COCA COLA FEMSA SAB DE CV
Form 20-F
April 11, 2014
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**As filed with the Securities and Exchange Commission on April 11, 2014.**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

**ANNUAL REPORT PURSUANT TO SECTION 13**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2013**

**Commission file number 1-12260**

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

**(Exact name of registrant as specified in its charter)**

**Not Applicable**

**(Translation of registrant s name into English)**

**United Mexican States**

**(Jurisdiction of incorporation or organization)**

**Calle Mario Pani No. 100,**

**Santa Fe Cuajimalpa,**

**Cuajimalpa de Morelos,**

**05348, México, D.F., México**

**(Address of principal executive offices)**

**Alfredo Fernández Espinosa**

**Calle Mario Pani No. 100,**

**Santa Fe Cuajimalpa,**

**Cuajimalpa de Morelos,**

**05348 México, D.F., México**

**(52-55) 1519-5120/5121**

**krelations@kof.com.mx**

**(Name, telephone, e-mail and/or facsimile number and address of company contact person)**

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| American Depositary shares, each representing 10 Series L shares, without par value | New York Stock Exchange, Inc. |
| Series L shares, without par value | New York Stock Exchange, Inc. (not for trading, for listing purposes only) |

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

**None**

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

**None**

The number of outstanding shares of each class of capital or common stock as of December 31, 2013 was:

| | |
|---|---|
| 992,078,519 | Series A shares, without par value |
| 583,545,678 | Series D shares, without par value |
| 497,298,032 | Series L shares, without par value |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

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

¨ Yes x No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). N/A ¨ Yes ¨ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

| | | |
|---|---|---|
| Large Accelerated filer x | Accelerated filer ¨ | Non-accelerated filer ¨ |

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

| | | |
|---|---|---|
| U.S. GAAP ¨ | IFRS x | Other ¨ |

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 ¨ Item 18

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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# INTRODUCTION

## References

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

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

Sparkling beverages as used in this annual report refers to non-alcoholic carbonated beverages. Still beverages refers to non-alcoholic non-carbonated beverages. Non-flavored waters, whether or not carbonated, are referred to as waters.

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

## Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps.13.10 to US$1.00, the exchange rate for Mexican pesos on December 31, 2013, the last day in 2013 for which information is available, according to the U.S. Federal Reserve Board. On April 4, 2014, this exchange rate was Ps.13.03 to US$1.00. **See Item 3. Key Information Exchange Rate Information** for information regarding exchange rates since January 1, 2009.

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

## Sources

Certain information contained in this annual report has been computed based upon statistics prepared by the *Instituto Nacional de Estadística y Geografía* of Mexico (the National Institute of Statistics and Geography, or INEGI), the Federal Reserve Bank of New York, the U.S. Federal Reserve Board, the *Banco de México* (the Central Bank of Mexico), the *Comisión Nacional Bancaria y de Valores* of Mexico (the National Banking and Securities Commission, or the CNBV), local entities in each country and upon our estimates.

## Forward-Looking Information

This annual report contains words such as believe, expect, anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including, but not limited to, effects on our company from changes in our relationship with The Coca-Cola Company, movements in the prices of raw materials, competition, significant developments in economic or political conditions in Latin America, including changes in currency exchange and interest rates, our ability to successfully integrate mergers and acquisitions we have completed in recent years, or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

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### Item 2. Offer Statistics and Expected Timetable

Not applicable.

### Item 3. Key Information

## SELECTED CONSOLIDATED FINANCIAL DATA

We prepared our consolidated financial statements included in this annual report in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, or IASB, referred to herein as IFRS. Our date of transition to IFRS was January 1, 2011. Our consolidated financial statements as of and for the years ended December 31, 2012 and 2011 were our first set of financial statements prepared in accordance with IFRS. We have not included in this annual report selected consolidated financial data as of and for the years ended December 31, 2009 and 2010. Based on our recent adoption and transition to IFRS, we have not prepared consolidated financial statements as of and for the years ended December 31, 2009 and 2010 in accordance with IFRS and therefore are unable to present selected financial data for these years without unreasonable effort and expense.

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2013 and 2012 and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2013, 2012 and 2011. Our consolidated financial statements as of and for the years ended December 31, 2013, 2012 and 2011 were prepared in accordance with IFRS.

Pursuant to IFRS, the information presented in this annual report presents financial information for 2013, 2012 and 2011 in nominal terms that has been presented in Mexican pesos, taking into account local inflation of each hyperinflationary economic environment and converting from local currency to Mexican pesos using the official exchange rate at the end of the period published by the local central bank of each country categorized as a hyperinflationary economic environment. As of December 31, 2013, Venezuela was the only country of the countries in which we operate with a hyperinflationary economic environment. See Note 3 to our consolidated financial statements. For each non-hyperinflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for equity and the average exchange rate for the income statement.

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

Except when specifically indicated, information in the annual report on Form 20-F is presented as of December 31, 2013 and does not give effect to any transaction subsequent to that date.

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

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2013(1) | 2013(2) | 2012(3) | 2011(4) |
| | (in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data) | | | |
| **Income Statement Data:** | | | | |
| ***IFRS*** | | | | |
| Total revenues | US$ 11,911 | Ps.156,011 | Ps.147,739 | Ps.123,224 |
| Cost of goods sold | 6,343 | 83,076 | 79,109 | 66,693 |
| Gross profit | 5,568 | 72,935 | 68,630 | 56,531 |
| Administrative expenses | 495 | 6,487 | 6,217 | 5,140 |
| Selling expenses | 3,423 | 44,828 | 40,223 | 32,093 |
| Other income | 36 | 478 | 545 | 685 |
| Other expenses | 85 | 1,101 | 1,497 | 2,060 |
| Interest expenses | 255 | 3,341 | 1,955 | 1,729 |
| Interest income | 50 | 654 | 424 | 616 |
| Foreign exchange (loss) gain, net | (56) | (739) | 272 | 61 |
| (Loss) gain on monetary position for subsidiaries in hyperinflationary economies | (29) | (393) | | 61 |
| Market value (gain) loss on financial instruments | (4) | (46) | (13) | 138 |
| Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method | 1,315 | 17,224 | 19,992 | 16,794 |
| Income taxes | 437 | 5,731 | 6,274 | 5,667 |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes | 22 | 289 | 180 | 86 |
| Consolidated net income | 900 | 11,782 | 13,898 | 11,213 |
| Equity holders of the parent | 882 | 11,543 | 13,333 | 10,662 |
| Non-controlling interest | 18 | 239 | 565 | 551 |
| Consolidated net income | 900 | 11,782 | 13,898 | 11,213 |
| ***Ratio to Revenues (%)*** | | | | |
| Gross margin | | 46.7 | 46.5 | 45.9 |

