase price paid for the Company's acquisition of Vonpar, Spal issued and delivered a three-year promissory note to the sellers, for a total amount of 1,090 million Brazilian reais (approximately Ps.6,503 and Ps. 7,022 million as of December 31, 2017 and 2016, respectively). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar. The holders of the promissory note have an option, that may be exercised prior to the scheduled maturity of the promissory note, to capitalize the Mexican peso amount equivalent to the amount payable under the promissory note into a recently incorporated Mexican company which would then be merged into the Company in exchange for Series L shares at a strike price of Ps.178.5 per share. Such capitalization and issuance of new Series L shares is subject to the Company having a sufficient number of Series L shares available for issuance.

The Company uses Black & Scholes valuation technique to measure call option at fair value. The call option had an estimated fair value of Ps. 343 million at inception of the option and Ps. 242 million and 368 million as of December 31, 2017 and 2016, respectively. The option is as part of the Promisory Note disclosed in Note 17.

The Company estimates that the call option is out of the money as of December 31, 2017 and 2016 by approximately 30.4% and 35.9% or US\$ 82 million and US\$ 93 million, respectively, with respect to the strike price.

19.7 Net effects of expired contracts that met hedging criteria

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

- (1) The amount corresponds to the settlement of cross currency swaps portfolio in Mexico presented as part of the other financial activities. and
- (2) The amount in 2015 figures corresponds to the settlement of cross currency swaps portfolio in Brazil presented as part of the other financial activities.

19.9 Net effect of changes in fair value of derivative financial instruments that did not meet the hedging criteria for accounting purposes

Impact in Consolidated

Type of Derivatives	Income Statement	2017	2016	2015
Forward agreements to purchase foreign currency	Market value gain (loss) on financial instruments	Ps. 12	Ps. (56)	Ps. 52
Cross-currency swaps	Market value gain (loss) on financial instruments	337	236	(20)

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

Impact in Consolidated

Type of Derivatives	Income Statement	2017	2016	2015
Cross-currency swaps	Market value (loss) gain on financial instruments	(104)	(129)	105
Embedded derivatives	Market value gain on financial instruments	Ps. 1	Ps.	Ps. 5

Table of Contents**19.11 Market risk**

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, interest rates risk and commodity prices risk including:

Forward Agreements to Purchase Foreign Currency in order to reduce its exposure to the risk of exchange rate fluctuations.

Options to purchase foreign currency in order to reduce its exposure to the risk of exchange rate fluctuations.

Cross-Currency Swaps in order to reduce its exposure to the risk of exchange rate fluctuations and interest rate changes.

Commodity price contracts in order to reduce its exposure to the risk of fluctuation in the costs of certain raw materials.

The Company tracks the fair value (mark to market) of its derivative financial instruments and its possible changes using scenario analyses. The following disclosures provide a sensitivity analysis of the market risks, which the Company is exposed to as it relates to foreign exchange rates, interests rates and commodity prices, which it considers in its existing hedging strategy:

	Change in U.S.\$ Rate	Effect on Equity	Effect on Profit or Loss
Forward Agreements to Purchase USD (MXN/USD)			
2017	(12%)	Ps. (602)	Ps.
2016	(17%)	(916)	
2015	(11%)	(197)	

	Change in U.S.\$ Rate	Effect on Equity	Effect on Profit or Loss
Forward Agreements to Purchase USD (BRL/USD)			
2017	(14%)	Ps. (234)	Ps.
2016	(18%)	(203)	
2015	(21%)	(387)	

	Change in U.S.\$ Rate	Effect on Equity	Effect on Profit or Loss
Forward Agreements to Purchase USD (COP/USD)			

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2017	(9%)	Ps.	(73)	Ps.
2016	(18%)		(255)	
2015	(17%)		(113)	

	Change in U.S.\$ Rate		Effect on Equity	Effect on Profit or Loss
Forward Agreements to Purchase USD (ARS/USD)				
2017	(10%)	Ps.	(29)	Ps.
2015	(36%)		(231)	

	Change in U.S.\$ Rate		Effect on Equity	Effect on Profit or Loss
Cross Currency Swaps (USD into MXN)				
2017	(12%)	Ps.	(3,540)	Ps.
2016	(17%)		(3,687)	(1,790)
2015	(11%)			(938)

	Change in U.S.\$ Rate		Effect on Equity	Effect on Profit or Loss
Cross Currency Swaps (USD into BRL)				
2017	(14%)	Ps.	(7,483)	Ps.
2016	(18%)		(9,559)	
2015	(21%)		(4,517)	(1,086)

	Change in BRL Rates		Effect on Equity	Effect on Profit or Loss
Interest Rate Swaps (Float into Fix Rates)				
2017	(100 bps)	Ps.	(234)	Ps.

	Change in Sugar price		Effect on Equity	Effect on Profit or Loss
Sugar Price Contracts				
2017	(30%)	Ps.	(32)	Ps.
2016	(33%)		(310)	
2015	(31%)		(406)	

	Change in Aluminum price		Effect on Equity	Effect on Profit or Loss
Aluminum Price Contracts				
2016	(16%)	Ps.	(13)	Ps.
2015	(18%)		(58)	

	Change in U.S. \$ Rate		Effect on Equity	Effect on Profit or Loss
Options to Purchase Foreign Currency (MXN/USD)				

2017

(12%) Ps. (24) Ps.

F-55

Table of Contents***19.12 Interest rate risk***

The Company is exposed to interest rate risk because it and its subsidiaries borrow funds at both fixed and variable interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and variable rate borrowings, and by the use of the different derivative financial instruments. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The following disclosures provide a sensitivity analysis of the interest rate risks, management considered to be reasonably possible at the end of the reporting period, which the Company is exposed to as it relates to its fixed and floating rate borrowings, which considers its existing hedging strategy:

Interest Rate Risk	Change in U.S.\$ Rate	Effect on (Profit) or Loss
2017	+100 bps	Ps. (251)
2016	+100 bps	Ps. (211)
2015	+100 bps	(175)

19.13 Liquidity risk

The Company's principal source of liquidity has generally been cash generated from its operations. A significant majority of the Company's sales are on a short-term credit basis. The Company has traditionally been able to rely on cash generated from operations to fund its capital requirements and its capital expenditures. The Company's working capital benefits from the fact that most of its sales are made on a cash basis, while it generally pays its suppliers on credit. In recent periods, the Company has mainly used cash generated from operations to fund acquisitions. The Company has also used a combination of borrowings from Mexican and international banks and issuances in the Mexican and international capital markets to fund acquisitions.

Ultimate responsibility for liquidity risk management rests with the Company's board of directors, which has established an appropriate liquidity risk management framework for the evaluation of the Company's short-, medium- and long-term funding and liquidity requirements. The Company manages liquidity risk by maintaining adequate reserves, and continuously monitoring forecasted and actual cash flows and by maintaining a conservative debt maturity profile.

The Company has access to credit from national and international banking institutions in order to face treasury needs; besides, the Company has the highest rating for Mexican companies (AAA) given by independent rating agencies, allowing the Company to evaluate capital markets in case it needs resources.

As part of the Company's financing policy, management expects to continue financing its liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which the Company operates, it may not be beneficial or, practicable to remit cash generated in local operations to fund cash requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, management may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In the future management may finance our working capital and capital expenditure needs with short-term or other borrowings.

The Company's management continuously evaluates opportunities to pursue acquisitions or engage in strategic transactions. The Company would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock.

See Note 17 for a disclosure of the Company's maturity dates associated with its non-current financial liabilities as of December 31, 2017.

The following table reflects all contractually fixed and variable pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected gross cash outflows from derivative financial liabilities that are in place as of December 31, 2017.

Such expected net cash outflows are determined based on each particular settlement date of an instrument. The amounts disclosed are undiscounted net cash outflows for the respective upcoming fiscal years, based on the earliest date on which the Company could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on economic conditions (like interest rates and foreign exchange rates) existing at December 31, 2017.

