

COCA COLA FEMSA SAB DE CV

Form 20-F

April 12, 2017

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As filed with the Securities and Exchange Commission on April 12, 2017.

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, 2016

Commission file number 1-12260

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

(Exact name of registrant as specified in its charter)

Not Applicable

(Translation of registrant's name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

Calle Mario Pani No. 100,

Santa Fe Cuajimalpa,

Cuajimalpa de Morelos,

05348, Ciudad de México, México

(Address of principal executive offices)

Maria Dyla Castro Varela

Calle Mario Pani No. 100,

Santa Fe Cuajimalpa,

Cuajimalpa de Morelos,

05348 Ciudad de México, México

(52-55) 1519-5121

kofmxinves@kof.com.mx

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

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

Title of Each Class
American Depositary Shares, each representing 10 Series L
shares, without par value
Series L shares, without par value

Name of Each Exchange on Which Registered
New York Stock Exchange, Inc.
New York Stock Exchange, Inc. (not for trading, for listing
purposes only)

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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, 2016 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.

Yes

No

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

Yes

No

Indicate by check mark whether the registrant has submitted electronically 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.

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

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

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.

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Item 17

Item 18

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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INTRODUCTION

References

Unless the context otherwise requires, the terms Coca-Cola FEMSA, our company, we, us and our are used in this 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 America. References herein to Mexican pesos or Ps. are to the lawful currency of the United Mexican States, or Mexico.

As used in this annual report, sparkling beverages 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.20.62 to US\$1.00, the exchange rate for Mexican pesos on December 30, 2016, the last day in 2016 for which information is available, according to the U.S. Federal Reserve Board. On April 7, 2017, this exchange rate was Ps.18.65 to US\$1.00. See **Item 3. Key Information Exchange Rate Information** for information regarding exchange rates since January 1, 2012.

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

Sources

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

Forward-Looking Information

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

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

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Item 3. Key Information

SELECTED CONSOLIDATED FINANCIAL DATA

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

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2016, 2015 and 2014.

Pursuant to IFRS, the information presented in this annual report presents financial information in nominal terms that has been presented in Mexican pesos, taking into account local inflation of each hyperinflationary economic environment and converting from functional currency to Mexican pesos using the official exchange rate at the end of the relevant period published by the local central bank of each country categorized as a hyperinflationary economic environment. For each non-hyperinflationary economic environment, functional 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. Since our transition to IFRS, Venezuela has been the only country of the countries where we operate with a hyperinflationary economic environment. Pursuant to IFRS, as a result of Venezuela's hyperinflationary economic environment and current exchange control regime, we report the results of our Venezuelan subsidiary as a separate consolidated reporting segment. See Note 3 and 25 to our consolidated financial statements.

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

Except when specifically indicated, information in this annual report on Form 20-F is presented as of December 31, 2016 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, and the information in **Item 5. Operating and Financial Review and Prospects**. The selected financial information contained herein is presented on a consolidated basis, and is not necessarily indicative of our financial position or results at or for any future date or period. See Note 3 to our consolidated financial statements for our significant accounting policies.

	2016 ⁽¹⁾	2016 ⁽²⁾	Year Ended December 31, 2015 2014 2013 ⁽³⁾ 2012 ⁽⁴⁾			
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)					
Income Statement Data:						
Total revenues	US\$ 8,620	Ps. 177,718	Ps. 152,360	Ps. 147,298	Ps. 156,011	Ps. 147,739
Cost of goods sold	4,756	98,056	80,330	78,916	83,076	79,109
Gross profit	3,864	79,662	72,030	68,382	72,935	68,630
Administrative expenses	360	7,423	6,405	6,385	6,487	6,217
Selling expenses	2,330	48,039	41,879	40,465	44,828	40,223
Other income	62	1,281	620	1,001	478	545
Other expenses	247	5,093	2,368	1,159	1,101	1,497
Interest expenses	362	7,471	6,337	5,546	3,341	1,955
Interest income	35	715	414	379	654	424
Foreign exchange (loss) gain, net	(87)	(1,792)	(1,459)	(968)	(739)	272
Gain (loss) on monetary position for subsidiaries in hyperinflationary economies	117	2,417	(33)	(312)	(393)	
Market value gain on financial instruments	2	51	142	25	46	13
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	694	14,308	14,725	14,952	17,224	19,992
Income taxes	191	3,928	4,551	3,861	5,731	6,274
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	7	147	155	(125)	289	180
Net income	510	10,527	10,329	10,966	11,782	13,898
Equity holders of the parent	488	10,070	10,235	10,542	11,543	13,333
Non-controlling interest	22	457	94	424	239	565
Net income	510	10,527	10,329	10,966	11,782	13,898
Ratio to Revenues (%)						
Gross profit margin	44.8	44.8	47.3	46.4	46.7	46.5
Net income margin	5.9	5.9	6.8	7.4	7.6	9.4

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	2016 ⁽¹⁾		2016 ⁽²⁾		As of December 31, 2015 2014		2013 ⁽³⁾	2012 ⁽⁴⁾
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)							
Balance Sheet Data:								
Cash and cash equivalents, marketable securities	US\$	508	Ps. 10,476	Ps. 15,989	Ps. 12,958	Ps. 15,306	Ps. 23,234	
Accounts receivable, net, inventories, recoverable taxes, other current financial assets and other current assets		1,697	34,977	26,243	25,170	27,925	22,663	
Total current assets		2,205	45,453	42,232	38,128	43,231	45,897	
Investments in associates and joint ventures		1,084	22,357	17,873	17,326	16,767	5,352	
Property, plant and equipment, net		3,167	65,288	50,532	50,527	51,785	42,517	
Intangible assets, net		6,013	123,964	90,754	97,024	98,974	67,013	
Deferred tax assets, other non-current financial assets and other non-current assets		1,077	22,194	8,858	9,361	5,908	5,324	
Total non-current assets		11,341	233,803	168,017	174,238	173,434	120,206	
Total assets		13,546	279,256	210,249	212,366	216,665	166,103	
Bank loans and notes payable		76	1,573	384	301	495	4,194	
Current portion of non-current debt		72	1,479	3,086	905	3,091	945	
Interest payable		25	520	411	371	324	194	
Suppliers, accounts payable, taxes payable and other current financial liabilities		1,762	36,296	26,599	26,826	28,488	24,217	
Total current liabilities		1,935	39,868	30,480	28,403	32,398	29,550	
Bank loans and notes payable		4,164	85,857	63,260	64,821	56,875	24,775	
Post-employment and other non-current employee benefits, deferred tax liabilities, other non-current financial liabilities, provisions and other non-current liabilities		1,179	24,298	7,774	9,024	10,239	6,950	
Total non-current liabilities		5,343	110,155	71,034	73,845	67,114	31,725	
Total liabilities		7,278	150,023	101,514	102,248	99,512	61,275	
Total equity		6,268	129,233	108,735	110,118	117,153	104,828	
Equity attributable to equity holders of the parent ⁽⁵⁾		5,924	122,137	104,749	105,717	113,111	101,649	
Non-controlling interest in consolidated subsidiaries		344	7,096	3,986	4,401	4,042	3,179	
Total liabilities and equity		13,546	279,256	210,249	212,366	216,665	166,103	

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	2016 ⁽¹⁾	2016 ⁽²⁾	As of December 31, 20152014		2013 ⁽³⁾	2012 ⁽⁴⁾
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)					
Financial Ratios (%)						
Current ⁽⁶⁾	1.14	1.14	1.38	1.34	1.33	1.55
Leverage ⁽⁷⁾	1.16	1.16	0.93	0.93	0.85	0.58
Capitalization ⁽⁸⁾	0.41	0.41	0.39	0.38	0.35	0.23
Coverage ⁽⁹⁾	4.80	4.80	3.92	4.73	8.22	15.45
Share Data						
A Shares	992,078,519	992,078,519	992,078,519	992,078,519	992,078,519	992,078,519
D Shares	583,545,678	583,545,678	583,545,678	583,545,678	583,545,678	583,545,678
L Shares	497,298,032	497,298,032	497,298,032	497,298,032	497,298,032	454,920,107
Number of outstanding shares	2,072,922,229	2,072,922,229	2,072,922,229	2,072,922,229	2,072,922,229	2,030,544,304
Per Share Data						
Book Value ⁽¹⁰⁾	2.86	58.92	50.53	51.00	54.57	50.06
Basic earnings per share ⁽¹¹⁾	0.24	4.86	4.94	5.09	5.61	6.62
Diluted earnings per share ⁽¹²⁾	0.24	4.85	4.94	5.09	5.61	6.62
Ratio of Earnings to Fixed Charges ⁽¹³⁾	2.81	2.81	3.22	3.40	5.71	9.81

- (1) Translation to U.S. dollar amounts at an exchange rate of Ps.20.62 to US\$1.00 solely for the convenience of the reader.
- (2) Includes results of Vonpar S.A., or Vonpar, from December 2016. See **Item 4. Information on the Company The Company Corporate History.**
- (3) Includes results of Coca-Cola FEMSA Philippines, Inc., or KOF Philippines, 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.**
- (4) 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.**
- (5) We translated our results of operations in Venezuela for the full year ended December 31, 2016 into our reporting currency, the Mexican peso, using the exchange rate known as Divisas Complementarias, or DICOM, of 673.76 bolivars per US\$1.00, which was the exchange rate in effect as of such date. As a result, in 2016, we recognized a reduction in equity of Ps.2,286 million. See **Item 5. Operating and Financial Review and Prospects General Exchange Control Regime in Venezuela and Note 3.3 to our consolidated financial statements.**
- (6) Computed by dividing Total current assets by Total current liabilities.
- (7) Computed by dividing Total liabilities by Total equity.
- (8) 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.

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- (9) Computed by dividing Net cash flows from operating activities by the difference between Interest expense and Interest income.
- (10) Based on 2,072.92 million ordinary shares as of December 31, 2016, 2015, 2014 and 2013 and 2,030.54 million ordinary shares as of December 31, 2012.
- (11) Computed on the basis of the weighted average number of shares outstanding during the period: 2,072.92 million in 2016, 2015 and 2014, 2,056.20 million in 2013 and 2,015.14 million in 2012.
- (12) Computed on the basis of the diluted weighted average number of shares outstanding during the period: 2,074.83 million in 2016, 2,072.92 million in 2015 and 2014, 2,056.20 million in 2013 and 2,015.14 million in 2012. For further information see Note 3.25 to our consolidated financial statements.
- (13) 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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The following table sets forth the nominal amount in Mexican pesos of dividends declared, paid and to be paid per share each year and the U.S. dollar amounts on a per share basis actually paid or to be paid to holders of American Depositary Shares, which we refer to as ADSs, on each of the respective payment dates.

Fiscal Year with Respect to which Dividend was Declared	Date Dividend Paid or To Be Paid	Mexican Pesos per Share	
		(Nominal) ⁽¹⁾	U.S. Dollars per Share ⁽²⁾
2012 ⁽³⁾	May 2, 2013	1.450	0.119
	November 5, 2013	1.450	0.119
2013 ⁽³⁾	May 2, 2014	1.450	0.111
	November 5, 2014	1.450	0.111
2014 ⁽⁴⁾	May 5, 2015	1.540	0.090
	November 3, 2015	1.550	0.090
2015 ⁽⁴⁾	May 3, 2016	1.670	0.097
	November 1, 2016	1.680	0.089
2016 ⁽⁴⁾	May 3, 2017	1.680	⁽⁵⁾
	November 1, 2017	1.670	⁽⁵⁾

(1) Based on the number of shares outstanding at the time the dividend is paid.

(2) Expressed in U.S. dollars using the applicable exchange rate when the dividend was paid.

(3) The dividends declared for the fiscal years 2012 and 2013 were divided into two equal payments.

(4) The dividends declared for the fiscal years 2014, 2015 and 2016 were divided into two payments.

(5) Since the dividend declared for the fiscal year 2016 has not been paid at the time of this annual report, the U.S. dollar per share amount has not been determined.

The declaration, amount and payment of dividends are subject to approval by a simple majority of the shareholders up to an amount equivalent to 20.0% 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 20.0% 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 payment of dividends.

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 10 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.

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

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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
2012	14.37	12.63	13.14	12.96
2013	13.43	11.98	12.76	13.10
2014	14.79	12.85	13.30	14.75
2015	17.36	14.56	15.87	17.20
2016	20.84	17.19	18.67	20.62

Source: U.S. Federal Reserve Board.

(1) Average month-end rates.

	Exchange Rate		
	High	Low	End of Period
2015:			
First Quarter	15.58	14.56	15.25
Second Quarter	15.69	14.80	15.69
Third Quarter	17.10	15.67	16.90
Fourth Quarter	17.36	16.37	17.20
2016:			
First Quarter	19.19	17.21	17.21
Second Quarter	19.15	17.19	18.49
Third Quarter	19.86	17.98	19.34
Fourth Quarter	20.84	18.44	20.62
October	19.34	18.49	18.79
November	20.84	18.44	20.46
December	20.74	20.22	20.62
2017:			
January	21.89	20.75	20.84
February	20.82	19.74	20.00
March	19.93	18.67	18.83

Source: U.S. Federal Reserve Board.

On April 7, 2017, the exchange rate was Ps.18.65 to US\$1.00, according to the U.S. Federal Reserve Board.

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RISK FACTORS

Risks Related to Our Company

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

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

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

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

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

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

The Coca-Cola Company and Fomento Económico Mexicano, S.A.B. de C.V., which we refer to as FEMSA, have substantial influence on the conduct of our business. As of April 7, 2017, 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 7, 2017, 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 other shareholders, which may result in us taking actions contrary to the interests of such other shareholders.

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

The non-alcoholic beverage industry is evolving mainly as a result of changes in consumer preferences and regulatory actions. There have been different plans and actions adopted in recent years by governmental authorities in some of the countries where we operate, including an increase in 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, new or increased taxes, other regulatory measures or our failure to meet consumers' preferences, could reduce demand for some of our products, which would adversely affect our business, financial condition, results of operations and prospects. **See Item 4. Information on the Company The Company Business Strategy.**

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

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

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

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

Negative or inaccurate information on social media could adversely affect our reputation.

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

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

The beverage industry in the territories where we operate is highly competitive. We face competition from other bottlers of sparkling beverages, such as *Pepsi* trademark products and other bottlers and distributors of local beverage brands, and from producers of low-cost beverages or B brands. We also compete in beverage categories other than sparkling beverages, such as water, juice-based beverages, teas, sport drinks and value-added dairy products. We expect that we will continue to face strong competition in our beverage categories in all of our territories and anticipate that existing or new competitors may broaden their product lines and extend their geographic scope.

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

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

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

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

changes in governmental regulations and environmental changes.

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Water supply in the Sao Paulo region in Brazil has been reduced in recent years by low rainfall, which has affected the main water reservoir that serves the greater Sao Paulo area (Cantareira). Although our Jundiai plant does not obtain water from this water reservoir, water shortages or changes in governmental regulations aimed at rationalizing water in such region could affect our water supply in our Jundiai plant.

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

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

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

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

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

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

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

The countries where we operate may adopt new tax laws or modify existing tax laws to increase taxes applicable to our business or products. Our products are subject to certain taxes in many of the countries where we operate, which impose taxes on sparkling beverages. **See Item 4. Information on the Company Regulation Taxation of Sparkling Beverages.** The imposition of new taxes increases in existing taxes, or changes in the interpretation of tax laws and regulation by tax authorities may have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

We are subject to several laws and regulations in each of the territories where we operate. The principal areas in which we are subject to laws and regulations are water, environment, labor, taxation, health and antitrust. Laws and regulations can also affect our ability to set prices for our products. **See Item 4. Information on the Company Regulation.** Changes in existing laws and regulations, the adoption of new laws or regulations, or a stricter interpretation or enforcement thereof in the countries where we operate may increase our operating and compliance costs or impose restrictions on our operations which, in turn, may adversely affect our financial condition, business, results of operations and prospects. In particular, environmental standards are becoming more stringent in several of the countries where we operate. There is no assurance that we will be able to comply with changes in environmental laws and regulations within the timelines established by the relevant regulatory authorities. **See Item 4. Information on the Company Regulation Environmental Matters.**

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where we operate. Currently, there are no price controls on our products in any of the territories where we have operations, except for those in Argentina, where authorities directly supervise six of our products sold through supermarkets as a measure to control inflation, and Venezuela, where price controls have been imposed on certain products, including bottled water, and a limit has been imposed on profits earned on the sale of goods, including our products, in an effort to seek price stability of, and equal access to, goods and services. If we exceed such limit on profits, we may be forced to maintain or reduce the prices of our products in Venezuela, which would in turn adversely affect our business, financial condition, results of operations and prospects. 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 laws and regulations in the countries where we operate relating to goods and services (in particular, laws and regulations imposing statutory price controls) will not affect our products, or that we will not need to implement voluntary price restraints, which could have a negative effect on our business, financial condition, results of operations and prospects. **See Item 4. Information on the Company Regulation Price Controls.**

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

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

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

Lower temperatures, higher rainfall and other adverse weather conditions such as typhoons and hurricanes may negatively impact consumer patterns, which may result in reduced sales of our beverage offerings. Additionally, such adverse weather conditions may affect plant installed capacity, road infrastructure and points of sale in the territories where we operate and limit our ability to produce, sell and distribute our products, thus affecting our business, financial condition, results of operations and prospects.

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

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

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**.

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

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

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Risks Related to the Countries Where We Operate

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

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. We also conduct an important part of our operations in Brazil. For the year ended December 31, 2016, approximately 67.0% of our total revenues were attributable to Mexico and Brazil. In addition, we conduct operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Argentina. Our results are affected by the economic conditions in the countries where we conduct operations. Consumer demand and preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic conditions, which vary by country and may not be correlated. In addition, adverse economic conditions may affect and reduce consumer per capita income, thereby adversely affecting consumer demand for our products as a result of a decrease in consumer purchasing power. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our business, financial condition, results of operations and prospects.

Some of the countries where we conduct operations are influenced by the U.S. economy. Deterioration in economic conditions in the U.S. economy may affect these economies. In particular, economic conditions in Mexico are correlated with economic conditions in the U.S. as a result of the North American Free Trade Agreement, or NAFTA. Any adverse event affecting the relationship between Mexico and the U.S., including the termination or re-negotiation of NAFTA, may have a significant adverse effect on the Mexican economy.

Our business may also be significantly affected by interest rates, inflation rates and exchange rates of the local currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk.** In addition, an increase in interest rates would increase the cost to us of variable rate funding (which, after giving effect to our swap contracts, constituted approximately 22.7% of our total debt as of December 31, 2016), which would have an adverse effect on our financial position. A continued and prolonged increase in inflation rates in any of the countries where we operate may result in such country being categorized as a hyperinflationary economy for accounting purposes, which would change the manner in which we present and report financial information related to our operations in such country. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.**

In Venezuela, we continue to face adverse economic conditions, including restrictive exchange rate policies, lower per capita income, pricing elasticity, high operating costs as a percentage of revenues and scarcity of and restrictions on importing raw materials. These adverse economic conditions have had in the past and will continue to have an adverse effect on the revenues, sales volume and profitability of our Venezuelan operations. We evaluate on an annual basis, or more frequently where the circumstances require, the carrying amount of our assets in Venezuela for possible impairment. Further deterioration in the economic, regulatory, business or political environment in Venezuela may result in the recognition of impairment charges in certain of our assets in Venezuela.

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

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

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. Prior to 2014, we had historically used the official exchange rate in our Venezuelan operations. Commencing in 2014, the Venezuelan government has announced a series of changes to the Venezuelan exchange control regime, approving alternative exchanges rates in addition to the official exchange rate. In January 2014, the Venezuelan government announced an exchange rate determined by the state-run system known as the *Sistema Complementario de Administración de Divisas*, or SICAD. In March 2014, the Venezuelan government announced a new law that authorized an alternative method of exchanging Venezuelan bolivars to U.S. dollars known as SICAD II. In February 2015, the Venezuelan government announced that it was replacing SICAD II with a new market-based exchange rate determined by the system known as the *Sistema Marginal de Divisas*, or SIMADI. In February 2016, the Venezuelan government announced a 37.0% devaluation of the official exchange rate and changed the existing three-tier exchange

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rate system into a dual system by combining the official exchange rate and the SICAD exchange rate into a single official exchange rate and maintaining the SIMADI exchange rate. In March 2016, the Venezuelan government announced that it was replacing the SIMADI exchange rate with a new market-based exchange rate known as *Divisas Complementarias*, or DICOM, and the official exchange rate with a preferential exchange rate denominated *Divisa Protegida*, or DIPRO. The DIPRO exchange rate is determined by the Venezuelan government and may be used to settle imports of a list of goods and raw materials which has not been published yet as of the date of this annual report. The DICOM exchange rate is determined based on supply and demand of U.S. dollars. As of April 7, 2017, the DIPRO and DICOM exchange rates were 10.0 bolivars and 712.05 bolivars per U.S. dollar, respectively. See **Item 5. Operating and Financial Review and Prospects General Exchange Control Regime in Venezuela** and **Note 3.3 to our consolidated financial statements**.

We translated our results of operations in Venezuela for the full year ended December 31, 2016 into our reporting currency, the Mexican peso, using the DICOM exchange rate of 673.76 bolivars per US\$1.00, which was the exchange rate in effect as of such date. As a result, in 2016, we recognized a further reduction in equity of Ps.2,286 million. Since 2012, we have recognized a reduction in equity in an aggregate amount of Ps.20,230 million.

Based on our facts and circumstances, we anticipate continuing to use the DICOM exchange rate to translate our future results of operations in Venezuela into our reporting currency, the Mexican peso. The Venezuelan government may announce further changes to the exchange rate system in the future. To the extent a higher exchange rate is applied to our investment in Venezuela in future periods as a result of changes to existing regulations, subsequently adopted regulations or otherwise, our results of operations in Venezuela and our financial condition would be further adversely affected. We will closely monitor any further developments in Venezuela, which may affect the exchange rates used by us to translate the results of our Venezuelan subsidiary in the future. More generally, future currency devaluations or the imposition of exchange controls in any of the countries where we operate may potentially increase our operating costs, which could have an adverse effect on our financial position and results of operations.