| | | | | |
|---|---|---|---|---|
| Net income margin | | 7.6 | 9.4 | 9.1 |
| **Balance Sheet Data:** | | | | |
| ***IFRS*** | | | | |
| Cash and cash equivalents | US$ 1,169 | Ps.15,306 | Ps.23,222 | Ps.11,843 |
| Marketable securities | | | 12 | 330 |
| Accounts receivable, net, Inventories, Recoverable taxes, Other current financial assets and Other current assets | 2,132 | 27,925 | 22,663 | 20,551 |
| Total current assets | 3,301 | 43,231 | 45,897 | 32,724 |
| Investment in associates and joint ventures | 1,280 | 16,767 | 5,352 | 3,656 |
| Property, plant and equipment, net | 3,954 | 51,785 | 42,517 | 38,102 |

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| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2013(1) | 2013(2) | 2012(3) | 2011(4) |
| | (in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data) | | | |
| Intangible assets, net | 7,556 | 98,974 | 67,013 | 62,163 |
| Deferred tax assets, Other non-current financial assets and Other non-current assets, net | 451 | 5,908 | 5,324 | 5,093 |
| Total assets | 16,542 | 216,665 | 166,103 | 141,738 |
| Bank loans and notes payable | 38 | 495 | 4,194 | 638 |
| Current portion of non-current debt | 236 | 3,091 | 945 | 4,902 |
| Interest payable | 25 | 324 | 194 | 206 |
| Suppliers, Accounts payable, Taxes payable and Other current financial liabilities | 2,174 | 28,488 | 24,217 | 20,029 |
| Total current liabilities | 2,473 | 32,398 | 29,550 | 25,775 |
| Bank loans and notes payable | 4,342 | 56,875 | 24,775 | 16,821 |
| Post-employment and other non-current employee benefits, Deferred tax liabilities, Other non-current financial liabilities and Provisions and other non-current liabilities | 782 | 10,239 | 6,950 | 6,061 |
| Total non-current liabilities | 5,124 | 67,114 | 31,725 | 22,882 |
| Total liabilities | 7,597 | 99,512 | 61,275 | 48,657 |
| Total equity | 8,945 | 117,153 | 104,828 | 93,081 |
| Equity attributable to equity holders of the parent | 8,636 | 113,111 | 101,649 | 90,028 |
| Non-controlling interest in consolidated subsidiaries | 309 | 4,042 | 3,179 | 3,053 |
| ***Financial Ratios (%)*** | | | | |
| Current(5) | | 1.33 | 1.55 | 1.27 |
| Leverage(6) | | 0.85 | 0.58 | 0.52 |
| Capitalization(7) | | 0.35 | 0.23 | 0.20 |
| Coverage(8) | | 8.22 | 15.45 | 12.48 |
| ***Share Data*** | | | | |
| A Shares | | 992,078,519 | 992,078,519 | 992,078,519 |
| D Shares | | 583,545,678 | 583,545,678 | 583,545,678 |
| L Shares | | 497,298,032 | 454,920,107 | 409,829,732 |
| Number of outstanding shares | | 2,072,922,229 | 2,030,544,304 | 1,985,453,929 |

| | | | | |
|---|---|---|---|---|
| ***Data per share (U.S. dollars and Mexican pesos)*** | | | | |
| Book Value[9] | 4.17 | 54.57 | 50.06 | 45.34 |
| Earnings per share[10] | 0.43 | 5.61 | 6.62 | 5.72 |
| Ratio of Earnings to Fixed Charges[11] | | 5.71 | 9.81 | 8.09 |

(1) Translation to U.S. dollar amounts at an exchange rate of Ps.13.10 to US$1.00 solely for the convenience of the reader.

(2) Includes results of Coca-Cola Bottlers Philippines, Inc., or CCBPI, from February 2013 using the equity method, results of Grupo Yoli, S.A. de C.V., or Grupo Yoli, from June 2013, Companhia Fluminense de Refrigerantes, or Companhia Fluminense, from September 2013 and Spaipa S.A. Industria Brasileira de Bebidas, or Spaipa, from November 2013. **See Item 4 Information on the Company The Company Corporate History.**

(3) Includes results of Grupo Fomento Queretano, S.A.P.I. de C.V., or Grupo Fomento Queretano, from May 2012. **See Item 4 Information on the Company The Company Corporate History.**

(4) Includes results of Administradora Acciones del Noreste, S.A.P.I. de C.V., or Grupo Tampico, from October 2011 and from Corporación de los Angeles, S.A. de C.V., or Grupo CIMSA, from December 2011. **See Item 4 Information on the Company The Company Corporate History.**

(5) Computed by dividing Total current assets by Total current liabilities.

(6) Computed by dividing Total liabilities by Total equity.

(7) Computed by adding Current bank loans and notes payable, Current portion of non-current debt and Non-current bank loans and notes payable, and dividing such sum by the sum of Total equity and Non-current bank loans and notes payable.

(8) Computed by dividing Net cash flows from operating activities by the difference between Interest expense and Interest income.

(9) Based on 2,072.92 million, 2,030.54 million and 1,985.45 million ordinary shares as of December 31, 2013, 2012 and 2011, respectively.

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(10) Computed of the basis of the weighted average number of shares outstanding during the period: 2,056.20 million, 2,015.14 million and 1,865.55 million in 2013, 2012 and 2011, respectively.

(11) Exhibit 7.2 to this annual report on Form 20-F includes a calculation of Ratio of Earnings to Fixed Charges.

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## DIVIDENDS AND DIVIDEND POLICY

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

| Fiscal Year with Respect to which Dividend was Declared | Date Dividend Paid | Mexican Pesos per Share (Nominal) | U.S. Dollars per Share(1) |
|---|---|---|---|
| 2010 | April 27, 2011 | 2.360 | 0.204 |
| 2011 | May 30, 2012 | 2.770 | 0.121 |
| 2012(2) | May 2, 2013 and | 1.450 | 0.119 |
| | November 5, 2013 | 1.450 | 0.112 |
| 2013(3) | May 2, 2014(4) and | 1.450 | (5) |
| | November 5, 2014(4) | 1.450 | (5) |

(1) Expressed in U.S. dollars using the exchange rate applicable when the dividend was paid.
(2) The dividend payment for the fiscal year 2012 was divided into two equal payments.
(3) The dividend payment declared for the fiscal year 2013 was divided into two equal payments. The first payment is estimated to be payable on May 2, 2014, and the second payment is estimated to be payable on November 5, 2014.
(4) Estimated payment date since dividends for 2013 have not been paid at the time of this annual report.
(5) Since dividends for 2013 have not been paid at the time of this annual report, the U.S. dollar per share amount has not been determined.