F-56

Table of Contents

(In millions of Ps)	2018	2019	2020	2021	2022	2023 and thereafter
Non-derivative financial liabilities:						
Notes and bonds	Ps. 8,784	Ps. 6,712	Ps. 9,844	Ps. 2,498	Ps. 1,496	Ps. 45,406
Loans from banks	3,387	504	381	4,190	85	73
Derivatives financial liabilities	(3,687)	(237)	425	(9)		190

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

19.14 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions is spread amongst approved counterparties.

The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in cash.

The Company manages the credit risk related to its derivative portfolio by only entering into transactions with reputable and credit-worthy counterparties as well as by maintaining a Credit Support Annex (CSA) that establishes margin requirements. As of December 31, 2017 the Company concluded that the maximum exposure to credit risk related with derivative financial instruments is not significant given the high credit rating of its counterparties.

Note 20. Non-Controlling Interest in Consolidated Subsidiaries

An analysis of Coca-Cola FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Mexico	Ps. 5,994	Ps. 5,879	Ps. 3,342
Colombia	23	22	12
Brazil	1,224	1,195	632
Philippines	10,900		
	Ps. 18,141	Ps. 7,096	Ps. 3,986

Non-controlling interests in Mexico primarily represent the individual results of a Mexican holding company Kristine Overseas, S.A.P.I. de C.V. This entity also has non-controlling stakes in certain Brazilian subsidiaries.

As disclosed in Note 4.1.2, commencing on February 1, 2017, the Company started consolidating CCFPI's financial results in its financial statements. Summarised financial information of CCFPI is disclosed in Note 26 of the consolidated financial statements as part of the Asia Segment.

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

	2017	2016	2015
Balance at beginning of the year	Ps.7,096	Ps.3,986	Ps. 4,401
Effects of business combination	11,072		
Net income of non controlling interest	1,148	457	94
Exchange differences on translation of foreign operations	(1,138)	1,845	(554)
Remeasurements of the net defined employee benefit liability	38		6
Valuation of the effective portion of derivative financial instruments, net of taxes	(74)	51	50
Increase in shares of non-controlling interest		826	
Dividends paid	(1)	(69)	(11)
Balance at end of the year	Ps.18,141	Ps.7,096	Ps.3,986

F-57

Table of Contents**Note 21. Equity****21.1 Equity accounts**

As of December 31, 2017, the capital stock of Coca-Cola FEMSA is represented by 2,100,832,262 common shares, with no par value. Fixed capital stock is Ps. 934 (nominal value) and variable capital is unlimited.

The characteristics of the common shares are as follows:

Series A and series D shares are ordinary, have all voting rights and are subject to transfer restrictions;

Series A shares may only be acquired by Mexican individuals and may not represent less than 51% of the ordinary shares.

Series D shares have no foreign ownership restrictions and may not represent more than 49% of the ordinary shares.

Series L shares have no foreign ownership restrictions and have limited voting rights.

As of December 31, 2017, 2016 and 2015, the number of each share series representing Coca-Cola FEMSA's capital stock is comprised as follows:

Series of shares	Thousands of Shares		
	2017	2016	2015
A	992,078	992,078	992,078
D	583,546	583,546	583,546
L	525,208	497,298	497,298
	2,100,832	2,072,922	2,072,922

The changes in the share are as follows:

Series of shares	Thousands of Shares		
	2017	2016	2015
Initial shares	2,072,922	2,072,922	2,072,922
Shares issuance (Note 4.1.1)	27,910		
Final shares	2,100,832	2,072,922	2,072,922

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The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve amounts to 20% of capital stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company. As of December 31, 2017, 2016 and 2015, this reserve was Ps. 164.

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect at the date of distribution, except for restated shareholder contributions and distributions made from net consolidated taxable income, denominated Cuenta de Utilidad Fiscal Neta (CUFIN).

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. The Company's balances of CUFIN amounted to Ps. 7,506, not subjected withholding tax.

For the years ended December 31, 2017, 2016 and 2015 the dividends declared and paid per share by the Company are as follows:

Series of shares	2017 ⁽¹⁾	2016	2015
A	Ps. 3,323	Ps. 3,323	Ps. 3,065
D	1,955	1,955	1,803
L	1,713	1,667	1,537
	Ps. 6,991	Ps. 6,945	Ps. 6,405

⁽¹⁾ At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 14, 2017, the shareholders declared a dividend of Ps. 6,991 that was paid in May 3, 2017 and November 1, 2017. Represents a dividend of Ps. 3.35 per each ordinary share.

Table of Contents**21.2 Capital management**

The Company manages its capital to ensure that its subsidiaries will be able to continue as going concerns while maximizing the return to shareholders through the optimization of its debt and equity balance in order to obtain the lowest cost of capital available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2017 and 2016.

The Company is not subject to any externally imposed capital requirements, other than the legal reserve and debt covenants (see Note 17 and Note 21.1).

The Company's finance committee reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In conjunction with this objective, the Company seeks to maintain the highest credit rating both national and international, currently rated AAA and A-/A2/A- respectively, which requires us to comply, among others, to the financial metrics that each rating agency considers. For example, some rating agencies maintain a debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio lower than 2.0x. As a result, prior to entering into new business ventures, acquisitions or divestures, management evaluates the impact that these transactions can have in its credit rating.

Note 22. Earnings per Share

Basic earnings per share amounts are calculated by dividing consolidated net income for the year attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the period.

Diluted earnings per share amounts are calculated by dividing consolidated net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the period plus the weighted average number of shares for the effects of dilutive potential shares (originated by the Company's commitment to capitalize 27.9 million KOF series L shares described in Note 4.1.1). During the years ended December 31, 2017 and 2015, the Company had no dilutive securities.

Basic and diluted earnings per share amounts are as follows:

	2017		
	Per Series A Shares	Per Series D Shares	Per Series L Shares
Consolidated net income	Ps. (5,503)	Ps. (3,237)	Ps. (2,914)
Consolidated net income attributable to equity holders of the parent	(6,046)	(3,556)	(3,200)
Weighted average number of shares for basic earnings per share (millions of shares)	992	584	515

2016

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	Per Series A Shares	Per Series D Shares	Per Series L Shares
Consolidated net income	Ps. 5,038	Ps. 2,963	Ps. 2,526
Consolidated net income attributable to equity holders of the parent	4,819	2,835	2,416
Weighted average number of shares for basic earnings per share (millions of shares)	992	584	497
Effect of dilution associated with commitment to deliver 27.9 million KOF L shares			2
Weighted average number of shares adjusted for the effect of dilution (Shares outstanding)	992	584	499

	Per Series A Shares	2015 Per Series D Shares	Per Series L Shares
Consolidated net income	Ps. 4,943	Ps. 2,908	Ps. 2,478
Consolidated net income attributable to equity holders of the parent	5,045	2,968	2,529
Weighted average number of shares for basic earnings per share (millions of shares)	992	584	497

F-59

Table of Contents**Note 23. Income Taxes****23.1 Income Tax**

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

	2017	2016	2015
Current tax expense:			
Current year	Ps. 6,317	Ps. 8,574	Ps. 6,060
Deferred tax expense:			
Origination and reversal of temporary differences	(1,698)	(2,812)	721
(Benefit) utilization of tax losses recognized	(65)	(1,834)	(2,230)
Total deferred tax expense	(1,763)	(4,646)	(1,509)
Total income tax expense in consolidated net income	Ps. 4,554	Ps. 3,928	Ps. 4,551

2017	Mexico	Foreign	Total
Current tax expense:			
Current year	Ps. 3,874	Ps. 2,443	Ps. 6,317
Deferred tax expense:			
Origination and reversal of temporary differences	(1,798)	100	(1,698)
Benefit (utilization) of tax losses recognized	179	(244)	(65)
Total deferred tax (benefit)	(1,619)	(144)	(1,763)
Total income tax expense in consolidated net income	Ps. 2,255	Ps. 2,299	Ps. 4,554