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

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

In recent years, some of the governments in the countries where we operate have implemented and may continue to implement significant changes in laws, public policy or regulations that could affect the political and social conditions in these countries. Any such changes, and similar changes in other countries such as the U.S., may have an adverse effect on our business, results of operations, prospects and financial condition. We cannot assure you that political or social developments in the countries where we operate or elsewhere, such as the election of new administrations, changes in laws, public policy or regulations, political disagreements, civil disturbances and the rise in violence and perception of violence, over which we have no control, will not have a corresponding adverse effect on the local or global markets or on our business, financial condition, results of operations and prospects.

Table of Contents**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 Sao Paulo and Minas Gerais, the states of Parana, Santa Catarina and Mato Grosso do Sul and part of the states of Rio de Janeiro, Rio Grande do Sul and Goias.

Argentina Buenos Aires and surrounding areas.

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

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

The following is an overview of our operations by consolidated reporting segment in 2016.

Operations by Consolidated Reporting Segment Overview**Year Ended December 31, 2016**

	Total Revenues (in millions of Mexican pesos, except percentages)		Gross Profit	
Mexico and Central America ⁽¹⁾	Ps. 87,557	49.3%	Ps. 43,569	54.7%
South America (excluding Venezuela) ⁽²⁾	71,293	40.1%	29,263	36.7%
Venezuela	18,868	10.6%	6,830	8.6%
Consolidated	Ps. 177,718	100.0%	Ps. 79,662	100.0%

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- (1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama.
- (2) Includes Colombia, Brazil and Argentina. Includes results of Vonpar from December 2016.

Corporate History

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

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We commenced operations in 1979, when a subsidiary of FEMSA acquired certain sparkling beverage bottlers in Mexico City and surrounding areas. In 1991, FEMSA transferred its ownership in the bottlers to FEMSA Refrescos, S.A. de C.V., our corporate predecessor. In June 1993, a subsidiary of The Coca-Cola Company subscribed for 30% of our capital stock in the form of Series D shares. In September 1993, FEMSA sold Series L shares that represented 19.0% of our capital stock to the public, and we listed these shares on the Mexican Stock Exchange and, in the form of ADSs, on the NYSE.

In a series of transactions since 1994, we have acquired new territories, brands and other businesses which today comprise our business. In May 2003, we acquired Panamerican Beverages Inc., or Panamco, and began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central 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.

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

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

In December 2007 and May 2008, we sold most of our proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to us by The Coca-Cola Company pursuant to our bottler agreements. In May 2008, we entered into a transaction with The Coca-Cola Company to acquire its wholly owned bottling franchise Refrigerantes Minas Gerais, Ltda., or REMIL, located in the State of Minas Gerais in Brazil.

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

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

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

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

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

In October 2011, we merged with Grupo Tampico, a Mexican bottler with operations in the states of Tamaulipas, San Luis Potosi, and Veracruz, as well as in parts of the states of Hidalgo, Puebla and Queretaro.

In December 2011, we merged with Grupo CIMSA, a Mexican *Coca-Cola* bottler with operations mainly in the states of Morelos and Mexico, as well as in parts of the states of Guerrero and Michoacan. As part of our merger with Grupo CIMSA, we also acquired a 13.2% equity interest in Promotora Industrial Azucarera, S.A de C.V., or PIASA.

In May 2012, we merged with Grupo Fomento Queretano, a Mexican bottler with operations mainly in the state of Queretaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. As part of our merger with Grupo Fomento Queretano, we 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.

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In January 2013, we acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. 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.

In May 2013, we merged with Grupo Yoli, a Mexican bottler with operations mainly in the state of Guerrero, as well as in parts of the state of Oaxaca. As part of our merger with Grupo Yoli, we also acquired an additional 10.1% equity interest in PIASA, for a total ownership of 36.4% as of April 7, 2017.

In August 2013, we acquired Companhia Fluminense, a franchise that operates in parts of the states of Sao Paulo, Minas Gerais and Rio de Janeiro in Brazil. As part of our acquisition of Companhia Fluminense, we also acquired an additional 1.2% equity interest in Leão Alimentos.

In October 2013, we acquired Spaipa, a Brazilian bottler with operations in the state of Parana and in parts of the state of Sao Paulo. As part of our acquisition of Spaipa, we also acquired an additional 5.8% equity interest in Leão Alimentos and a 50.0% stake in Fountain Água Mineral Ltda., a joint venture to develop the water category together with The Coca-Cola Company.

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

In December 2016, we acquired Vonpar, a Brazilian bottler of Coca-Cola trademark products with operations in the states of Rio Grande do Sul and Santa Catarina in Brazil. As part of our acquisition of Vonpar, we also acquired an additional 3.36% equity interest in Leão Alimentos, for a total ownership of 27.7% as of April 7, 2017.

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

For further information, see **Item 7. Major Shareholders and Related Party Transactions** **Related Party Transactions** **The Coca-Cola Company**.

Capital Stock

As of April 7, 2017, 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 7, 2017, 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 NYSE, 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. We have created a more flexible organizational structure to execute our strategies and continue with our track record of growth. We have also 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.

To maximize growth and profitability and to create value for our shareholders and customers, we plan on executing the following key strategies: (i) continue evolving our commercial and client segmentation models to capture the industry's long-term value potential; (ii) implement multi-segmentation strategies to target customers by consumption occasion, competitive environment and income level; (iii) implement well-planned product development, packaging, pricing and marketing strategies through different distribution channels; (iv) drive product innovation along our different product categories; (v) develop new businesses and distribution channels; and (vi) drive operational efficiencies throughout our organization to achieve the full operating potential of our commercial models and processes. 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 customers 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 anticipate and respond to industry changes and trends in a competitive environment;

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 sales of our products in the territories where we operate. To that end, our marketing teams continuously develop sales strategies tailored to our different customers across 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 Our Products and Packaging.** 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.**

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We also continuously seek to increase productivity in our facilities through infrastructure and process reengineering for improved asset utilization. Our capital expenditure program includes investments in production and distribution facilities, bottles, cases, coolers and information systems. We believe that this program will allow us to maintain our capacity and flexibility to innovate and to anticipate and respond to consumer demand for our products.

In 2015, we redesigned our corporate structure to strengthen the core functions at our organization. Through this restructuring we created specialized departments (centers of excellence) focused on manufacturing, distribution and logistics, commercial, and IT innovation areas. These departments not only enable centralized collaboration and knowledge sharing, but also drive standards of excellence and best practices in our key strategic capabilities. Our priorities include enhanced manufacturing efficiency, improved distribution and logistics, and cutting-edge IT-enabled commercial innovation.

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As of December 31, 2016, we had the following centers of excellence:

Manufacturing Center of Excellence. This center focuses on developing industry-leading operating models, practices and processes mainly by reducing operating costs, increasing efficiency and productivity of our manufacturing assets, minimizing waste disposal by optimizing the materials used in our manufacturing processes, and promoting high industrial quality and product safety.

Distribution and Logistics Center of Excellence. This center seeks to ensure best-in-class customer service by optimizing performance in our supply chain, transport engineering and equipment design, warehouse management and secondary distribution from our warehouses to the point of sale.

Commercial Center of Excellence. This center is designed to develop expertise and promote excellence across key commercial areas. The center establishes and aligns our commercial views across key functional areas, identifies and replicates best commercial practices and processes, develops and enforces commercial performance standards and drives innovation across our commercial activities.

IT Innovation Center of Excellence. This center is established to support our other centers of excellence by developing a comprehensive technological platform to create and foster innovative processes, technologies and capabilities to centralize information and promote knowledge sharing across our key strategic areas.

We are further accelerating our cultural evolution by creating a unified corporate culture founded on leadership, talent and innovation. We focus on management quality as a key element of our growth strategy and remain committed to fostering the development of quality management at all levels. Our Strategic Talent Management Model is designed to enable us to reach our full potential by developing the capabilities of our employees and executives. This holistic model works to build the skills necessary for our employees and executives to reach their maximum potential, while contributing to the achievement of our short- and long-term objectives. To support this capability development model, our board of directors allocates a portion of our yearly operating budget to fund these management training programs.

Sustainable development is a comprehensive part of our strategic framework for business operation and growth. We base our efforts in our core foundation, our ethics and values. We focus on three main areas, (i) our people, by encouraging the comprehensive development of our employees and their families; (ii) our communities, by promoting the generation of sustainable communities where we serve, healthy habits, self-care, adequate nutrition and physical activity, and supporting the development of our value chain; and (iii) our planet, by establishing guidelines that we believe will result in efficient use of natural resources to minimize the impact that our operations might have on the environment and contributing to creating a broader awareness of caring for our environment through education and community programs.

In our company we are conscious that weight issues and obesity are worldwide health problems, which need a collective effort for their solution. We believe that neither beverages nor any other product by itself is the direct cause of these problems, as they are complicated issues related to dietary habits, physical activity and education. However, as industry leaders, we would like to be a part of the solution. That is why we continue to be committed to find, together with public and private institutions of the countries where we operate, a comprehensive solution to this problem. Through innovation, we have developed new products and expanded the availability of low or zero calorie beverages as well as bottled water in different presentations, adapted to consumers' lifestyle. Approximately 36.0% of our brands are low- or non-caloric beverages. In addition, we inform our consumers through front labeling on nutrient composition and caloric content of our beverages. We have been pioneers in the introduction of the Guideline Daily Amounts (GDA), and we perform responsible advertising practices and marketing. We voluntarily adhere to national and international codes of conduct in advertising and marketing, including communications targeted to minors which are developed based on the Responsible Marketing policies and Global School Beverage Guidelines of The Coca-Cola Company, achieving full compliance with all such codes in all of the countries where we operate. Moreover, we actively promote exercise, proper nutrition and healthy habits to promote an energetic balance, demonstrating our commitment to encourage physical activity and healthy habits among consumers. As part of the progress towards our goal of benefiting more than five million people in healthy lifestyle programs from 2015 through 2020, more than 500,000 people in 2015 and approximately one million in 2016 benefited from our healthy activity programs.

At Coca-Cola FEMSA, we pledge to continue working to innovate and implement measures to help people lead active and healthy lifestyles.

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KOF Philippines Joint Venture

On January 25, 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 during the seven years following the closing date. We also have a put option to sell our ownership in KOF Philippines 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 our shareholders' agreement with The Coca-Cola Company, during a four-year period that ended on January 25, 2017, all decisions relating to KOF Philippines were approved jointly with The Coca-Cola Company. 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. Commencing on February 1, 2017, we started consolidating KOF Philippines' financial results in our financial statements. Our results for the first quarter of 2017 and our future results in 2017 will reflect a reduction in our share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, as a result of this consolidation. For further information, see Note 28 to our consolidated financial statements.

As of December 31, 2016, our investment under the equity method in KOF Philippines was Ps.11,460 million. See Notes 9 and 25 to our consolidated financial statements. KOF Philippines' product portfolio in the Philippines consists of *Coca-Cola* trademark beverages and its total sales volume in 2016 reached 569 million unit cases. The operations of KOF Philippines are comprised of 19 production plants and serve close to 846,588 customers.

The Philippines presents significant opportunities for further growth. *Coca-Cola* has been present in the Philippines since the start of the 20th century and since 1912 it has been locally producing *Coca-Cola* products. The Philippines received the first Coca-Cola bottling and distribution franchise in Asia. Our strategic framework for growth in the Philippines is based on three pillars: portfolio, route to market and supply chain.

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Our Territories

The following map shows our territories, including KOF Philippines, our joint venture in the Philippines with The Coca-Cola Company, giving estimates in each case of the population to which we offer products and the number of retailers of our beverages as of December 31, 2016:

Table of Contents**Our Products**

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

Our most important brand, *Coca-Cola*, together with its main line extensions, accounted for 60.3% of total sales volume in 2016. Our next largest brands, *Ciel* (a water brand from Mexico and its line extensions), *Fanta* (and its line extensions), *Del Valle* (and its line extensions) and *Sprite* (and its line extensions) accounted for 11.5%, 4.5%, 4.2% and 2.9%, respectively, of total sales volume in 2016. We use the term line extensions to refer to the different flavors and low-calorie versions in which we offer our brands.

The following table sets forth our main products as of December 31, 2016:

	Mexico and Central America ⁽¹⁾	South America ⁽²⁾	Venezuela
Colas:			
<i>Coca-Cola</i>			
<i>Coca-Cola Light</i>			
<i>Coca-Cola Zero</i>			
<i>Coca-Cola Life</i>			
<i>Coca-Cola Sin Azúcar</i>			
Flavored Sparkling Beverages:			
<i>Ameyal</i>			
<i>Canada Dry</i>			
<i>Chinotto</i>			
<i>Crush</i>			
<i>Escuis</i>			
<i>Fanta</i>			
<i>Fresca</i>			
<i>Frescolita</i>			
<i>Hit</i>			
<i>Kist</i>			
<i>Kuat</i>			
<i>Lift</i>			
<i>Limon&Nada</i>			
<i>Mundet</i>			
<i>Naranja&Nada</i>			
<i>Quatro</i>			
<i>Schweppes</i>			
<i>Simba</i>			
<i>Sprite</i>			
<i>Victoria</i>			
<i>Yoli</i>			
Water:			
<i>Alpina</i>			
<i>Aquarius⁽³⁾</i>			
<i>Bonaqua</i>			
<i>Brisa</i>			
<i>Ciel</i>			
<i>Crystal</i>			
<i>Dasani</i>			
<i>Manantial</i>			
<i>Nevada</i>			

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	Mexico and Central America ⁽¹⁾	South America ⁽²⁾	Venezuela
<i>Other Categories:</i>			
<i>Cepita</i> ⁽⁴⁾			
<i>Del Prado</i> ⁽⁵⁾			
<i>Estrella Azul</i> ⁽⁶⁾			
<i>FUZE Tea</i>			
<i>Hi-C</i> ⁽⁷⁾			
<i>Santa Clara</i> ⁽⁸⁾			
<i>Jugos del Valle</i> ⁽⁴⁾			
<i>Matte Leão</i> ⁽⁹⁾			
<i>Powerade</i> ⁽¹⁰⁾			
<i>ValleFruit</i> ⁽¹¹⁾			
<i>Monster</i> ⁽¹²⁾			

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

(2) Includes Brazil, Colombia and Argentina.

(3) Flavored water. In Brazil, also a flavored sparkling beverage.

(4) Juice-based beverage.

(5) Juice-based beverage in Central America.

(6) Milk and value-added dairy and juices.

(7) Juice-based beverage. Includes Hi-C Orangeade in Argentina.

(8) Milk, value-added dairy and coffee.

(9) Ready to drink tea.

(10) Isotonic drinks.

(11) Orangeade. Includes *Del Valle Fresh* in Costa Rica, Nicaragua, Panama, Colombia and Venezuela.

(12) Energy drinks in Mexico, Guatemala, Costa Rica, Panama, Brazil and Colombia.

Packaging

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

Sales Volume and Transactions Overview

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

The characteristics of our territories are very diverse. Central Mexico and our territories in Argentina are densely populated and have a large number of competing beverage brands as compared to the rest of our territories. Our territories in Brazil are densely populated but have lower consumption of beverage products as compared to Mexico. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower consumption of beverages. In Venezuela, we face operational disruptions from time to time and adverse economic conditions that affect per capita income, both of which have had an adverse effect on our volumes sold.

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The following table illustrates our historical sales volume and number of transactions for each of our consolidated reporting segments, as well as our unit case and transaction mix by category.

	Year Ended December 31,		
	2016	2015	2014
	(millions of unit cases or millions of single units, except percentages)		
Sales Volume			
Mexico and Central America	2,025.6	1,952.4	1,918.5
South America (excluding Venezuela) ⁽¹⁾⁽²⁾	1,165.3	1,247.6	1,257.7
Venezuela	143.1	235.6	241.1
Total Sales Volume	3,334.0	3,435.6	3,417.3
Growth	(3.0)%	0.5%	(0.7)%
Unit Case Mix by Category			
Sparkling beverages	77.7%	78.1%	78.1%
Water ⁽³⁾	15.9%	15.7%	16.0%
Still beverages	6.4%	6.2%	5.9%
Total	100.0%	100.0%	100.0%
Number of Transactions			
Mexico and Central America	11,382.1	10,877.1	10,622.9
South America (excluding Venezuela) ⁽¹⁾⁽²⁾	7,619.7	8,084.4	8,140.5
Venezuela	772.6	1,318.1	1,367.7
Total Number of Transactions	19,774.4	20,279.6	20,131.1
Growth	(2.5)%	0.7%	
Transaction Mix by Category			
Sparkling beverages	81.1%	81.3%	81.8%
Water ⁽³⁾	8.7%	8.6%	8.5%
Still beverages	10.2%	10.1%	9.7%
Total	100.0%	100.0%	100.0%

(1) Includes sales volume and transactions from the operations of Vonpar from December 2016.

(2) Excludes beer sales volume and transactions.

(3) Includes bulk water volume and transactions.

Total sales volume decreased by 3.0% to 3,334.0 million unit cases in 2016 as compared to 2015, as a result of the sales volume contraction in Brazil, Colombia, Argentina and Venezuela discussed below. Excluding the effects of our recent acquisition of Vonpar and the results of our operations in Venezuela, total sales volume would have decreased by 0.9% in 2016 as compared to 2015. Sales volume of our sparkling beverage portfolio decreased by 3.4% as compared to 2015. Excluding the effects of our recent acquisition of Vonpar and the results of our operations in Venezuela, sales volume of our sparkling beverage portfolio would have decreased by 1.0%, mainly as a result of a contraction in Brazil and Colombia, which was partially offset by the positive performance of the *Coca-Cola* brand in Mexico, Central America and Colombia, and our flavored sparkling beverage portfolio in Mexico and Central America. Sales volume of our still beverage portfolio decreased by 0.6% as compared to 2015. Excluding the effects of our recent acquisition of Vonpar and the results of our operations in Venezuela, sales volume of our still beverage portfolio would have grown 2.9% mainly driven by the positive performance of *ValleFrut* orangeade, *Del Valle* juice and the Santa Clara dairy business in Mexico and *Fuze tea* in Central America. Sales volume of bottled water, excluding bulk water, decreased by 1.2%

as compared to 2015. Excluding the effects of our recent acquisition of Vonpar and the results of our operations in Venezuela, bottled water, excluding bulk water, would have decreased by 1.1%, driven by a contraction in Brazil and Colombia, which was partially offset by increased volume in Mexico and Argentina. Sales volume of bulk water decreased by 2.0% as compared to 2015. Excluding the effects of our recent acquisition of Vonpar and the results of our operations in Venezuela, sales volume of bulk water would have decreased by 1.9%, mainly driven by a sales volume contraction of the *Brisa* and *Crystal* brand products in Colombia and Brazil, respectively.

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The total number of transactions in 2016 decreased by 2.5% to 19,774.4 million transactions as compared to 2015. Excluding the effect of our recent acquisition of Vonpar and the results of our operations in Venezuela, the total number of transactions in 2016 would have decreased by 0.3% to 18,902.4 million as compared to 2015. On the same basis, total transactions for our sparkling beverage portfolio in 2016 would have decreased by 0.6% as compared to 2015, mainly driven by a contraction in Brazil, Colombia and Argentina, which was partially offset by the positive performance in Mexico and Central America. Total transactions for our still beverage category, excluding the effect of our recent acquisition of Vonpar and the results of our operations in Venezuela, would have grown 2.6% as compared to 2015, mainly driven by the positive performance in Mexico and Central America. On the same basis, total transactions for bottled water, including bulk water, would have decreased by 1.1% as compared to 2015, driven by a contraction in Brazil, which was partially offset by the positive performance in Mexico, Central America and Colombia.

In 2016, multiple serving presentations represented 69.1% of total sparkling beverages sales volume, a 70 basis points increase as compared to 2015. Returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 29.1%, a 90 basis points decrease as compared to 2015.

Total sales volume increased 0.5% to 3,435.6 million unit cases in 2015, as compared to 2014. Excluding the results of our Venezuelan operations, total volume would have grown 0.7% in 2015, as compared to 2014. Our sparkling beverage portfolio grew 0.5% as compared to 2014. Excluding the effect of our Venezuelan operations, the sparkling beverage portfolio would have grown 0.7% as a result of positive performance of the *Coca-Cola* brand in Mexico, Colombia and Central America, and our flavored sparkling beverage portfolio in Mexico, Colombia, Argentina and Central America. The still beverage category grew 4.9% as compared to 2014. Excluding the effect of our Venezuelan operations, the still beverage category would have grown 6.5% driven by the positive performance of Jugos del Valle juice in Colombia, Mexico and Central America; *ValleFrut* orangeade in Mexico and Brazil; the *Powerade* brand across most of our territories and the Santa Clara dairy business in Mexico. Bottled water, excluding bulk water, grew 2.3% as compared to 2014. Excluding the effect of our Venezuelan operations, bottled water, excluding bulk water, would have grown 1.8%, driven by growth in Colombia, Argentina, Brazil and Central America. Bulk water decreased 2.9% as compared to 2014, mainly driven by a contraction of the *Ciel* brand in Mexico.

The total number of transactions in 2015 increased by 0.7% to 20,279.6 million transactions as compared to 2014. Excluding the results of our operations in Venezuela, the total number of transactions in 2016 would have increased by 1.1% to 18,961.5 million as compared to 2014. On the same basis, total transactions for our sparkling beverage portfolio in 2015 would have increased by 0.4% as compared to 2014, mainly driven by an increase in the number of transactions in Mexico, Central America, Colombia and Argentina. Total transactions for our still beverage category, excluding the results of our operations in Venezuela, would have grown 6.0% as compared to 2014, mainly driven by Colombia, Mexico and Argentina. On the same basis, total transactions for bottled water, including bulk water, would have increased by 1.6% as compared to 2014, driven by an increase in the number of transactions in Colombia and Argentina.

In 2015, multiple serving presentations represented 69.9% of total sparkling beverages sales volume, a 8 basis points increase as compared to 2014. Returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 28.2%, a 7 basis points increase as compared to 2014.