The declaration, amount and payment of dividends are subject to approval by a simple majority of the shareholders up to an amount equivalent to 20% of the preceding years retained earnings and by a majority of the shareholders of each of the Series A and Series D shares voting together as a single class above 20% of the preceding years retained earnings, generally upon the recommendation of our board of directors, and will depend upon our results, financial condition, capital requirements, general business conditions and the requirements of Mexican law. Accordingly, our historical dividend payments are not necessarily indicative of future dividends.

Holders of Series L shares, including in the form of ADSs, are not entitled to vote on the declaration and payments of dividends.

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## EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rate expressed in Mexican pesos per U.S. dollar.

| Period | Exchange Rate | | | |
|---|---|---|---|---|
| | High | Low | Average(1) | End of Period |
| 2009 | Ps.15.41 | Ps.12.63 | Ps.13.58 | Ps.13.06 |
| 2010 | 13.19 | 12.16 | 12.64 | 12.38 |
| 2011 | 14.25 | 11.51 | 12.43 | 13.95 |
| 2012 | 14.37 | 12.63 | 13.14 | 12.96 |
| 2013 | 13.43 | 11.98 | 12.76 | 13.10 |

Source: U.S. Federal Reserve Board.

(1) Average month-end rates.

| | Exchange Rate | | |
|---|---|---|---|
| | High | Low | End of Period |
| 2012: | | | |
| First Quarter | Ps.13.75 | Ps.12.63 | Ps.12.81 |
| Second Quarter | 14.37 | 12.73 | 13.41 |
| Third Quarter | 13.72 | 12.74 | 12.86 |
| Fourth Quarter | 13.25 | 12.71 | 12.96 |
| 2013: | | | |
| First Quarter | Ps.12.88 | Ps.12.32 | Ps.12.32 |
| Second Quarter | 13.41 | 11.98 | 12.99 |
| Third Quarter | 13.43 | 12.50 | 13.16 |
| Fourth Quarter | 13.25 | 12.77 | 13.10 |
| October | 13.25 | 12.77 | 13.00 |
| November | 13.24 | 12.87 | 13.11 |
| December | 13.22 | 12.85 | 13.10 |
| 2014: | | | |
| January | 13.46 | 13.00 | 13.36 |
| February | 13.51 | 13.20 | 13.23 |
| March | 13.33 | 13.06 | 13.06 |

Source: U.S. Federal Reserve Board.

On April 4, 2014, the exchange rate was Ps.13.03 to US$1.00, according to the U.S. Federal Reserve Board.

We pay all cash dividends in Mexican pesos. As a result, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of our ADSs, which represent ten Series L shares, on conversion by the depositary for our ADSs of cash dividends on the shares represented by such ADSs. In addition, fluctuations in the exchange rate between the Mexican peso and the U.S. dollar would affect the market price of our ADSs.

# RISK FACTORS

## Risks Related to Our Company

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

Substantially all of our sales are derived from sales of *Coca-Cola* trademark beverages. We produce, market, sell and distribute *Coca-Cola* trademark beverages through standard bottler agreements in certain territories in the countries in which we operate, which we refer to as our territories. **See Item 4. Information on the Company The Company Our Territories.** Through its rights under our bottler agreements and as a large shareholder, The Coca-Cola Company has the right to participate in the process for making important decisions related to our business.

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

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

We depend on The Coca-Cola Company to continue with our bottler agreements. As of December 31, 2013, we had nine bottler agreements in Mexico: (i) the agreements for Mexico s Valley territory, which expire in April 2016 and June 2023, (ii) the agreements for the Central territory, which expire in August 2014 (two agreements), May 2015 and July 2016, (iii) the agreement for the Northeast territory, which expires in September 2014, (iv) the agreement for the Bajio territory, which expires in May 2015, and (v) the agreement for the Southeast territory, which expires in June 2023. As of December 31, 2013, we had four bottler agreements in Brazil, two expiring in October 2017 and the other two expiring in April 2024. Our bottler agreements with The Coca-Cola Company will expire for our territories in other countries as follows: Argentina in September 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016 and Panama in November 2014. All of our bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew the applicable agreement. In addition, these agreements generally may be terminated in the case of material breach. **See Item 4. Information on the Company Bottler Agreements.** Termination would prevent us from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on our business, financial condition, results and prospects.

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

The Coca-Cola Company and Fomento Económico Mexicano, S.A.B. de C.V., which we refer to as FEMSA, have substantial influence on the conduct of our business. As of April 4, 2014, The Coca-Cola Company indirectly owned 28.1% of our outstanding capital stock, representing 37.0% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint five of our maximum of 21 directors and the vote of at least two of them is required to approve certain actions by our board of directors. As of April 4, 2014, FEMSA indirectly owned 47.9% of our outstanding capital stock, representing 63.0% of our capital stock with full voting rights. FEMSA is entitled to appoint 13 of our maximum of 21 directors and all of our executive officers. The Coca-Cola Company and FEMSA together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval by our board of directors, and FEMSA and The Coca-Cola Company together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval of our shareholders. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.** The interests of The Coca-Cola Company and FEMSA may be different from the interests of our remaining shareholders, which may result in us taking actions contrary to the interests of our remaining shareholders.

