

MEXICAN ECONOMIC DEVELOPMENT INC

Form 20-F

April 16, 2014

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As filed with the Securities and Exchange Commission on April 16, 2014.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F
ANNUAL REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

Commission file number 001-35934

Fomento Económico Mexicano, S.A.B. de C.V.

(Exact name of registrant as specified in its charter)

Mexican Economic Development, Inc.

(Translation of registrant's name into English)

United Mexican States

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(Jurisdiction of incorporation or organization)

General Anaya No. 601 Pte.

Colonia Bella Vista

Monterrey, NL 64410 Mexico

(Address of principal executive offices)

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

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

Title of each class:	Name of each exchange on which registered:
American Depositary Shares, each representing 10 BD Units, and each BD Unit consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value	New York Stock Exchange
2.875% Senior Notes due 2023	New York Stock Exchange
4.375% Senior Notes due 2043	New York Stock Exchange

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

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

2,161,177,770	BD Units, each consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value. The BD Units represent a total of 2,161,177,770 Series B Shares, 4,322,355,540 Series D-B Shares and 4,322,355,540 Series D-L Shares.
1,417,048,500	B Units, each consisting of five Series B Shares without par value. The B Units represent a total of 7,085,242,500 Series B Shares.

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.

Item 17

Item 18

If this is an annual report, 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

This annual report contains information materially consistent with the information presented in the audited financial statements and is free of material misstatements of fact that are not material inconsistencies with the information in the audited financial statements.

References

The terms FEMSA, our company, we, us and our, are used in this annual report to refer to Fomento Económico Mexicano, S.A.B. de C.V. a except where the context otherwise requires, its subsidiaries on a consolidated basis. We refer to our subsidiary Coca-Cola FEMSA, S.A.B. de C.V., as Coca-Cola FEMSA, our subsidiary FEMSA Comercio, S.A. de C.V., as FEMSA Comercio, and our subsidiary CB Equity LLP, as CB Equity.

The term S.A.B. stands for *sociedad anónima bursátil*, which is the term used in the United Mexican States, or Mexico, to denominate a publicly traded company under the Mexican Securities Market Law (*Ley del Mercado de Valores*), which we refer to as the Mexican Securities Law.

References to U.S. dollars, US\$, dollars or \$ are to the lawful currency of the United States of America (which we refer to as the United States). References to Mexican pesos, pesos or Ps. are to the lawful currency of Mexico. References to euros or are to the lawful currency of the European Economic and Monetary Union (which we refer to as the Euro Zone).

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 13.0980 to US\$ 1.00, the noon buying rate for Mexican pesos on December 31, 2013, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. On April 4, 2014, this exchange rate was Ps. 13.0265 to US\$ 1.00. See **Item 3. Key Information Exchange Rate Information** for information regarding exchange rates since 2009.

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

Per capita growth rates and population data have been computed based upon statistics prepared by the *Instituto Nacional de Estadística, Geografía e Informática* of Mexico (National Institute of Statistics, Geography and Information, which we refer to as INEGI), the U.S. Federal Reserve Board and *Banco de México* (Bank of Mexico), local entities in each country and upon our estimates.

Forward-Looking Information

This annual report contains words, such as believe, expect and anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including but not limited to effects on our company from changes in our relationship with or among our affiliated companies, movements in the prices of raw materials, competition, significant developments in Mexico and the other countries in which we operate, our ability to successfully integrate mergers and acquisitions we have completed in recent years, international economic or political conditions 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.

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ITEMS 1-2. NOT APPLICABLE

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013, 2012 and 2011. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Our date of transition to IFRS was January 1, 2011.

Pursuant to IFRS, the information presented in this annual report presents financial information for 2013, 2012 and 2011 in nominal terms in Mexican pesos, taking into account local inflation of any hyperinflationary economic environment and converting from local currency to Mexican pesos using the official exchange rate at the end of the period published by the local central bank of each country categorized as a hyperinflationary economic environment (for this annual report, only Venezuela). See Note 3.4 to our audited consolidated financial statements. For each non-hyperinflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for equity and the average exchange rate for the income statement.

Our non-Mexican subsidiaries maintain their accounting records in the currency and in accordance with accounting principles generally accepted in the country where they are located. For presentation in our consolidated financial statements, we adjust these accounting records into IFRS and reported 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, 2013 and does not give effect to any transaction, financial or otherwise, subsequent to that date.

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

	2013 ^{(1) (2)}	Year Ended December 31,		2011 ⁽⁴⁾
		2013 ⁽²⁾	2012 ⁽³⁾	
	(in millions of Mexican pesos or millions of U.S. dollars, except share and per share data)			
Income Statement Data:				
IFRS				
Total revenues	US\$ 19,705	Ps. 258,097	Ps. 238,309	Ps. 201,540
Gross Profit	8,372	109,654	101,300	84,296
Income before Income Taxes and Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method	1,915	25,080	27,530	23,552
Income taxes	592	7,756	7,949	7,618
Consolidated net income	1,692	22,155	28,051	20,901
Controlling interest net income	1,216	15,922	20,707	15,332
Non-controlling interest net income	476	6,233	7,344	5,569
Basic controlling interest net income:				
Per Series B Share	0.06	0.79	1.03	0.77
Per Series D Share	0.08	1.00	1.30	0.96
Diluted controlling interest net income:				
Per Series B Share	0.06	0.79	1.03	0.76
Per Series D Share	0.08	0.99	1.29	0.96
Weighted average number of shares outstanding (in millions):				
Series B Shares	9,246.4	9,246.4	9,246.4	9,246.4
Series D Shares	8,644.7	8,644.7	8,644.7	8,644.7
Allocation of earnings:				
Series B Shares	46.11%	46.11%	46.11%	46.11%
Series D Shares	53.89%	53.89%	53.89%	53.89%
Financial Position Data:				
IFRS				
Total assets	US\$ 27,423	Ps. 359,192	Ps. 295,942	Ps. 263,362
Current liabilities	3,731	48,869	48,516	39,325
Long-term debt ⁽⁵⁾	5,567	72,921	28,640	23,819
Other long-term liabilities	1,134	14,852	8,625	8,047
Capital stock	255	3,346	3,346	3,345
Total equity	16,991	222,550	210,161	192,171
Controlling interest	12,169	159,392	155,259	144,222
Non-controlling interest	4,822	63,158	54,902	47,949
Other Information				
IFRS				
Depreciation	US\$ 672	Ps. 8,805	Ps. 7,175	Ps. 5,694
Capital expenditures ⁽⁶⁾	1,365	17,882	15,560	12,666
Gross margin ⁽⁷⁾	42%	42%	43%	42%

(*) We have not included selected consolidated financial data as of and for the years ended December 31, 2009 and 2010, as we began presenting our financial statements in accordance with IFRS for the fiscal year ending December 31, 2012, with an official IFRS adoption date of January 1, 2012 and a transition date to IFRS of January 1, 2011. Based on such adoption and transition dates, we were not required to prepare financial statements in accordance with IFRS as of and for the years ended December 31, 2009 and 2010 and therefore are unable to present selected financial data in accordance with IFRS for these dates and periods without unreasonable effort and expense.