2016	Mexico	Foreign	Total
Current tax expense:			
Current year	Ps. 4,035	Ps. 4,539	Ps. 8,574
Deferred tax expense:			
Origination and reversal of temporary differences	(1,117)	(1,695)	(2,812)
Benefit of tax losses recognized	(1,285)	(549)	(1,834)
Total deferred tax (benefit)	(2,402)	(2,244)	(4,646)
Total income tax expense in consolidated net income	Ps. 1,633	Ps. 2,295	Ps. 3,928

2015	Mexico	Foreign	Total
Current tax expense:			
Current year	Ps. 3,887	Ps. 2,173	Ps. 6,060
Deferred tax expense:			
Origination and reversal of temporary differences	427	294	721
Benefit of tax losses recognized	(997)	(1,233)	(2,230)
Total deferred tax expense (benefit)	(570)	(939)	(1,509)
Total income tax expense in consolidated net income	Ps. 3,317	Ps. 1,234	Ps. 4,551

Recognized in Consolidated Statement of Other Comprehensive Income (OCI)

Income tax related to items charged or recognized directly in OCI during the year:	2017	2016	2015
Unrealized (gain) loss on cash flow hedges	Ps. (160)	Ps. 324	Ps. (19)
Remeasurements of the net defined benefit liability	(61)	12	32
Total income tax recognized in OCI	Ps. (221)	Ps. 336	Ps. 13

Balance of income tax included in Accumulated Other Comprehensive Income (AOCI) as of:

Income tax related to items charged or recognized directly in OCI as of year end:	2017	2016	2015
Unrealized loss (gain) on derivative financial instruments	Ps. 59	Ps. 227	Ps. (91)
Comprehensive income to be reclassified to profit or loss in subsequent periods	59	227	(91)
Re-measurements of the net defined benefit liability	(199)	(143)	(112)
Balance of income tax in OCI	Ps. (140)	Ps. 84	Ps. (203)

Table of Contents

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

	2017	2016	2015
Mexican statutory income tax rate	30%	30%	30%
Income tax from prior years	4.98	1.33	0.50
Income (loss) on monetary position for subsidiaries in hyperinflationary economies	6.72	(2.20)	0.07
Annual inflation tax adjustment	(5.75)	0.15	(2.22)
Non-deductible expenses	(8.84)	2.38	2.92
Non-taxable income	1.87	(0.90)	(0.41)
Income taxed at a rate other than the Mexican statutory rate	(3.5)	2.06	0.75
Effect of restatement of tax values	8.72	(2.29)	(1.16)
Effect of change in statutory rate	0.31		0.11
Effect of changes in Venezuela Tax Law		7.74	
Income tax credits	12.7	(7.84)	
Effect Venezuela (Note 3.3)	(119.13)		
Consolidation Profit Philippines	11.95		
Tax Loss	(9.45)		
Other	5.28	(2.98)	0.35
	(64.14)%	27.45%	30.91%

In 2017, the Venezuela's deconsolidation and Philippines consolidation impacted significantly the effective tax rate. Had those two effects would not occur effective tax rate would have been 28.12%

Deferred income tax

An analysis of the temporary differences giving rise to deferred income tax liabilities (assets) is as follows:

Consolidated Statement of Financial Position	Consolidated Statement of Financial Position as of		Consolidated Income Statement		
	2017	2016	2017	2016	2015
Allowance for doubtful accounts	Ps. (119)	Ps. (148)	Ps. 16	Ps. (8)	Ps. 2
Inventories	(4)	(14)	10	(163)	(15)
Prepaid expenses	17	13	5	(71)	7
Property, plant and equipment, net ⁽¹⁾	(244)	1,599	(2,071)	1,439	(96)
Other assets	(569)	(403)	(166)	167	41
Finite useful lived intangible assets	820	56	761	(289)	112
Indefinite lived intangible assets	2,143	1,458	743	5,280	(26)
	(474)	(229)	(196)	(1)	115

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Post-employment and other non-current
employee benefits

Derivative financial instruments	42	86	(44)	62	22
Contingencies	(2,629)	(1,822)	(807)	(96)	(7)
Employee profit sharing payable	(159)	(166)	6	(14)	(3)
Tax loss carryforwards	(8,088)	(8,101)	(13)	(1,834)	(2,230)
Tax credits to recover ⁽²⁾	(2,308)	(1,150)	(705)	(1,150)	
Cumulative other comprehensive income	(141)	84	(224)		
Deductible tax goodwill of business acquisition		160	(160)	(1,921)	1,378
Liabilities of amortization of goodwill of business acquisition	5,527	5,921	(394)	45	(32)
Other liabilities	(112)	(2,120)	1,476	(6,092)	(777)
Deferred tax (income)			Ps. (1,763)	Ps. (4,646)	Ps. (1,509)
Deferred tax, asset	Ps. (8,012)	Ps. (5,981)			
Deferred tax, liability	1,714	1,205			
Deferred income taxes, net	Ps. (6,298)	Ps. (4,776)			

- (1) As a result of the change of Venezuelan tax regulations, on December 31, 2016 the Company recognized a deferred tax liability for an amount of Ps. 1,107 with their corresponding impact on the income tax of the year. Such amount was derecognized during 2017 as a result of the deconsolidation of Venezuela.
- (2) Correspond to income tax credits arising from dividends received from foreign subsidiaries to be recovered within the next ten years accordingly to the Mexican Income Tax law as well as effects of the exchange of foreign currencies with Related and Non-Related Parties.

F-61

Table of Contents

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

	2017	2016	2015
Balance at beginning of the year	Ps. (4,776)	Ps. (2,975)	Ps. (1,871)
Deferred tax provision for the year	(1,763)	(4,381)	(1,526)
Change in the statutory rate			16
Acquisition of subsidiaries, see Note 4	(563)	150	
Venezuela effect	261		
Effects in equity:			
Unrealized loss (gain) on derivative financial instruments	(160)	324	(19)
Unrealized gain on available for sale securities			
Cumulative translation adjustment	221	1,766	350
Remeasurements of the net defined benefit liability	(61)	12	32
Inflation adjustment	543	328	43
Balance at end of the year	Ps. (6,298)	Ps. (4,776)	Ps. (2,975)

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes levied by the same tax authority.

The Company has determined that undistributed profits of its subsidiaries, will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which deferred tax liabilities that have not been recognized, aggregate to December 31, 2017: Ps. 5,847 December 31, 2016: Ps. 5,136 and, December 31, 2015: Ps. 8,014.

Tax Loss Carryforwards

The subsidiaries in Mexico, Colombia and Brazil have tax loss carryforwards. Unused tax loss carryforwards, for which a deferred income tax asset has been recognized, may be recovered provided certain requirements are fulfilled. The tax losses carryforwards and their years of expiration are as follows:

	Tax Loss Carryforwards	
2021	Ps.	15
2022		
2023		
2024		2
2025		4
2026 and thereafter		8,732
No expiration (Brazil and Colombia until 2016))		16,064
	Ps.	24,817

During 2013, the Company completed certain acquisitions in Brazil. In connection with the acquisitions in Brazil the Company recorded certain goodwill balances that are deductible for Brazilian income tax reporting purposes. The deduction of such goodwill amortization has resulted in the creation of Net Operating Losses (NOLs) in Brazil. NOLs in Brazil have no expiration, but their usage is limited to 30% of Brazilian taxable income in any given year. As of December 31, 2017 and 2016 the Company believes that it is more likely than not that it will ultimately recover such NOLs through the reversal of temporary differences and future taxable income. Accordingly, the related deferred tax assets have been fully recognized.

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

	2017	2016	2015
Balance at beginning of the year	Ps. 24,791	Ps. 14,900	Ps. 9,400
Increase (see sources above)	3,334	5,616	7,001
Usage of tax losses	(2,723)	(4)	(37)
Effect of foreign currency exchange rates	(585)	4,279	(1,464)
Balance at end of the year	Ps. 24,817	Ps. 24,791	Ps. 14,900

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

Table of Contents

23.2 Recoverable taxes

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

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

23.3 Tax Reform

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

On April 1, 2015, the Brazilian government issued Decree No. 8.426/15 to impose, as of July 2015, PIS/COFINS (Social Contributions on Gross Revenues) of 4.65% on financial income (except for foreign exchange variations). In addition, starting in 2016, the Brazilian federal production tax rates were reduced and the federal sales tax rates were increased. These rates continued to increase in 2017. However, the Supreme Court decided in early 2017 that the value-added tax will not be used as the basis for calculating the federal sales tax, which resulted in a reduction of the federal sales tax. Nevertheless, the Supreme Court is still reviewing the appeal of the tax authorities. In 2017 the federal production and sales taxes together resulted in an average of 15.6% tax over net sales. For 2018, these taxes will continue to increase, and we expect the average of these taxes will range between 16.0% and 17.5% over the net sales.