The following discussion analyzes our historical sales volume, number of transactions and unit case and transaction mix by category for each of our consolidated reporting segments.

Mexico and Central America. Our product portfolio consists of *Coca-Cola* trademark beverages, including the *Jugos del Valle* line of juice-based beverages.

The following table highlights historical sales volume, number of transactions and unit case and transaction mix by category in Mexico and Central America:

	Year Ended December 31,		
	2016	2015	2014
	(millions of unit cases or millions of single units, except percentages)		
Sales Volume			
Mexico	1,850.7	1,784.6	1,754.9
Central America ⁽¹⁾	174.9	167.8	163.6

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Total Sales Volume	2,025.6	1,952.4	1,918.5
Growth	3.7%	1.8%	(1.8)%

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	Year Ended December 31,		
	2016	2015	2014
	(millions of unit cases or millions of single units, except percentages)		
Unit Case Mix by Category			
Sparkling beverages	74.1%	74.0%	73.2%
Water ⁽²⁾	19.6%	20.2%	21.3%
Still beverages	6.2%	5.8%	5.5%
Total	100.0%	100.0%	100.0%
Number of Transactions			
Mexico	9,884.1	9,429.1	9,214.0
Central America ⁽¹⁾	1,498.0	1,448.0	1,409.0
Total Number of Transactions	11,382.1	10,877.1	10,623.0
Growth	4.6%	2.4%	
Transaction Mix by Category			
Sparkling beverages	82.9%	83.1%	82.9%
Water ⁽²⁾	6.9%	7.0%	7.6%
Still beverages	10.2%	9.9%	9.5%
Total	100.0%	100.0%	100.0%

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

(2) Includes bulk water volumes and transactions.

Total sales volume in our Mexico and Central America consolidated reporting segment increased by 3.7% to 2,025.6 million unit cases in 2016 as compared to 2015, as a result of volume increase in both Mexico and Central America as discussed below. Sales volume of our sparkling beverage portfolio increased by 3.9%, mainly driven by a 2.8% increase in sales volume of *Coca-Cola* brand products and an 8.3% increase in sales volume of our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 11.8%, mainly due to the performance of the Jugos del Valle portfolio and our Santa Clara dairy business in Mexico. Sales volume of bottled water, including bulk water, increased by 0.7%, mainly driven by an increase in sales volume of *Ciel* flavored water products in Mexico.

Sales volume in Mexico increased by 3.7% to 1,850.7 million unit cases in 2016, as compared to 1,784.6 million unit cases in 2015. Sales volume of our sparkling beverage portfolio increased by 3.8%, driven by a 2.7% increase in sales volume of *Coca-Cola* brand products and a 9.1% increase in sales volume of our flavored sparkling beverage portfolio, mainly supported by the performance of *Naranja&Nada* and *Limon&Nada*, our sparkling orangeade and lemonade, and the *Mundet* brand. Sales volume of our still beverage portfolio increased by 14.2%, mainly as a result of the performance of *ValleFruit* brand products, the *Del Valle* juice portfolio and our Santa Clara dairy business. Sales volume of bottled water, including bulk water, increased by 0.7%, mainly driven by the performance of *Ciel Exprim* flavored water products.

Sales volume in Central America increased by 4.2% to 174.9 million unit cases in 2016, as compared to 167.8 million unit cases in 2015. Sales volume of our sparkling beverage portfolio increased by 5.0%, supported by the strong performance of *Coca-Cola* brand products and our flavored sparkling beverages portfolio in Guatemala, Nicaragua and Costa Rica. Sales volume of our still beverage portfolio decreased slightly by 0.3%. Sales volume of bottled water, including bulk water, increased by 1.7%.

The total number of transactions in 2016 in our Mexico and Central America division increased by 4.6% to 11,382.1 million transactions as compared to 2015. The number of transactions for our sparkling beverage portfolio in 2016 increased by 4.3% as compared to 2015, driven by the positive performance of the *Coca-Cola* brand and our flavored sparkling beverage portfolio. Transactions for our still beverage category in 2016 increased by 8.3% as compared to 2015. Transactions for bottled water, including bulk water, in 2016 increased by 3.2% as compared to 2015.

In 2016, the total number of transactions in Mexico and Central America increased by 4.8% to 9,884.1 million, and by 3.4% to 1,498.0 million, respectively, as compared to 2015. The number of transactions for our sparkling beverage portfolio increased by 4.5% and 3.1%, respectively, as

compared to 2015. Transactions for our still beverage category increased by 9.2% and 4.9%, respectively, as compared to 2015. Transactions for bottled water, including bulk water, increased by 3.1% and 3.8%, respectively, as compared to 2015.

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In 2016, multiple serving presentations represented 64.7% of total sparkling beverages sales volume in Mexico, a 10 basis points increase as compared to 2015; and 53.4% of total sparkling beverages sales volume in Central America, a 160 basis points decrease as compared to 2015. Our strategy continues to be to encourage consumption of single serve presentations while maintaining multiple serving volumes. In 2016, returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 35.1% in Mexico, a 140 basis points decrease as compared to 2015; and 39.7% in Central America, a 210 basis points increase as compared to 2015.

Total sales volume in our Mexico and Central America consolidated reporting segment increased by 1.8% to 1,952.4 million unit cases in 2015 as compared to 2014. Sales volume of our sparkling beverage portfolio increased by 3.0%, mainly driven by 2.4% increase in sales volume of *Coca-Cola* brand products and a 5.5% increase in sales volume of our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 6.8%, mainly due to the performance of the Jugos del Valle portfolio, the *Powerade* brand and our Santa Clara dairy business in Mexico. Sales volume of bottled water, including bulk water, decreased by 3.5% driven by a volume contraction of *Ciel* brand products in Mexico.

Sales volume in Mexico increased by 1.7% to 1,784.6 million unit cases in 2015, as compared to 1,754.9 million unit cases in 2014. Sales volume of our sparkling beverage portfolio increased by 3.1%, driven by a 2.6% increase in sales volume of *Coca-Cola* brand products and a 5.7% increase in sales volume of our flavored sparkling beverage portfolio, mainly supported by the performance of *Mundet*, *Fanta* and the introduction of *Naranja&Nada* and *Limon&Nada*, our sparkling orangeade and lemonade. Sales volume of our still beverage portfolio increased by 5.3%, mainly as a result of the performance of the *Del Valle* portfolio, the *Powerade* brand and our Santa Clara dairy business. Sales volume of bottled water, including bulk water, decreased by 3.7%, driven by a volume contraction of *Ciel* brand products in Mexico.

Sales volume in Central America increased by 2.6% to 167.8 million unit cases in 2015, as compared to 163.6 million unit cases in 2014. Sales volume of our sparkling beverage portfolio increased by 1.0% supported by the strong performance of *Coca-Cola* brand products and our flavored sparkling beverages portfolio in Nicaragua and Panama. Sales volume of our still beverage portfolio increased by 15.6%, due to the performance of the *Powerade* brand in Central America, *Fuze tea* in Costa Rica and *Hi-C* juice in Nicaragua. Sales volume of bottled water, including bulk water, increased 7.6% across the region.

The total number of transactions in 2015 in our Mexico and Central America division increased by 2.4% to 10,877.1 million transactions as compared to 2014. The number of transactions for our sparkling beverage portfolio in 2015 increased by 2.8% as compared to 2014, mainly driven by a 2.9% increase in Mexico. Transactions for our still beverage category in 2015 increased by 6.1% as compared to 2014. Transactions for bottled water, including bulk water, in 2015 decreased by 6.4% as compared to 2014, driven by a 7.4% contraction in Mexico.

In 2015, the total number of transactions in Mexico and Central America increased by 2.3% to 9,429.1 million, and by 2.8% to 1,448.0 million, respectively, as compared to 2014. The number of transactions for our sparkling beverage portfolio increased by 2.8% and 2.1%, respectively, as compared to 2014. Transactions for our still beverage category increased by 6.4% and 4.8%, respectively, as compared to 2014. Transactions for bottled water, including bulk water, decreased by 7.4% in Mexico and increased by 7.6% in Central America, as compared to 2014.

In 2015, multiple serving presentations represented 64.6% of total sparkling beverages sales volume in Mexico, a 10 basis points increase as compared to 2014; and 55.0% of total sparkling beverages sales volume in Central America, a 10 basis points decrease as compared to 2014. In 2015, returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 36.5% in Mexico, a 140 basis points decrease as compared to 2014; and 37.6% in Central America, a 280 basis points increase as compared to 2014.

South America (Excluding Venezuela). Our product portfolio in South America (excluding Venezuela) consists mainly of *Coca-Cola* trademark beverages, including the *Jugos del Valle* line of juice-based beverages in Colombia and Brazil, and *Heineken* beer products, including *Kaiser* beer brands, in Brazil, which we sell and distribute pursuant to our arrangements in place since 2003 with Cervejarias Kaiser, a subsidiary of the Heineken Group. Since 2005, we stopped considering beer sold and distributed in Brazil as part of our sales volume.

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The following table highlights historical sales volume, number of transactions and unit case and transaction mix by category in South America (excluding Venezuela), not including beer:

	Year Ended December 31,		
	2016	2015	2014
	(millions of unit cases or millions of single units, except percentages)		
Sales Volume			
Brazil ⁽¹⁾	649.2	693.6	733.5
Colombia	307.0	320.0	298.4
Argentina	209.1	233.9	225.8
Total Sales Volume	1,165.3	1,247.6	1,257.7
Growth	(6.6)%	(0.8)%	22.6%
Unit Case Mix by Category			
Sparkling beverages	83.0%	82.8%	84.1%
Water ⁽²⁾	10.3%	10.4%	9.7%
Still beverages	6.7%	6.8%	6.2%
Total	100.0%	100.0%	100.0%
Number of Transactions			
Brazil ⁽¹⁾	4,206.1	4,578.6	4,902.3
Colombia	2,400.9	2,410.7	2,199.8
Argentina	1,012.6	1,095.0	1,038.4
Total Number of Transactions	7,619.6	8,084.3	8,140.5
Growth	(5.7)%	(0.7)%	
Transaction Mix by Category			
Sparkling beverages	79.0%	79.4%	81.0%
Water ⁽²⁾	10.7%	10.5%	9.5%
Still beverages	10.3%	10.1%	9.5%
Total	100.0%	100.0%	100.0%

(1) Includes sales volume and transactions from the operations of Vonpar from December 2016.

(2) Includes bulk water volumes and transactions.

Total sales volume in our South America (excluding Venezuela) consolidated reporting segment decreased by 6.6% to 1,165.3 million unit cases in 2016 as compared to 2015. Excluding the effects of our recent acquisition of Vonpar, total sales volume would have decreased by 8.2% to 1,145.7 million unit cases in 2016 as compared to 2015, as a result of volume contraction in all of our South America operations. On the same basis, sales volume of our sparkling beverage portfolio decreased by 8.0%, mainly due to a volume contraction of *Coca-Cola* brand products in Brazil and Argentina and flavored sparkling beverages in all our territories in this division. Excluding the effects of our recent acquisition of Vonpar, sales volume of our still beverage portfolio decreased by 8.9%, mainly driven by a sales volume contraction of the *Jugos del Valle* line of business in Colombia and *Kapo* and *Del Valle Mais* brand products in Brazil. On the same basis, sales volume of bottled water, including bulk water, decreased by 8.7%, mainly due to a sales volume contraction of *Brisa* brand products in Colombia and *Crystal* brand products in Brazil.

Sales volume in Brazil decreased by 6.4% to 649.2 million unit cases in 2016, as compared to 693.6 million unit cases in 2015. Excluding the effects of our recent acquisition of Vonpar, sales volume would have decreased by 9.2% to 629.7 million unit cases. On the same basis, sales volume of our sparkling beverage portfolio decreased by 9.0%, mainly as a result of a sales volume decrease in *Coca-Cola* brand products. Excluding the effects of our recent acquisition of Vonpar, sales volume of our still beverage portfolio decreased by 7.2%, mainly as a result of a

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sales volume contraction of *Kapo* and *Del Valle Mais* brand products. On the same basis, sales volume of bottled water, including bulk water, decreased by 13.1%, mainly due to a sales volume contraction of *Crystal* brand products.

Sales volume in Colombia decreased by 4.1% to 307.0 million unit cases in 2016, as compared to 320.0 million unit cases in 2015. Sales volume of our sparkling beverage portfolio decreased by 0.7%, mainly driven by a 9.4% decrease in sales volume of our flavored sparkling beverages portfolio, which was partially offset by a 1.9% sales volume increase of *Coca-Cola* brand products. Sales volume of our still beverage portfolio decreased by 13.6%, mainly as a result of a sales volume contraction of *Del Valle* and *ValleFruit* brand products. Sales volume of bottled water, including bulk water, decreased by 11.8%, driven by a sales volume contraction of *Brisa* brand products in multiple serving presentations.

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Sales volume in Argentina decreased by 10.6% to 209.1 million unit cases in 2016, as compared to 233.9 million unit cases in 2015. Sales volume of our sparkling beverage portfolio decreased by 13.6%, mainly driven by a decrease in sales volume of *Coca-Cola* brand products and our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio decreased by 0.6%, mainly driven by a decrease in sales volume of *Cepita* and *Powerade* brand products. Sales volume of bottled water, including bulk water, increased by 6.9%, mainly driven by an increase in sales volume of *Kin* and *Bonaqua* brand products.

The total number of transactions in 2016 in our South America (excluding Venezuela) division decreased by 5.7% to 7,619.7 million transactions as compared to 2015. Excluding the effect of our recent acquisition of Vonpar, the total number of transactions in 2016 in this division would have decreased by 7.0% to 7,520.3 million. On the same basis, the number of transactions for our sparkling beverage portfolio in 2016 decreased by 7.5% as compared to 2015, driven by a contraction in the number of transactions across all our territories in the division. Excluding the effects of our recent acquisition of Vonpar, transactions for our still beverage category in 2016 decreased by 4.8% as compared to 2015. On the same basis, transactions for bottled water, including bulk water, in 2016 decreased by 5.0% as compared to 2015.

In 2016, the total number of transactions in Brazil, Colombia and Argentina decreased by 8.1% to 4,206.1 million, 0.4% to 2,400.9 million and 7.5% to 1,012.6 million, respectively, as compared to 2015. Excluding the effect of our recent acquisition of Vonpar, the total number of transactions in Brazil in 2016 would have decreased by 10.3% to 4,106.7 million. On the same basis, the number of transactions for our sparkling beverage portfolio in Brazil, Colombia and Argentina in 2016 decreased by 10.0%, 1.2% and 9.2%, respectively, as compared to 2015. Excluding the effects of our recent acquisition of Vonpar, transactions for our still beverage category in 2016 decreased by 10.3% and 0.5% in Brazil and Argentina, respectively, and increased by 0.5% in Colombia, in each case as compared to 2015. On the same basis, the number of transactions for bottled water, including bulk water, in 2016 decreased by 13.6% and 1.1% in Brazil and Argentina, respectively, and increased by 2.7% in Colombia, in each case as compared to 2015.

In 2016, multiple serving presentations represented 76.3% of total sparkling beverages sales volume in Brazil, a 66 basis points increase as compared to 2015; 69.3% of total sparkling beverages sales volume in Colombia, a 121 basis points decrease as compared to 2015; and 82.7% of total sparkling beverages sales volume in Argentina, a 178 basis points decrease as compared to 2015. In 2016, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 18.1% in Brazil a 120 basis points increase as compared to 2015; 29.9% in Colombia, an increase of 80 basis points as compared to 2015; and 23.9% in Argentina, an increase of 150 basis points as compared to 2015.

Total sales volume in our South America (excluding Venezuela) consolidated reporting segment decreased by 0.8% to 1,247.6 million unit cases in 2015 as compared to 2014, as a result of a volume contraction in Brazil which was partially offset by volume growth in Colombia and Argentina. Sales volume of our sparkling beverage portfolio decreased by 2.3% mainly driven by the volume contraction in Brazil. Sales volume of our still beverage portfolio increased by 7.5% mainly driven by the Jugos del Valle line of business in Colombia and the *Cepita* and *Hi-C* brands in Argentina. Sales volume of bottled water, including bulk water, increased by 7.5% driven by the performance of the *Crystal* brand in Brazil, the *Manantial* and *Brisa* brands in Colombia and the *Aquarius*, *Kin* and *Bonaqua* brands in Argentina.

Sales volume in Brazil decreased by 5.4% to 693.6 million unit cases in 2015, as compared to 733.5 million unit cases in 2014. Sales volume of our sparkling beverage portfolio decreased by 5.8%, mainly as a result of a volume contraction in the *Coca-Cola* brand products. Sales volume of our still beverage portfolio decreased by 8.8%, mainly as a result of a volume contraction in *Del Valle Mais* brand products. Sales volume of bottled water, including bulk water, increased by 1.2%, mainly driven by a sales volume increase in *Crystal* brand products.

Sales volume in Colombia increased by 7.2% to 320.0 million unit cases in 2015, as compared to 298.4 million unit cases in 2014. Sales volume of our sparkling beverage portfolio increased by 6.2%, mainly driven by a 3.7% volume increase of *Coca-Cola* brand products, and a 14.2% volume increase of our flavored sparkling beverages portfolio. Sales volume of our still beverage portfolio increased by 19.1%, mainly driven by volume increase of *Del Valle Fresh* and *Fuze tea* brand products. Sales volume of bottled water, including bulk water, increased by 5.8%, mainly driven by a volume increase in *Manantial* and *Brisa* brand products in single serve presentations.

Sales volume in Argentina increased by 3.6% to 233.9 million unit cases in 2015, as compared to 225.8 million unit cases in 2014. Sales volume of our sparkling beverage portfolio decreased by 0.2%, mainly driven by a volume decrease in *Coca-Cola* brand products, which was mostly offset by the performance of the *Sprite* and *Schweppes* brands. Sales volume of our still beverage portfolio increased by 31.9%, mainly driven by a volume increase in *Hi-C*, *Cepita* and *Powerade* brand products. Sales volume of bottled water, including bulk water, increased by 28.0%, mainly driven by a volume increase in *Aquarius*, *Kin* and *Bonaqua* brand products.

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The total number of transactions in 2015 in our South America (excluding Venezuela) division decreased by 0.7% to 8,084.3 million transactions as compared to 2014. The number of transactions for our sparkling beverage portfolio in 2015 decreased by 2.7% as compared to 2014, driven by a 6.4% contraction in the number of transactions in Brazil, which was partially offset by an increase in the number of transactions in Colombia and Argentina. Transactions for our still beverage category in 2015 increased by 5.9% as compared to 2014. Transactions for bottled water, including bulk water, in 2015 increased by 10.0% as compared to 2014.

In 2015, the total number of transactions in Brazil decreased by 6.6% to 4,578.6 million, and the total number of transactions in Colombia and Argentina increased by 9.6% to 2,410.7 million and 5.5% to 1,095.0 million, respectively, in each case as compared to 2014. The number of transactions for our sparkling beverage portfolio in 2015 decreased by 6.4% in Brazil and increased by 3.7% and 2.1% in Colombia and Argentina, respectively, in each case as compared to 2014. Transactions for our still beverage portfolio in 2015 increased by 34.7% and 24.1% in Colombia and Argentina, respectively, and decreased by 12.8% in Brazil, in each case as compared to 2014. The number of transactions for bottled water, including bulk water, in 2015 increased by 21.8% and 20.4% in Colombia and Argentina, respectively, and decreased by 1.8% in Brazil, in each case as compared to 2014.

In 2015, multiple serving presentations represented 75.7% of total sparkling beverages sales volume in Brazil, a 70 basis points increase as compared to 2014; 70.6% of total sparkling beverages sales volume in Colombia, a 79 basis points decrease as compared to 2014; and 84.5% of total sparkling beverages sales volume in Argentina, a 76 basis points decrease as compared to 2014. In 2015, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 16.9% in Brazil, a, increase of 140 basis points as compared to 2014; 29.1% in Colombia, a decrease of 290 basis points as compared to 2014; and 22.4% in Argentina, an increase of 270 basis points as compared to 2014.

Venezuela. Our product portfolio in Venezuela consists of *Coca-Cola* trademark beverages. We have implemented a product portfolio rationalization strategy that allows us to minimize the impact of certain operating disruptions that have been recurrent in Venezuela over the last several years related to difficulties in accessing raw materials due to the delay in obtaining the corresponding import authorizations and the Venezuelan exchange controls.

The following table highlights historical sales volume, number of transactions and unit case and transaction mix by category in Venezuela:

	Year Ended December 31,		
	2016	2015	2014
	(millions of unit cases or millions of single units, except percentages)		
Sales Volume			
Total	143.1	235.6	241.1
Growth	(39.3)%	(2.3)%	8.2%
Unit Case Mix by Category			
Sparkling beverages	83.8%	86.2%	85.7%
Water ⁽¹⁾	10.0%	6.8%	6.5%
Still beverages	6.2%	7.0%	7.8%
Total	100.0%	100.0%	100.0%
Number of Transactions			
Total	772.6	1,318.1	1,367.7
Growth	(41.4)%	(3.6)%	
Transaction Mix by Category			
Sparkling beverages	75.0%	79.0%	78.7%
Water ⁽¹⁾	15.3%	9.7%	8.9%
Still beverages	9.7%	11.3%	12.4%
Total	100.0%	100.0%	100.0%

(1) Includes bulk water volumes and transactions.

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Total sales volume in Venezuela decreased by 39.3% to 143.1 million unit cases in 2016 as compared to 2015, mainly due to an overall sales volume contraction in all our categories as a result of the scarcity of raw materials and demand for our products. Sales volume of our sparkling beverage portfolio decreased by 41.0%. Sales volume of our still beverage portfolio decreased by 46.4%. Sales volume of bottled water, including bulk water, decreased by 10.0%.

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The number of transactions in 2016 in Venezuela decreased by 41.4% to 772.6 million transactions as compared to 2015. The number of transactions for our sparkling beverage portfolio in 2016 decreased by 44.4% as compared to 2015, mainly driven by a contraction in the number of transactions of *Coca-Cola* brand products and our flavored sparkling beverage portfolio. Transactions for our still beverage category in 2016 decreased by 49.6% as compared to 2015. Transactions for bottled water, including bulk water, in 2016 decreased by 7.2% as compared to 2015.