***Changes in consumer preference and public concern about health related issues could reduce demand for some of our products.***

The non-alcoholic beverage industry is evolving as a result of, among other things, changes in consumer preferences and regulatory actions. There have been different plans and actions adopted in recent years by governmental authorities in some of the countries where we operate that have resulted in increased taxes or the imposition of new taxes on the sale of beverages containing certain sweeteners, and other regulatory measures, such as restrictions on advertising for some of our products. Moreover, researchers, health advocates and dietary guidelines are encouraging consumers to reduce their consumption of certain types of beverages sweetened with sugar and High Fructose Corn Syrup, or HFCS. In addition, concerns over the environmental impact of plastic may reduce the consumption of our products sold in plastic bottles or result in additional taxes that would adversely affect consumer demand. Increasing public concern about these issues, possible new or increased taxes, regulatory measures and governmental regulations could reduce demand for some of our products which would adversely affect our results. We are currently undertaking a number of strategic initiatives and specific actions to address these concerns. **See Item 4. The Company Business Strategy.**

***Competition could adversely affect our financial performance.***

The beverage industry in the territories in which we operate is highly competitive. We face competition from other bottlers of sparkling beverages, such as *Pepsi* products, and from producers of low cost beverages or B brands. We also compete in beverage categories other than sparkling beverages, such as water, juice-based beverages, teas, sport drinks and value-added dairy products. Although competitive conditions are different in each of our territories, we compete principally in terms of price, packaging, consumer sales promotions, customer service and product innovation. **See Item 4. Information on the Company The Company Competition.** There can be no assurances that we will be able to avoid lower pricing as a result of competitive pressure. Lower pricing, changes made in response to competition and changes in consumer preferences may have an adverse effect on our financial performance.

***Water shortages or any failure to maintain existing concessions could adversely affect our business.***

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

We obtain the vast majority of the water used in our production from municipal utility companies and pursuant to concessions to use wells, which are generally granted based on studies of the existing and projected groundwater supply. Our existing water concessions or contracts to obtain water may be terminated by governmental authorities under certain circumstances and their renewal depends on receiving necessary authorizations from local and/or federal water authorities. **See Item 4. Information on the Company Regulation Water Supply.** In some of our other territories, our existing water supply may not be sufficient to meet our future production needs, and the available water supply may be adversely affected by shortages or changes in governmental regulations and environmental changes.

We cannot assure you that water will be available in sufficient quantities to meet our future production needs or will prove sufficient to meet our water supply needs.

***Increases in the prices of raw materials would increase our cost of goods sold and may adversely affect our results.***

In addition to water, our most significant raw materials are (1) concentrate, which we acquire from affiliates of The Coca-Cola Company, (2) sweeteners and (3) packaging materials. Prices for sparkling beverages concentrate are determined by The Coca-Cola Company as a percentage of the weighted average retail price in local currency, net of applicable taxes. The Coca-Cola Company has unilaterally increased concentrate prices in the past and may do so again in the future. We cannot assure you that The Coca-Cola Company will not increase the price of the concentrate for sparkling beverages or change the manner in which such price will be calculated in the future. We may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the pricing of our products or our results. The prices for our remaining raw materials are driven by market prices and local availability, the imposition of import duties and restrictions and fluctuations in exchange rates. We are also required to meet all of our supply needs from suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to us. Our sales prices are denominated in the local currency in each country in which we operate, while the prices of certain materials, including those used in the bottling of our products, mainly resin, preforms to make plastic bottles, finished plastic bottles, aluminum cans and HFCS, are paid in or determined with reference to the U.S. dollar, and therefore may increase if the U.S. dollar appreciates against the currency of the countries in which we operate. We cannot anticipate whether the U.S. dollar will appreciate or depreciate with respect to such currencies in the future. **See Item 4. Information on the Company The Company Raw Materials.**

Our most significant packaging raw material costs arise from the purchase of resin and plastic preforms to make plastic bottles and from the purchase of finished plastic bottles, the prices of which are related to crude oil prices and global resin supply. The average prices that we paid for resin and plastic preforms in U.S. dollars in 2013, as compared to 2012 were lower in Central America, Brazil, Venezuela and Argentina, remained flat in Mexico and were higher in Colombia. We cannot provide any assurance that prices will not increase in future periods. During 2013, average sweetener prices, in almost all of our territories except Costa Rica, Nicaragua and Panama, were lower as compared to 2012 in all of the countries in which we operate. From 2010 through 2013, international sugar prices were volatile due to various factors, including shifting demands, availability and climate issues affecting production and distribution. In all of the countries in which we operate, other than Brazil, sugar prices are subject to local regulations and other barriers to market entry that cause us to pay in excess of international market prices. **See Item 4. Information on the Company**

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**The Company Raw Materials.** We cannot assure you that our raw material prices will not further increase in the future. Increases in the prices of raw materials would increase our cost of goods sold and adversely affect our financial performance.

***Taxes could adversely affect our business.***

The countries in which we operate may adopt new tax laws or modify existing laws to increase taxes applicable to our business.

On January 1, 2014, a general tax reform became effective in Mexico. This reform included the imposition of a new special tax on the production, sale and importation of beverages with added sugar, at the rate of Ps.1.00 per liter. This special tax will have a material adverse effect on our business, financial condition and results of operation; however, we are currently working on taking the necessary measures with respect to our operating structure and portfolio in order to mitigate this negative effect. Moreover, similar to other affected entities in the industry, we have filed constitutional challenges (*juicios de amparo*) against this special tax. We cannot assure you that these measures will have the desired effect or that we will prevail in our constitutional challenge. In addition, the tax reform in Mexico, as applicable to us, confirmed the income tax rate of 30%, eliminated the corporate flat tax, or IETU, imposed withholding taxes at a rate of 10% on the payment of dividends and capital gains from the sale of shares, limited the total compensation of income tax paid or retained on dividends paid outside of Mexico and limited the total amount that can be deducted from exempt payments to employees.

In Brazil, the federal taxes applied on the production and sale of beverages are based on the national average retail price, calculated based on a yearly survey of each Brazilian beverage brand, combined with a fixed tax rate and a multiplier specific for each different presentation (glass, plastic or can). Commencing on October 1, 2014 through October 1, 2018, the multiplier used to calculate taxes on soft drinks presented in cans and glasses will gradually increase per year from 31.9% and 37.2% to 38.0% and 44.4%, respectively, and the multiplier used to calculate taxes on energy and isotonic drinks presented in cans and glasses will gradually increase per year from 31.9% to 37.5%. The multipliers for other presentations of carbonated soft drinks, energy and isotonic drinks, such as plastic, cups and fountain, will not change.

In 2013, the government of Argentina imposed a withholding tax at a rate of 10% on dividends paid by Argentine companies to non-Argentine stakeholders. Similarly, in 2013, the government of Costa Rica repealed a tax exemption on dividends paid to Mexican residents. Future dividends paid to Mexican residents will be subject to withholding tax at a rate of 15% in Costa Rica.

Our products are also subject to certain taxes in many of the countries in which we operate. Certain countries in Central America, Mexico, Brazil, Venezuela and Argentina also impose taxes on sparkling beverages. **See Item 4. Information on the Company Regulation Taxation of Sparkling Beverages.** We cannot assure you that any governmental authority in any country where we operate will not impose new taxes or increase taxes on our products in the future. The imposition of new taxes or increases in taxes on our products may have a material adverse effect on our business, financial condition, prospects and results.