On December 30, 2015, the Venezuelan government enacted a new package of tax reforms that became effective in January 2016. This reform mainly (i) eliminated the inflationary adjustments for the calculation of income tax as well as the new investment tax deduction, and (ii) imposed a new tax on financial transactions effective as of February 1, 2016, for entities identified as special taxpayers, at a rate of 0.75% over certain financial transactions, such as bank withdrawals, transfer of bonds and securities, payment of indebtedness without intervention of the financial system and debits on bank accounts for cross-border payments. Banks operating in Venezuela are required to withhold this new tax on financial transactions. Given the inherent uncertainty as to how the Venezuelan government will require that the inflationary adjustments for the calculation of income tax be applied, starting 2016 our Venezuelan subsidiary decided to recognize the effects of the elimination of such inflationary adjustments, at December 31, 2017 this balance was derecognized as a result of the deconsolidation of Venezuela.

In Guatemala the income tax rate for 2014 was 28.0% and it decreased to 25.0% for 2015.

On January 1, 2017, a new general tax reform became effective in Colombia. This reform reduced the income tax rate from 35.0% to 34.0% for 2017 and then to 33.0% for the following years. In addition, for entities located outside the

free trade zone, this reform imposed an extra income tax rate of 6.0% for 2017 and 4.0% for 2018. For taxpayers located in the free trade zone, the special income tax rate increased from 15.0% to 20.0% for 2017. Additionally, the reform eliminated the temporary tax on net equity, the supplementary income tax at a rate of 9.0% as contributions to social programs and the temporary contribution to social programs at a rate of 5.0%, 6.0%, 8.0% and 9.0% for the years 2015, 2016, 2017 and 2018, respectively. For 2017, the dividends paid to individuals that are Colombian residents will be subject to a withholding of 35.0%, and the dividends paid to foreign individuals or entities non-residents in Colombia will be subject to a withholding of 5.0%. This reform increased the rate of the minimum assumed income tax (renta presuntiva sobre el patrimonio), from 3.0% to 3.5% for 2017. Finally, starting in 2017, the Colombian general value-added tax rate increased from 16.0% to 19.0%.

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

On January 1, 2018, a new tax reform became effective in the Philippines. This reform mainly (i) reduced the income tax rate imposed on a majority of individuals, (ii) increased the income tax rate on net capital gains from 5.0% or 10.0%, depending on the amounts of shares sold, to a general tax rate of 15.0% on net capital gains from the sale of shares traded outside of the stock exchange by companies and individuals that are resident and non-resident, (iii) imposed an excise tax of 6.00 Philippine pesos per liter for sweetened beverages using caloric and non-caloric sweeteners, except for high fructose corn syrup (HFCS), and 12.00 Philippine pesos per liter for sweetened beverages using HFCS, (iv) imposed the obligation to issue electronic invoices and electronic sales reports, and (v) reduced the time period for keeping books and accounting records from 10 years to three years.

Table of Contents**Note 24. Other Liabilities, Provisions and Commitments*****24.1 Other current financial liabilities***

	2017	2016
Sundry creditors	Ps. 593	Ps. 688
Derivative financial instruments	3,916	204
Total	Ps. 4,509	Ps. 892

24.2 Provisions and other non-current liabilities

	2017	2016
Provisions	Ps. 11,067	Ps. 13,628
Taxes payable	355	337
Other	850	1,064
Total	Ps. 12,272	Ps. 15,029

24.3 Other non-current financial liabilities

	2017	2016
Derivative financial instruments	Ps. 578	Ps. 5,476
Security deposits	591	269
Total	Ps. 1,169	Ps. 5,745

24.4 Provisions recorded in the consolidated statement of financial position

The Company has various loss contingencies, and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2017 and 2016:

	2017	2016
Taxes	Ps. 6,717	Ps. 10,223
Labor	2,365	2,356
Legal	1,985	1,049
Total	Ps. 11,067	Ps. 13,628

24.5. Changes in the balance of provisions recorded**24.5.1 Taxes**

	2017	2016	2015
Balance at beginning of the year	Ps. 10,223	Ps. 1,658	Ps. 2,198
Penalties and other charges	148	173	21
New contingencies	4	3	84
Cancellation and expiration	(98)	(106)	(205)
Contingencies added in business combinations ⁽¹⁾	861	7,840	
Payments	(944)	(6)	(214)
Brazil tax amnesty	(3,069)		
Effect of foreign currency exchange rates	(408)	661	(226)
Balance at end of the year	Ps. 6,717	Ps. 10,223	Ps. 1,658

24.5.2 Labor

	2017	2016	2015
Balance at beginning of the year	Ps. 2,356	Ps. 1,340	Ps. 1,543
Penalties and other charges	56	203	209
New contingencies	115	211	44
Cancellation and expiration	(33)	(177)	(102)
Contingencies added in business combinations		500	
Payments	(76)	(336)	(111)
Effects of foreign currency exchange rates	(52)	615	(243)
Effect Venezuela (Note 3.3)	(1)		
Balance at end of the year	Ps. 2,365	Ps. 2,356	Ps. 1,340

Table of Contents**24.5.3 Legal**

	2017	2016	2015
Balance at beginning of the year	Ps. 1,049	Ps. 319	Ps. 427
Penalties and other charges	121	33	
New contingencies	170	196	
Cancellation and expiration	(16)	(46)	(33)
Contingencies added in business combinations	783	496	
Payments	(80)	(81)	
Brazil tax amnesty	7		
Effects of foreign currency exchange rates	(47)	132	(75)
Effects Venezuela	(2)		
Balance at end of the year	Ps. 1,985	Ps. 1,049	Ps. 319

- (1) At December 31, 2016, an amount of Ps. 7,840 correspond to tax claims with local Brazil IRS (including a contingency of Ps. 5,321 related to the deductibility of a tax goodwill balance). The remaining contingencies relates to multiple claims with loss expectations assessed by management and supported by the analysis of legal counsels as possible, the total amount of contingencies guaranteed agreements amounts to Ps. 8,081. During 2017, the Company took advantage of a Brazilian tax amnesty program. The settlement of certain outstanding matters under that amnesty program generated a benefit of Ps. 1,874 such benefit has been offset against the corresponding indemnifiable assets.

While provision for all claims has already been made, the actual outcome of the disputes and the timing of the resolution cannot be estimated by the Company at this time.

24.6 Unsettled lawsuits

The Company has entered into several proceedings with its labor unions, tax authorities and other parties that primarily involve Coca-Cola FEMSA and its subsidiaries. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. Such contingencies were classified by the Company as less than probable but not remote, the estimated amount as of December 31, 2017 of these lawsuits is Ps. 64,558, however, the Company believes that the ultimate resolution of such proceedings will not have a material effect on its consolidated financial position or result of operations.

The Company has tax contingencies, most of which are related to its Brazilian operations, amounting to approximately Ps. 51,014 with loss expectations assessed by management and supported by the analysis of legal counsel consider as possible. Among these possible contingencies, are Ps. 12,346 in various tax disputes related primarily to credits for ICMS (VAT) and Ps. 33,217 related to tax credits of IPI over raw materials acquired from Free Trade Zone Manaus. Possible claims also include Ps. 4,787 related to compensation of federal taxes not approved by the IRS (Tax authorities), and Ps. 664 related to the requirement by the Tax Authorities of State of São Paulo for ICMS (VAT), interest and penalty due to the alleged underpayment of tax arrears for the period 1994-1996. The Company is defending its position in these matters and final decision is pending in court.