In 2016, multiple serving presentations represented 85.0% of total sparkling beverages sales volume in Venezuela, a 260 basis points increase as compared to 2015. In 2016, returnable presentations represented 6.5% of total sparkling beverages sales volume in Venezuela, a decrease of 40 basis points as compared to 2015.

Total sales volume in Venezuela decreased by 2.3% to 235.6 million unit cases in 2015 as compared to 2014. Sales volume of our sparkling beverage portfolio decreased by 2.1%, driven by a volume contraction in our flavored sparkling beverage portfolio, which was partially offset by a 3.4% volume increase of *Coca-Cola* brand products. Sales volume of our still beverage portfolio decreased by 11.3%, mainly as a result of a volume decrease in *Del Valle* brand products. Sales volume of bottled water, including bulk water, increased by 6.1% mainly driven by a volume increase of *Nevada* brand products.

The number of transactions in 2015 in Venezuela decreased by 3.6% to 1,318.1 million transactions as compared to 2014. The number of transactions for our sparkling beverage portfolio in 2015 decreased by 3.2% as compared to 2014, mainly driven by a contraction of 8.7% in the number of transactions of our flavored sparkling beverage products. Transactions for our still beverage category in 2015 decreased by 12.5% as compared to 2014. Transactions for bottled water, including bulk water, increased by 5.3% as compared to 2014.

In 2015, multiple serving presentations represented 82.4% of total sparkling beverages sales volume in Venezuela, a 50 basis points increase as compared to 2014. In 2015, returnable presentations represented 6.9% of total sparkling beverages sales volume in Venezuela, which remained flat as compared to 2014.

Seasonality

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

Marketing

We, in conjunction with The Coca-Cola Company, have developed a marketing strategy to promote the sale and consumption of our products. We rely extensively on advertising, sales promotions and retailer support programs to target the particular preferences of our consumers. Our consolidated marketing expenses in 2016, net of contributions by The Coca-Cola Company, were Ps.5,030 million. The Coca-Cola Company contributed an additional Ps.4,518 million in 2016, which mainly includes contributions for coolers, bottles and cases. Through the use of advanced information technology, we have collected customer and consumer information that allow us to tailor our marketing strategies to target different types of customers located in each of our territories and to meet the specific needs of the various markets we serve.

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

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

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

Channel Marketing. In order to provide more dynamic and specialized marketing of our products, our strategy is to classify our markets and develop targeted efforts for each consumer segment or distribution channel. Our principal channels are small retailers, on-premise accounts, such as restaurants and bars, supermarkets and third party distributors. Presence in these channels entails a

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comprehensive and detailed analysis of the purchasing patterns and preferences of various groups of beverage consumers in each of the different types of locations or distribution channels. In response to this analysis, we tailor our product, price, packaging and distribution strategies to meet the particular needs of and exploit the potential of each channel.

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

We believe that the implementation of these strategies described above also enables us to respond to competitive initiatives with channel-specific responses as opposed to market-wide responses. In addition, it allows us to be more efficient in the way we go to market and invest our marketing resources in those segments that could provide a higher return. Our marketing, segmentation and distribution activities are facilitated by our management information systems, and are all incorporated within our centers of excellence.

Product Sales and Distribution

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

	As of December 31, 2016		
	Mexico and Central America ⁽¹⁾	South America ⁽²⁾	Venezuela
Distribution centers	179	71	26
Retailers ⁽³⁾	980,237	845,139	168,833

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

(2) Includes Colombia, Brazil and Argentina.

(3) Estimated.

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

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

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

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

Mexico. We contract a subsidiary of FEMSA for the transportation of finished products to our distribution centers from our production facilities. See **Item 7. Major Shareholders and Related Party Transactions** **Related Party Transactions.** From the distribution centers, we then

distribute our finished products to retailers through our fleet of trucks.

In Mexico, we sell a majority of our beverages at small retail stores to consumers who may take the beverages for consumption at home or elsewhere. We also sell products through the on-premise consumption segment, supermarkets and other locations. The on-premise consumption segment consists of sales through sidewalk stands, restaurants, bars and various types of dispensing machines as well as sales through point-of-sale programs in stadiums, concert halls, auditoriums and theaters.

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Brazil. In Brazil, we distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors, while we maintain control over the selling function. In designated zones in Brazil, third-party distributors purchase our products at a discount from the wholesale price and resell the products to retailers. We also sell our products through modern distribution channels. Modern distribution channels in Brazil include large and organized chain retail outlets such as wholesale supermarkets, discount stores and convenience stores that sell fast-moving consumer goods, where retailers can buy large volumes of products from various producers.

Territories other than Mexico and Brazil. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. In most of our territories, an important part of our total sales volume is sold through small retailers, with low supermarket penetration.

Competition

While we believe that our products enjoy wider recognition and greater consumer loyalty than those of our principal competitors, the markets in the territories where we operate are highly competitive. Our principal competitors are local *Pepsi* bottlers and other bottlers and distributors of local beverage brands. We face increased competition in many of our territories from producers of low price beverages, commonly referred to as B brands. A number of our competitors in Central America, Venezuela, Brazil and Argentina offer beer in addition to sparkling beverages, still beverages, and water, which may enable them to achieve distribution efficiencies.

While competitive conditions are different in each of our territories, we compete mainly in terms of price, packaging, effective promotional activities, access to retail outlets and sufficient shelf space, customer service, product innovation and product alternatives and the ability to identify and satisfy consumer preferences. We compete by seeking to offer products at an attractive price in the different segments in our markets and by building on the value of our brands. We believe that the introduction of new products and new presentations has been a significant competitive technique that allows us to increase demand for our products, provide different options to consumers and increase new consumption opportunities. See **Our Products and Packaging**.

Mexico and Central America. Our principal competitors in Mexico are bottlers of *Pepsi* products, whose territories overlap but are not co-extensive with our own. We compete with Organización Cultiba, S.A.B. de C.V., a joint venture formed by Grupo Embotelladoras Unidas, S.A.B. de C.V., the former *Pepsi* bottler in central and southeast Mexico, a subsidiary of PepsiCo, and Empresas Polar, S.A., the leading beer distributor and *Pepsi* bottler in Venezuela. Our main competition in the juice category in Mexico is Grupo Jumex. In the water category, *Bonafont*, a water brand owned by Grupo Danone, is our main competition. In addition, we compete with *Cadbury Schweppes* in sparkling beverages and with other local brands in our Mexican territories, as well as B brand producers, such as Ajemex, S.A. de C.V. (*Big Cola* bottler) and Consorcio AGA, S.A. de C.V. (*Red Cola* bottler), that offer various presentations of sparkling and still beverages.

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

South America (excluding Venezuela). Our principal competitor in Colombia is Postobón, a well-established local bottler (*Postobón* and *Colombiana* bottler). Postobón sells *manzana Postobón* (apple Postobón), which is the second most popular flavor in the Colombian sparkling beverage industry in terms of total sales volume. Postobón also sells *Pepsi* products. Postobón is a vertically integrated producer, the owners of which hold other significant commercial interests in Colombia. We also compete with low-price producers, such as the producers of *Big Cola*, which principally offer multiple serving size presentations in the sparkling and still beverage industry.

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

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

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Venezuela. In Venezuela, our main competitor is Pepsi-Cola Venezuela, C.A., a joint venture formed between PepsiCo and Empresas Polar, S.A., the leading beer distributor in the country. We also compete with the producers of *Big Cola* in part of this country.

Raw Materials

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

In the past, The Coca-Cola Company has increased concentrate prices for *Coca-Cola* trademark beverages in some of the countries where we operate. In 2014, The Coca-Cola Company informed us that it would gradually increase concentrate prices for certain *Coca-Cola* trademark beverages over a five-year period in Costa Rica and Panama beginning in 2014. In 2015, The Coca-Cola Company informed us that it would gradually increase concentrate prices for flavored water over a four-year period in Mexico beginning in April 2015 and that it would gradually increase concentrate prices for certain *Coca-Cola* trademark beverages over a two-year period in Colombia beginning in 2016. In 2016, The Coca-Cola Company informed us that it would gradually increase concentrate prices for *Coca-Cola* trademark beverages over a three-year period in Mexico beginning in July 2017. Based on our estimates, we currently do not expect these increases will have a material adverse effect on our results of operations. The Coca-Cola Company may unilaterally increase concentrate prices again in the future and we may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the prices of our products or our results. **See**

Item 7. Major Shareholders and Related Party Transactions Major Shareholders Cooperation Framework with The Coca-Cola Company.

In addition to concentrate, we purchase sweeteners, carbon dioxide, resin and preforms to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for most of our beverages. Our bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company. Prices for certain raw materials, including those used in the bottling of our products, mainly resin, finished plastic bottles, aluminum cans, HFCS and certain sweeteners, are paid in or determined with reference to the U.S. dollar, and therefore local prices in a particular country may increase based on changes in the applicable exchange rates. Our most significant packaging raw material costs arise from the purchase of resin, the price of which is related to crude oil prices and global resin supply. The average price that we paid for resin in U.S. dollars in 2016 decreased 14.1% as compared to 2015 in all our territories, excluding Venezuela; however, given that high currency volatility has affected and continues to affect most of our territories, the average price for resin in local currencies was higher in 2016 in Argentina and Mexico. In 2016, we purchased certain raw materials in advance and entered into certain derivative transactions, which helped us capture opportunities with respect to raw material costs and currency exchange rates.

Under our agreements with The Coca-Cola Company, we may use raw or refined sugar or HFCS as sweeteners in our products. Sugar prices in all of the countries where we operate, other than Brazil, are subject to local regulations and other barriers to market entry that cause us to pay for sugar in excess of international market prices for sugar in certain countries. In recent years, international sugar prices experienced significant volatility. Across our territories, our average price for sugar in U.S. dollar, taking into account our financial hedging activities, decreased approximately 1.1% (excluding Venezuela) or 12.0% (including Venezuela) in 2016 as compared to 2015; however, the average price for sugar in local currency was higher in all of our operations, except for Guatemala.

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

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

Mexico and Central America. In Mexico, we purchase our returnable plastic bottles from Graham Packaging México, S.A. de C.V., known as Graham, and Envases Universales de México, S.A.P.I. de C.V. We mainly purchase resin from Indorama Ventures Polymers México, S. de R.L. de C.V. (formerly Arteva Specialties, S. de R.L. de C.V.), M&G Polímeros México, S.A. de C.V. and DAK Resinas Americas Mexico, S.A. de C.V., which Alpha México, S.A. de C.V., known as Alpha, and Envases Universales de México, S.A.P.I. de C.V. manufacture into non-returnable plastic bottles for us. Also, we have introduced into our business Asian global suppliers, such as Far Eastern New Century Corp. or FENC, which supports our PET strategy mainly for Central America and is known as one of the top five PET global suppliers.

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We purchase all of our cans from Fábricas de Monterrey, S.A. de C.V., or FAMOSA, and Envases Universales de México, S.A.P.I. de C.V., through Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of *Coca-Cola* bottlers, in which, as of April 7, 2017, we held a 35.0% equity interest. We mainly purchase our glass bottles from Vitro America, S. de R.L. de C.V. (formerly Compañía Vidriera, S.A. de C.V., or Vitro), FEVISA Industrial, S.A. de C.V., known as FEVISA, and Glass & Silice, S.A. de C.V., or SIVESA.

We purchase sugar from, among other suppliers, PIASA and Beta San Miguel, S.A. de C.V., both sugar cane producers in which, as of April 7, 2017, we held a 36.4% and 2.7% equity interest, respectively. We purchase HFCS from Ingredion México, S.A. de C.V., Almidones Mexicanos, S.A. de C.V., known as Almex and Cargill de México, S.A. de C.V.

Sugar prices in Mexico are subject to local regulations and other barriers to market entry that cause us to pay higher prices than those paid in the international market. As a result, prices in Mexico have no correlation to international market prices. In 2016, sugar prices in local currency in Mexico increased approximately 25.0% as compared to 2015.

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

South America (excluding Venezuela). In Colombia, we use sugar as a sweetener in most of our products, which we buy from several domestic sources. Sugar prices in Colombia increased approximately 15.0% in U.S. dollars and 27.0% in local currency, as compared to 2015. We purchase plastic bottles from Amcor Rigid Plastics de Colombia, S.A. and Tapón Corona de Colombia S.A. (affiliate of Envases Universales de México, S.A.P.I. de C.V.). We have historically purchased all of our glass bottles from Peldar O-I; however, we have engaged new suppliers and have acquired glass bottles from Al Tajir and Frigoglass in both cases from the United Arab Emirates. We purchase all of our cans from Crown Colombiana, S.A. and Envases Universales de México, S.A.P.I. de C.V. Grupo Ardila Lulle, owners of our competitor Postobón, own a minority equity interest in Peldar O-I and Crown Colombiana, S.A.

Sugar is available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil increased approximately 36.0% in U.S. dollars and increased 42.0% in local currency as compared to 2015. Taking into account our financial hedging activities, our sugar prices in Brazil decreased approximately 21.0% in U.S. dollars and decreased 16.0% in local currency as compared to 2015.

See Item 11. Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk. We purchase glass bottles, plastic bottles and cans from several domestic and international suppliers.

In Argentina, we mainly use HFCS that we purchase from several different local suppliers as a sweetener in our products. We purchase glass bottles, plastic cases and other raw materials from several domestic sources. 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 *Coca-Cola* bottler with operations in Chile, Argentina, Brazil and Paraguay, and other local suppliers. We also acquire plastic preforms from Alpla Avellaneda, S.A. and other suppliers, such as AMCOR Argentina.

Venezuela. In Venezuela, we use sugar as a sweetener in all of our caloric beverages, which we purchase mainly from the local market. Since 2003, from time to time, we have experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permission to import in a timely manner. Because sugar distribution to the food and beverages industry and to retailers is controlled by the government, we experienced material disruptions during 2016 with respect to access to sufficient sugar supply. For this reason, in 2016 we decided to adjust our product portfolio from caloric beverages to non-caloric beverages. We cannot assure you that we will not continue to experience disruptions in our ability to meet our sugar requirements in the future should the Venezuelan government continue to impose restrictive measures. We buy glass bottles from one local supplier, Productos de Vidrio, C.A., the only supplier authorized by The Coca-Cola Company. We acquire most of our plastic non-returnable bottles from Alpla de Venezuela, S.A. and most of our aluminum cans from a local producer, Dominguez Continental, C.A.

Under current regulations promulgated by the Venezuelan authorities, our ability and that of our suppliers to import some of the raw materials and other supplies used in our production could be limited, and access to the official exchange rate for these items, including, among others, concentrate, resin, aluminum, plastic caps, distribution trucks and vehicles is only achieved by obtaining proper approvals from the relevant authorities.

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REGULATION

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

Price Controls

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries where we operate. Currently, there are no price controls on our products in any of the territories where we have operations, except for those in Argentina, where authorities directly supervise six 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. In addition, in January 2014, the Venezuelan government passed the Fair Prices Law (*Ley Orgánica de Precios Justos*), which was amended in November 2014 and once again in November 2015, mainly to increase applicable fines and penalties. The purpose of this law is to establish regulations and administrative proceedings to impose 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. A ruling derived from this law imposes an obligation to manufacturing companies to label products with the fair or maximum sales price for each product. In December 2016, our Venezuelan subsidiary requested a waiver from the Venezuelan government to stop labeling products because of the difficulty to maintain updated prices in products with low inventory turnover. Since then, we stopped including a fair price label on our products. We cannot assure you that the Venezuelan government will grant the requested waiver, or that they will not impose any sanctions or fines as a result of our labeling practices. Similarly, we cannot assure you that we will be in compliance at all times with these laws based on changes and market dynamics in Argentina and Venezuela and the lack of clarity of certain basic aspects of the applicable law in Venezuela. Any such changes and potential violations may have an adverse effect on our business. **See Item 3. Key Information Risk Factors Regulatory developments may adversely affect our business.**

Taxation of Sparkling Beverages

All the countries where we operate, except for Panama, impose a value-added tax on the sale of sparkling beverages, with a rate of 16.0% in Mexico, 12.0% in Guatemala, 15.0% in Nicaragua, an average percentage of 15.8% in Costa Rica, 19.0% in Colombia (applied only to the first sale in the supply chain), 12.0% in Venezuela, 21.0% in Argentina, and in Brazil 16.0% in the state of Parana, 17.0% in the state of Goias and Santa Catarina, 18.0% in the states of Sao Paulo, Minas Gerais and Rio de Janeiro, and 20.0% in the states of Mato Grosso do Sul and Rio Grande do Sul. The states of Rio de Janeiro, Minas Gerais and Parana also charge an additional 2.0% on sales to non-taxpayers as a contribution to a poverty eradication fund. In Brazil the value-added tax is grossed-up and added, along with federal sales tax, at the taxable basis. In addition, we are responsible for charging and collecting the value-added tax from each of our retailers in Brazil, based on average retail prices for each state where we operate, defined primarily through a survey conducted by the government of each state, which in 2016 represented an average taxation of approximately 11.1% over net sales. In addition, several of the countries where we operate impose the following excise or other taxes:

Mexico imposes an excise tax of Ps.1.00 per liter on the production, sale and importation of beverages with added sugar and HFCS as of January 1, 2014. This excise tax is applied only to the first sale and we are responsible for charging and collecting it. The excise tax is subject to a 10.0% increase when accumulated inflation in Mexico on an annual basis since November 2013 reaches 10.0%. The increased tax is imposed starting on the fiscal year following such increase. As of November 2016, accumulated inflation in Mexico since November 2013 had not reached 10.0%.

Guatemala imposes an excise tax of 0.18 cents in local currency (Ps.0.49 as of December 31, 2016) per liter of sparkling beverage.

Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, currently assessed at 18.32 colones (Ps.0.67 as of December 31, 2016) per 250 ml, and an excise tax currently assessed at 6.384 colones (approximately Ps.0.23 as of December 31, 2016) per 250 ml.

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

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

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

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Brazil assesses an average production tax of approximately 3.9% and an average sales tax of approximately 12.3% over net sales. Beginning on May 1, 2015, these federal taxes were applied based on the price sold, as detailed in our invoices, instead of an average retail price combined with a fixed tax rate and multiplier per presentation. Except for sales to wholesalers, this production and sales taxes apply only to the first sale and we are responsible for charging and collecting these taxes from each of our retailers. For sales to wholesalers, they are entitled to recover the sales tax and charge this tax again upon the resale of our products to retailers.

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

Venezuela's municipalities impose a variable excise tax applied only to the first sale that varies between 0.6% and 2.5% of net sales.

Tax Reforms

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 and HFCS, at the rate of Ps.1.00 per liter. In addition, the tax reform in Mexico, as applicable to us, confirmed the income tax rate of 30.0%, eliminated the corporate flat tax (IETU), imposed a withholding tax at a rate of 10.0% on the payment of dividends, an income tax rate of 10.0% on capital gains from the sale of shares traded in the stock exchange by individuals that are Mexican residents and a withholding tax at a rate of 10.0% on capital gains from the sale of shares traded in the stock exchange by individuals and companies that are non-Mexican residents, 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 for income tax purposes from exempt payments to employees.

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, which together result in an average of 16.2% tax over net sales. For 2017, we expect the average of these taxes will range between 15.0% and 17.0% over the net sales.

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 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%.

In Guatemala, the income tax rate for 2014 was 28.0% and it decreased to 25.0% for 2015.

On November 18, 2014, a tax reform became effective in Venezuela. This reform included changes on how the carrying value of operating losses is reported. The reform established that operating losses carried forward year over year (but limited to three fiscal years) may not exceed 25.0% of the taxable income in the relevant period. The reform also eliminated the possibility to carry over losses relating to inflationary adjustments and included changes that grant Venezuelan tax authorities broader powers and authority in connection with their ability to enact administrative rulings related to income tax withholding and to collect taxes and increase fines and penalties for tax-related violations, including the ability to confiscate assets without a court order.

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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.

Water Supply

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

In addition, the 1992 Water Law provides that plants located in Mexico that use deep water wells to supply their water requirements must pay a fee to the local governments for the discharge of residual waste water to drainage. Pursuant to this law, certain local authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by the National Water Commission. In the case of non-compliance with the law, penalties, including closures, may be imposed. All of our bottling plants located in Mexico meet these standards. In addition, our plants in Apizaco and San Cristobal are certified with ISO 14001. **See Description of Property, Plant and Equipment.**

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

In Colombia, in addition to natural spring water for *Manantial*, we obtain water directly from wells and from utility companies. We are required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees No. 2811 of 1974 and No. 3930 of 2010. In addition, Decree No. 303 requires us to apply for water concessions and for authorization to discharge our water into public waterways. The Ministry of Environment and Sustainable Development and Regional Autonomous Corporations supervises companies that use water as a raw material for their businesses. Furthermore, in Colombia, Law No. 142 of 1994 provides that public sewer services are charged based on volume (usage). The Water and Sewerage Company of the City of Bogotá has interpreted this rule to be the volume of water captured, and not the volume of water discharged by users. Based on our production process, our Colombian subsidiary discharges into the public sewer system significantly less water than the water it captures. As a result, since October 2010 our Colombian subsidiary has filed monthly claims with the Water and Sewerage Company of the City of Bogotá challenging these charges. In 2015, the highest court in Colombia issued a final ruling stating that the Water and Sewerage Company of the City of Bogotá is not required to measure the volume of water discharged by users in calculating public sewer services charges. Based on this ruling, the Water and Sewerage Company of the City of Bogotá commenced an administrative proceeding against our Colombian subsidiary requesting payment of approximately Ps.309 million for the sewer services it claims our subsidiary has not properly paid since 2005. In connection with such proceeding, in March 2016, this authority issued an order freezing certain of our bank accounts (see Note 8.2 to our consolidated financial statements). Our Colombian

subsidiary is currently holding conciliatory hearings seeking to reach an agreement to settle this matter.