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- (1) Translation to U.S. dollar amounts at an exchange rate of Ps. 13.0980 to US\$ 1.00 solely for the convenience of the reader.
- (2) Includes results of Grupo Yoli, S.A. de C.V. from June 2013, of Companhia Fluminense de Refrigerantes from September 2013, Spaipa S.A. Industria Brasileira de Bebidas from November 2013 and other business acquisitions. See **Item 4 Information on the Company The Company Corporate Background**, and Note 4 to our audited consolidated financial statements.
- (3) Includes results of Grupo Fomento Queretano from May 2012. See **Item 4 Information on the Company The Company Corporate Background**, and Note 4 to our audited consolidated financial statements.
- (4) Includes results of Grupo Tampico from October 2011 and from Grupo CIMSA from December 2011. See **Item 4 Information on the Company The Company Corporate Background**, and Note 4 to our audited consolidated financial statements.
- (5) Includes long-term debt minus the current portion of long-term debt.
- (6) Includes investments in property, plant and equipment, intangible and other assets, net of cost of long lived assets sold.
- (7) Gross margin is calculated by dividing gross profit by total revenues.

Dividends

We have historically paid dividends per BD Unit (including in the form of American Depositary Shares, or ADSs) approximately equal to or greater than 1% of the market price on the date of declaration, subject to changes in our results and financial position, including due to extraordinary economic events and to the factors described in Item 3. Key Information Risk Factors that affect our financial condition and liquidity. These factors may affect whether or not dividends are declared and the amount of such dividends. We do not expect to be subject to any contractual restrictions on our ability to pay dividends, although our subsidiaries may be subject to such restrictions. Because we are a holding company with no significant operations of our own, we will have distributable profits and cash to pay dividends only to the extent that we receive dividends from our subsidiaries. Accordingly, we cannot assure you that we will pay dividends or as to the amount of any dividends.

The following table sets forth for each year the nominal amount of dividends per share that we declared in Mexican peso and U.S. dollar amounts and their respective payment dates for the 2009 to 2013 fiscal years:

Date Dividend Paid	Fiscal Year with Respect to		Aggregate Amount of Dividend Declared	Per Series B Share Dividend	Per Series B Share Dividend ⁽⁷⁾	Per Series D Share Dividend	Per Series D Share Dividend ⁽⁷⁾
	which Dividend was Declared						
May 4, 2009 and November 3, 2009 ⁽¹⁾	2008		Ps.1,620,000,000	Ps.0.0807	\$ 0.0061	Ps.0.1009	\$ 0.0076
May 4, 2009				Ps.0.0404	\$ 0.0030	Ps.0.0505	\$ 0.0038
November 3, 2009				Ps.0.0404	\$ 0.0030	Ps.0.0505	\$ 0.0038
May 4, 2010 and November 3, 2010 ⁽²⁾	2009		Ps.2,600,000,000	Ps.0.1296	\$ 0.0105	Ps.0.1621	\$ 0.0132
May 4, 2010				Ps.0.0648	\$ 0.0053	Ps.0.0810	\$ 0.0066
November 3, 2010				Ps.0.0648	\$ 0.0053	Ps.0.0810	\$ 0.0066
May 4, 2011 and November 2, 2011 ⁽³⁾	2010		Ps.4,600,000,000	Ps.0.2294	\$ 0.0199	Ps.0.28675	\$ 0.0249
May 4, 2011				Ps.0.1147	\$ 0.0099	Ps.0.14338	\$ 0.0124
November 2, 2011				Ps.0.1147	\$ 0.0085	Ps.0.14338	\$ 0.0106
May 3, 2012 and November 6, 2012 ⁽⁴⁾	2011		Ps.6,200,000,000	Ps.0.3092	\$ 0.0231	Ps.0.3865	\$ 0.0288
May 3, 2012				Ps.0.1546	\$ 0.0119	Ps.0.1932	\$ 0.0149

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November 6, 2012			Ps.0.1546	\$ 0.0119	Ps.0.1932	\$ 0.0149
May 7, 2013 and November 7, 2013 ⁽⁵⁾	2012	Ps.6,684,103,000	Ps.0.3333	\$ 0.0264	Ps.0.4166	\$ 0.0330
May 7, 2013			Ps.0.1666	\$ 0.0138	Ps.0.2083	\$ 0.0173
November 7, 2013			Ps.0.1666	\$ 0.0126	Ps.0.2083	\$ 0.0158
December 18, 2013 ⁽⁶⁾	2012	Ps.6,684,103,000	Ps.0.3333	\$ 0.0257	Ps.0.4166	\$ 0.0321

- (1) The dividend payment for 2008 was divided into two equal payments in Mexican pesos. The first payment was payable on May 4, 2009, with a record date of April 30, 2009, and the second payment was payable on November 3, 2009, with a record date of October 30, 2009.
- (2) The dividend payment for 2009 was divided into two equal payments in Mexican pesos. The first payment was payable on May 4, 2010, with a record date of May 3, 2010, and the second payment was payable on November 3, 2010, with a record date of November 2, 2010.

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- (3) The dividend payment for 2010 was divided into two equal payments in Mexican pesos. The first payment was payable on May 4, 2011, with a record date of May 3, 2011, and the second payment was payable on November 2, 2011, with a record date of November 1, 2011.
- (4) The dividend payment for 2011 was divided into two equal payments in Mexican pesos. The first payment was payable on May 3, 2012 with a record date of May 2, 2012, and the second payment was payable on November 6, 2012 with a record date of November 5, 2012.
- (5) The dividend payment for 2012 was divided into two equal payments in Mexican pesos. The first payment was payable on May 7, 2013 with a record date of May 6, 2013, and the second payment was payable on November 7, 2013 with a record date of November 6, 2013.
- (6) The dividend payment declared in December 2013 was payable on December 18, 2013 with a record date of December 17, 2013.

(7) Translations to U.S. dollars are based on the exchange rates on the dates the payments were made.

At the annual ordinary general shareholders meeting, or AGM, the board of directors submits the financial statements of our company for the previous fiscal year, together with a report thereon by the board of directors. Once the holders of Series B Shares have approved the financial statements, they determine the allocation of our net profits for the preceding year. Mexican law requires the allocation of at least 5% of net profits to a legal reserve, which is not subsequently available for distribution, until the amount of the legal reserve equals 20% of our paid in capital stock. As of the date of this report, the legal reserve of our company is fully constituted. Thereafter, the holders of Series B Shares may determine and allocate a certain percentage of net profits to any general or special reserve, including a reserve for open-market purchases of our shares. The remainder of net profits is available for distribution in the form of dividends to our shareholders. Dividends may only be paid if net profits are sufficient to offset losses from prior fiscal years.

Our bylaws provide that dividends will be allocated among the outstanding and fully paid shares at the time a dividend is declared in such manner that each Series D-B Share and Series D-L Share receives 125% of the dividend distributed in respect of each Series B Share. Holders of Series D-B Shares and Series D-L Shares are entitled to this dividend premium in connection with all dividends paid by us other than payments in connection with the liquidation of our company.