In recent years in its Mexican and Brazilian territories, Coca-Cola FEMSA has been requested to present certain information regarding possible monopolistic practices. These requests are commonly generated in the ordinary course of business in the soft drink industry where this subsidiary operates. The Company does not expect any material liability to arise from these contingencies.

24.7 Collateralized contingencies

As is customary in Brazil, the Company has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 9,433, Ps. 8,093 and Ps. 3,569 as of December 31, 2017, 2016 and 2015, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies.

24.8 Commitments

As of December 31, 2017, the Company has contractual commitments for operating leases for the rental of production machinery and equipment, distribution and computer equipment.

Table of Contents

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

	Mexican pesos	U.S. dollars	Other
Not later than 1 year	Ps. 106	Ps. 103	Ps. 1
Later than 1 year and not later than 5 years	423	682	
Later than 5 years	211	205	
Total	Ps. 740	Ps. 990	Ps. 1

Rental expense charged to consolidated net income was Ps. 1,420, Ps. 1,232 and Ps. 1,044 for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company has firm commitments for the purchase of property, plant and equipment of Ps. 933 as December 31, 2017.

Note 25. Information by segment

The Company's chief operating decision maker (CODM) is the Chief Executive Officer, who periodically reviews financial information at the country level. Thus, each of the separate countries in which the Company operates is considered and operating segments, with the exception of the countries in Central America which represent a single operating segment.

The Company has aggregated operating segments into the following reporting segments for the purposes of its consolidated financial statements: (i) Mexico and Central America division (comprising the following countries: Mexico (including corporate operations), Guatemala, Nicaragua, Costa Rica and Panama), (ii) the South America division (comprising the following countries: Brazil, Argentina, Colombia and Venezuela); Venezuela operates in an economy with exchange control and hyper-inflation; and as a result, IAS 29, Financial Reporting in Hyperinflationary Economies does not allow its aggregation into the South America segment and (iii) the Asian division comprised of Philippines commencing on February 1, 2017, started to be consolidated in the Company's financial statements. The Company's results for 2017 reflect a reduction in the share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, as a result of this consolidation (see note 4.1.2). As disclosed in Note 3.3 the Company deconsolidated their operations in Venezuela, consequently there will not be financial information for this segment in future financial statements.

The Company is of the view that the quantitative and qualitative aspects of the aggregated operating segments are similar in nature for all periods presented. In evaluating the appropriateness of aggregating operating segments, the key indicators considered included but were not limited to: (i) similarities of customer base, products, production processes and distribution processes, (ii) similarities of governments, (iii) inflation trends, since hyper-inflationary economy has different characteristics that carry out to making decision on how to deal with the cost of the production and distribution, Venezuela has been separated as a separate segment, (iv) currency trends and (v) historical and projected financial and operating statistics, historically and according to our estimates the financial trends of the countries aggregated into an operating segment have behaved in similar ways and are expected to continue to do so.

Segment disclosure for the Company's consolidated operations is as follows:

2017	Mexico and Central America⁽¹⁾	South America⁽²⁾	Venezuela	Asia	Consolidated
Total revenues	Ps. 92,643	Ps. 86,608	Ps. 4,005	Ps. 20,524	Ps. 203,780
Intercompany revenue	4,661	18			4,679
Gross profit	45,106	37,756	646	8,178	91,686
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method	(15,431)	8,792	(1,786)	1,265	(7,160)
Depreciation and amortization	4,801	3,442	807	1,814	10,864
Non cash items other than depreciation and amortization ⁽³⁾	1,011	213	1,021	262	2,507
Equity in earnings (loss) of associated companies and joint ventures	(63)	123			60
Total assets	135,363	122,042		28,272	285,677
Investments in associate companies and joint ventures	7,046	4,455			11,501
Total liabilities	91,385	43,637		9,945	144,967
Capital expenditures, net ⁽⁴⁾	8,231	4,686		1,695	14,612

F-66

Table of Contents

2016	Mexico and Central America⁽¹⁾	South America⁽²⁾	Venezuela	Consolidated
Total revenues	Ps. 87,557	Ps. 71,293	Ps. 18,868	Ps. 177,718
Intercompany revenue	4,266	3		4,269
Gross profit	43,569	29,263	6,830	79,662
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method	8,642	4,784	882	14,308
Depreciation and amortization	4,750	3,078	838	8,666
Non cash items other than depreciation and amortization ⁽³⁾	424	61	2,423	2,908
Equity in earnings (loss) of associated companies and joint ventures	149	(2)		147
Total assets	136,252	130,019	12,985	279,256
Investments in associate companies and joint ventures	18,088	4,269		22,357
Total liabilities	95,342	48,391	6,290	150,023
Capital expenditures, net ⁽⁴⁾	6,597	4,240	1,554	12,391

2015	Mexico and Central America⁽¹⁾	South America⁽²⁾	Venezuela	Consolidated
Total revenues	Ps. 78,709	Ps. 64,752	Ps. 8,899	Ps. 152,360
Intercompany revenue	3,791	3		3,794
Gross profit	40,130	27,532	4,368	72,030
Income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method	10,614	3,220	891	14,725
Depreciation and amortization	4,404	2,489	251	7,144
Non-cash items other than depreciation and amortization ⁽³⁾	685	130	1,352	2,167
Equity in earnings of associated companies and joint ventures	97	58		155
Total assets	133,941	69,281	7,027	210,249
Investments in associate companies and joint ventures	15,779	2,094		17,873
Total liabilities	80,963	17,528	3,023	101,514
Capital expenditures, net ⁽⁴⁾	4,672	5,686	1,126	11,484

(1) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 79,836, Ps. 74,413 and Ps. 67,772 during the years ended December 31, 2017, 2016 and 2015, respectively. Domestic (Mexico only) total assets were Ps. 133,315, Ps. 122,552 and Ps. 123,585 as of December 31, 2017, 2016 and 2015, respectively. Domestic (Mexico only) total liabilities were Ps. 88,283 Ps. 92,303 and Ps. 78,834 as of December 31, 2017, 2016 and 2015, respectively.

(2) South America includes Brazil, Argentina, Colombia and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 58,518, Ps. 43,900 and Ps. 37,825 during the

years ended December 31, 2017, 2016 and 2015, respectively. Brazilian total assets were Ps. 95,713, Ps. 104,092 and Ps. 49,448 as of December 31, 2017, 2016 and 2015, respectively. Brazilian total liabilities Ps. 31,580, Ps. 39,600 and Ps. 10,753 as of December 31, 2017, 2016 and 2015, respectively. South America revenues also include Colombian revenues of Ps. 14,222, Ps. 15,120 and Ps. 12,984 during the years ended December 31, 2017, 2016 and 2015, respectively. Colombian total assets were Ps. 14,180, Ps. 20,581 and Ps. 15,182 as of December 31, 2017, 2016 and 2015, respectively. Colombian total liabilities were Ps. 7,993, Ps. 5,547 and Ps. 3,977 as of December 31, 2017, 2016 and 2015, respectively. South America revenues also include Argentine revenues of Ps. 13,869, Ps. 12,273 and Ps. 13,943 during the years ended December 31, 2017, 2016 and 2015, respectively. Argentine total assets were Ps. 5,301, Ps. 5,346 and Ps. 4,651 as of December 31, 2017, 2016 and 2015, respectively. Argentine total liabilities were Ps. 3,660, Ps. 3,244 and Ps. 2,798 as of December 31, 2017, 2016 and 2015, respectively.

- (3) Includes foreign exchange loss, net; gain on monetary position, net; and market value (gain) loss on financial instruments.
- (4) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.
- (5) The Asian division includes CCFPI (Philippines) which investment was acquired in 2013, and the Company started consolidating in February 1, 2017, see Note 9. The equity in earnings of the Asian division were , Ps. 93 and Ps. 86 in 2016 and 2015, respectively and are presented as part of the Company s corporate operations in 2016 and 2015 and thus disclosed net in the table above as part of the equity in earnings of associated companies in the Mexico & Central America division, as is the equity method investment in CCFPI of Ps. 11,460 and 9,996, respectively. However, the Asian division represents a separate reporting segment under IFRS 8 and is represented by the following investee level amounts, prior to consolidation as of and for the years ended December 2016 and 2015, respectively: revenues Ps. 22,768 and Ps. 19,576, gross profit Ps. 7,678 and Ps. 5,325, income before income taxes Ps. 486 and Ps. 334, depreciation and amortization Ps. 2,163 and Ps. 2,369, total assets Ps. 28,066 and Ps. 22,002, total liabilities Ps. 9,634 and Ps. 6,493, capital expenditures Ps. 3,342 and Ps. 1,778.