***Regulatory developments may adversely affect our business.***

We are subject to regulation in each of the territories in which we operate. The principal areas in which we are subject to regulation are water, environment, labor, taxation, health and antitrust. Regulation can also affect our ability to set prices for our products. **See Item 4. Information on the Company Regulation.** The adoption of new laws or regulations or a stricter interpretation or enforcement thereof in the countries in which we operate may increase our operating costs or impose restrictions on our operations which, in turn, may adversely affect our financial condition, business and results. In particular, environmental standards are becoming more stringent in several of the countries in which we operate, and we are in the process of complying with these standards, although we cannot assure you that in any event we will be able to meet any timelines for compliance established by the relevant regulatory authorities. **See Item 4. Information on the Company Regulation Environmental Matters.** Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on our future results or financial condition.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which we operate. Currently, there are no price controls on our products in any of the territories in which we have operations, except for those in Argentina, where authorities directly supervise two of our products sold through supermarkets as a measure to control inflation, and Venezuela, where the government has imposed price controls on certain products, including bottled water, and has recently imposed a limit on profits earned on the sale of goods, including our products, seeking to maintain price stability of, and equal access to, goods and services. If we exceed such limit on profits, we may be forced to reduce the prices of our products in Venezuela, which would in turn adversely affect our business and results of operations. In addition, consumer protection laws in Venezuela are subject to continuing review and changes, and any such changes may have an adverse impact on us. We cannot assure you that existing or future regulations in Venezuela relating to goods and services will not result in increased limits on profits or a forced reduction of prices affecting our products, which could have a negative effect on our results of operations. The imposition of these restrictions or voluntary price restraints in other territories may have an adverse effect on our results and financial position. **See Item 4.**

**Information on the Company Regulation Price Controls.** We cannot assure you that governmental authorities in any country where we operate will not impose statutory price controls or that we will not need to implement voluntary price restraints in the future.

In May 2012, the Venezuelan government adopted significant changes to labor regulations, which had a negative impact on our business and operations. The principal changes that impacted our operations are: (i) the requirement that employee terminations are now subject to governmental authorization; (ii) retroactive assessments for any modifications to our severance payment system; (iii) a reduction in the maximum daily and weekly working hours (from 44 to 40 weekly); (iv) an increase in mandatory weekly breaks, prohibiting a reduction in salaries as a result of such increase; and (v) the requirement that all third party contractors participating in the manufacturing and sales processes of our products be included in our payroll by no later than May 2015. We are currently in compliance with these labor regulations and expect to include all third party contractors to our payroll by the imposed deadline.

In January 2012, the Costa Rican government approved a decree, which regulates the sale of food and beverages in schools. The decree came into effect in 2012. Enforcement of this law has been gradual since it started in 2012 and until 2014, depending on the specific characteristics of the food and beverage in question. According to the decree, the sale of specific sparkling beverages and still beverages that contain sugar, syrup or HFCS in any type of presentation in schools is prohibited. We are still allowed to sell water and certain still beverages in schools. We cannot assure you that the Costa Rican government will not further restrict sales of other of our products in schools in the future; any such further restrictions could lead to an adverse impact on our results of operations.

***Unfavorable results of legal proceedings could have an adverse effect on our results or financial condition.***

Our operations have from time to time been and may continue to be subject to investigations and proceedings by antitrust authorities, and litigation relating to alleged anticompetitive practices. We have also been subject to investigations and proceedings on environmental and labor matters. We cannot assure you that these investigations and proceedings will not have an adverse effect on our results or financial condition. **See Item 8. Financial Information Legal Proceedings.**

***Weather conditions may adversely affect our results.***

Lower temperatures and higher rainfall may negatively impact consumer patterns, which may result in lower per capita consumption of our beverage offerings. Additionally, adverse weather conditions may affect road infrastructure and points of sale in the territories in which we operate and limit our ability to sell and distribute our products, thus affecting our results.

***We conduct business in countries in which we had not previously operated and that presents different or greater risks than certain countries in Latin America.***

As a result of the acquisition of 51% of the outstanding shares of CCBPI, we have expanded our geographic reach from Latin America to include the Philippines. The Philippines presents different risks and different competitive pressures than those we face in Latin America. In the Philippines, we are the only beverage company competing across categories, and we face competition in each category. In addition, the per capita income of the population in Philippines is lower than the average per capita income in the countries in which we currently operate, and the distribution and marketing practices in the Philippines differ from our historical practices. We may have to adapt our marketing and distribution strategies to compete effectively. Our inability to compete effectively may have an adverse effect on our future results.

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

We have and we may continue to acquire bottling operations and other businesses. A key element to achieve the benefits and expected synergies of our recent and future acquisitions and/or mergers is to integrate the operation of acquired or merged businesses into our operations in a timely and effective manner. We may incur unforeseen liabilities in connection with acquiring, taking control of or managing bottling operations and other businesses and may encounter difficulties and unforeseen or additional costs in restructuring and integrating them into our operating structure. We cannot assure you that these efforts will be successful or completed as expected by us, and our business, results and financial condition could be adversely affected if we are unable to do so.

**Risks Related to the Series L shares and the ADSs**

***Holders of our Series L shares have limited voting rights.***

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

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

Our shares are traded on the New York Stock Exchange (NYSE) in the form of ADSs. Holders of our shares in the form of ADSs may not receive notice of shareholder meetings from our ADS depositary in sufficient time to enable such holders to return voting instructions to the ADS depositary in a timely manner.

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

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

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

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

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

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

***Holders of Series L shares in the United States and holders of ADSs may not be able to participate in any capital offering and as a result may be subject to dilution of their equity interests.***

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

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

**Risks Related to the Countries in Which We Operate**

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

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. We also conduct an important part of our operations in Brazil. For the year ended December 31, 2013, more than 50% of our total revenues were attributable to Mexico and Brazil. In addition to Mexico and Brazil, we conduct operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, and Argentina. Our results are affected by the economic and political conditions in the countries where we conduct operations. Some of these economies continue to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect these economies. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our results and financial condition.