Subject to certain exceptions contained in the deposit agreement dated May 11, 2007, among FEMSA, The Bank of New York, as ADS depository, and holders and beneficial owners from time to time of our ADSs, evidenced by American Depositary Receipts, or ADRs, any dividends distributed to holders of our ADSs will be paid to the ADS depository in Mexican pesos and will be converted by the ADS depository into U.S. dollars. As a result, restrictions on conversion of Mexican pesos into foreign currencies and exchange rate fluctuations may affect the ability of holders of our ADSs to receive U.S. dollars and the U.S. dollar amount actually received by holders of our ADSs.

Exchange Rate Information

The following table sets forth, for the periods indicated, the high, low, average and year-end noon exchange rate, expressed in Mexican pesos per U.S. dollar, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. The rates have not been restated in constant currency units and therefore represent nominal historical figures.

Year ended December 31,	Exchange Rate			Year End
	High	Low	Average ⁽¹⁾	
2009	15.41	12.63	13.58	13.06
2010	13.19	12.16	12.64	12.38
2011	14.25	11.51	12.46	13.95
2012	14.37	12.63	13.14	12.96
2013	13.43	11.98	12.76	13.10

(1) Average month-end rates.

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

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RISK FACTORS

Risks Related to Our Company

Coca-Cola FEMSA

Coca-Cola FEMSA's business depends on its relationship with The Coca-Cola Company, and changes in this relationship may adversely affect its results and financial condition.

Substantially all of Coca-Cola FEMSA's sales are derived from sales of *Coca-Cola* trademark beverages. Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages through standard bottler agreements in certain territories in the countries in which it operates. See **Item 4. Information on the Company Coca-Cola FEMSA Coca-Cola FEMSA's Territories.** Through its rights under Coca-Cola FEMSA's bottler agreements and as a large shareholder, The Coca-Cola Company has the right to participate in the process for making certain decisions related to Coca-Cola FEMSA's business.

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

The Coca-Cola Company also makes significant contributions to Coca-Cola FEMSA's 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.

Coca-Cola FEMSA depends on The Coca-Cola Company to continue with its bottler agreements. As of December 31, 2013, Coca-Cola FEMSA had nine bottler agreements in Mexico: (i) the agreements for Mexico's Valley territory, which expire in April 2016 and June 2023, (ii) the agreements for the Central territory, which expire in August 2014 (two agreements) May 2015 and July 2016, (iii) the agreement for the Northeast territory, which expires in September 2014, (iv) the agreement for the Bajío territory, which expires in May 2015, and (v) the agreement for the Southeast territory, which expires in June 2023. As of December 31, 2013, we had four bottler agreements in Brazil, two expiring in October 2017 and the other two expiring in April 2024. Coca-Cola FEMSA's bottler agreements with The Coca-Cola Company will expire for its territories in other countries as follows: Argentina in September 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016 and Panama in November 2014. All of Coca-Cola FEMSA's 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 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Bottler Agreements.** Termination would prevent Coca-Cola FEMSA from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on its business, financial condition, results and prospects.

The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA's business, which may result in Coca-Cola FEMSA taking actions contrary to the interests of its remaining shareholders.

The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA's business. As of April 4, 2014, The Coca-Cola Company indirectly owned 28.1% of Coca-Cola FEMSA's outstanding capital stock, representing 37.0% of Coca-Cola FEMSA's shares with full voting rights. The Coca-Cola Company is entitled to appoint five of Coca-Cola FEMSA's maximum of 21 directors and the vote of at least two of them is required to approve certain actions by Coca-Cola FEMSA's board of directors. As of April 4, 2014, we indirectly owned 47.9% of Coca-Cola FEMSA's outstanding capital stock, representing 63.0% of Coca-Cola FEMSA's shares with full voting rights. We are entitled to appoint 13 of Coca-Cola FEMSA's maximum of 21 directors and all of its executive officers. We and The Coca-Cola Company together, or only we in certain circumstances, have the power to determine the outcome of all actions requiring the approval of Coca-Cola FEMSA's board of directors, and we and The Coca-Cola Company together, or only we in certain circumstances, have the power to determine the outcome of all actions requiring the approval of Coca-Cola FEMSA's shareholders. See **Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Shareholders Agreement.** The interests of The Coca-Cola Company may be different from the interests of Coca-Cola FEMSA's remaining shareholders, which may result in Coca-Cola FEMSA taking actions contrary to the interests of its remaining shareholders.

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Changes in consumer preference and public concern about health related issues could reduce demand for some of Coca-Cola FEMSA's products.

The non-alcoholic beverage industry is evolving as a result of, among other things, changes in consumer preferences and regulatory actions. There have been different plans and actions adopted in recent years by governmental authorities in some of the countries where Coca-Cola FEMSA operates that have resulted in increased taxes or the imposition of new taxes on the sale of beverages containing certain sweeteners, and other regulatory measures, such as restrictions on advertising for some of Coca-Cola FEMSA's 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 Coca-Cola FEMSA's products sold in plastic bottles or result in additional taxes that would adversely affect consumer demand. Increasing public concern about these issues, possible new or increased taxes, regulatory measures and governmental regulations could reduce demand for some of Coca-Cola FEMSA's products which would adversely affect its results.

Competition could adversely affect Coca-Cola FEMSA's financial performance.

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

Water shortages or any failure to maintain existing concessions could adversely affect Coca-Cola FEMSA's business.

Water is an essential component of all of Coca-Cola FEMSA's products. Coca-Cola FEMSA obtains water from various sources in its territories, including springs, wells, rivers and municipal and state water companies pursuant to either concessions granted by governments in its various territories or pursuant to contracts.

Coca-Cola FEMSA obtains the vast majority of the water used in its 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. Coca-Cola FEMSA's existing water concessions or contracts to obtain water may be terminated by governmental authorities under certain circumstances and their renewal depends on receiving necessary authorizations from local and/or federal water authorities. **See Item 4. Information on the Company Regulatory Matters Water Supply.** In some of its other territories, Coca-Cola FEMSA's existing water supply may not be sufficient to meet its future production needs, and the available water supply may be adversely affected by shortages or changes in governmental regulations and environmental changes.

We cannot assure you that water will be available in sufficient quantities to meet Coca-Cola FEMSA's future production needs or will prove sufficient to meet its water supply needs.

Increases in the prices of raw materials would increase Coca-Cola FEMSA's cost of goods sold and may adversely affect its results.

In addition to water, Coca-Cola FEMSA's most significant raw materials are (1) concentrate, which it acquires from affiliates of The Coca-Cola Company, (2) sweeteners and (3) packaging materials. Prices for sparkling beverages concentrate are determined by The Coca-Cola Company as a percentage of the weighted average retail price in local currency, net of applicable taxes. The Coca-Cola Company has unilaterally increased concentrate prices in the past and may do so again in the future. We cannot assure you that The Coca-Cola Company will not

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increase the price of the concentrate for sparkling beverages or change the manner in which such price will be calculated in the future. Coca-Cola FEMSA may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the pricing of its products or its results. The prices for Coca-Cola FEMSA's remaining raw materials are driven by market prices and local availability, the imposition of import duties and restrictions and fluctuations in exchange rates. Coca-Cola FEMSA is also required to meet all of its supply needs from suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to it. Coca-Cola FEMSA's sales prices are denominated in the local currency in each country in which it operates, while the prices of certain materials, including those used in the bottling of its products, mainly resin, preforms to make plastic bottles, finished plastic bottles, aluminum cans and HFCS, are paid in or determined with reference to the U.S. dollar, and therefore may increase if the U.S. dollar appreciates against the currency of the countries in which Coca-Cola FEMSA operates. We cannot anticipate whether the U.S. dollar will appreciate or depreciate with respect to such currencies in the future. See **Item 4. Information on the Company Coca-Cola FEMSA Raw Materials.**

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

Taxes could adversely affect Coca-Cola FEMSA's business.