Table of Contents

Note 26. Future Impact of Recently Issued Accounting Standards not yet in Effect:

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

IFRS 15, Revenue from Contracts with Customers

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

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

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

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

Analysis of contracts with customers and their main characteristics;

Identification of the performance obligations included in such contracts;

Determination of the transaction price and the effects derived from by the variable consideration;

Allocation of the transaction price to each performance obligation;

Analysis of the timing when the revenue should be recognized, either at a point in time or over time, as appropriate;

Analysis of the disclosures required by the IFRS 15 and their impacts on internal processes and controls; and

Analysis of the potential costs of obtaining and fulfilling contracts with customers that should be capitalized in accordance with the requirements of the new IFRS 15.

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

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

IFRS 16, Leases

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

Table of Contents

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

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

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

Detailed analysis of the leasing contracts and the characteristics of the same that would cause an impact in the determination of the right of use and the financial liabilities.

Identification of the exceptions provided by IFRS 16 that may apply to the Company;

Identification and determination of costs associated with leasing contracts;

Identification of currencies in which lease contracts are denominated;

Analysis of renewal options and improvements to leased assets, as well as amortization periods;

Analysis of the revelations required by the IFRS 16 and the impacts of the same in internal processes and controls; and

Analysis of the interest rate used in determining the present value of the lease payments of the different assets for which a right of use must be recognized.

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

Based on the analysis carried out by the Company, the operations of Mexico, Brazil and Colombia are those that would particularly be significantly affected on the consolidated financial statements of the Company due to the

number of leases that will be in force at the date of adoption of the IFRS 16, as well as the natural growth of the business.

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

IFRS 9, *Financial Instruments*

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

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

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

Table of Contents

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

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

Review and documentation of the business models for financial assets, accounting policies, processes and internal controls related to financial instruments.

Analysis of financial assets and their impact in the expected loss model required under IFRS 9.

Update of documentation of the hedging relationships, as well as the policies for hedge accounting, and internal controls.

Determination of the model to compute the loss allowances based on the Expected Loss model.

Analysis of the new disclosures required by IFRS 9 and its impacts on internal processes and controls for the Company.

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

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

An analysis was carried out to determine of the impact of the new Expected Loss model of financial assets to calculate the provisions that should be recorded. An increase is not expected for the provisions of financial assets under the new standard because the accounts receivable are characterized by recovering in the short term, which results in estimates of expected loss that converge to the provisions under IAS 39.

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

IFRS 2 Classification and Measurement of Share-based Payment Transactions Amendments to IFRS 2

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

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

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

These improvements include:

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

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

Table of Contents

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

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

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

- i) Whether an entity considers uncertain tax treatments separately
- ii) The assumptions an entity makes about the examination of tax treatments by taxation authorities
- iii) How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- iv) How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company is still in the process of quantifying the impact of the adoption of the IFRIC 23 in the consolidated financial statements.

Note 27. Supplemental Guarantor Information

Condensed Consolidating Financial Information

The following consolidating information presents condensed consolidating statements of financial position as of December 31, 2017 and 2016 and condensed consolidating statements of income, other comprehensive income and cash flows for each of the three years in the period ended December 31, 2017, 2016 and 2015 of the Company and Propimex, S. de R.L. de C.V., Comercializadora la Pureza de Bebidas, S. de R.L. de C.V., Controladora

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Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador CIMSA, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V. (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.) and Yoli de Acapulco, S. de R. L. de C.V. (the Guarantors).

These statements are prepared in accordance with IFRS, as issued by the IASB, with the exception that the subsidiaries are accounted for as investments under the equity method rather than being consolidated. The guarantees of the Guarantors are full and unconditional.

The accounting policies applied in the preparation of the condensed financial statements are the same as those used in the preparation of the consolidated financial statements (see Note 3).

The Company's consolidating condensed financial information for the (i) Company; (ii) its 100% owned guarantors subsidiaries (on standalone basis), which are wholly and unconditional guarantors under both prior years debt and current year debt referred to as Senior Notes in Note 17; (iii) the combined non-guarantor subsidiaries; iv) eliminations and v) the Company's consolidated financial statements are as follows:

	Wholly-owned		Combined		
	Guarantors		non-guarantor		Consolidated
Parent	Subsidiaries	Subsidiaries	Eliminations	Total	
<i>Consolidated Statement of Financial Position</i>					
<i>As of December 31, 2017</i>					
Assets:					
Current assets:					
Cash and cash equivalents	Ps. 7,017	Ps. 926	Ps. 10,824	Ps.	Ps. 18,767
Accounts receivable, net	27,420	7,417	56,643	(73,904)	17,576
Inventories		2,529	8,835		11,364
Recoverable taxes	54	427	4,691		5,172
Other current assets and financial assets	1	299	2,478		2,778
Total current assets	34,492	11,598	83,471	(73,904)	55,657
Non-current assets:					
Investments in other entities	140,799	92,691	5,527	(226,477)	12,540
Property, plant and equipment, net		17,819	58,008		75,827
Intangible assets, net	28,863	37,366	58,014		124,243
Deferred tax assets	2,277	1,649	4,086		8,012
Other non-current assets and financial assets	929	8,653	9,411	(9,595)	9,398
Total non-current assets	172,868	158,178	135,046	(236,072)	230,020
Total assets	Ps. 207,360	Ps. 169,776	Ps. 218,517	Ps. (309,976)	Ps. 285,677

Liabilities:

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Current liabilities:

Short-term bank loans and notes payable and current portion of non-current debt	Ps. 8,774	Ps.	Ps. 3,397	Ps.	Ps. 12,171
Interest Payable	434		53		487
Suppliers	11	2,847	17,098		19,956
Other current financial liabilities	12,090	55,860	28,934	(73,904)	22,980
Total current liabilities	21,309	58,707	49,482	(73,904)	55,594

Non-current liabilities:

Bank loans and notes payable	63,277		7,912		71,189
Other non-current financial liabilities	205	594	26,980	(9,595)	18,184
Total non-current liabilities	63,482	594	34,892	(9,595)	89,373
Total liabilities	84,791	59,301	84,374	(83,499)	144,967

Equity:

Equity attributable to equity holders of the parent	122,569	110,475	116,002	(226,477)	122,569
Non-controlling interest in consolidated subsidiaries			18,141		18,141
Total equity	122,569	110,475	134,143	(226,477)	140,710
Total liabilities and equity	Ps. 207,360	Ps. 169,776	Ps. 218,517	Ps. (309,976)	Ps. 285,677

F-71

Table of Contents

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
<i>Consolidated Statement of Financial Position As of December 31, 2016</i>					
Assets:					
Current assets:					
Cash and cash equivalents	Ps. 1,106	Ps. 1,119	Ps. 8,251	Ps.	Ps. 10,476
Accounts receivable, net	33,733	6,243	49,535	(74,506)	15,005
Inventories		3,880	6,864		10,744
Recoverable taxes	42	654	3,677		4,373
Other current assets and financial assets	617	1,799	2,439		4,855
Total current assets	35,498	13,695	70,766	(74,506)	45,453
Non-current assets:					
Investments in associates and joint ventures	137,304	74,332	15,760	(205,039)	22,357
Property, plant and equipment, net		18,815	46,473		65,288
Intangible assets, net	28,863	38,313	56,788		123,964
Other non-current assets and financial assets	7,240	10,560	14,905	(10,511)	22,194
Total non-current assets	173,407	142,020	133,926	(215,550)	233,803
Total assets	Ps. 208,905	Ps. 155,715	Ps. 204,692	Ps. (290,056)	Ps. 279,256
Liabilities:					
Current liabilities:					
Short-term bank loans and notes payable and current portion of non-current debt	Ps. 468	Ps.	Ps. 3,104	Ps.	Ps. 3,572
Suppliers	29	4,644	16,816		21,489
Other current liabilities	10,320	57,359	21,634	(74,506)	14,807
Total current liabilities	10,817	62,003	41,554	(74,506)	39,868
Non-current liabilities:					
Bank loans and notes payable	75,913		9,944		85,857
Other non-current liabilities	38	633	34,138	(10,511)	24,298
Total non-current liabilities	75,951	633	44,082	(10,511)	110,155
Total liabilities	86,768	62,636	85,636	(85,017)	150,023
Equity:					
	122,137	93,079	111,960	(205,039)	122,137