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

In Nicaragua, the use of water is regulated by the National Water Law (*Ley General de Aguas Nacionales*), and we obtain water directly from wells. In Costa Rica, the use of water is regulated by the Water Law (*Ley de Aguas*). In both of these countries, we exploit water from wells granted to us through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in our own plants. In Panama, we acquire water from a state water company, and the use of water is regulated by the Panama Use of Water Regulation (*Reglamento de Uso de Aguas de Panamá*).

In Venezuela, we use private wells in addition to water provided by the municipalities, and we have taken the appropriate actions, including actions to comply with water regulations, to have water supply available from these sources, regulated by the Water Law (*Ley de Aguas*).

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

We cannot assure that water will be available in sufficient quantities to meet our future production needs, that we will be able to maintain our current concessions or that additional regulations relating to water use will not be adopted in the future in our territories. We believe we are in material compliance with the terms of our existing water concessions and that we are in compliance with all relevant water regulations currently in place. **See Item 3. Key Information Risk Factors Water shortages or any failure to maintain existing concessions could adversely affect our business.**

Environmental Matters

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

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

In our Mexican operations, we established a partnership with The Coca-Cola Company and Alpla, our supplier of plastic bottles in Mexico, to create Industria Mexicana de Reciclaje (IMER), a PET recycling facility located in Toluca, Mexico. This facility began operations in 2005 and has a recycling capacity of approximately 25,000 metric tons per year from which 15,000 metric tons can be re-used for food packaging purposes. We have also continued contributing funds to ECOCE, A.C., a nationwide collector of containers and packaging materials. In addition, our plants located in Toluca, Reyes, Cuautitlan, Apizaco, San Cristobal, Morelia, Ixtacomitan, Coatepec, Poza Rica, Pacifico, Ojuelos, Sabino, San Juan Del Rio, Querétaro, Altamira, Victoria and Cuernavaca have received or are in the process of receiving a Certificate of Clean Industry (*Certificado de Industria Limpia*). In addition, seven of our distribution centers located in the State of Mexico, Mexico have received or are in the process of receiving a Certificate of Clean Industry.

As part of our environmental protection and sustainability strategies, in December 2009, we, jointly with strategic partners, entered into a wind energy supply agreement with a Mexican subsidiary of the Spanish wind farm developer, GAMESA Energía, S.A., or GAMESA, to supply green energy to our bottling facility in Toluca, Mexico, owned by our subsidiary, Propimex, S. de R.L. de C.V., or Propimex, and to some of our suppliers of PET bottles. In 2010, GAMESA sold its interest in the Mexican entity that owned

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the wind farm to Iberdrola Renovables México, S.A. de C.V. This wind farm, which is located in La Ventosa, Oaxaca, generates approximately 100,000 megawatt hours annually. In 2014, 2015 and 2016, this wind farm provided us with approximately 64,460, 64,430 and 57,750 megawatt hours, respectively.

Additionally, we have entered into 20-year wind power supply agreements with two suppliers to receive clean and renewable energy for use at our production and distribution facilities throughout Mexico: (a) Energía Eólica del Sur, S.A.P.I. de C.V. (formerly known as Mareña Renovables Wind Power Farm) with a 396,000 megawatt installed capacity wind farm in Oaxaca, Mexico, which is expected to begin operations in 2018; and (b) Enel Green Power with a 100,000 megawatt installed capacity wind farm in San Luis Potosi, Mexico, which provided a total of 39,070 megawatt hours to 50 of our production and distribution facilities in 2016. In 2016, five of our manufacturing facilities received a total of 24,700 megawatt hours from renewable energy sources such as bagasse cogeneration from the PIASA Tres Valles sugar mill. Currently, 91 of our Mexican facilities receive energy from renewable energy sources, which represent 46.0% of our current energy consumption in Mexico.

Our Central American operations are subject to several federal and state laws and regulations relating to the protection of the environment, which have been enacted in the last ten years, as awareness has increased in this region about the protection of the environment and the disposal of hazardous and toxic materials, as well as water usage. Our Costa Rican operations have participated in a joint effort along with the local division of The Coca-Cola Company, Misión Planeta, for the collection and recycling of non-returnable plastic bottles.

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

Our Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the Organic Environmental Law (*Ley Orgánica del Ambiente*), the Substance, Material and Dangerous Waste Law (*Ley Sobre Sustancias, Materiales y Desechos Peligrosos*), the Criminal Environmental Law (*Ley Penal del Ambiente*) and the Water Law (*Ley de Aguas*). Since the enactment of the Organic Environmental Law in 1995, our Venezuelan subsidiary has presented the corresponding authorities with plans to bring our production facilities and distribution centers into compliance with applicable laws, which mainly consist of building or expanding the capacity of water treatment plants in our bottling facilities. We currently have water treatment plants in our bottling facilities located in the cities of Barcelona, Valencia and in our Antimano bottling plant in Caracas, and we are still under construction and expansion of our current water treatment plant in our bottling facility in Maracaibo.

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

Our production plant located in Jundiá has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by applicable law. This production plant has been certified for GAO-Q and GAO-E. In addition, the plants of Jundiá, Mogi das Cruzes, Campo Grande, Marília, Maringá, Curitiba and Bauru have been certified for (i) ISO 9001; (ii) ISO 14001 and; (iii) norm OHSAS 18001. The Jundiá, Campo Grande, Bauru, Marília, Curitiba, Maringá and Mogi das Cruzes plants are certified in standard FSSC 22000.

In November 2015, we entered into two five-year wind power supply agreements with the following suppliers to receive renewable energy for use at our production and distribution facilities in Brazil: (a) Brookfield Energía Comercializadora, Ltda., which provided a total of 13,224 megawatt hours in 2016 and (b) CPFL Comercialização Brasil, S.A., which provided a total of 32,527 megawatt hours in 2016. In 2016, 11 of our Brazilian facilities received energy from renewable energy sources, which represented 24.0% of our energy consumption in Brazil.

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In May 2008, a municipal regulation of the City of Sao Paulo, implemented pursuant to Law 13.316/2002, came into effect requiring us to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the City of Sao Paulo. Beginning in May 2011, we were required to collect 90.0% of PET bottles sold. Currently, we are not able to collect the entire required volume of PET bottles we sell in the City of Sao Paulo. Since we do not meet the requirements of this regulation, which we believe to be more onerous than those imposed by the countries with the highest recycling standards, we could be fined and be subject to other sanctions, such as the suspension of operations in any of our plants and/or distribution centers located in the City of Sao Paulo. In May 2008, when this law came into effect, we and other bottlers in the City of Sao Paulo, through the Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR (*Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas*), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In November 2009, in response to a request by a municipal authority to provide evidence of the destination of the PET bottles sold in Sao Paulo, we filed a motion presenting all of our recycling programs and requesting a more practical timeline to comply with the requirements imposed. In October 2010, the municipal authority of Sao Paulo levied a fine on our Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps.1.5 million as of December 31, 2016) on the grounds that the report submitted by our Brazilian operating subsidiary did not comply with the 75.0% proper disposal requirement for the period from May 2008 to May 2010. We filed an appeal against this fine, which was denied by the municipal authority in May 2013. This resolution by the municipal authority is final and not subject to appeal. However, in July 2012, the State Appellate Court of Sao Paulo rendered a decision on an interlocutory appeal filed on behalf of ABIR staying the requirement to pay the fines and other sanctions imposed on ABIR's associated companies, including our Brazilian subsidiary, pending the final resolution of the appeal. We are still awaiting the final resolution of the appeal filed on behalf of ABIR. In November 2016, the municipal authority filed a tax enforcement claim against our Brazilian subsidiary in order to try to collect the fine imposed in October 2010. Our Brazilian subsidiary is currently analyzing its options, which include filing a motion against the collection of the fine based on the decision rendered by the State Appellate Court of Sao Paulo in July 2012. We cannot assure you that these measures will have the desired effect or that we will prevail in any judicial challenge that our Brazilian subsidiary may pursue.

In August 2010, Law No. 12.305/2010 established the Brazilian National Solid Waste Policy. This policy is based on the principle of shared responsibility between the government, companies and the public, and provides for the post-consumption return of products to companies and requires public authorities to implement waste management programs. This law is regulated by Federal Decree No. 7.404/2010, and was published in December 2010. In response to the Brazilian National Solid Waste Policy, in December 2012, a proposal of agreement was provided to the Ministry of the Environment by almost 30 associations involved in the packaging sector, including ABIR in its capacity as representative for The Coca-Cola Company, our Brazilian subsidiary and other bottlers. This agreement proposed the creation of a coalition to implement systems for reverse logistics packaging non-dangerous waste that make up the dry fraction of municipal solid waste or equivalent. The goal of the proposal is to create methodologies for sustainable development, and improve the management of solid waste by increasing recycling rates and decreasing incorrect disposal in order to protect the environment, society and the economy. The Ministry of Environment approved and signed this agreement in November 2015. In August 2016, the public prosecutor's office of the state of Sao Paulo filed a class action against the parties that signed this agreement, challenging the validity of certain terms of the agreement and the effectiveness of the mandatory measures to be taken by the companies of the packaging sector, as provided in the agreement. ABIR is leading the lawsuit's defense.

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

For all of our plant operations, we employ the following environmental management system Environmental Administration System, or EKOSYSTEM (*Sistema de Administración Ambiental*) that is contained within the Integral Quality System or SICKOF (*Sistema Integral de Calidad*).

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

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

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Other Regulations

In May 2014, the Mexican government approved a decree that established mandatory guidelines applicable to the entire national education system (from elementary school through college). According to the decree, the sale of specific sparkling beverages and still beverages that contain certain amounts of sugar or HFCS by schools is prohibited. Schools are still allowed to sell water and certain still beverages, such as juices and juice-based beverages that comply with the guidelines established in such decree. We cannot assure you that the Mexican government will not further restrict sales of other of our products in schools. These restrictions and any further restrictions could have an adverse impact on our results of operations.

In January 2012, the Costa Rican government approved a decree which regulates the sale of food and beverages in public schools. According to the decree, the sale of all sparkling beverages and certain still beverages that contain certain amounts of 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. Although we are in compliance with this law, we cannot assure you that the Costa Rican government will not further restrict sales of other of our products in schools in the future; these restrictions and any further restrictions could have an adverse impact on our results of operations.

In May 2012, the Venezuelan government adopted significant changes to labor regulations that had a negative impact on our business and operations. The principal changes that impacted our operations were and still 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. We are currently in compliance with these labor regulations.

In September 2012, the Brazilian government issued Law No. 12,619 (Law of Professional Drivers), which regulates the working hours of professional drivers who distribute our products from our plants to the distribution centers and to retailers and points of sale. Pursuant to this law, employers must keep a record of working hours, including overtime hours, of professional drivers in a reliable manner, such as electronic logbooks or worksheets. We are currently in compliance with this law.

In June 2013, following a comprehensive amendment to the Mexican Constitution, an antitrust authority with autonomy was created: the Federal Antitrust Commission (*Comisión Federal de Competencia Económica*, or COFECE). As a result of these amendments, new antitrust and telecommunications specialized courts were created and commenced hearing cases in August 2013. In July 2014, a new federal antitrust law came into effect based on the amended constitutional provisions. As part of these amendments, two new relative monopolistic practices were included: reductions in margins between prices to access essential raw materials and end-user prices of such raw materials and limitation or restriction on access to essential raw materials or supplies. Furthermore, the ability to close a merger or acquisition without antitrust clearance from the COFECE was eliminated. The regular waiting period for authorization has been extended to 60 business days. We cannot assure you that these new amendments and the creation of new governmental bodies and courts will not have an adverse effect on our business or our inorganic growth plans.

In November 2014, the Venezuelan government amended the Foreign Investment Law. As part of the amendments made, the law now provides that at least 75.0% of the value of foreign investment must be comprised of assets located in Venezuela, which may include equipment, supplies or other goods or tangible assets required at the early stages of operations. By the end of the first fiscal year after commencement of operations in Venezuela, investors will be authorized to repatriate up to 80.0% of the profits derived from their investment. Any profits not otherwise repatriated in a fiscal year, may be accumulated and be repatriated the following fiscal year, together with profits generated during such year. In the event of liquidation, a company may repatriate up to 85.0% of the value of the foreign investment. Currently, the scope of this law is not entirely clear with respect to the liquidation process.

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

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of Labor and Employment, with the participation of all interested parties, is in the process of revising Decree No. 1.565/2014. We cannot assure you that any changes made to Decree No. 1.565/2014 will not have an adverse effect on our business.

In January 2014, a new Anti-Corruption Law in Brazil came into effect, which regulates bribery, corruption practices and fraud in connection with agreements entered into with governmental agencies. The main purpose of this law is to impose liability on companies carrying out such practices, establishing fines that can reach up to 20.0% of a company's gross revenues in the previous fiscal year. Although we believe we are in compliance with this law, if we were found liable for any of these practices, this law may have an adverse effect on our business.

In December 2015, the Venezuelan Ministry of Health issued a resolution which imposes an obligation to label certain products, including sparkling beverages and still beverages that contain sugar, with health warnings. In February 2015, the Venezuelan Ministry of Health granted a nine-month extension for the enforcement of this resolution. In July 2016, the Ministry of Health declared this resolution null and void. The Venezuelan government is currently discussing the issuance and application of new rules in connection with health warning labels on products.

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BOTTLER AGREEMENTS

Coca-Cola Bottler Agreements

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

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

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

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

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

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

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

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

submit annually to The Coca-Cola Company our marketing, management, promotional and advertising plans for the ensuing year. The Coca-Cola Company contributed a significant portion of our total marketing expenses in our territories during 2016 and has reiterated its intention to continue providing such support as part of our cooperation framework. Although we believe that The Coca-Cola

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Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement and Item 7. Major Shareholders and Related Party Transactions Major Shareholders Cooperation Framework with The Coca-Cola Company.**

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

As of December 31, 2016, we had:

nine bottler agreements in Mexico: (i) two agreements for the Valley of Mexico territory, which are up for renewal in August 2017 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 August 2017 (two agreements) and May 2025, (iv) the agreement for the northeast territory, which is up for renewal in August 2017, and (v) two agreements for the Bajío territory, which are up for renewal in August 2017 and May 2025;

nine bottler agreements in Brazil, which are up for renewal in October 2017 (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 2017; Nicaragua, which is up for renewal in May 2026 and Panama, which is up for renewal in November 2024.

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

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

Table of Contents**DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT**

Over the past several years, we made significant capital investments to modernize our facilities and improve operating efficiency and productivity, including:

increasing the annual capacity of our bottling plants by installing new production lines;

installing clarification facilities to process different types of sweeteners;

installing plastic bottle-blowing equipment;

modifying equipment to increase flexibility to produce different presentations, including faster sanitation and changeover times on production lines; and

closing obsolete production facilities.

For more information on our capital investments, see **Item 5. Operating and Financial Review and Prospects Capital Expenditures.**

As of December 31, 2016, we owned 46 bottling plants company-wide. By country, as of such date, we had 17 bottling facilities in Mexico, 5 in Central America, 7 in Colombia, 4 in Venezuela, 11 in Brazil and 2 in Argentina.

As of December 31, 2016, we operated 276 distribution centers, approximately 53.0% of which were in our Mexican territories. As of such date, we owned more than 85.0% of these distribution centers and leased the remainder. See **The Company Product Sales and Distribution.**

We maintain an all-risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disaster, including hurricane, hail, earthquake and damages caused by human acts, including explosion, fire, vandalism and riot; we also maintain a freight transport insurance policy that covers damages to goods in transit. In addition, we maintain a liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. In 2016, the policies for all-risk property insurance were issued by Chubb de México, Compañía de Seguros S.A. de C.V., the liability insurance was issued by Mapfre Tepeyac Seguros S.A. and the policy for freight transport insurance was issued by AXA Seguros, S.A. de C.V. We believe that our coverage is consistent with the coverage maintained by similar companies.

The table below summarizes by country principal use, installed capacity and percentage utilization of our production facilities:

Bottling Facility Summary

As of December 31, 2016

Country	Installed Capacity (thousands of unit cases)	Utilization⁽¹⁾⁽²⁾ (%)
Mexico	2,712,271	66
Guatemala	43,237	76
Nicaragua	64,795	79
Costa Rica	81,200	59
Panama	63,343	54
Colombia	613,011	49
Venezuela	235,862	51

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Brazil ⁽³⁾	1,201,791	57
Argentina	366,613	54

- (1) Calculated based on each bottling facility's theoretical capacity assuming total available time in operation and without taking into account ordinary interruptions, such as planned downtime for preventive maintenance, repairs, sanitation, set-ups and changeovers for different flavors and presentations. Additional factors that affect utilization levels include seasonality of demand for our products, supply chain planning due to different geographies and different packaging capacities.
- (2) Annualized rate.
- (3) Includes the installed capacity and utilization of our plant located in Porto Real up to October 2016, when the plant was shut down to achieve cost efficiencies and expected synergies.

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The table below summarizes by country plant location and facility area of our production facilities:

Bottling Facility by Location

As of December 31, 2016

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	San Cristobal de las Casas, Chiapas	45
	Cuautitlan, Estado de Mexico	35
	Los Reyes la Paz, Estado de Mexico	50
	Toluca, Estado de Mexico	317
	Leon, Guanajuato	124
	Morelia, Michoacan	50
	Ixtacomitan, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	La Pureza Altamira, Tamaulipas	300
	Poza Rica, Veracruz	42
	Pacifico, Estado de Mexico	89
	Cuernavaca, Morelos	37
	Toluca, Estado de Mexico (Ojuelos)	41
	San Juan del Rio, Queretaro	84
	Queretaro, Queretaro	80
	Cayaco, Acapulco	104
Guatemala	Guatemala City	46
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San Jose	52
	Coronado, San Jose	14
Panama	Panama City	29
Colombia	Barranquilla	37
	Bogota, DC	105
	Bucaramanga	26
	Cali	76
	Manantial, Cundinamarca	67
	Tocancipa	298
Venezuela	Medellin	47
	Antimano	15
	Barcelona	141
	Maracaibo	68
Brazil	Valencia	100
	Campo Grande	36
	Jundiai	191
	Mogi das Cruzes	119
	Maringa	160
	Marilia	159
	Curitiba	119
	Bauru	39
	Itabirito	320

	Antonio Carlos	1,519
	Porto Alegre	196
	Santo Angelo	43
Argentina	Alcorta, Buenos Aires	73
	Monte Grande, Buenos Aires	32

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The table below sets forth all of our direct and indirect significant subsidiaries and the percentage of equity of each subsidiary we owned directly or indirectly as of December 31, 2016:

Name of Company	Jurisdiction of Incorporation	Percentage Owned	Description
Propimex, S. de R.L. de C.V.	Mexico	100.0%	Manufacturer and distributor of bottled beverages.
Controladora Interamericana de Bebidas, S. de R.L. de C.V.	Mexico	100.0%	Holding company of manufacturers and distributors of beverages.
Spal Indústria Brasileira de Bebidas, S.A.	Brazil	96.1%	Manufacturer and distributor of bottled beverages.
Distribuidora y Manufacturera del Valle de México, S. de R.L. de C.V.	Mexico	100.0%	Manufacturer and distributor of bottled beverages.
Servicios Refresqueros del Golfo, S. de R.L. de C.V.	Mexico	100.0%	Manufacturer and distributor of bottled beverages.
Coca-Cola FEMSA de Buenos Aires, S.A.	Argentina	100.0%	Manufacturer and distributor of bottled beverages.
Embotelladora de la Sabana, S.A.S.	Colombia	100.0%	Manufacturer and distributor of bottled beverages.

Item 4.A. Unresolved Staff Comments

None.

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Item 5. Operating and Financial Review and Prospects **General**

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

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

Effects of Changes in Economic Conditions. Our results are affected by changes in economic conditions in Mexico, Brazil and in the other countries where we operate. For the year ended December 31, 2016, approximately 67.0% of our total revenues were attributable to Mexico and Brazil. In addition to Mexico and Brazil, we also conduct operations in Central America (including Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Argentina. Our results are affected by the economic conditions in the countries where we conduct operations. Some of these economies continue to be influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect these economies. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our results and financial condition. Our business may also be significantly affected by the interest rates, inflation rates and exchange rates of the local currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. In addition, an increase in interest rates would increase the cost to us of variable rate funding, which would have an adverse effect on our financial position.

Exchange Control Regime in Venezuela. Prior to 2014, we had historically used the official exchange rate in our Venezuelan operations. Commencing in 2014, the Venezuelan government has announced a series of changes to the Venezuelan exchange control regime, approving alternative exchanges rates in addition to the official exchange rate. In January 2014, the Venezuelan government announced an exchange rate determined by the state-run system known as the *Sistema Complementario de Administración de Divisas*, or SICAD. In March 2014, the Venezuelan government announced a new law that authorized an alternative method of exchanging Venezuelan bolivars to U.S. dollars known as SICAD II. In February 2015, the Venezuelan government announced that it was replacing SICAD II with a new market-based exchange rate determined by the system known as the *Sistema Marginal de Divisas*, or SIMADI. In February 2016, the Venezuelan government announced a 37.0% devaluation of the official exchange rate and changed the existing three-tier exchange rate system into a dual system by combining the official exchange rate and the SICAD exchange rate into a single official exchange rate and maintaining the SIMADI exchange rate. In March 2016, the Venezuelan government announced that it was replacing the SIMADI exchange rate with a new market-based exchange rate known as *Divisas Complementarias*, or DICOM, and the official exchange rate with a preferential exchange rate denominated *Divisa Protegida*, or DIPRO. The DIPRO exchange rate is determined by the Venezuelan government and may be used to settle imports of a list of goods and raw materials which has not been published yet as of the date of this annual report. The DICOM exchange rate is determined based on supply and demand of U.S. dollars. As of April 7, 2017, the DIPRO and DICOM exchange rates were 10.0 bolivars and 712.05 bolivars per U.S. dollar, respectively.

We translated our results of operations in Venezuela for the full year ended December 31, 2016 into our reporting currency, the Mexican peso, using the DICOM exchange rate of 673.76 bolivars per US\$1.00, which was the exchange rate in effect as of such date. As a result, in 2016, we recognized a further reduction in equity of Ps.2,286 million. Since 2012, we have recognized a reduction in equity in an aggregate amount of Ps.20,230 million.