The countries in which Coca-Cola FEMSA operates may adopt new tax laws or modify existing laws to increase taxes applicable to Coca-Cola FEMSA's business.

On January 1, 2014, a general tax reform became effective in Mexico. This reform included the imposition of a new special tax on the production, sale and importation of beverages with added sugar, at the rate of Ps.1.00 per liter. This special tax could have a material adverse effect on Coca-Cola FEMSA's business, financial condition and results; however, Coca-Cola FEMSA is currently working on taking the necessary measures with respect to its operating structure and portfolio in order to mitigate this negative effect. Moreover, similar to other affected entities in the industry, Coca-Cola FEMSA has filed constitutional challenges (*juicios de amparo*) against this special tax. We cannot assure you that these measures will have the desired effect or that Coca-Cola FEMSA will prevail in its constitutional challenge. In addition, the tax reform in Mexico, as applicable to Coca-Cola FEMSA, confirmed the income tax rate of 30%, eliminated the corporate flat tax, or IETU, imposed withholding taxes at a rate of 10% on the payment of dividends and capital gains from the sale of shares, limited the total amount of income tax paid or retained on dividends paid outside of Mexico and limited the total amount that can be deducted from exempt payments to employees. See **Item 4. Information on the Company Regulatory Matters Mexican Tax Reform.**

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

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

Coca-Cola FEMSA's products are also subject to other taxes in many of the countries in which it operates. Certain countries in Central America, Mexico, Brazil, Venezuela and Argentina, also impose taxes on sparkling beverages. **See Item 4. Information on the Company Regulatory Matters Taxation of Beverages.** We cannot assure you that any governmental authority in any country where Coca-Cola FEMSA operates will not impose new taxes or increase taxes on Coca-Cola FEMSA's products in the future. The imposition of new taxes or increases in taxes on Coca-Cola FEMSA's products may have a material adverse effect on its business, financial condition, prospects and results.

Regulatory developments may adversely affect Coca-Cola FEMSA's business.

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

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

In May 2012, the Venezuelan government adopted significant changes to labor regulations, which had a negative impact on Coca-Cola FEMSA's business and operations. The principal changes that impacted Coca-Cola FEMSA's operations are: (i) the requirement that employee terminations are now subject to governmental authorization; (ii) retroactive assessments for any modifications to Coca-Cola FEMSA's 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 its products be included in Coca-Cola FEMSA's payroll by no later than May 2015. Coca-Cola FEMSA is currently in compliance with these labor regulations and expects to include all third party contractors to its payroll by the imposed deadline.

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

Unfavorable results of legal proceedings could have an adverse effect on Coca-Cola FEMSA's results or financial condition.

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

Weather conditions may adversely affect Coca-Cola FEMSA's results.

Lower temperatures and higher rainfall may negatively impact consumer patterns, which may result in lower per capita consumption of Coca-Cola FEMSA's beverage offerings. Additionally, adverse weather conditions may affect road infrastructure and points of sale in the territories in which Coca-Cola FEMSA operates and limit Coca-Cola FEMSA's ability to sell and distribute its products, thus affecting its results.

Coca-Cola FEMSA conducts business in countries in which it had not previously operated and that present different or greater risks than certain countries in Latin America.

As a result of the acquisition of 51% of the outstanding shares of the Coca-Cola Bottlers Philippines, Inc., or CCBPI, Coca-Cola FEMSA has expanded its geographic reach from Latin America to include the Philippines. The Philippines presents different risks and different competitive pressures than those it faces in Latin America. In the Philippines, Coca-Cola FEMSA is the only beverage company competing across categories, and faces competition in each category. In addition, the per capita income of the population in Philippines is lower than the average per capita income in the countries in which Coca-Cola FEMSA currently operates, and the distribution and marketing practices in the Philippines differ from Coca-Cola FEMSA's historical practices. Coca-Cola FEMSA may have to adapt its marketing and distribution strategies to compete effectively. Coca-Cola FEMSA's inability to compete effectively may have an adverse effect on its future results.

Coca-Cola FEMSA may not be able to successfully integrate its recent acquisitions and achieve the operational efficiencies and/or expected synergies.

Coca-Cola FEMSA has and may continue to acquire bottling operations and other businesses. A key element to achieve the benefits and expected synergies of Coca-Cola FEMSA's recent and future acquisitions and/or mergers is to integrate the operation of acquired or merged businesses into Coca-Cola FEMSA's operations in a timely and effective manner. Coca-Cola FEMSA 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 its operating structure. We cannot assure you that these efforts will be successful or completed as expected by Coca-Cola FEMSA, and Coca-Cola FEMSA's business, results and financial condition could be adversely affected if it is unable to do so.

Political and social events in the countries in which Coca-Cola FEMSA operates may significantly affect its operations.

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

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

FEMSA Comercio

Competition from other retailers in Mexico could adversely affect FEMSA Comercio's business.

The Mexican retail sector is highly competitive. FEMSA participates in the retail sector primarily through FEMSA Comercio. FEMSA Comercio's OXXO stores face competition from small-format stores like 7-Eleven, Extra, Super City, Círculo K stores and other numerous chains of retailers across Mexico, from other regional small-format retailers to small informal neighborhood stores. In particular, small informal neighborhood stores can sometimes avoid regulatory oversight and taxation, enabling them to sell certain products at below market prices. In addition, these small informal neighborhood stores could improve their technological capabilities so as to enable credit card transactions and electronic payment of utility bills, which would diminish FEMSA Comercio's competitive advantage. FEMSA Comercio may face additional competition from new market entrants. Increased competition may limit the number of new locations available to FEMSA Comercio and require FEMSA Comercio to modify its product offering or pricing. In addition, consumers may prefer alternative products or store formats offered by competitors. As a result, FEMSA Comercio's results and financial position may be adversely affected by competition in the future.

Sales of OXXO small-format stores may be adversely affected by changes in economic conditions in Mexico.

Small-format stores often sell certain products at a premium. The small-format store market is thus highly sensitive to economic conditions, since an economic slowdown is often accompanied by a decline in consumer purchasing power, which in turn results in a decline in the overall consumption of FEMSA Comercio's main product categories. During periods of economic slowdown, OXXO stores may experience a decline in traffic per store and purchases per customer, and this may result in a decline in FEMSA Comercio's results.

Taxes could adversely affect FEMSA Comercio's business.