Equity attributable to equity holders of the parent					
Non-controlling interest in consolidated subsidiaries			7,096		7,096
Total equity	122,137	93,079	119,056	(205,039)	129,233
Total liabilities and equity	Ps. 208,905	Ps. 155,715	Ps. 204,692	Ps. (290,056)	Ps. 279,256

F-72

Table of Contents

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
<i>Condensed consolidating income statements:</i>					
<i>For the year ended December 31, 2017</i>					
Total revenues	Ps. 1	Ps. 80,179	Ps. 146,555	Ps. (22,955)	Ps. 203,780
Cost of goods sold		40,870	83,748	(12,524)	112,094
Gross profit	1	39,309	62,807	(10,431)	91,686
Administrative expenses	140	5,598	8,293	(5,048)	8,983
Selling expenses		22,589	38,722	(5,384)	55,927
Other (income) expenses, net	(314)	(330)	29,304	1	28,661
Interest expense, net	3,717	3,210	994	1	7,922
Foreign exchange gain (loss), net	846	255	(291)		810
Other financing (expense) income, net	(104)		1,941		1,837
Income taxes	238	2,270	2,046		4,554
Share of the profit of subsidiaries, associates and joint ventures accounted for using the equity method, net of taxes	(9,765)	9,647	148	30	60
Consolidated net income	Ps. (12,803)	Ps. 15,874	Ps. (14,754)	Ps. 29	Ps. (11,654)
Attributable to:					
Equity holders of the parent	(12,803)	15,874	(15,902)	29	(12,802)
Non-controlling interest			1,148		1,148
Consolidated net income	Ps. (12,803)	Ps. 15,874	Ps. (14,754)	Ps. 29	Ps. (11,654)
<i>Condensed consolidating income statements:</i>					
<i>For the year ended December 31, 2016</i>					
Total revenues	Ps. 1	Ps. 74,718	Ps. 114,767	Ps. (11,768)	Ps. 177,718
Cost of goods sold		36,595	63,011	(1,550)	98,056
Gross profit	1	38,123	51,756	(10,218)	79,662
Administrative expenses	185	5,344	6,741	(4,847)	7,423
Selling expenses		21,243	32,167	(5,371)	48,039
Other (expenses) income, net	(27)	(25)	(3,760)		(3,812)

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Interest expense, net	2,140	2,623	1,992	1	6,756
Foreign exchange (loss) gain, net	(3,112)	76	1,244		(1,792)
Other financing (expense) income, net	(129)	(50)	2,647		2,468
Income taxes	(1,222)	3,010	2,140		3,928
Share of the profit of subsidiaries, associates and joint ventures accounted for using the equity method, net of taxes	14,440	9,547	93	(23,933)	147
Net income	Ps. 10,070	Ps. 15,451	Ps. 8,940	Ps. (23,934)	Ps. 10,527
Attributable to:					
Equity holders of the parent	Ps. 10,070	Ps. 15,451	Ps. 8,483	Ps. (23,934)	Ps. 10,070
Non-controlling interest			457		457
Net income	Ps. 10,070	Ps. 15,451	Ps. 8,940	Ps. (23,934)	Ps. 10,527

F-73

Table of Contents

	Wholly-owned		Combined		
	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
	<i>Condensed consolidating income statements:</i>				Total
	<i>For the year ended December 31, 2015</i>				
Total revenues	Ps. 1	Ps. 66,740	Ps. 97,855	Ps. (12,236)	Ps. 152,360
Cost of goods sold		32,008	50,629	(2,307)	80,330
Gross profit	1	34,732	47,226	(9,929)	72,030
Administrative expenses	96	4,711	6,124	(4,526)	6,405
Selling expenses		19,853	27,429	(5,403)	41,879
Other (expenses) income, net	12	(336)	(1,424)		(1,748)
Interest expense, net	1,198	2,916	1,809		5,923
Foreign exchange (loss) gain, net	(2,597)	(305)	1,443		(1,459)
Other financing (expense) income, net	105	49	(45)		109
Income taxes	(984)	2,035	3,500		4,551
Share of the profit of subsidiaries, associates and joint ventures accounted for using the equity method, net of taxes	13,024	3,977	150	(16,996)	155
Net income	Ps. 10,235	Ps. 8,602	Ps. 8,488	Ps. (16,996)	Ps. 10,329
Attributable to:					
Equity holders of the parent	Ps. 10,235	Ps. 8,602	Ps. 8,394	Ps. (16,996)	Ps. 10,235
Non-controlling interest			94		94
Net income	Ps. 10,235	Ps. 8,602	Ps. 8,488	Ps. (16,996)	Ps. 10,329

	Wholly-owned		Combined		
	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
	<i>Condensed consolidating statements of comprehensive income</i>				Total
	<i>For the year ended December 31, 2017</i>				
Consolidated net income	Ps. (12,803)	Ps. 15,874	Ps. (14,754)	Ps. 29	Ps. (11,654)

Other comprehensive income, net of taxes:

Other comprehensive income to be reclassified to profit or loss in subsequent periods:

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Valuation of the effective portion of derivative financial instruments, net of taxes	(192)	(554)	(266)	746	(266)
Exchange differences on translation of foreign operations	16,345	5,245	15,293	(21,676)	15,207
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of the net defined benefit liability, net of taxes	(10)	171	32	(165)	28
Total comprehensive (loss) income, net of tax	16,143	Ps. 4,862	Ps. 15,059	Ps. (21,095)	Ps. 14,969
Consolidated comprehensive income for the year, net of tax	Ps. 3,340	Ps. 20,736	Ps. 305	Ps. (21,066)	Ps. 3,315
Attributable to:					
Equity holders of the parent	Ps. 3,340	Ps. 20,736	Ps. 331	Ps. (21,066)	Ps. 3,341
Non-controlling interest			(26)		(26)
Consolidated comprehensive income for the year, net of tax	Ps. 3,340	Ps. 20,736	Ps. 305	Ps. (21,066)	Ps. 3,315

F-74

Table of Contents

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
<i>Condensed consolidating statements of comprehensive income For the year ended December 31, 2016</i>					
Consolidated net income	Ps. 10,070	Ps. 15,451	Ps. 8,940	Ps. (23,934)	Ps. 10,527
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Unrealized gain on available-for sale securities, net of taxes					
Valuation of the effective portion of derivative financial instruments, net of taxes	664	371	(202)	(118)	715
Exchange differences on translation of foreign operations	14,207	(8,756)	15,871	(5,270)	16,052
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:	14,871	(8,385)	15,669	(5,388)	16,767
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of the net defined benefit liability, net of taxes	(123)	(117)	(144)	261	(123)
Net other comprehensive income not being reclassified to profit or loss in subsequent periods:	(123)	(117)	(144)	261	(123)
Total comprehensive (loss) income, net of tax	14,748	(8,502)	15,525	(5,127)	16,644
Consolidated comprehensive income for the year, net of tax	Ps. 24,818	Ps. 6,949	Ps. 24,465	Ps. (29,061)	Ps. 27,171
Attributable to:					
Equity holders of the parent	Ps. 24,818	Ps. 6,949	Ps. 22,112	Ps. (29,061)	Ps. 24,818
Non-controlling interest			2,353		2,353