Our business may also be significantly affected by the interest rates, inflation rates and exchange rates of the currencies of the countries in which we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk.** In addition, an increase in interest rates would increase the cost to us of variable rate funding, which constituted approximately 29.2% of our total debt as of December 31, 2013, which would have an adverse effect on our financial position. **See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.**

Consumer demand, preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic and political conditions in the countries in which we operate. These conditions vary by country and may not be correlated. In Venezuela, for example, we continue to face exchange rate risk as well as scarcity of and restrictions on importing raw materials.

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

Depreciation of local currencies relative to the U.S. dollar increases the cost to us of some of the raw materials we acquire, the price of which may be paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and may therefore negatively affect our results, financial position and equity. Significant fluctuations of local currencies relative to the U.S. dollar have occurred in the past and may continue in the future, negatively affecting our results. **See Item 3. Key Information Exchange Rate Information** and **Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.**

According to the U.S. Federal Reserve Board, the Mexican peso exchange rate relative to the U.S. dollar in 2013 registered a low of Ps.11.98 to US$1.00 and a high of Ps.13.43 to US$1.00. As of December 31, 2013, the Mexican peso exchange rate was Ps.13.10 to US$1.00. As of April 4, 2014, the Mexican peso exchange rate was Ps.13.03 to US$1.00.

According to the U.S. Federal Reserve Board, the Brazilian real exchange rate relative to the U.S. dollar in 2013 registered a low of reais 1.95 to US$1.00, and a high of reais 2.45 to US$1.00. As of December 31, 2013, the

Brazilian real exchange rate was 2.36 to US$1.00. As of April 4, 2014, the Brazilian real exchange rate was reais 2.24 to US$1.00.

At the end of January 2014, the exchange rate of the Argentine peso registered a devaluation of approximately 20% with respect to the U.S. dollar. As a result of this devaluation, the balance sheet of our subsidiary could reflect a reduction in shareholders equity during 2014. As of December 31, 2013, our foreign direct investment in Argentina, using the exchange rate of 6.38 Argentine pesos per U.S. dollar, was Ps.945 million.

Depreciation of other local currencies of the countries in which we operate relative to the U.S. dollar may also potentially increase our operating costs. We have operated under exchange controls in Venezuela since 2003, which limit our ability to remit dividends abroad or make payments other than in local currency and that may increase the real price paid for raw materials and services purchased in local currency. We have historically used the official exchange rate (currently 6.30 bolivars to US$1.00) in our Venezuelan operations; however, in January 2014, the Venezuelan government announced that certain transactions, such as payment of services and payments related to foreign investments in Venezuela, must be settled at an alternative exchange rate determined by the state-run system known as the *Sistema Complementario de Administración de Divisas*, or SICAD. The SICAD determines this

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alternative exchange rate based on limited periodic sales of U.S. dollars through auctions. The exchange rate based on the most recent SICAD auction, held on April 4, 2014, and in effect as of April 7, 2014, was 10.00 bolivars to US$1.00. Imports of our raw materials into Venezuela qualify as transactions that may be settled using the official exchange rate of 6.30 bolivars to US$1.00, thus, we will continue to account for these transactions using such official exchange rate. We will recognize in the cumulative translation account in our consolidated financial statements as of March 31, 2014 a reduction in equity as a result of the valuation of our net investment in Venezuela at the SICAD exchange rate (10.70 bolivars to US$1.00 as of March 31, 2014). As of December 31, 2013, our foreign direct investment in Venezuela was Ps.13,788 million (at the official exchange rate of 6.30 bolivars per US$1.00). In addition, in March 2014, the Venezuelan government enacted a new law that authorizes an additional method (known as SICAD II) of exchanging Venezuelan bolivars to U.S. dollars at rates other than the current official exchange and the existing SICAD rates for any other types of transaction different than those described above. As of April 4, 2014, the SICAD II exchange rate was 49.04 bolivars to US$1.00. Future changes in the Venezuelan exchange control regime, and future currency devaluations or the imposition of exchange controls in any of the countries in which we operate could have an adverse effect on our financial position and results.

We selectively hedge our exposure to the U.S. dollar with respect to certain local currencies, our U.S. dollar-denominated debt obligations and the purchase of certain U.S. dollar-denominated raw materials. A severe depreciation of any currency of the countries in which we operate may result in a disruption of the international foreign exchange markets and may limit our ability to transfer or to convert such currencies into U.S. dollars or other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated indebtedness or obligations in other currencies. While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could institute restrictive exchange rate policies in the future. Currency fluctuations may have an adverse effect on our results, financial condition and cash flows in future periods.

***Political and social events in the countries in which we operate may significantly affect our operations.***

In July 2012, the presidential election in Mexico led to the election of a new president and political party, Enrique Peña Nieto of the *Partido Revolucionario Institucional*. Mexico s new president has implemented and may continue to implement significant changes in laws, public policy and/or regulations that could affect Mexico s political and economic situation. Any such changes may have an adverse effect on our business. Political disagreements between the executive and the legislative branches in Mexico could result in deadlock and prevent the timely implementation of political and economic reforms. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results.

In April 2013, the presidential election in Venezuela led to the election of a new president, Nicolás Maduro Moros. In April 2014, the presidential election in Costa Rica led to the election of a new president, Luis Guillermo Solís. In 2014, Panama, Colombia and Brazil will hold presidential elections that will lead to the election of new presidents. The new administrations elected or to be elected in the countries in which we operate may implement significant changes in laws, public policy and/or regulations that could affect the political and economic conditions in these countries. Any such changes may have an adverse effect on our business, financial condition or results.

We cannot assure you that political or social developments in any of the countries in which we have operations, such as the recent civil disturbances in Venezuela, over which we have no control, will not have a corresponding adverse effect on the global market or on our business, financial condition or results.

**Item 4. Information on the Company**

## THE COMPANY

### Overview

We are the largest franchise bottler of *Coca-Cola* trademark beverages in the world. We operate in territories in the following countries:

Mexico  a substantial portion of central Mexico, the southeast and northeast of Mexico (including the Gulf region).

Central America  Guatemala (Guatemala City and surrounding areas), Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).

Colombia  most of the country.

Venezuela  nationwide.

Brazil  a major part of the states of São Paulo and Minas Gerais, the states of Paraná and Mato Grosso do Sul and part of the states of Rio de Janeiro and Goiás.

Argentina Buenos Aires and surrounding areas.

Philippines nationwide (through a joint venture with The Coca-Cola Company).

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

The following is an overview of our operations by consolidated reporting segment in 2013.