Mexico may adopt new tax laws or modify existing laws to increase taxes applicable to FEMSA Comercio's business. For example, a new decree amending and supplementing certain tax provisions, which became effective on January 1, 2014, provided that the income tax rate as applicable to FEMSA Comercio will remain at 30% for 2014 and subsequent years, instead of decreasing to 29% and 28% for 2014 and 2015 onwards as provided by the law before this reform. The 2014 amendments also increased the VAT rate applicable in the border regions of Mexico from 11% to 16% to match the general VAT rate applicable in the rest of Mexico, which could cause lower traffic or ticket figures for FEMSA Comercio. Furthermore, the 2014 amendments introduced two new excise taxes, the first one related to beverages containing sugar and the second one related to certain food products with high caloric content, including some that are sold at FEMSA Comercio stores, which could also cause lower traffic or ticket figures. **See Item 4. Information on the Company Regulatory Matters Mexican Tax Reform.**

FEMSA Comercio may not be able to maintain its historic growth rate.

FEMSA Comercio increased the number of OXXO stores at a compound annual growth rate of 12.4% from 2009 to 2013. The growth in the number of OXXO stores has driven growth in total revenue and results at FEMSA Comercio over the same period. As the overall number of stores increases, percentage growth in the number of OXXO stores is likely to decrease. In addition, as small-format store penetration in Mexico grows, the number of viable new store locations may decrease, and new store locations may be less favorable in terms of same store sales, average ticket and store traffic. As a result, FEMSA Comercio's future results and financial condition may not be consistent with prior periods and may be characterized by lower growth rates in terms of total revenue and results. In Colombia, FEMSA Comercio may not be able to maintain similar historic growth rates to those in Mexico.

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FEMSA Comercio s business may be adversely affected by changes in information technology.

FEMSA Comercio invests aggressively in information technology (which we refer to as IT) in order to maximize its value generation potential. Given the rapid speed at which FEMSA Comercio adds new services and products to its commercial offerings, the development of IT systems, hardware and software needs to keep pace with the growth of the business. If these systems became unstable or if planning for future IT investments were inadequate, it could affect FEMSA Comercio s business by reducing the flexibility of its value proposition to consumers or by increasing its operating complexity, either of which could adversely affect FEMSA Comercio s revenue-per-store trends.

FEMSA Comercio s business could be adversely affected by a failure, interruption, or breach of our IT system.

FEMSA Comercio s business relies heavily on its advanced IT system to effectively manage its data, communications, connectivity, and other business processes. Although we constantly improve our IT system and protect it with advanced security measures, it may still be subject to defects, interruptions, or security breaches such as viruses or data theft. Such a defect, interruption, or breach could adversely affect FEMSA Comercio s results or financial position.

FEMSA Comercio s business may be adversely affected by an increase in the price of electricity.

The performance of FEMSA Comercio s stores would be adversely affected by increases in the price of utilities on which the stores depend, such as electricity. Although the price of electricity in Mexico has remained stable recently, it could potentially increase as a result of inflation, shortages, interruptions in supply, or other reasons, and such an increase could adversely affect our results or financial position.

FEMSA Comercio s business acquisitions may lead to decreased profit margins.

During 2013, FEMSA Comercio entered into two new markets through the acquisition of two drugstore businesses and one quick service restaurant chain. Each of these businesses is currently less profitable than OXXO, and the acquisitions might therefore marginally dilute FEMSA Comercio s margins in the short to medium term.

Risks Related to Our Holding of Heineken N.V. and Heineken Holding N.V. Shares

FEMSA does not control Heineken N.V. s and Heineken Holding N.V. s decisions.

On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in Heineken N.V. and Heineken Holding N.V. (which, together with their respective subsidiaries, we refer to as Heineken or the Heineken Group). As a consequence of this transaction, which we refer to as the Heineken transaction, FEMSA now participates in the Heineken Holding N.V. Board of Directors, which we refer to as the Heineken Holding Board, and in the Heineken N.V. Supervisory Board, which we refer to as the Heineken Supervisory Board. However, FEMSA is not a majority or controlling shareholder of Heineken N.V. or Heineken Holding N.V., nor does it control the decisions of the Heineken Holding Board or the Heineken Supervisory Board. Therefore, the decisions made by the majority or controlling shareholders of Heineken N.V. or Heineken Holding N.V. or the Heineken Holding Board or the Heineken Supervisory Board may not be consistent with or may not consider the interests of FEMSA s shareholders or may be adverse to the interests of FEMSA s shareholders. Additionally, FEMSA has agreed not to disclose non-public information and decisions taken by Heineken.

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Heineken is present in a large number of countries.

Heineken is a global brewer and distributor of beer in a large number of countries. As a consequence of the Heineken transaction, FEMSA shareholders are indirectly exposed to the political, economic and social circumstances affecting the markets in which Heineken is present, which may have an adverse effect on the value of FEMSA's interest in Heineken, and, consequently, the value of FEMSA shares.

Strengthening of the Mexican peso compared to the Euro.

In the event of a depreciation of the euro against the Mexican peso, the fair value of FEMSA's investment in Heineken's shares will be adversely affected.

Furthermore, the cash flow that is expected to be received in the form of dividends from Heineken will be in euros, and therefore, in the event of a depreciation of the euro against the Mexican peso, the amount of expected cash flow will be adversely affected.

Heineken N.V. and Heineken Holding N.V. are publicly listed companies.

Heineken N.V. and Heineken Holding N.V. are listed companies whose stock trades publicly and is subject to market fluctuation. A reduction in the price of Heineken N.V. or Heineken Holding N.V. shares would result in a reduction in the economic value of FEMSA's participation in Heineken.

Risks Related to Our Principal Shareholders and Capital Structure

A majority of our voting shares are held by a voting trust, which effectively controls the management of our company, and the interests of which may differ from those of other shareholders.

As of March 14, 2014, a voting trust, of which the participants are members of seven families, owned 38.69% of our capital stock and 74.86% of our capital stock with full voting rights, consisting of the Series B Shares. Consequently, the voting trust has the power to elect a majority of the members of our board of directors and to play a significant or controlling role in the outcome of substantially all matters to be decided by our board of directors or our shareholders. The interests of the voting trust may differ from those of our other shareholders. **See Item 7. Major Shareholders and Related Party Transactions and Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights.**

Holders of Series D-B and D-L Shares have limited voting rights.

Holders of Series D-B and D-L Shares have limited voting rights and are only entitled to vote on specific matters, such as certain changes in the form of our corporate organization, dissolution, or liquidation, a merger with a company with a distinct corporate purpose, a merger in which we are not the surviving entity, a change of our jurisdiction of incorporation, the cancellation of the registration of the Series D-B and D-L Shares and any other matters that expressly require approval from such holders under the Mexican Securities Law. As a result of these limited voting rights, Series D-B and D-L holders 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 and Certain Minority Rights.**

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

Our shares are traded on the New York Stock Exchange, or NYSE, in the form of ADSs. We cannot assure you that 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. In the event that instructions are not received with respect to any shares underlying ADSs, the ADS depository will, subject to certain limitations, grant a proxy to a person designated by us in respect of these shares. In the event that this proxy is not granted, the ADS depository will vote these shares in the same manner as the majority of the shares of each class for which voting instructions are received.

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Holders of BD Units in the United States and holders of ADSs may not be able to participate in any future preemptive rights 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 U.S. Securities and Exchange Commission, which we refer to as the 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. 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 to allow holders of our shares or ADSs who are located in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, the sale by the ADS 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.**

The protections afforded to minority shareholders in Mexico are different from those afforded to minority shareholders in the United States.