Recent Developments in the Consolidation of KOF Philippines. 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. Commencing on February 1, 2017, we started consolidating KOF Philippines' financial results in our financial statements. Our results for the first quarter of 2017 and our future results in 2017 will reflect a reduction in our share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, as a result of this consolidation. For further information, see Note 28 to our consolidated financial statements.

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Recent Acquisitions. In December 2016, we acquired Vonpar, a Brazilian bottler of Coca-Cola trademark products with operations in the states of Rio Grande do Sul and Santa Catarina in Brazil. As part of our acquisition of Vonpar, we also acquired an additional 3.36% equity interest in Leão Alimentos, for a total ownership of 27.7% as of April 7, 2017. We began consolidating the results of Vonpar in our financial statements in December 2016. As a result, our financial results for 2016 are not directly comparable with prior years. For further information see Notes 4.1.1, 9 and 19.7 to our consolidated financial statements.

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

Critical Accounting Judgments and Estimates

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

New Accounting Pronouncements

For a description of the new IFRS and amendments to IFRS adopted during 2016, see Note 2.4 to our consolidated financial statements.

Results

The following table sets forth our consolidated income statements for the years ended December 31, 2016, 2015 and 2014.

	2016 ⁽¹⁾	Year Ended December 31,		
		2016 ⁽²⁾	2015	2014
	(in millions of Mexican pesos or millions of			
	U.S. dollars, except per share data)			
Revenues:				
Net sales	US\$ 8,589	Ps.177,082	Ps.151,914	Ps.146,948
Other operating revenues	31	636	446	350
Total revenues	8,620	177,718	152,360	147,298
Cost of goods sold	4,756	98,056	80,330	78,916
Gross profit	3,864	79,662	72,030	68,382
Costs and expenses:				
Administrative expenses	360	7,423	6,405	6,385
Selling expenses	2,330	48,039	41,879	40,465
Other income	62	1,281	620	1,001
Other expenses	247	5,093	2,368	1,159
Interest expenses	362	7,471	6,337	5,546
Interest income	35	715	414	379
Foreign exchange loss, net	87	1,792	1,459	968
Gain (loss) on monetary position for subsidiaries in hyperinflationary economies	117	2,417	(33)	(312)
Market value gain on financial instruments	2	51	142	25
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	694	14,308	14,725	14,952

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Income taxes	191	3,928	4,551	3,861
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	7	147	155	(125)
Net income	510	10,527	10,329	10,966

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	Year Ended December 31,			
	2016 ⁽¹⁾	2016 ⁽²⁾	2015	2014
	(in millions of Mexican pesos or millions of			
	U.S. dollars, except per share data)			
Equity holders of the parent	488	10,070	10,235	10,542
Non-controlling interest	22	457	94	424
Net income	510	10,527	10,329	10,966
Per share data:				
Basic earnings per share ⁽³⁾	0.24	4.86	4.94	5.09
Diluted earnings per share ⁽⁴⁾	0.24	4.85	4.94	5.09

(1) Translation to U.S. dollar amounts at an exchange rate of Ps.20.62 per US\$1.00 solely for the convenience of the reader.

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

(3) Computed on the basis of the weighted average number of shares outstanding during the period: 2,072.92 million in 2016, 2015 and 2014.

(4) Computed on the basis of the diluted weighted average number of shares outstanding during the period: 2,074.83 million in 2016 and 2,072.92 million in 2015 and 2014. For further information see Note 3.25 to our consolidated financial statements.

Operations by Consolidated Reporting Segment

The following table sets forth certain financial information for each of our consolidated reporting segments for the years ended December 31, 2016, 2015 and 2014. See Note 25 to our consolidated financial statements for additional information about all of our consolidated reporting segments.

	Year Ended December 31,		
	2016	2015	2014
	(in millions of Mexican pesos)		
Total revenues			
Mexico and Central America ⁽¹⁾	87,557	78,709	71,965
South America (excluding Venezuela) ⁽²⁾	71,293	64,752	66,367
Venezuela	18,868	8,899	8,966
Gross profit			
Mexico and Central America ⁽¹⁾	43,569	40,130	36,453
South America (excluding Venezuela) ⁽²⁾	29,263	27,532	27,372
Venezuela	6,830	4,368	4,557

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

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

Results for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015**Consolidated Results**

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The comparability of our financial and operating performance in 2016 as compared to 2015 was affected by the following factors: (1) our acquisition and integration of Vonpar, (2) translation effects from fluctuations in exchange rates and (3) our results of operations in territories that are considered hyperinflationary economies (currently, our only operation that is considered a hyperinflationary economy is Venezuela). To translate the full-year 2016 results in Venezuela, we used the DICOM exchange rate of 673.76 bolivars per U.S. dollar, as compared to 198.70 bolivars per U.S. dollar exchange rate used to translate our 2015 results. The average depreciations to the U.S. dollar of currencies used in our main operations during 2016, as compared to 2015, were: 17.7% for the Mexican peso, 4.8% for the Brazilian real, 11.4% for the Colombian peso and 59.5% for the Argentine peso. Consolidated results include full-year figures of our territories and one month figures of Vonpar.

Total Revenues. Our consolidated total revenues increased by 16.6% to Ps.177,718 million in 2016, mainly as a result of the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso, which was partially offset by the negative translation effect resulting from the use of the DICOM exchange rate to translate the results of our Venezuelan operations and the depreciation of the Argentine peso relative to the Mexican peso. Excluding the effects of currency fluctuations, total revenues would have increased by a smaller amount, driven by the growth of the average price per unit case in most of our operations and volume growth in Mexico and Central America.

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Total sales volume decreased by 3.0% to 3,334.0 million unit cases in 2016 as compared to 2015, as a result of the sales volume contraction in Brazil, Colombia, Argentina and Venezuela discussed below. Excluding the effects of our recent acquisition of Vonpar and the results of our operations in Venezuela, total sales volume would have decreased by 0.9% in 2016 as compared to 2015. Sales volume of our sparkling beverage portfolio decreased by 3.4% as compared to 2015. Excluding the effects of our recent acquisition of Vonpar and the results of our operations in Venezuela, sales volume of our sparkling beverage portfolio would have decreased by 1.0%, mainly as a result of a contraction in Brazil and Colombia, which was partially offset by the positive performance of the *Coca-Cola* brand in Mexico, Central America and Colombia, and our flavored sparkling beverage portfolio in Mexico and Central America. Sales volume of our still beverage portfolio decreased by 0.6% as compared to 2015. Excluding the effects of our recent acquisition of Vonpar and the results of our operations in Venezuela, sales volume of our still beverage portfolio would have grown 2.9% mainly driven by the positive performance of *ValleFrut* orangeade, *Del Valle* juice and the Santa Clara dairy business in Mexico and *Fuze tea* in Central America. Sales volume of bottled water, excluding bulk water, decreased by 1.2% as compared to 2015. Excluding the effects of our recent acquisition of Vonpar and the results of our operations in Venezuela, bottled water, excluding bulk water, would have decreased by 1.1%, driven by a contraction in Brazil and Colombia, which was partially offset by increased volume in Mexico and Argentina. Sales volume of bulk water decreased by 2.0% as compared to 2015. Excluding the effects of our recent acquisition of Vonpar and the results of our operations in Venezuela, sales volume of bulk water would have decreased by 1.9%, mainly driven by a sales volume contraction of the *Brisa* and *Crystal* brand products in Colombia and Brazil, respectively.

Consolidated average price per unit case increased by 19.8% reaching Ps.50.75 in 2016, as compared to Ps.42.34 in 2015, mainly as a result of the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso, which was partially offset by the negative translation effect resulting from the use of the DICOM exchange rate to translate the results of our Venezuelan operations and the depreciation of the Argentine peso relative to the Mexican peso. Excluding the effects of currency fluctuations and our recent acquisition of Vonpar, and the results of our operations in Venezuela, average price per unit case would have grown 6.8% in 2016, driven by average price per unit case increases above inflation in local currency in most of our territories.

Gross Profit. Our gross profit increased by 10.6% to Ps.79,662 million in 2016; however, our gross profit margin decreased by 250 basis points to reach 44.8% in 2016, mainly as a result of higher sugar prices, the depreciation of the average exchange rate of the Mexican peso, the Brazilian real, the Colombian peso and the Argentine peso relative to the U.S. dollar as applied to U.S. dollar-denominated raw material costs and an unfavorable currency hedging position in Brazil, which were partially offset by lower PET prices and our overall currency hedging strategy.

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

Administrative and Selling Expenses. Our administrative and selling expenses as a percentage of total revenues decreased by 50 basis points to 31.2% in 2016 as compared to 2015. Our administrative and selling expenses in absolute terms increased by 14.9% as compared to 2015, mainly as a result of the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso, the inflationary effect of our operations in Venezuela, as well as the depreciation of the Mexican peso relative to the U.S. dollar. In local currency, administrative and selling expenses as a percentage of revenues decreased in Brazil and Colombia. In 2016, we continued investing in marketing across our territories to support marketplace execution, increase cooler coverage and bolster returnable presentation base.

Other Expenses Net. We recorded other expenses net of Ps.3,812 million in 2016 as compared to Ps.1,748 million in 2015, mainly due to negative currency fluctuation effects in our operations in Venezuela.

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

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Comprehensive financing result in 2016 recorded an expense of Ps.6,080 million as compared to an expense of Ps.7,273 million in 2015. This decrease was mainly driven by a gain on the monetary position in our hyperinflationary operation in Venezuela due to an increase in the balance of accounts payable. This gain was partially offset by a foreign exchange loss resulting from the depreciation of the end-of-period exchange rate of the Mexican peso relative to the U.S. dollar as applied to our U.S. dollar-denominated debt.

Income Taxes. In 2016, income tax as a percentage of income before taxes was 27.2% as compared to 30.6% in 2015. This lower effective tax rate in 2016 was mainly due to certain tax efficiencies across our operations, a lower effective tax rate in Colombia and ongoing efforts to reduce non-deductible items across our operations. For more information, see Note 23 to our consolidated financial statements.

Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method, Net of Taxes. In 2016, we recorded a gain of Ps.147 million in the share of the profits of associates and joint ventures accounted for using the equity method, net of taxes, representing a decrease of 5.2% as compared to 2015, mainly due to a reduced equity method gain from our participation in associated companies.

Net Income (Equity holders of the parent). Our net controlling interest income reached Ps.10,070 million in 2016 as compared to Ps.10,235 million in 2015. Basic earnings per share in 2016 were Ps.4.86 (Ps.48.58 per ADS) computed on the basis of the weighted average number of shares outstanding during the period of 2,072.9 million shares outstanding (each ADS represents 10 Series L shares).

Results by Consolidated Reporting Segment

Mexico and Central America

Total Revenues. Total revenues in our Mexico and Central America consolidated reporting segment increased by 11.2% to Ps.87,557 million in 2016 as compared to 2015, mainly driven by a positive translation effect resulting from the appreciation of local currencies in our Central American territories relative to the Mexican peso. Excluding the effect of currency fluctuations, total revenues would have increased by a smaller amount, mainly as a result of positive volume performance and average price increases in both Mexico and Central America.

Total sales volume in our Mexico and Central America consolidated reporting segment increased by 3.7% to 2,025.6 million unit cases in 2016 as compared to 2015, as a result of volume increase in both Mexico and Central America as discussed below. Sales volume of our sparkling beverage portfolio increased by 3.9%, mainly driven by a 2.8% increase in sales volume of *Coca-Cola* brand products and an 8.3% increase in sales volume of our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 11.8%, mainly due to the performance of the Jugos del Valle portfolio and our Santa Clara dairy business in Mexico. Sales volume of bottled water, including bulk water, increased by 0.7%, mainly driven by an increase in sales volume of *Ciel* flavored water products in Mexico.

Sales volume in Mexico increased by 3.7% to 1,850.7 million unit cases in 2016, as compared to 1,784.6 million unit cases in 2015. Sales volume of our sparkling beverage portfolio increased by 3.8%, driven by a 2.7% increase in sales volume of *Coca-Cola* brand products and a 9.1% increase in sales volume of our flavored sparkling beverage portfolio, mainly supported by the performance of *Naranja&Nada* and *Limon&Nada*, our sparkling orangeade and lemonade, and the *Mundet* brand. Sales volume of our still beverage portfolio increased by 14.2%, mainly as a result of the performance of *ValleFrut* brand products, the *Del Valle* juice portfolio and our Santa Clara dairy business. Sales volume of bottled water, including bulk water, increased by 0.7%, mainly driven by the performance of *Ciel Exprim* flavored water products.

Sales volume in Central America increased by 4.2% to 174.9 million unit cases in 2016, as compared to 167.8 million unit cases in 2015. Sales volume of our sparkling beverage portfolio increased by 5.0%, supported by the strong performance of *Coca-Cola* brand products and our flavored sparkling beverages portfolio in Guatemala, Nicaragua and Costa Rica. Sales volume of our still beverage portfolio decreased slightly by 0.3%. Sales volume of bottled water, including bulk water, increased by 1.7%.

Gross Profit. Our gross profit in this consolidated reporting segment increased by 8.6% to Ps.43,569 million in 2016 as compared to 2015; however, gross profit margin decreased by 120 basis points to 49.8% in 2016, mainly as a result of higher prices of sugar and the depreciation of the average exchange rate of the Mexican peso relative to the U.S. dollar as applied to our U.S. dollar-denominated raw material costs, which were partially offset by lower PET prices and our overall currency hedging strategy.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment decreased by 60 basis points to 32.6% in 2016 as compared to 2015. Administrative and selling expenses in absolute terms increased by 9.4% as compared to 2015, mainly due to an increase in selling expenses in Mexico.

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South America (excluding Venezuela)

Total Revenues. Total revenues in our South America (excluding Venezuela) consolidated reporting segment increased by 10.1% to Ps.71,293 million in 2016 as compared to 2015, mainly driven by the positive translation effect resulting from the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso. Total revenues for beer amounted to Ps.7,887 million. Excluding the effects of currency fluctuations, total revenues would have grown by a smaller amount, driven by an average price per unit case increases across our territories.

Total sales volume in our South America (excluding Venezuela) consolidated reporting segment decreased by 6.6% to 1,165.3 million unit cases in 2016 as compared to 2015. Excluding the effects of our recent acquisition of Vonpar, total sales volume would have decreased by 8.2% to 1,145.7 million unit cases in 2016 as compared to 2015, as a result of volume contraction in all of our South America operations. On the same basis, sales volume of our sparkling beverage portfolio decreased by 8.0%, mainly due to a volume contraction of *Coca-Cola* brand products in Brazil and Argentina and flavored sparkling beverages in all our territories in this division. Excluding the effects of our recent acquisition of Vonpar, sales volume of our still beverage portfolio decreased by 8.9%, mainly driven by a sales volume contraction of the *Jugos del Valle* line of business in Colombia and *Kapo* and *Del Valle Mais* brand products in Brazil. On the same basis, sales volume of bottled water, including bulk water, decreased by 8.7%, mainly due to a sales volume contraction of *Brisa* brand products in Colombia and *Crystal* brand products in Brazil.

Sales volume in Brazil decreased by 6.4% to 649.2 million unit cases in 2016, as compared to 693.6 million unit cases in 2015. Excluding the effects of our recent acquisition of Vonpar, sales volume would have decreased by 9.2% to 629.7 million unit cases. On the same basis, sales volume of our sparkling beverage portfolio decreased by 9.0%, mainly as a result of a sales volume decrease in *Coca-Cola* brand products. Excluding the effects of our recent acquisition of Vonpar, sales volume of our still beverage portfolio decreased by 7.2%, mainly as a result of a sales volume contraction of *Kapo* and *Del Valle Mais* brand products. On the same basis, sales volume of bottled water, including bulk water, decreased by 13.1%, mainly due to a sales volume contraction of *Crystal* brand products.

Sales volume in Colombia decreased by 4.1% to 307.0 million unit cases in 2016, as compared to 320.0 million unit cases in 2015. Sales volume of our sparkling beverage portfolio decreased by 0.7%, mainly driven by a 9.4% decrease in sales volume of our flavored sparkling beverages portfolio, which was partially offset by a 1.9% sales volume increase of *Coca-Cola* brand products. Sales volume of our still beverage portfolio decreased by 13.6%, mainly as a result of a sales volume contraction of *Del Valle* and *ValleFruit* brand products. Sales volume of bottled water, including bulk water, decreased by 11.8%, driven by a sales volume contraction of *Brisa* brand products in multiple serving presentations.

Sales volume in Argentina decreased by 10.6% to 209.1 million unit cases in 2016, as compared to 233.9 million unit cases in 2015. Sales volume of our sparkling beverage portfolio decreased by 13.6%, mainly driven by a decrease in sales volume of *Coca-Cola* brand products and our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio decreased by 0.6%, mainly driven by a decrease in sales volume of *Cepita* and *Powerade* brand products. Sales volume of bottled water, including bulk water, increased by 6.9%, mainly driven by an increase in sales volume of *Kin* and *Bonaqua* brand products.

Gross Profit. Our gross profit in this consolidated reporting segment in 2016 reached Ps.29,263 million, an increase of 6.3% as compared to 2015; however, gross profit margin decreased by 150 basis points to 41.0% in 2016. This decrease was mainly driven by higher sugar prices, the depreciation of the average exchange rate of the Brazilian real, the Colombian peso and the Argentine peso relative to the U.S. dollar as applied to U.S. dollar-denominated raw material costs and an unfavorable currency hedging position in Brazil, which was partially offset by lower PET prices and our currency hedging strategy in Colombia and Argentina.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment decreased by 50 basis points to 29.5% in 2016 as compared to 2015. Administrative and selling expenses in absolute terms increased by 8.5%, as compared to 2015, mainly driven by the negative translation effect resulting from the appreciation of the Brazilian real and the Colombian peso relative to the Mexican peso.

Venezuela

Total Revenues. Total revenues in Venezuela increased by 112.0% to Ps.18,868 million in 2016 as compared to 2015, mainly driven by an increase in the average price per unit case.

Total sales volume in Venezuela decreased by 39.3% to 143.1 million unit cases in 2016 as compared to 2015, mainly due to an overall sales volume contraction in all our categories as a result of the scarcity of raw materials and demand for our products. Sales volume of our sparkling beverage portfolio decreased by 41.0%. Sales volume of our still beverage portfolio decreased by 46.4%. Sales volume of bottled water, including bulk water, decreased by 10.1%.

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Gross Profit. Gross profit in Venezuela reached Ps.6,830 million in 2016, an increase of 56.4% as compared to 2015 with a gross profit margin decrease of 12.9 percentage points reaching 36.2%. This decrease in gross profit margin was mainly driven by an increase in the prices of raw materials.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues in this consolidated reporting segment remained flat at 31.0% in 2016, as compared to 2015. Administrative and selling expenses in absolute terms increased by 112.0%, as compared to 2015, mainly driven by an increase in selling expenses in Venezuela.

Results for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

Consolidated Results

The comparability of our financial and operating performance in 2015 as compared to 2014 was affected by the following factors: (1) translation effects from fluctuations in exchange rates and (2) our results of operations in territories that are considered hyperinflationary economies (currently, our only operation that is considered a hyperinflationary economy is Venezuela). To translate the full-year 2015 results of Venezuela, we used the SIMADI exchange rate of 198.70 bolivars per U.S. dollar, as compared to 49.99 bolivars per U.S. dollar used to translate our 2014 results. In addition, the average depreciations to the U.S. dollar of currencies used in our main operations during 2015, as compared to 2014, were: 41.6% for the Brazilian real, 37.0% for the Colombian peso, 19.2% for the Mexican peso and 14.1% for the Argentine peso.

Total Revenues. Our consolidated total revenues increased 3.4% to Ps.152,360 million in 2015 despite the negative translation effect resulting from using the SIMADI exchange rate to translate the results of our Venezuelan operations and the depreciation of the Brazilian real, the Colombian peso, the Mexican peso and the Argentine peso. Excluding the effect of currency fluctuations, total revenues would have increased by a larger amount, driven by the growth of the average price per unit case in all of our operations and volume growth in Mexico, Central America, Colombia and Argentina.

Total sales volume increased 0.5% to 3,435.6 million unit cases in 2015, as compared to 2014. Excluding the results of our Venezuelan operations, total volume would have grown 0.7% in 2015, as compared to 2014. Our sparkling beverage portfolio grew 0.5% as compared to 2014. Excluding the effect of our Venezuelan operations, the sparkling beverage portfolio would have grown 0.7% as a result of positive performance of the *Coca-Cola* brand in Mexico, Colombia and Central America, and our flavored sparkling beverage portfolio in Mexico, Colombia, Argentina and Central America. The still beverage category grew 4.9% as compared to 2014. Excluding the effect of our Venezuelan operations, the still beverage category would have grown 6.5% driven by the positive performance of Jugos del Valle juice in Colombia, Mexico and Central America; *ValleFruit* orangeade in Mexico and Brazil; the *Powerade* brand across most of our territories and the Santa Clara dairy business in Mexico. Bottled water, excluding bulk water, grew 2.3% as compared to 2014. Excluding the effect of our Venezuelan operations, bottled water, excluding bulk water, would have grown 1.8%, driven by growth in Colombia, Argentina, Brazil and Central America. Bulk water decreased 2.9% as compared to 2014, mainly driven by a contraction of the *Ciel* brand in Mexico.

Consolidated average price per unit case grew 3.5% reaching Ps.42.34 in 2015, as compared to Ps.40.92 in 2014, despite the negative translation effect resulting from using the SIMADI exchange rate to translate the results of our Venezuelan operations and the depreciation of the Brazilian real, the Colombian peso and the Argentine peso. Excluding the effect of currency fluctuations and our Venezuelan operations, average price per unit case would have grown 8.8% in 2015, driven by average price per unit case increases in local currency in each of our operations.

Gross Profit. Our gross profit increased 5.3% to Ps.72,030 million in 2015, with a gross profit margin expansion of 90 basis points. In local currency, the benefit of lower sweetener and PET prices, in combination with our currency hedging strategy, was partially offset by the depreciation of the average exchange rate of the Brazilian real, the Colombian peso, the Mexican peso and the Argentine peso as applied to U.S. dollar-denominated raw material costs.