**Operations by Consolidated Reporting Segment Overview**

**Year Ended December 31, 2013**

| | Total Revenues (millions of Mexican pesos) | Percentage of Total Revenues | Gross Profit (millions of Mexican pesos) | Percentage of Gross Profit |
|---|---|---|---|---|
| Mexico and Central America(1) | 70,679 | 45.3% | 34,941 | 47.9% |
| South America(2) (excluding Venezuela) | 53,774 | 34.5% | 22,374 | 30.7% |
| Venezuela | 31,558 | 20.2% | 15,620 | 21.4% |
| Consolidated | 156,011 | 100.0% | 72,935 | 100.0% |

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama. Includes results of Grupo Yoli from June 2013.

(2) Includes Colombia, Brazil and Argentina. Includes results of Companhia Fluminense from September 2013 and Spaipa from November 2013.

**Corporate History**

We are a subsidiary of FEMSA, which also participates in the beer and retail industries. FEMSA participates in the beer industry through its ownership of the second largest equity stake in Heineken, one of the world s leading brewers with operations in over 70 countries. FEMSA participates in the retail industry through FEMSA Comercio, operating various small-format chain stores, including OXXO, the largest and fastest-growing chain of stores in Latin America. FEMSA s operations are supported by FEMSA s strategic business unit.

In 1979, a subsidiary of FEMSA acquired certain sparkling beverage bottlers that are now a part of our company. At that time, the acquired bottlers had 13 Mexican distribution centers operating 701 distribution routes, and their production capacity was 83 million cases. In 1991, FEMSA transferred its ownership in the bottlers to FEMSA Refrescos, S.A. de C.V., the corporate predecessor to Coca-Cola FEMSA, S.A.B. de C.V.

In June 1993, a subsidiary of The Coca-Cola Company subscribed for 30% of our capital stock in the form of Series D shares for US$195 million. In September 1993, FEMSA sold Series L shares that represented 19% of our capital stock to the public, and we listed these shares on the Mexican Stock Exchange and, in the form of ADSs, on the New York Stock Exchange. In a series of transactions between 1994 and 1997, we acquired territories in Argentina and additional territories in southern Mexico.

In May 2003, we acquired Panamerican Beverages Inc., or Panamco, and began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central and gulf regions of Mexico and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. As a result of the acquisition, the interest of The Coca-Cola Company in the capital stock of our company increased from 30.0% to 39.6%.

During August 2004, we conducted a rights offering to allow existing holders of our Series L shares and ADSs to acquire newly issued Series L shares in the form of Series L shares and ADSs, respectively, at the same price per share at which FEMSA and The Coca-Cola Company subscribed in connection with the Panamco acquisition.

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 the total outstanding equity of Coca-Cola FEMSA, at a price of US$2.888 per share for an aggregate amount of US$427.4 million. With this purchase, FEMSA increased its ownership to 53.7% of our capital stock. Pursuant to our bylaws, the acquired shares were converted from Series D shares to Series A shares.

In November 2007, Administración, S.A.P.I. de C.V., or Administración, a Mexican company owned directly and indirectly by us and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle, S.A.P.I. de C.V., or 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. Taking into account the participation held by Grupo Yoli, as of April 4, 2014, we held an interest of 26.2% in the Mexican joint business. In August 2010, we acquired from The Coca-Cola Company, along with other Brazilian Coca-Cola bottlers, Leão Alimentos e Bebidas, Ltda. or Leão Alimentos, manufacturer and distributor of the *Matte Leao* tea brand. In January 2013, our Brazilian joint business of Jugos del Valle merged with Leão Alimentos. Taking into account our participation and the participations held by Companhia Fluminense and Spaipa, as of April 4, 2014, we held a 26.1% indirect interest in the *Matte Leao* business in Brazil.

In December 2007 and May 2008, we sold most of our proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to us by The Coca-Cola Company pursuant to our bottler agreements. The December 2007 transaction was valued at US$48 million and the May 2008 transaction was valued at US$16 million. Revenues from the sale of proprietary brands in which we have a significant continuing involvement are deferred and amortized against the related costs of future sales over the estimated sales period.

In May 2008, we entered into a transaction with The Coca-Cola Company to acquire its wholly owned bottling franchise Refrigerantes Minas Gerais, Ltda., or REMIL, located in the State of Minas Gerais in Brazil, for a purchase price of US$364.1 million. We began to consolidate REMIL in our financial statements in June 2008.

In July 2008, we acquired the Agua De Los Angeles bulk water business in the Valley of Mexico (Mexico City and surrounding areas) from Grupo Embotellador CIMSA, S.A. de C.V., at the time one of the Coca-Cola bottling franchises in Mexico, for a purchase price of US$18.3 million. The trademarks remain with The Coca-Cola Company. We subsequently merged Agua De Los Angeles into our bulk water business under the *Ciel* brand.

In February 2009, we acquired 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. We and The Coca-Cola Company equally shared in paying the purchase price of US$92 million. 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 manufacture, distribute and sell the *Crystal* trademark water products in Brazil jointly with The Coca-Cola Company.

In March 2011, we acquired with The Coca-Cola Company, through Compañía Panameña de Bebidas, S.A.P.I. de C.V., Grupo Industrias Lacteas, S.A. (also known as 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 October 2011, we closed our merger with Grupo Tampico, one of the largest family-owned *Coca-Cola* bottlers calculated by sales volume in Mexico. This franchise territory operates in the states of Tamaulipas, San Luis Potosí, and Veracruz, as well as in parts of the states of Hidalgo, Puebla and Queretaro. The aggregate enterprise value of this transaction was Ps.9,300 million and we issued a total of 63.5 million new Series L shares in connection with this transaction. We began to consolidate Grupo Tampico in our financial statements in October 2011.

In December 2011, we closed our merger with Grupo CIMSA, and its shareholders, a Mexican family-owned *Coca-Cola* bottler with operations mainly in the states of Morelos and Mexico, as well as in parts of the states of Guerrero and Michoacán. The aggregate enterprise value of this transaction was Ps.11,000 million and we issued a total of 75.4 million new Series L shares in connection with this transaction. We began to consolidate Grupo CIMSA in our financial statements in December 2011. As part of our merger with Grupo CIMSA, we also acquired a 13.2% equity interest in Promotora Industrial Azucarera, S.A de C.V., or Piasa.

In May 2012, we closed our merger with Grupo Fomento Queretano, one of the oldest family-owned beverage players in the *Coca-Cola* system in Mexico, with operations mainly in the state of Querétaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. The aggregate enterprise value of this transaction was Ps.6,600 million and we issued a total of 45.1 million new Series L shares in connection with this transaction. We began to consolidate Grupo Fomento Queretano in our financial statements in May 2012. As part of our merger with Grupo Fomento Queretano we also acquired an additional 12.9% equity interest in Piasa.