Under Mexican law, the protections afforded to minority shareholders are different from, and may be less than, those afforded to minority shareholders in the United States. Mexican laws do not provide a remedy to shareholders relating to violations of fiduciary duties. There is no procedure for class actions as such actions are conducted in the United States and there are different procedural requirements for bringing shareholder lawsuits against directors for the benefit of companies. Therefore, it may be more difficult for minority shareholders to enforce their rights against us, our directors or our controlling shareholders than it would be for minority shareholders of a United States company.

Investors may experience difficulties in enforcing civil liabilities against us or our directors, officers and controlling persons.

FEMSA is organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States. In addition, nearly all or a substantial portion of our assets and the assets of our subsidiaries are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States on such persons or to enforce judgments against them, including any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

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 emerging market countries. Although economic conditions are different in each country, investors' reaction 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, especially in emerging markets, will not adversely affect the market value of our securities.

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The failure or inability of our subsidiaries to pay dividends or other distributions to us may adversely affect us and our ability to pay dividends to holders of ADSs.

We are a holding company. Accordingly, our cash flows are principally derived from dividends, interest and other distributions made to us by our subsidiaries. Currently, our subsidiaries do not have contractual obligations that require them to pay dividends to us. In addition, debt and other contractual obligations of our subsidiaries may in the future impose restrictions on our subsidiaries' ability to make dividend or other payments to us, which in turn may adversely affect our ability to pay dividends to shareholders and meet its debt and other obligations. As of March 31, 2014, we had no restrictions on our ability to pay dividends. Given the 2010 exchange of 100% of our ownership of the business of Cuauhtémoc Moctezuma Holding, S.A. de C.V. (formerly FEMSA Cerveza, S.A. de C.V.) (which we refer to as Cuauhtémoc Moctezuma or FEMSA Cerveza) for a 20% economic interest in Heineken, our non-controlling shareholder position in Heineken means that we will be unable to require payment of dividends with respect to the Heineken shares.

Risks Related to Mexico and the Other Countries in Which We Operate

Adverse economic conditions in Mexico may adversely affect our financial position and results.

We are a Mexican corporation, and our Mexican operations are our single most important geographic territory. Given the 2010 exchange of 100% of our FEMSA Cerveza business for a 20% economic interest in the Heineken Group, FEMSA shareholders may face a lesser degree of exposure with respect to economic conditions in Mexico and a greater degree of indirect exposure to the political, economic and social circumstances affecting the markets in which Heineken is present. For the year ended December 31, 2013, 63% of our consolidated total revenues were attributable to Mexico and at the net income level the percentage attributable to our Mexican operations is further reduced. During 2010, 2011 and 2012 the Mexican gross domestic product, or GDP, increased by approximately 5.1%, 4.0% and 3.9%, respectively, and in 2013 it only increased by approximately 1.1% on an annualized basis compared to 2012, due to lower government spending, lower remittances and a tough consumer environment. We cannot assure you that such conditions will not have a material adverse effect on our results and financial position going forward. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our results.

Our business may be significantly affected by the general condition of the Mexican economy, or by the rate of inflation in Mexico, interest rates in Mexico and exchange rates for, or exchange controls affecting, the Mexican peso. Decreases in the growth rate of the Mexican economy, 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. Because a large percentage of our costs and expenses are fixed, we may not be able to reduce costs and expenses upon the occurrence of any of these events, and our profit margins may suffer as a result.

In addition, an increase in interest rates in Mexico would increase the cost to us of variable rate debt, Mexican peso-denominated funding, which constituted 23% of our total debt as of December 31, 2013 (the total amount of the debt and the variable rate debt used in the calculation of this percentage considers converting only the units of investments debt for the related cross currency swap, and it also includes the effect of related interest rate swaps), and have an adverse effect on our financial position and results.

Depreciation of the Mexican peso relative to the U.S. dollar could adversely affect our financial position and results.

Depreciation of the Mexican peso relative to the U.S. dollar increases the cost to us of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars, and thereby negatively affects our financial position and results. A severe devaluation or depreciation of the Mexican peso may result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated debt or obligations in other currencies. The Mexican peso is a free-floating currency and as such, it experiences exchange rate

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fluctuations relative to the U.S. dollar over time. During 2010 and 2011, the Mexican peso experienced different fluctuations relative to the U.S. dollar of approximately 5.6% of recovery and 12.7% of depreciation compared to the years of 2009 and 2010 respectively. During 2012, the Mexican peso experienced an appreciation relative to the U.S. dollar of approximately 7.1% compared to 2011. During 2013, the Mexican peso experienced a depreciation relative to the U.S. dollar of approximately 1.0% compared to 2012. In the first quarter of 2014, the Mexican peso appreciated approximately 0.32% relative to the U.S. dollar compared to the fourth quarter of 2013.

While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could institute restrictive exchange rate policies in the future, as it has done in the past. Currency fluctuations may have an adverse effect on our financial position, results and cash flows in future periods.

When the financial markets are volatile, as they have been in recent periods, our results may be substantially affected by variations in exchange rates and commodity prices, and to a lesser degree, interest rates. These effects include foreign exchange gain and loss on assets and liabilities denominated in U.S. dollars, fair value gain and loss on derivative financial instruments, commodities prices and changes in interest income and interest expense. These effects can be much more volatile than our operating performance and our operating cash flows.

Political events in Mexico could adversely affect our operations.

Mexican political events may significantly affect our operations. Presidential elections in Mexico occur every six years, with the most recent one occurring in July 2012. Enrique Peña Nieto, a member of the *Partido Revolucionario Institucional*, was elected as the new president of Mexico and took office on December 1, 2012. As with any governmental change, the new government may lead to significant changes in governmental policies, may contribute to economic uncertainty and to heightened volatility of the Mexican capital markets and securities issued by Mexican companies. Currently, no single party has a majority in the Senate or the *Cámara de Diputados* (House of Representatives), and the absence of a clear majority by a single party could result in government gridlock and political uncertainty. While the Mexican Congress has recently approved a number of structural reforms intended to modernize certain sectors of and foster growth in the Mexican economy, we cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition, results and prospects.

Security risks in Mexico could increase, and this could adversely affect our results.

The presence of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, pose a risk to our business. Organized criminal activity and related violent incidents have decreased relative to 2011 and 2012, but remain prevalent. These incidents are relatively concentrated along the northern Mexican border, as well as in certain other Mexican states such as Sinaloa, Michoacán and Guerrero. The north of Mexico is an important region for our retail operations, and an increase in crime rates could negatively affect our sales and customer traffic, increase our security expenses, and result in higher turnover of personnel or damage to the perception of our brands. The principal driver of organized criminal activity is the drug trade that aims to supply and profit from the uninterrupted demand for drugs and the supply of weapons from the United States. This situation could worsen and adversely impact our business and financial results because consumer habits and patterns adjust to the increased perceived and real security risks, as people refrain from going out as much and gradually shift some on-premise consumption to off-premise consumption of food and beverages on certain social occasions.