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

Administrative and Selling Expenses. Our administrative and selling expenses as a percentage of total revenues decreased 10 basis points to 31.7% in 2015 as compared to 2014. Our administrative and selling expenses in absolute terms increased 3.1% as compared to 2014, mainly as a result of the depreciation of the Mexican peso relative to the U.S. dollar. In local currency, operating expenses as a percentage of revenues decreased in Mexico, Venezuela and Argentina. In 2015, we continued investing across our territories to support marketplace execution, increase cooler coverage and bolster returnable presentation base.

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Other Expenses Net. We recorded other expenses net of Ps.1,748 million in 2015, mainly due to certain restructuring charges and the negative operating currency fluctuation effects across our territories.

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

Comprehensive financing result in 2015 recorded an expense of Ps.7,273 million as compared to an expense of Ps.6,422 million in 2014. This increase was mainly driven by a foreign exchange loss as a result of the depreciation of the end-of-period exchange rate of the Mexican peso during the year, as applied to our U.S. dollar-denominated net debt position.

Income Taxes. In 2015, income tax as a percentage of income before taxes was 30.6% as compared to 26.0% in 2014. The lower effective tax rate registered in 2014 was mainly related to a one-time benefit resulting from the settlement of certain contingent tax liabilities under the tax amnesty program offered by the Brazilian tax authorities, which was not repeated in 2015. For more information, see Note 23 to our consolidated financial statements.

Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes. In 2015, we reported a gain of Ps.155 million in the share of the profits of associates and joint ventures line, mainly due to an equity method gain from our participation in associated companies and in KOF Philippines.

Net Income (Equity holders of the parent). Our net controlling interest income reached Ps.10,235 million in 2015 as compared to Ps.10,542 million in 2014. Earnings per share in 2015 were Ps.4.94 (Ps.49.37 per ADS) computed on the basis of the weighted average number of shares outstanding during the period of 2,072.9 million shares outstanding (each ADS represents 10 Series L shares).

Results by Consolidated Reporting Segment

Mexico and Central America

Total Revenues. Total revenues from our Mexico and Central America division increased 9.4% to Ps.78,709 million in 2015, mainly driven by a positive translation effect resulting from the appreciation of local currencies in our Central American territories relative to the Mexican peso. Excluding the effect of currency fluctuations, total revenues would have increased by a smaller amount, mainly as a result of a positive volume performance and average price increases in both Mexico and Central America.

Total sales volume in our Mexico and Central America consolidated reporting segment increased by 1.8% to 1,952.4 million unit cases in 2015 as compared to 2014. Sales volume of our sparkling beverage portfolio increased by 3.0%, mainly driven by 2.4% increase in sales volume of *Coca-Cola* brand products and a 5.5% increase in sales volume of our flavored sparkling beverage portfolio. Sales volume of our still beverage portfolio increased by 6.8%, mainly due to the performance of the Jugos del Valle portfolio, the *Powerade* brand and our Santa Clara dairy business in Mexico. Sales volume of bottled water, including bulk water, decreased by 3.5% driven by a volume contraction of the *Ciel* brand products in Mexico.

Sales volume in Mexico increased by 1.7% to 1,784.6 million unit cases in 2015, as compared to 1,754.9 million unit cases in 2014. Sales volume of our sparkling beverage portfolio increased by 3.1%, driven by a 2.6% increase in sales volume of *Coca-Cola* brand products and a 5.7% increase in sales volume of our flavored sparkling beverage portfolio, mainly supported by the performance of *Mundet*, *Fanta* and the introduction of *Naranja&Nada* and *Limon&Nada*, our sparkling orangeade and lemonade. Sales volume of our still beverage portfolio increased by 5.3%, mainly as a result of the performance of the *Del Valle* portfolio, the *Powerade* brand and our Santa Clara dairy business. Sales volume of bottled water, including bulk water, decreased by 3.7%, driven by a volume contraction of the *Ciel* brand products in Mexico.

Sales volume in Central America increased by 2.6% to 167.8 million unit cases in 2015, as compared to 163.6 million unit cases in 2014. Sales volume of our sparkling beverage portfolio increased by 1.0% supported by the strong performance of *Coca-Cola* brand products and our flavored sparkling beverages portfolio in Nicaragua and Panama. Sales volume of our still beverage portfolio increased by 15.6%, due to the performance of the *Powerade* brand in Central America, *Fuze tea* in Costa Rica and *Hi-C* juice in Nicaragua. Sales volume of bottled water,

including bulk water, increased 7.6% across the region.

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Gross Profit. Our gross profit increased 10.1% to Ps.40,133 million in 2015 as compared to 2014, and gross profit margin increased 30 basis points to reach 51.0% in 2015. Lower sweetener and PET prices in the division, in combination with our currency hedging strategy, were partially offset by the depreciation of the average exchange rate of most of our division's currencies as applied to our U.S. dollar-denominated raw material costs.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues decreased 20 basis points to 33.2% in 2015, as compared to 2014. Administrative and selling expenses in absolute terms increased 8.6%, as compared to 2014, mainly as a result of the depreciation of the Mexican peso relative to the U.S. dollar.

South America (excluding Venezuela)

Total Revenues. Total revenues in our South America (excluding Venezuela) consolidated reporting segment decreased by 2.4% to Ps.64,752 million in 2015, as compared to 2014, mainly driven by the negative translation effect resulting from the devaluation of the Brazilian real, the Colombian peso and the Argentine peso as compared to the Mexican peso. Revenues of beer accounted for Ps.6,459 million. Excluding the effect of currency fluctuations, total revenues would have increased, driven by average price per unit case increases in local currency in each of the operations of our South America division.

Total sales volume in our South America (excluding Venezuela) consolidated reporting segment decreased by 0.8% to 1,247.6 million unit cases in 2015 as compared to 2014, as a result of a volume contraction in Brazil which was partially offset by volume growth in Colombia and Argentina. Sales volume of our sparkling beverage portfolio decreased by 2.3% mainly driven by the volume contraction in Brazil. Sales volume of our still beverage portfolio increased by 7.5% mainly driven by the Jugos del Valle line of business in Colombia and the *Cepita* and *Hi-C* brands in Argentina. Sales volume of bottled water, including bulk water, increased by 7.5% driven by the performance of the *Crystal* brand in Brazil, the *Manantial* and *Brisa* brands in Colombia and the *Aquarius*, *Kin* and *Bonaqua* brands in Argentina.

Sales volume in Brazil decreased by 5.4% to 693.6 million unit cases in 2015, as compared to 733.5 million unit cases in 2014. Sales volume of our sparkling beverage portfolio decreased by 5.8%, mainly as a result of a volume contraction of *Coca-Cola* brand products. Sales volume of our still beverage portfolio decreased by 8.8%, mainly as a result of a volume contraction of *Del Valle Mais* brand products. Sales volume of bottled water, including bulk water, increased by 1.2%, mainly driven by a sales volume increase in *Crystal* brand products.

Sales volume in Colombia increased by 7.2% to 320.0 million unit cases in 2015, as compared to 298.4 million unit cases in 2014. Sales volume of our sparkling beverage portfolio increased by 6.2%, mainly driven by a 3.7% volume increase of *Coca-Cola* brand products, and a 14.2% volume increase of our flavored sparkling beverages portfolio. Sales volume of our still beverage portfolio increased by 19.1%, mainly driven by volume increase of *Del Valle Fresh* and *Fuze tea* brand products. Sales volume of bottled water, including bulk water, increased by 5.8%, mainly driven by a volume increase in *Manantial* and *Brisa* brand products in single serve presentations.

Sales volume in Argentina increased by 3.6% to 233.9 million unit cases in 2015, as compared to 225.8 million unit cases in 2014. Sales volume of our sparkling beverage portfolio decreased by 0.2%, mainly driven by a volume decrease in *Coca-Cola* brand products, which was mostly offset by the performance of the *Sprite* and *Schweppes* brands. Sales volume of our still beverage portfolio increased by 31.9%, mainly driven by a volume increase in *Hi-C*, *Cepita* and *Powerade* brand products. Sales volume of bottled water, including bulk water, increased by 28.0%, mainly driven by a volume increase in *Aquarius*, *Kin* and *Bonaqua* brand products.

Gross Profit. Gross profit, excluding Venezuela, reached Ps.27,532 million, an increase of 0.6% in 2015, as compared to 2014, with an increase of 130 basis points to 42.5%. Lower sweetener and PET prices, in combination with our currency hedging strategy, were partially offset by the depreciation of the average exchange rate of each of our division's currencies as applied to our U.S. dollar-denominated raw material costs.

Administrative and Selling Expenses. Administrative and selling expenses, excluding Venezuela, as a percentage of total revenues increased 40 basis points to 30.0% in 2015, as compared to 2014. Administrative and selling expenses in absolute terms decreased 1.3%, as compared to 2014, mainly driven by the negative translation effect resulting from the depreciation of the Brazilian real, the Colombian peso and the Argentine peso.

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Venezuela

Total Revenues. Total revenues in Venezuela decreased 0.8% to reach Ps.8,899 million in 2015 as compared to 2014, driven by the negative translation effect resulting from using the SIMADI exchange rate to translate the results of our Venezuelan operation. Excluding the effect of currency fluctuations, revenues would have grown, driven by an increase in the average price per unit case in local currency.

Total sales volume in Venezuela decreased by 2.3% to 235.6 million unit cases in 2015 as compared to 2014. Sales volume of our sparkling beverage portfolio decreased by 2.1%, driven by a volume contraction in our flavored sparkling beverage portfolio, which was partially offset by a 3.4% volume increase of *Coca-Cola* brand products. Sales volume of our still beverage portfolio decreased by 11.3%, mainly as a result of a volume decrease in *Del Valle* brand products. Sales volume of bottled water, including bulk water, increased by 6.1% mainly driven by a volume increase of *Nevada* brand products.

Gross Profit. Gross profit was Ps.4,368 million in 2015, a decrease of 4.1% as compared to 2014, with a gross profit margin contraction of 170 basis points reaching 49.1%, driven by the negative translation effect resulting from using the SIMADI exchange rate to translate the results of our Venezuelan operation into Mexican pesos.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues decreased 410 basis points to 31.0% in 2015, as compared to 2014. Administrative and selling expenses in absolute terms decreased 12.3%, as compared to 2014, due to the previously mentioned negative currency translation effect.

Liquidity and Capital Resources

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

Our total indebtedness was Ps.88,909 million as of December 31, 2016, as compared to Ps.66,730 million as of December 31, 2015. Short-term debt and long-term debt were Ps.3,052 million and Ps.85,857 million, respectively, as of December 31, 2016, as compared to Ps.3,470 million and Ps.63,260 million, respectively, as of December 31, 2015. Total debt increased Ps.22,179 million in 2016, compared to year end 2015. As of December 31, 2016, our cash and cash equivalents were Ps.10,476 million, as compared to Ps.15,989 million as of December 31, 2015. We had cash outflows in 2016 mainly resulting from dividend payments and the payment in cash for our acquisition of Vonpar. As of December 31, 2016, our cash and cash equivalents were comprised of 28.5% U.S. dollars, 14.3% Mexican pesos, 30.3% Brazilian reais, 15.1% Venezuelan bolivars, 6.3% Argentine pesos, 3.2% Colombian pesos, 1.2% Costa Rican colones and 1.1% other legal currencies. As of March 31, 2017, our cash and cash equivalents balance, was Ps.12,965 million including US\$169 million denominated in U.S. dollars. We believe that these funds, in addition to the cash generated by our operations, are sufficient to meet our operating requirements.

Any further changes in the Venezuelan exchange control regime, and future currency devaluations or the imposition of exchange controls in any of the countries where we have operations could have an adverse effect on our financial position and liquidity.

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

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

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Sources and Uses of Cash. The following table summarizes the sources and uses of cash for the years ended December 31, 2016, 2015 and 2014, from our consolidated statements of changes in cash flows:

	Year Ended December 31, 2016 2015 2014 (in millions of Mexican pesos)		
Net cash flows from operating activities	32,446	23,202	24,406
Net cash flows used in investing activities ⁽¹⁾	(26,915)	(10,945)	(11,137)
Net cash flows (used in)/from financing activities	(9,734)	(8,567)	(11,350)
Dividends paid	(7,014)	(6,416)	(6,030)

(1) Includes property, plant and equipment, the payment of a portion of the purchase price for our acquisition of Vonpar and investments in other assets.

Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2016:

	As of December 31, 2016					
	Maturity less than 1 year	Maturity 1 3 years	Maturity 4 5 years	Maturity in excess of 5 years		Total
	(in millions of Mexican pesos)					
Debt⁽¹⁾						
Mexican pesos			2,497	7,494		9,991
U.S. dollars	206	30,922	4,218	30,781		66,127
Brazilian reais	646	8,485 ⁽²⁾	212	77		9,420
Colombian pesos	1,516	1,171				2,687
Argentine pesos	684					684
Interest Payments on Debt⁽³⁾						
Mexican pesos	616	1,231	882	180		2,909
U.S. dollars	2,404	2,497	1,426	17,293		23,620
Brazilian reais	118	231	178	50		577
Colombian pesos	64	87				151
Argentine pesos	53					53
Cross Currency Swaps						
Mexican pesos to U.S. dollars ⁽⁴⁾		(3,688)	(798)	(125)		(4,611)
Brazilian reais to U.S. dollars ⁽⁵⁾	10	5,102	374			5,486
Forwards						
U.S. dollars to Mexican pesos ⁽⁶⁾	(362)					(362)
U.S. dollars to Brazilian reais ⁽⁷⁾	154					154
U.S. dollars to Colombian pesos ⁽⁸⁾	40					40
Commodity Hedge Contracts						
Sugar ⁽⁹⁾	(370)					(370)
Aluminum ⁽¹⁰⁾	(5)					(5)
Expected Benefits to be Paid for Pension and Retirement Plans, Seniority Premiums and Post-employment	328	648	208	1,590		2,774

(1) Excludes the effect of cross currency swaps.

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- (2) Part of our debt denominated in Brazilian reais consists of a promissory note for 1,090 million Brazilian reais (approximately Ps.7,022 million as of December 31, 2016). This promissory note is denominated and payable in Brazilian reais; however, it is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.
- (3) Interest was calculated using the contractual debt and nominal interest rates as of December 31, 2016. Liabilities denominated in U.S. dollars were converted to Mexican pesos at an exchange rate of Ps.20.66 per U.S. dollar, the exchange rate reported by *Banco de México* quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2016.
- (4) Cross-currency swaps used to convert U.S. dollar-denominated debt into Mexican peso-denominated debt with a notional amount of Ps.27,276 million. These cross-currency swaps are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2016.

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- (5) Cross-currency swaps used to convert U.S. dollar-denominated debt into Brazilian real-denominated debt with a notional amount of Ps.44,044 million. These cross-currency swaps are considered hedges for accounting purposes and the amounts shown in the table are fair value figures (gain)/loss as of December 31, 2016.
- (6) Reflects the market value as of December 31, 2016 of forward derivative instruments used to hedge against fluctuation in the Mexican peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2016.
- (7) Reflects the market value as of December 31, 2016 of forward derivative instruments used to hedge against fluctuation in the Brazilian real. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2016.
- (8) Reflects the market value as of December 31, 2016 of forward derivative instruments used to hedge against fluctuation in the Colombian peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2016.
- (9) Reflects the market value as of December 31, 2016 of futures contracts used to hedge sugar cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2016.
- (10) Reflects the market value as of December 31, 2016 of futures and forwards contracts used to hedge aluminum cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures (gain)/loss as of December 31, 2016.

Debt Structure

The following chart sets forth the debt breakdown of our company and its subsidiaries by currency and interest rate type as of December 31, 2016:

Currency	Percentage of Total Debt ⁽¹⁾⁽²⁾	Average Nominal Rate ⁽³⁾	Average Adjusted Rate ⁽¹⁾⁽⁴⁾
Mexican pesos	36.6%	6.2%	7.6%
U.S. dollars	2.4%	3.3%	5.2%
Brazilian reais	57.3%	5.3%	12.7%
Colombian pesos	3.0%	9.5%	9.5%
Argentine pesos	0.8%	31.7%	31.7%

- (1) Includes the effects of our derivative contracts as of December 31, 2016, including cross currency swaps from U.S. dollars to Mexican pesos and U.S. dollars to Brazilian reais.

- (2) Due to rounding, these figures may not equal 100.0%.

- (3) Annual weighted average interest rate per currency as of December 31, 2016.

- (4) Annual weighted average interest rate per currency as of December 31, 2016 after giving effect to interest rate swaps and cross currency swaps. See **Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.**

Summary of Significant Debt Instruments

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

Mexican Peso-Denominated Bonds (Certificados Bursátiles).

On May 24, 2013, we issued Ps.7,500 million aggregate principal amount of *certificados bursátiles* bearing an annual interest rate of 5.46% and due May 2023. This series of *certificados bursátiles* is guaranteed by Propimex, our main operating subsidiary in Mexico, Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Distribuidora y Manufacturera del Valle de Mexico, S. de R.L. de C.V. (as successor guarantor of Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V.), Yoli de Acapulco, S. de R.L. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., or the Guarantors.

On April 18, 2011, we issued Ps.2,500 million aggregate amount of 10-year fixed rate *certificados bursátiles* bearing an annual interest rate of 8.27% and due April 2021. This series of *certificados bursátiles* is guaranteed by the Guarantors.

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As of December 31, 2016, we had the following *certificados bursátiles* outstanding in the Mexican securities market:

Issue Date	Maturity	Amount	Rate
2013	May 12, 2023	Ps.7,500 million	5.46%
2011	April 5, 2021	Ps.2,500 million	8.27%

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

2.375% Notes due 2018. On November 26, 2013, we issued US\$1 billion aggregate principal amount of 2.375% senior notes due November 26, 2018. These notes are guaranteed by the Guarantors. The indenture governing these notes imposes, among others, certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and the entering into sale and leaseback transactions by us and our significant subsidiaries.

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

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

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

Bank Loans. As of December 31, 2016, we had a number of bank loans in U.S. dollars, Colombian pesos, Brazilian reais, and Argentine pesos, with an aggregate principal amount of Ps.10,167 million.

Promissory Note (Vonpar Acquisition). On December 6, 2016, as part of the purchase price paid for our acquisition of Vonpar, we issued and delivered a three-year promissory note to the sellers, for a total amount of 1,090 million Brazilian reais (approximately Ps.7,022 million as of December 31, 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. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

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

Off-Balance Sheet Arrangements

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

Contingencies

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

We have various losses related to tax, labor and other legal proceedings. We periodically assess the probability of loss for such contingencies and accrue a provision and/or disclose the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is

considered probable and the amount can be reasonably estimated, we accrue a provision for the estimated loss. See Note 24 to our consolidated financial statements. We use outside legal counsel for certain complex legal proceedings. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2016:

	As of December 31, 2016
Tax	Ps. 10,223
Labor	2,356
Legal	1,049
Total	Ps. 13,628

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

As is customary in Brazil, we have been required by the relevant authorities to collateralize tax contingencies currently in litigation amounting to Ps.8,093 million, Ps.3,569 million and Ps.3,026 million as of December 31, 2016, 2015 and 2014, respectively, by pledging fixed assets, or providing bank guarantees.

In connection with our acquisition of Vonpar, the sellers have agreed to indemnify us against certain contingencies that may arise as a result of the management of the business prior to the acquisition. See **Item 4. Information on the Company The Company Corporate History**.

Capital Expenditures

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

	Year Ended December 31, 2016 2015 2014 (in millions of Mexican pesos)		
Mexico and Central America ⁽¹⁾	6,597	4,672	3,952
South America (excluding Venezuela) ⁽²⁾	4,240	5,686	6,198
Venezuela ⁽³⁾	1,554	1,126	1,163
Capital expenditures, net ⁽⁴⁾	12,391	11,484	11,313

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

(2) Includes Colombia, Brazil and Argentina.

(3) Includes the effects of inflation.

(4) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

In 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.

In 2014, we focused part of our capital expenditures in the construction of a production plant in Minas Gerais, Brazil, which was completed and began operations in November 2014, and the construction of a production plant in Tocancipa, Colombia, which was completed and began operations in February 2015.

We have budgeted approximately US\$717 million for our capital expenditures in 2017, including our operations in the Philippines. Our capital expenditures in 2017 are primarily intended for:

investments in production capacity;

market investments;

returnable bottles and cases;

improvements throughout our distribution network; and

investments in information technology.

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We estimate that of our projected capital expenditures for 2017, approximately 30.0% 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 2017. Our capital expenditure plan for 2017 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.

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, 2016. 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, 2016			
	Maturity less than 1 year	Maturity 1 3 years	Maturity 4 5 years	Maturity in excess of 5 years	Total fair value
		(in millions of Mexican pesos)			
Cross Currency Swaps					
Mexican pesos to U.S. dollars		3,688	798	125	4,611
Brazilian reais to U.S. dollars	(10)	(5,102)	(374)		(5,486)
Forwards					
U.S. dollars to Mexican pesos	362				362
U.S. dollars to Brazilian reais	(154)				(154)
U.S. dollars to Colombian pesos	(40)				(40)
Commodity Hedge Contracts					
Sugar	370				370
Aluminum	5				5

In addition, our call option to acquire the remaining 49.0% stake in KOF Philippines and our put option to sell our ownership in KOF Philippines to The Coca-Cola Company are treated as derivative instruments for accounting purposes. See Note 19 to our consolidated financial statements for more information.

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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 14, 2017, 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
Fernández Carbajal	First elected:	1993, as director; 2001 as chairman.
<i>Chairman</i>	Term expires:	2018
	Principal occupation:	Executive Chairman of the board of directors of FEMSA.
	Other directorships:	Chairman of the board of directors of Fundación FEMSA and Instituto Tecnológico y de Estudios Superiores de Monterrey, or ITESM. Chairman Emeritus of the US Mexico Foundation. Member of the board of directors of Heineken Holding, N.V., and vice-chairman of the supervisory board, chairman of the America's committee and member of the preparatory committee and selection and appointment committee of Heineken, N.V. Member of the board of directors of Industrias Peñoles, S.A.B. de C.V., Grupo Televisa, S.A.B. de C.V., or Televisa, and Co-Chairman of the advisory board of Woodrow Wilson Center, Mexico Institute.