In August 2012, we acquired, through Jugos del Valle, an indirect participation in Santa Clara Mercantil de Pachuca, S.A. de C.V., or Santa Clara, a producer of milk and dairy products in Mexico. As of April 4, 2014, we owned an indirect participation of 26.2% in Santa Clara.

On January 25, 2013, we closed the transaction with The Coca-Cola Company to acquire a 51% non-controlling majority stake in CCBPI for US$688.5 million (Ps.8,904 million) in an all-cash transaction. We have an option to acquire the remaining 49% stake in CCBPI at any time during the seven years following the closing date. We also have a put option to sell our ownership in CCBPI to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. We currently manage the day-to-day operations of the business; however, during a four year period ending January 25, 2017 the business plan and other operational decisions must be taken jointly with The Coca-Cola Company. We currently recognize the results of CCBPI using the equity method.

**Recent Acquisitions**

In May 2013, we closed our merger with Grupo Yoli, one of the oldest family-owned Coca-Cola bottlers in Mexico, operating mainly in the state of Guerrero as well as in parts of the state of Oaxaca. Grupo Yoli sold approximately 99 million unit cases in 2012. The aggregate enterprise value of this transaction was Ps.8,806 million and we issued a total of 42.4 million new Series L shares in connection with this transaction. As part of our merger with Grupo Yoli, we also acquired an additional 10.1% equity interest in Piasa for a total ownership above 36.3%. We began consolidating the results of Grupo Yoli in our financial statements in June 2013.

In August 2013, we closed our acquisition of Companhia Fluminense, a family owned franchise that operates in parts of the states of São Paulo, Minas Gerais and Rio de Janeiro in Brazil. Companhia Fluminense sold approximately 56.6 million unit cases (including beer) in the twelve months ended March 31, 2013. The aggregate enterprise value of this transaction was US$448 million and was an all-cash transaction. As part of our acquisition of Companhia Fluminense, we also acquired an additional 1.20% equity interest in Leão Alimentos. We began consolidating the results of Companhia Fluminense in our financial statements in September 2013.

In October 2013, we closed our acquisition of Spaipa, the second largest family owned franchise in Brazil, with operations in the state of Paraná and in parts of the state of São Paulo. Spaipa sold approximately 233.3 million unit cases (including beer) in the twelve months ended June 30, 2013. The aggregate enterprise value of this transaction was US$1,855 million and was an all-cash transaction. As part of our acquisition of Spaipa, we also acquired an additional 5.82% equity interest in Leão Alimentos, for a total ownership of 26.1%, and a 50% stake in Fountain Água Mineral Ltda., a joint venture to develop the water category together with The Coca-Cola Company. We began consolidating the results of Spaipa in our financial statements in November 2013.

**Capital Stock**

As of April 4, 2014, FEMSA indirectly owned Series A shares equal to 47.9% of our capital stock (63.0% of our capital stock with full voting rights). As of April 4, 2014, The Coca-Cola Company indirectly owned Series D shares equal to 28.1% of the capital stock of our company (37.0% of our capital stock with full voting rights). Series L shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange, constitute the remaining 24.0% of our capital stock.

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**Business Strategy**

We operate with a large geographic footprint in Latin America. In January 2014, we restructured our operations under four new divisions: (1) Mexico and Central America (covering certain territories in Mexico and Guatemala, and all of Nicaragua, Costa Rica and Panama), (2) South America (covering certain territories in Argentina, most of Colombia and all of Venezuela), (3) Brazil (covering a major part of the states of São Paulo and Minas Gerais, the states of Paraná and Mato Grosso do Sul and part of the states of Rio de Janeiro and Goiás), and (4) Asia (covering all of the Philippines through a joint venture with The Coca-Cola Company). Through these divisions, we expect to create a more flexible structure to execute our strategies and extend our track record of growth. Through December 31, 2013, we managed our business under two divisions Mexico and Central America and South America. With this new business structure, we aligned our business strategies more efficiently, ensuring a faster introduction of new products and categories, and a more rapid and effective design and deployment of commercial models.

One of our goals is to maximize growth and profitability to create value for our shareholders. Our efforts to achieve this goal are based on: (1) transforming our commercial models to focus on our customers value potential and using a value-based segmentation approach to capture the industry s value potential; (2) implementing multi-segmentation strategies in our major markets to target distinct market clusters divided by consumption occasion, competitive intensity and socioeconomic levels; (3) implementing well-planned product, packaging and pricing strategies through different distribution channels; (4) driving product innovation along our different product categories; (5) developing new businesses and distribution channels; and (6) achieving the full operating potential of our commercial models and processes to drive operational efficiencies throughout our company. In furtherance of these efforts, we intend to continue to focus on, among other initiatives, the following:

- working with The Coca-Cola Company to develop a business model to continue exploring and participating in new lines of beverages, extending existing product lines and effectively advertising and marketing our products;

- developing and expanding our still beverage portfolio through innovation, strategic acquisitions and by entering into agreements to acquire companies with The Coca-Cola Company;

- expanding our bottled water strategy with The Coca-Cola Company through innovation and selective acquisitions to maximize profitability across our market territories;

- strengthening our selling capabilities and go-to-market strategies, including pre-sale, conventional selling and hybrid routes, in order to get closer to our clients and help them satisfy the beverage needs of consumers;

- implementing selective packaging strategies designed to increase consumer demand for our products and to build a strong returnable base for the *Coca-Cola* brand;

replicating our best practices throughout the value chain;

rationalizing and adapting our organizational and asset structure in order to be in a better position to respond to a changing competitive environment;

committing to building a multi-cultural collaborative team, from top to bottom; and

broadening our geographic footprint through organic growth and strategic joint ventures, mergers and acquisitions.

We seek to increase per capita consumption of our products in the territories in which we operate. To that end, our marketing teams continuously develop sales strategies tailored to the different characteristics of our various territories and distribution channels. We continue to develop our product portfolio to better meet market demand and maintain our overall profitability. To stimulate and respond to consumer demand, we continue to introduce new categories, products and presentations. **See Product and Packaging Mix.** In addition, because we view our relationship with The Coca-Cola Company as integral to our business, we use market information systems and strategies developed with The Coca-Cola Company to improve our business and marketing strategies. **See Marketing.**