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Consolidated comprehensive income for the year, net of tax	Ps. 24,818	Ps. 6,949	Ps. 24,465	Ps. (29,061)	Ps. 27,171
	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
	<i>Condensed consolidating statements of comprehensive income</i>				
	<i>For the year ended December 31, 2015</i>				
Consolidated net income	Ps. 10,235	Ps. 8,602	Ps. 8,488	Ps. (16,996)	Ps. 10,329
Other comprehensive income, net of taxes:					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Unrealized gain on available-for sale securities, net of taxes					
Valuation of the effective portion of derivative financial instruments, net of taxes	(77)	304	4	(258)	(27)
Exchange differences on translation of foreign operations	(4,853)	(4,585)	(5,536)	397	(5,407)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:	(4,930)	4,889	(5,532)	139	(5,434)
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of the net defined benefit liability, net of taxes	132	21	117	(132)	138
Net other comprehensive income not being reclassified to profit or loss in subsequent periods:	132	21	117	(132)	138
Total comprehensive (loss) income, net of tax	(4,798)	4,910	(5,415)	7	(5,296)
Consolidated comprehensive income for the year, net of tax	Ps. 5,437	Ps. 13,512	Ps. 3,073	Ps. (16,989)	Ps. 5,033
Attributable to:					
Equity holders of the parent	Ps. 5,437	Ps. 13,512	Ps. 3,477	Ps. (16,989)	Ps. 5,437
Non-controlling interest			(404)		(404)

Consolidated comprehensive income for the year, net of tax	Ps. 5,437	Ps. 13,512	Ps. 3,073	Ps. (16,989)	Ps. 5,033
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F-75

Table of Contents

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
<i>Condensed Consolidated Statements of Cash Flows For the year ended December 31, 2017</i>					
Cash flows from operating activities:					
Income before income taxes	Ps. (12,565)	Ps. 18,144	Ps. (12,708)	Ps. 29	Ps. (7,100)
Non-cash items	10,474	(4,564)	41,487	(29)	47,368
Changes in working capital	118	1,803	(8,953)		(7,032)
Net cash flows (used in)/from operating activities	(1,973)	15,383	19,826		33,236
Investing activities:					
Acquisition and mergers, net of cash acquired			4,038		4,038
Deconsolidation of Venezuela			(170)		(170)
Interest received	4,753	1,693	1,567	(7,126)	887
Acquisition of long-lived assets, net		(2,646)	(8,101)		(10,747)
Acquisition of intangible assets and other investing activities	4,902	(996)	(7,917)		(4,011)
Investments in shares	(118)	(420)	861	(1,242)	(920)
Dividends received	3,204	16		(3,187)	33
Net cash flows (used in)/from investing activities	12,741	(2,353)	(9,723)	(11,555)	(10,890)
Financing activities:					
Proceeds from borrowings	10,200		2,288		12,488
Repayment of borrowings	(9,926)		(3,183)		(13,109)
Interest paid	(5,169)	(4,740)	(1,806)	7,126	(4,589)
Dividends paid	(6,991)	(3,187)	(1)	3,187	(6,992)
Proceeds from issuing shares	4,082				4,082
Other financing activities	2,730	(5,293)	(1,334)	1,242	(2,655)
Net cash flows (used in)/from financing activities	(5,074)	(13,220)	(4,036)	11,555	(10,775)
Net (decrease) increase in cash and cash equivalents	5,694	(190)	6,067		11,571
Initial balance of cash and cash equivalents	1,106	1,119	8,251		10,476
Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign	217	(3)	(3,494)		(3,280)

currencies

**Ending balance of cash and cash
equivalents**

Ps. 7,017	Ps. 926	Ps. 10,824	Ps.	Ps. 18,767
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F-76

Table of Contents

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
<i>Condensed Consolidated Statements of Cash Flows For the year ended December 31, 2016</i>					
Cash flows from operating activities:					
Income before income taxes	Ps. 8,848	Ps. 18,461	Ps. 11,080	Ps. (23,934)	Ps. 14,455
Non-cash items	(11,495)	(3,557)	8,429	23,934	17,311
Changes in working capital	(100)	(2,279)	3,059		680
Net cash flows (used in)/from operating activities	(2,747)	12,625	22,568		32,446
Investing activities:					
Payment related to acquisition of Vonpar			(13,198)		(13,198)
Interest received	1,711	671	3,504	(5,171)	715
Acquisition of long-lived assets, net		(3,810)	(6,169)		(9,979)
Acquisition of intangible assets and other investing activities	(12,079)	(6,577)	16,271		(2,385)
Investments in shares	(707)	(1,021)	6,829	(7,169)	(2,068)
Dividends received	5,868	1		(5,869)	
Net cash flows (used in)/from investing activities	(5,207)	(10,736)	7,237	(18,209)	(26,915)
Financing activities:					
Proceeds from borrowings	4,236		4,026	(222)	8,040
Repayment of borrowings	(2,625)		(2,545)	222	(4,948)
Interest paid	(1,360)	(3,727)	(4,206)	5,171	(4,122)
Dividends paid	(6,944)	(5,868)	(70)	5,869	(7,013)
Increase in non-controlling interest			826		826
Other financing activities	3,024	8,005	(20,715)	7,169	(2,517)
Net cash flows (used in)/from financing activities	(3,669)	(1,590)	(22,684)	18,209	(9,734)
Net (decrease) increase in cash and cash equivalents	(11,623)	299	7,121		(4,203)
Initial balance of cash and cash equivalents	10,991	810	4,188		15,989
Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign currencies	1,738	9	(3,057)		(1,310)

Ending balance of cash and cash equivalents	Ps. 1,106	Ps. 1,118	Ps. 8,252	Ps.	Ps. 10,476
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F-77

Table of Contents

	Parent	Wholly-owned Guarantors Subsidiaries	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
	<i>Condensed Consolidated Statements of</i>				
	<i>Cash Flows For</i>				
	<i>the year ended December 31, 2015</i>				
Cash flows from operating activities:					
Income before income taxes	Ps. 9,251	Ps. 10,637	Ps. 11,988	Ps. (16,996)	Ps. 14,880
Non-cash items	(11,920)	2,308	9,115	16,996	16,499
Changes in working capital	17	1,362	(9,556)		(8,177)
Net cash flows (used in)/from operating activities	(2,652)	14,307	11,547		23,202
Investing activities:					
Interest received	2,055	238	2,347	(4,226)	414
Acquisition of long-lived assets, net		(2,911)	(7,401)		(10,312)
Acquisition of intangible assets and other investing activities	65	(62)	(1,031)		(1,028)
Investments in shares	(10,929)	(9,352)	(5,681)	25,930	(32)
Dividends received		17	13	(17)	13
Net cash flows (used in)/from investing activities	(8,809)	(12,070)	(11,753)	21,687	(10,945)
Financing activities:					
Proceeds from borrowings			1,907		1,907
Repayment of borrowings	(7,681)		(1,250)	(145)	(9,076)
Interest paid	(609)	(3,491)	(3,694)	4,226	(3,568)
Dividends paid	(6,405)		(28)	17	(6,416)
Other financing activities	28,770	1,300	4,301	(25,785)	8,586
Net cash flows (used in)/from financing activities	14,075	(2,191)	1,236	(21,687)	(8,567)
Net (decrease) increase in cash and cash equivalents	2,614	46	1,030		3,690
Initial balance of cash and cash equivalents	7,282	755	4,921		12,958
Effects of exchange rate changes and inflation effects on the balance sheet of cash held in foreign currencies	1,095	9	(1,763)		(659)
	Ps. 10,991	Ps. 810	Ps. 4,188	Ps.	Ps. 15,989

**Ending balance of cash and cash
equivalents**

Note 28. Subsequent Events

On March 9, 2018, the Company's Board of Directors approved the payment of a cash dividend in the equivalent amount of Ps. 3.35 per share, to be paid in two equal installments as of May 3, 2018 and November 1, 2018.

On April 10, 2018 we entered into certain bank loans in Mexican pesos for an aggregate principal amount of Ps.10,100 million

F-78