Depreciation of local currencies in other Latin American countries in which we operate may adversely affect our financial position.

The devaluation of the local currencies against the U.S. dollar in our non-Mexican territories can increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso can negatively affect our results for these countries. In recent years, the value of the currency in the countries in which we operate had been relatively stable except in Venezuela. During 2013, in addition to Venezuela, the currencies of Brazil and Argentina also depreciated against the Mexican peso. Future currency devaluation or the imposition of exchange controls in any of these countries, or in Mexico, would have an adverse effect on our financial position and results.

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

Depreciation of other local currencies of the countries in which we operate relative to the U.S. dollar may also potentially increase our operating costs. We have operated under exchange controls in Venezuela since 2003, which limit our ability to remit dividends abroad or make payments other than in local currency and that may increase the real price paid for raw materials and services purchased in local currency. We have historically used the official exchange rate (currently 6.30 bolivars to US\$1.00) in our Venezuelan operations; however, in January 2014, the Venezuelan government announced that certain transactions, such as payment of services and payments related to foreign investments in Venezuela, must be settled at an alternative exchange rate determined by the state-run system known as the *Sistema Complementario de Administración de Divisas*, or SICAD. The SICAD determines this alternative exchange rate based on limited periodic sales of U.S. dollars through auctions. The exchange rate based on the most recent SICAD auction, held on April 4, 2014 and in effect as of April 7, 2014, was 10.00 bolivars to U.S.\$ 1.00. Imports of our raw materials into Venezuela qualify as transactions that may be settled using the official exchange rate of 6.30 bolivars to U.S.\$ 1.00, thus, we will continue to account for these transactions using such official exchange rate. Coca-Cola FEMSA will recognize in the cumulative translation account in its consolidated financial statements as of March 31, 2014 a reduction in equity as a result of the valuation of its net investment in Venezuela at the SICAD exchange rate (10.70 bolivars to U.S.\$ 1.00 as of March 31, 2014). As of December 31, 2013, Coca-Cola FEMSA's foreign direct investment in Venezuela was Ps. 13,788 million (at the official exchange rate of 6.30 bolivars per U.S.\$ 1.00). In addition, in March 2014, the Venezuelan government enacted a new law that authorizes an additional method (known as SICAD II) of exchanging Venezuelan bolivars to U.S. dollars at rates other than the current official exchange and the existing SICAD rates for any other type of transaction different than those described above. As of April 4, 2014, the SICAD II exchange rate was 49.04 bolivars to U.S.\$ 1.00. Future changes in the Venezuelan exchange control regime, and future currency devaluations or the imposition of exchange controls in any of the countries in which we operate could have an adverse effect on our financial position and results.

ITEM 4. INFORMATION ON THE COMPANY

The Company

Overview

We are a Mexican company headquartered in Monterrey, Mexico, and our origin dates back to 1890. Our company was incorporated on May 30, 1936 and has a duration of 99 years. The duration can be extended indefinitely by resolution of our shareholders. Our legal name is Fomento Económico Mexicano, S.A.B. de C.V., and in commercial contexts we frequently refer to ourselves as FEMSA. Our principal executive offices are located at General Anaya No. 601 Pte., Colonia Bella Vista, Monterrey, Nuevo León 64410, Mexico. Our telephone number at this location is (52-81) 8328-6000. Our website is www.femsa.com. We are organized as a *sociedad anónima bursátil de capital variable* under the laws of Mexico.

We conduct our operations through the following principal holding companies, each of which we refer to as a principal sub-holding company:

Coca-Cola FEMSA, which engages in the production, distribution and marketing of beverages;

FEMSA Comercio, which operates small-format stores; and

CB Equity, which holds our investment in Heineken.

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Corporate Background

FEMSA traces its origins to the establishment of Mexico's first brewery, Cervecería Cuauhtémoc, S.A., which we refer to as Cuauhtémoc, which was founded in 1890 by four Monterrey businessmen: Francisco G. Sada, José A. Muguerza, Isaac Garza and José M. Schneider. Descendants of certain of the founders of Cuauhtémoc are participants of the voting trust that controls the management of our company.

The strategic integration of our company dates back to 1936 when our packaging operations were established to supply crown caps to the brewery. During this period, these operations were part of what was known as the Monterrey Group, which also included interests in banking, steel and other packaging operations.

In 1974, the Monterrey Group was split between two branches of the descendants of the founding families of Cuauhtémoc. The steel and other packaging operations formed the basis for the creation of Corporación Siderúrgica, S.A. (now Alfa, S.A.B. de C.V.), controlled by the Garza Sada family, and the beverage and banking operations were consolidated under the Valores Industriales, S.A. de C.V. (the corporate predecessor of FEMSA) corporate umbrella controlled by the Garza Lagüera family. FEMSA's shares were first listed on what is now the Bolsa Mexicana de Valores, S.A.B. de C.V. (which we refer to as the Mexican Stock Exchange) on September 19, 1978. Between 1977 and 1981, FEMSA diversified its operations through acquisitions in the soft drinks and mineral water industries, the establishment of the first stores under the trade name OXXO and other investments in the hotel, construction, auto parts, food and fishing industries, which were considered non-core businesses and were subsequently divested.

In the 1990s, we began a series of strategic transactions to strengthen the competitive positions of our operating subsidiaries. These transactions included the sale of a 30% strategic interest in Coca-Cola FEMSA to a wholly-owned subsidiary of The Coca-Cola Company and a subsequent public offering of Coca-Cola FEMSA shares, both of which occurred in 1993. Coca-Cola FEMSA listed its L shares on the Mexican Stock Exchange, and, in the form of ADS, on the New York Stock Exchange.

In 1998, we completed a reorganization that changed our capital structure by converting our outstanding capital stock at the time of the reorganization into BD Units and B Units, and united the shareholders of FEMSA and the former shareholders of Grupo Industrial Emprex, S.A. de C.V. (which we refer to as Emprex) at the same corporate level through an exchange offer that was consummated on May 11, 1998. As part of the reorganization, FEMSA listed ADSs on the NYSE representing BD Units, and listed the BD Units and its B Units on the Mexican Stock Exchange.

In May 2003, our subsidiary Coca-Cola FEMSA expanded its operations throughout Latin America by acquiring 100% of Panamerican Beverages, Inc., which we refer to as Panamco, then the largest soft drink bottler in Latin America in terms of sales volume in 2002. Through its acquisition of Panamco, Coca-Cola FEMSA began producing and distributing *Coca-Cola* trademark beverages in additional territories in Mexico, Central America, Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. The Coca-Cola Company and its subsidiaries received Series D Shares in exchange for their equity interest in Panamco of approximately 25%.