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	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⁾
Carlos Salazar	Born:	April 1951
	First elected:	2000
Lomelín	Term expires:	2018
<i>Director</i>	Principal occupation:	Chief Executive Officer of FEMSA.
	Other directorships:	Member of the board of directors of FEMSA, Grupo Financiero BBVA Bancomer, S.A. de C.V., or Grupo BBVA Bancomer, and Fundación FEMSA. Member of the advisory board of Premio Eugenio Garza Sada, Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), Asociación Promotora de Exposiciones, A.C. and the ITESM's EGADE Business School. Executive Chairman of the strategic planning board of the State of Nuevo Leon, Mexico.
	Business experience:	He has held managerial positions in several subsidiaries of FEMSA, including Grafo Regia, S.A. de C.V. and Plásticos Técnicos Mexicanos, S.A. de C.V., served as Chief Executive Officer of FEMSA Cerveza, where he also held various management positions in the Commercial Planning and Export divisions. In 2000 he was appointed our Chief Executive Officer, a position he held until December 31, 2013. As of January 1, 2014, he was appointed Chief Executive Officer of FEMSA.
	Education:	Holds a degree in Economics from ITESM, and performed postgraduate studies in Business Administration at ITESM and Economic Development in Italy.
	Alternate director:	Max Michel González
Miguel Eduardo Padilla Silva	Born:	January 1955
	First elected:	2016
	Term expires:	2018
<i>Director</i>	Principal occupation:	Chief Financial and Corporate Officer of FEMSA.
	Other directorships:	Alternate 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 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

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Javier Gerardo	Born:	July 1959
Astaburuaga Sanjines	First elected:	2006
<i>Director</i>	Term expires:	2018
	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
García	First elected:	1992
<i>Director</i>	Term expires:	2018
	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
<i>Director</i>	Term expires:	2018
	Principal occupation:	Our Chief Executive Officer.
	Business experience:	Has served as our Strategic Planning and Business Development Officer and Chief Operating Officer of our Mexican operations. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of our South America division. He also has experience in several areas of our company, namely development of new products and mergers and acquisitions. Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management.
	Other directorships:	Member of the board of directors of Gentera, S.A.B. de C.V., or Gentera and member of the board of directors and commercial committee of Banco Compartamos, S.A., Institución de Banca Múltiple.
	Education:	Holds a Bachelor's degree in Business Administration and a MBA with a major in Finance from Southern Methodist University.
	Alternate director:	Héctor Treviño Gutiérrez
Paulina Garza	Born:	March 1972
Lagüera Gonda ⁽²⁾	First elected:	2009
<i>Director</i>	Term expires:	2018

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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.

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	Education:	Holds a degree in Business Administration from ITESM.
	Alternate director:	Alfonso Garza Garza ⁽¹⁾
Ricardo Guajardo Touché	Born:	May 1948
	First elected:	1988
<i>Director</i>	Term expires:	2018
	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 BBVA Bancomer, BBVA Bancomer, S.A., Institución de Banca Múltiple, or BBVA Bancomer, Grupo Aeroportuario del Sureste, S.A. de C.V., Grupo Bimbo, S.A.B. de C.V., or Bimbo, 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	Born:	January 1945
	First elected:	2006
<i>Independent Director</i>	Term expires:	2018
	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 Javier, S.A.P.I. 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
Enrique F. Senior Hernández	Born:	August 1943
	First elected:	2004
	Term expires:	2018
<i>Independent Director</i>	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.
	Education:	Holds a Bachelor's degree from Yale University, a law degree and Honorary Law Doctorate from Emerson College and a MBA from Harvard University Business School.
	Alternate director:	Herbert A. Allen III

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Luis Rubio Freidberg <i>Independent Director</i>	Born:	August 1955
	First elected:	2015
	Term expires:	2018
	Principal occupation:	President of Centro de Investigación para el Desarrollo, A.C. (CIDAC)
	Other directorships:	President of the board of directors of the organization México Evalúa. He is also a member of the board of directors of Afore Banamex, Xanthrus, The India Fund-Asia Tigers 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
Daniel Javier Servitje Montull <i>Independent Director</i>	Born:	April 1959
	First elected:	1998
	Term expires:	2018
	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, Latin America Conservation Council (The Nature Conservancy) and Energía Cinco Estrellas, S.A. de C.V. 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., CAS Holding Corp., 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:	Sergio Deschamps Ebergenyi
José Luis Cutrale <i>Director</i>	Born:	September 1946
	First elected:	2004
	Term expires:	2018
	Principal occupation:	Chairman of the board of directors of Sucrofructo 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 Sucrofructo Cutrale and member of the Brazilian American Chamber of Commerce.
	Education:	Holds a degree in Business Administration.
	Alternate director:	José Luis Cutrale, Jr.

Series D Directors

José Octavio Reyes Lagunes <i>Director</i>	Born:	March 1952
	First elected:	2016
	Term expires:	2018
	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 served as President of the Latin American Group of The Coca-Cola Company from 2002 to 2012. Prior to that, 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 <i>Sprite</i> and <i>Diet Coke</i> 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.

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	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
Irial Finan	Born:	June 1957
	First elected:	2004
Director	Term expires:	2018
	Principal occupation:	Executive Vice-President and President of Bottling Investments.
	Other directorships:	Member of the advisory board of Co-operation Ireland non-profit and Galway University Foundation non-profit. Member of the board of directors of Coca-Cola East Japan, The Coca-Cola Foundation, Coca-Cola European Partners, Smurfit Kappa Group and The American-Ireland Fund non-profit.
	Business experience:	He served as Chief Executive Officer of Coca-Cola Hellenic. Has experience in several Coca-Cola bottlers, mainly in Europe.
	Education:	Holds a Bachelor's degree in Commerce from National University of Ireland and is an Associate of the Institute of Chartered Management Accountants.
	Alternate director:	Sunil Ghatnekar
Charles H. McTier	Born:	January 1939
	First elected:	1998
Independent Director	Term expires:	2018
	Principal occupation:	Retired.
	Business experience:	Has been 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
	First elected:	2017
Director	Term expires:	2018
	Principal occupation:	President of The Coca-Cola Company Europe, Middle East and Africa Group.
	Other directorships:	Member of the board of directors of Evertec, Inc.
	Business experience:	Joined The Coca-Cola Company in 1997 as Latin America Group Manager for Mergers and Acquisitions until 2001. From July 2001 to July 2002 he worked as Executive Assistant to the Chief Operating Officer and Vice-Chairman of The Coca-Cola Company. From August 2002 to October 2008 he was President of the Brazil Division and from 2008 to 2012 he was President of the Mexico Division. 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:	Gloria Bowden
Bárbara Garza Lagüera Gonda ⁽²⁾	Born:	December 1959
	First elected:	1999
	Term expires:	2018
Director	Principal occupation:	Private investor and President of the acquisitions committee of Colección
	Other directorships:	FEMSA. Member of the board of directors of ITESM. Vice-Chairman of the board of directors of ITESM Campus Mexico City. Member of the board of directors of 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., Peñitas, S.A. de C.V., Controladora Pentafem, S.A.P.I. de C.V., BECL, S.A. de C.V. and member of the supervision commission of the Fondo Nacional Cultural y Artes (FONCA).
	Education:	Holds a degree in Business Administration from ITESM.

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Series L Directors

Herman Harris Fleishman Cahn	Born:	May 1951
	First elected:	2012
	Term expires:	2018
<i>Independent Director</i>	Principal occupation:	President of Grupo Tampico, S.A.P.I. de C.V.
	Other directorships:	Chairman of the board of directors of Fundación Fleishman and Instituto Fray Andrés de Olmos y Ciudad del Niño San Juan Bosco. He is also a member of the board of directors of Universidad Autónoma de Tamaulipas, Tecnológico de Monterrey Campus Tampico, Administración Portuaria Integral de Tampico, Teléfonos de México, S.A., Banco de México, Banco Nacional de México, S.A., Instituto Cultural Tampico, A.C. and BBVA Bancomer.
	Education:	Holds a Bachelor's degree in Business Administration and postgraduate studies.
	Alternate:	Robert Alan Fleishman Cahn
José Manuel Canal Hernando	Born:	February 1940
	First elected:	2003
	Term expires:	2018
<i>Independent Director</i>	Principal occupation:	Independent consultant.
	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, Grupo Kuo, S.A.B. de C.V., Grupo Industrial Saltillo, S.A.B. de C.V. and Estafeta Mexicana, S.A. de C.V., member 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.
	Alternate:	Luis Alfonso Nicolau Gutiérrez
Francisco Zambrano Rodríguez	Born:	January 1953
	First elected:	2003
	Term expires:	2018
<i>Independent Director</i>	Principal occupation:	Chief Executive Officer of Grupo Verterrak, S.A.P.I. de C.V.
	Other directorships:	Vice Chairman of the board of directors of Desarrollo Inmobiliario y de Valores, S.A. de C.V. and Chairman of the board of directors of Corporativo Zeta DIVASA, S.A. de C.V. Member of the supervisory board of ITESM and member of the board of directors of Desarrollo de Fondos Inmobiliarios, S.A. de C.V.
	Business experience:	Has extensive experience in investment banking and private investment services in Mexico.
	Education:	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.

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Pursuant to a shareholders' agreement dated October 10, 2011, by and among Mr. Herman Harris Fleishman Cahn, Mr. Robert Alan Fleishman Cahn and FEMSA, Mr. Herman Harris Fleishman Cahn and Mr. Robert Alan Fleishman Cahn have been elected as director and alternate director of our board of directors beginning in October 2011 for six consecutive one-year terms. Mr. Herman Harris Fleishman Cahn and Mr. Robert Alan Fleishman Cahn alternate the roles of director and alternate director each year.

Executive Officers

The following are the principal executive officers of our company:

John Anthony Santa	Born:	August 1957
	Joined:	1995
Maria Otazua	Appointed to current position:	
<i>Chief Executive Officer</i>		2014
	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.
Eduardo Guillermo Hernández Peña	Born:	October 1965
	Joined:	2015
<i>Strategic Planning Officer</i>	Appointed to current position:	2017
	Other business experience:	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.
	Business experience with us:	He served as our New Businesses Officer.
	Education:	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.
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.

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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.

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Raymundo Yutani Vela <i>Human Resources Officer</i>	Born:	June 1958
	Joined:	1999
	Appointed to current position:	2014
	Business experience with us:	Human Resources Officer at FEMSA Comercio from 1999 to 2014.
	Other business experience:	Worked as Human Resources Officer at Banco Santander-Serfin from 1995 to 1999.
	Education:	Holds a Bachelor's degree in Accounting and a Master's degree in Human Resources at Universidad Regiomontana and is licensed as a CPA.
José Ramón de Jesús Martínez Alonso <i>Corporate Affairs Officer</i>	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 2011, he was Chief Executive Officer of the <i>Asociación Mexicana de Embotelladores de Coca-Cola</i> (ASCOCA).
	Education:	Holds a degree in Chemical Engineering from La Salle University, an MBA from IPADE and postgraduate studies in production administration from the Georgia Institute of Technology; Strategic Direction from Stanford University; and Finance Management from John E. Anderson Graduate School of the University of California, Los Angeles.
Alejandro Javier Duncan Ancira <i>Supply Chain and Engineering Officer</i>	Born:	May 1957
	Joined:	1995
	Appointed to current position:	2015
	Business experience with us:	Infrastructure Planning Director of Mexico and our Technical Officer. Logistics, Manufacturing Officer in Argentina and Plant Manager in Mexico.
	Other business experience:	Has undertaken responsibilities in different areas such as technology, production, logistics, engineering and project management in manufacturing companies.
	Education:	Holds a degree in Mechanical-Electrical Engineering from ITESM and a MBA from Universidad de Monterrey.
Xiemar Zarazua López <i>Chief Operating Officer Mexico</i>	Born:	June 1963
	Joined:	2017
	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.

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Rafael Alberto Suárez Olaguibel <i>Chief Operating Officer Latin America</i>	Born:	April 1960
	Joined:	1986
	Appointed to current position:	2015
	Business experience with us:	Has served as Chief Operating Officer Latincentro Division, 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.
	Other business experience:	Has worked as Franchises Manager and in other positions at The Coca-Cola Company in Mexico.
Ian Marcel Craig García <i>Chief Operating Officer Brazil</i>	Education:	Holds a degree in Economics and a MBA from ITESM.
	Born:	May 1972
	Joined:	1994
	Appointed to current position:	2016
	Business experience with us:	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.
Stanislas Pierre Marie Auber <i>New Businesses Officer</i>	Other business experience:	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.
	Education:	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.
	Born:	December 1963
	Joined:	2017
	Appointed to current position:	2017
	Other business experience:	Has served as managing director for Latin America at Beam Suntory. Has experience with different bottler companies in Mexico in areas such as General Management.
	Education:	Holds a MBA from ESSEC Business School (France).

(1) See Directors. Compensation of Directors and Officers

For the year ended December 31, 2016, the aggregate compensation of all of our executive officers paid or accrued for services in all capacities was approximately Ps.299.8 million. The aggregate compensation amount includes approximately Ps.175.1 million of cash bonus awards and bonuses paid to certain of our executive officers pursuant to our incentive plan for stock purchases. See **EVA-Based Bonus Program**.

The aggregate compensation for directors during 2016 was Ps.24 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 2016.

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 senior management and executive officers 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, 2016, amounts accrued for all employees under our pension and retirement plans were Ps.2,915 million, of which Ps.910 million are already funded.

EVA-Based Bonus Program

Our bonus program for 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.

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The quantitative objectives represent approximately 50.0% of the bonus and are based on the Economic Value Added, or EVA, methodology. These quantitative objectives, established for the executives at each entity, are based on a combination of the EVA

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generated per entity and by our company and the EVA generated by our parent company, FEMSA. 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 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 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. During the years ended December 31, 2016, 2015 and 2014, the bonus expense recorded amounted to Ps.706 million, Ps.549 million and Ps.523 million, respectively.

Share-based payment bonus plan. We have a stock incentive plan for the benefit of our executive officers. This plan uses as its main evaluation metric the EVA methodology. Under the EVA stock incentive plan, eligible executive officers 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 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 executives accessed them one year after they are vested, at 33.0% per year. The 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.

Share Ownership

As of April 7, 2017, 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 47.9% of our outstanding capital stock. As a result of the voting trust's 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. Irial Finan is the chairman of the Finance and Planning Committee. The other

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members include: Federico Reyes García, Ricardo Guajardo Touché, 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.

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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, 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 Raymundo Yutani Vela.

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

Employees

As of December 31, 2016, our headcount was as follows: 50,867 in Mexico and Central America, 27,974 in South America (excluding Venezuela) and 6,299 in Venezuela. 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,		
	2016	2015	2014
Executives	935	1,024	1,038
Non-union	25,916	24,479	24,502
Union	51,134	49,855	49,150
Employees of third party distributors	7,155	8,354	8,681
Total	85,140	83,712	83,371

As of December 31, 2016, approximately 65.5% of our employees, most of whom were employed in Mexico, were members of labor unions. We had 245 separate collective bargaining agreements with 105 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 Venezuela and Argentina. **See Item 8. Financial Information Consolidated Statements and Other Financial Information and Item 8. Financial Information Legal Proceedings.** We believe we have appropriate reserves for these litigation proceedings and do not currently expect them to have a material adverse effect.

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 7, 2017:

Owner	Outstanding Capital Stock	Percentage Ownership of Outstanding Capital Stock	Percentage of Voting Rights
FEMSA (Series A shares) ⁽¹⁾	992,078,519	47.9%	63.0%
The Coca-Cola Company (Series D Shares) ⁽²⁾	583,545,678	28.1%	37.0%
Public (Series L shares) ⁽³⁾	497,298,032	24.0%	
Total	2,072,922,229	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 María Garza Lagüera Gonda, Eugenio Fernández Garza Lagüera, Daniela Fernández Garza Lagüera, Eva María Fernandez 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 María 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, Alepage, S.A. (controlled by Consuelo Garza Lagüera de Garza), Alberto Bailleres Gonzalez, Maria Teresa Gual Aspe 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.**

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 is expected to be contributed by the sellers into a recently incorporated Mexican company, which will be merged into Coca-Cola FEMSA in exchange for approximately 27.9 million newly issued Series L shares.

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Another portion of the purchase 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.7,022 million as of December 31, 2016). 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

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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.

As of December 31, 2016, we had 17,754,641 ADSs outstanding (each ADS represents 10 Series L shares), and 35.7% of our outstanding Series L shares were represented by ADSs. As of March 31, 2017, we had 18,103,615 of ADSs outstanding, 36.4% of our outstanding Series L shares were represented by ADSs, held by 331 holders (including The Depositary Trust Company) with registered addresses outside of Mexico.

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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.

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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.

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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.

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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.

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.

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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.

We sell our products to certain FEMSA subsidiaries, substantially all of which consists of our sales to a chain of convenience stores under the name OXXO. The aggregate amount of these sales to OXXO was Ps.4,224 million, Ps.3,749 million and Ps.3,414 million in 2016, 2015 and 2014, respectively.

We also purchase products from FEMSA and its subsidiaries. The aggregate amount of these purchases was Ps.8,328 million, Ps.7,720 million and Ps.7,368 million in 2016, 2015 and 2014, respectively. These amounts principally relate to raw materials, assets and services provided to us by FEMSA. In January 2008, 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. In September 2010, FEMSA sold the *Mundet* brand in Mexico to The Coca-Cola Company through The Coca-Cola Company's acquisition of 100.0% of the equity interest of Promotora de Marcas Nacionales, S.A. de C.V. We remain the licensee of the *Mundet* trademark under the license agreements with Promotora de Marcas Nacionales, S.A. de C.V. Both agreements are renewable for ten-year terms, subject to non-renewal by either party with notice to the other party. We recently expanded the territories covered by these agreements to certain of our operations outside of 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.134 million, Ps.216 million and Ps.278 million in 2016, 2015 and 2014, respectively. Finally, we continue to distribute and sell the *Heineken* beer portfolio, including *Kaiser* beer brands, in our Brazilian territories through the 20-year term, consistent with arrangements in place with Cervejarias Kaiser since 2006.

We also purchase products from Heineken and its subsidiaries. The aggregate amount of these purchases was Ps.8,823 million, Ps.6,944 million and Ps.6,288 million in 2016, 2015 and 2014, respectively. These amounts principally relate to raw materials and beer.

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.38,146 million, Ps.27,330 million and Ps.28,084 million in 2016, 2015 and 2014, 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.4,518 million, Ps.3,749 million and Ps.4,118 million in 2016, 2015 and 2014, 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. The December 2007 transaction was valued at US\$48 million and the May 2008 transaction was valued at US\$16 million. Revenues in prior years from the sale of proprietary brands were deferred and amortized against the related costs of future sales over the estimated sales period.

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, and other local suppliers. We also acquire plastic preforms from Alpla Avellaneda S.A. and other suppliers.

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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 7, 2017, we held an interest of 26.3% in the Mexican joint business. 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 7, 2017, we held a 27.7% indirect interest in the *Matte Leão* business in Brazil.

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. 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 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 participation in Santa Clara, a producer of milk and dairy products in Mexico. As of April 7, 2017, 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 during the seven years following the closing date. We also have a put option to sell our ownership in KOF Philippines to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. 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 March 2017, we acquired, through Jugos del Valle, an indirect participation in the Mexican AdeS soy-based beverage business, through our Brazilian and Argentine subsidiaries, an indirect participation in the Brazilian and Argentine AdeS soy-based beverage businesses, and through our Colombian subsidiary, a direct participation in the Colombian AdeS soy-based beverage business. As a result of this acquisition, we have exclusive distribution rights of AdeS soy-based beverages in these territories.

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.798 million, Ps.731 million and Ps.591 million in 2016, 2015 and 2014, respectively. IEQSA purchases aluminum cans from FEMSA. We also purchase sugar from Beta San Miguel and PIASA, both sugar-cane producers in which, as of April 7, 2017, we held a 2.7% and 36.4% equity interest, respectively. We paid Ps.1,349 million, Ps.1,264 million and Ps.1,389 million to Beta San Miguel in 2016, 2015 and 2014, respectively. We paid Ps.1,765 million, Ps.1,236 million and Ps.1,020 million to PIASA in 2016, 2015 and 2014, respectively.

In Mexico, we purchase cans from FAMOSA through PROMESA, a cooperative of Coca-Cola bottlers, in which, as of April 7, 2017, 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.759 million, Ps.587 million and Ps.567 million in 2016, 2015 and 2014, respectively.

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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.

Carlos Salazar Lomelín, a member of our board of directors, is also CEO of FEMSA and chairman of the consultant committee of EGADE, the graduate business school of ITESM, which is a prestigious university system with headquarters in Monterrey, Mexico. ITESM routinely receives donations from us and our subsidiaries.

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 and our affiliates 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.

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.

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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. 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.

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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 Mexican pesos per Series L Share		New York Stock Exchange U.S. dollars per ADS	
	High ⁽¹⁾	Low ⁽¹⁾	High ⁽¹⁾	Low ⁽¹⁾
2012:				
Full year	Ps. 191.34	Ps. 125.61	US\$ 149.43	US\$ 94.30
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
First quarter	132.03	119.22	89.91	78.53
Second quarter	131.64	120.01	86.64	77.74
Third quarter	128.28	113.51	81.33	65.90
Fourth quarter	131.97	114.45	79.89	68.16
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
October	151.68	141.98	81.65	75.01
November	142.69	129.53	76.62	62.90
December	133.33	127.92	65.62	62.17
2017				
January	136.11	128.85	63.91	59.91
February	132.02	128.33	66.35	62.89
March	139.84	130.13	73.39	65.07

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

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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 the only stock exchange 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 three 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. Indeval Instituto para el Depósito de Valores, S.A. de C.V., which we refer to as Indeval, a privately owned securities depository that acts as a clearinghouse for Mexican Stock Exchange transactions.

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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;

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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.**

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:

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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;

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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