In April 2008, FEMSA shareholders approved a proposal to amend our bylaws in order to preserve the unit structure for our shares that has been in place since May 1998, and to maintain our existing share structure beyond May 11, 2008. Our bylaws previously provided that on May 11, 2008 our Series D-B Shares would convert into Series B Shares and our Series D-L Shares would convert into Series L Shares with limited voting rights. In addition, our bylaws provided that, on May 11, 2008, our current unit structure would cease to exist and each of our B Units would be unbundled into five Series B Shares, while each BD Unit would unbundle into three Series B Shares and two newly issued Series L Shares. Following the April 22, 2008 shareholder approvals, the automatic conversion of our share and unit structures no longer exist, and, absent shareholder action, our share structure will continue to be comprised of Series B Shares, which must represent not less than 51% of our outstanding capital stock, and Series D-B and Series D-L Shares, which together may represent up to 49% of our outstanding capital stock. Our Unit structure, absent shareholder action, will continue to consist of B Units, which bundle five Series B Shares, and BD Units, which bundle one Series B Share, two Series D-B Shares and two Series D-L Shares. See **Item 9. The Offer and Listing Description of Securities.**

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In January 2010, FEMSA announced that its Board of Directors unanimously approved a definitive agreement under which FEMSA would exchange its FEMSA Cerveza business for a 20% economic interest in Heineken, one of the world's leading brewers. In April 2010, FEMSA announced the closing of the transaction, after Heineken N.V., Heineken Holding N.V. and FEMSA held their corresponding AGMs and approved the transaction. Under the terms of the agreement, FEMSA received 43,018,320 shares of Heineken Holding N.V. and 43,009,699 shares of Heineken N.V., with an additional 29,172,504 shares of Heineken N.V. (which shares we refer to as the Allotted Shares) delivered pursuant to an allotted share delivery instrument, or the ASDI. Heineken also assumed US\$ 2.1 billion of indebtedness, including FEMSA Cerveza's unfunded pension obligations. The Allotted Shares were delivered to FEMSA in several installments during 2010 and 2011, with the final installment delivered on October 5, 2011. As of December 31, 2013, FEMSA's interest in Heineken N.V. represented 12.53% of Heineken N.V.'s outstanding capital and 14.94% of Heineken Holding N.V.'s outstanding capital, resulting in our 20% economic interest in the Heineken Group. The principal terms of the Heineken transaction documents are summarized below in Item 10. Additional Information Material Contracts.

In March 2011, a consortium of investors formed by FEMSA, the Macquarie Mexican Infrastructure Fund and other investors, acquired Energía Alternativa Istmeña, S. de R.L. de C.V., which we refer to as EAI, and Energía Eólica Mareña, S.A. de C.V., which we refer to as EEM, from subsidiaries of Preneal, S.A., which we refer to as Preneal. EAI and EEM together constitute the Mareña Renovables Wind Farm, a 396 megawatt late-stage wind energy project in the southeastern region of the State of Oaxaca. The Mareña Renovables Wind Farm is expected to be the largest wind power farm in Latin America. On February 23, 2012, a wholly-owned subsidiary of Mitsubishi Corporation, and Stichting Depository PGGM Infrastructure Funds, a pension fund managed by PGGM, acquired the 45% interest held by FEMSA in the parent companies of the Mareña Renovables Wind Farm. The sale of FEMSA's participation as an investor resulted in a gain of Ps. 933 million. Certain subsidiaries of FEMSA, FEMSA Comercio and Coca-Cola FEMSA have entered into 20-year wind power supply agreements with the Mareña Renovables Wind Farm to purchase energy output produced by it. These agreements remain in full force and effect.

In March 2011, Coca-Cola FEMSA, with The Coca-Cola Company and through Compañía Panameña de Bebidas, S.A.P.I. de C.V., acquired Grupo Industrias Lacteas, S.A. (which we refer to as Estrella Azul), a Panamanian company engaged for more than 50 years in the dairy and juice-based beverage categories. Coca-Cola FEMSA acquired a 50% interest and continues to develop this business with The Coca-Cola Company. Beginning in April 2011, both The Coca-Cola Company and Coca-Cola FEMSA commenced the gradual integration of Estrella Azul into the existing beverage platform they share for the development of non-carbonated products in Panama.

In October 2011, Coca-Cola FEMSA merged with Administradora de Acciones del Noreste, S.A.P.I. de C.V., which constituted the beverage division of Grupo Tampico, S.A. de C.V. (which we refer to as Grupo Tampico). This franchise territory operates in the states of Tamaulipas, San Luis Potosí and Veracruz, as well as in certain parts of the states of Hidalgo, Puebla and Querétaro.

In December 2011, Coca-Cola FEMSA merged with Corporación de los Ángeles, S.A. de C.V. (which we refer to as Grupo CIMSA), a Mexican family-owned bottler of *Coca-Cola* trademark products. This franchise territory operates mainly in the states of Morelos and Mexico, as well as in certain parts of the states of Guerrero and Michoacán.

In 2012, Coca-Cola FEMSA began the construction of a production plant in Minas Gerais, Brazil, which has required an investment of 520 million Brazilian reais (equivalent to approximately US\$ 260 million). It is anticipated that the new plant will be completed in July 2014 and will begin operations during the third quarter of 2014. It is expected that by 2015 the annual production capacity will be approximately 1.2 billion liters of sparkling beverages, representing an increase of approximately 62% as compared to the current installed capacity of Coca-Cola FEMSA's plant in Belo Horizonte, Brazil.

In May 2012, Coca-Cola FEMSA closed its merger with Grupo Fomento Queretano, S.A.P.I. de C.V. (which we refer to as Grupo Fomento Queretano), with operations mainly in the state of Querétaro, as well as in parts of the states of Mexico, Hidalgo, and Guanajuato.

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On September 24, 2012, FEMSA signed definitive agreements to sell its wholly owned subsidiary Industria Mexicana de Quimicos, S.A. de C.V. (which we refer to as Quimiproducos) to a Mexican subsidiary of Ecolab Inc. (NYSE: ECL). Quimiproducos manufactures and provides cleaning and sanitizing products and services related to food and beverage industrial processes, as well as water treatment. The transaction is consistent with FEMSA's long-standing strategy to divest non-core businesses. Quimiproducos was sold on December 31, 2012, resulting in a gain of Ps. 871 million.

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

In May 2013, Coca-Cola FEMSA closed its merger with Grupo Yoli, one of the oldest family-owned Coca-Cola bottlers in Mexico, operating mainly in the state of Guerrero as well as in parts of the state of Oaxaca.

On May 2, 2013, FEMSA Comercio through one of its subsidiaries, Cadena Comercial de Farmacias, S.A.P.I. de C.V. (which we refer to as CCF), closed the acquisition of Farmacias YZA, a leading drugstore operator in Southeast Mexico, headquartered in Merida, Yucatan. The founding shareholders of Farmacias YZA hold a 25% stake in CCF. In a separate transaction, on May 13, 2013, CCF acquired Farmacias FM Moderna, a leading drugstore operator in the western state of Sinaloa.

In August 2013, Coca-Cola FEMSA closed its acquisition of Companhia Fluminense de Refrigerantes (which we refer to as Companhia Fluminense), a family owned franchise that operates in parts of the states of São Paulo, Minas Gerais and Rio de Janeiro in Brazil. Companhia Fluminense sold approximately 56.6 million unit cases (including beer) in the twelve months ended March 31, 2013.

In October 2013, the Board of Directors agreed to separate the roles of Chairman of the Board and Chief Executive Officer, ratifying José Antonio Fernández Carbajal as Executive Chairman of the Board and naming Carlos Salazar Lomelín as the new Chief Executive Officer of FEMSA.

In October 2013, Coca-Cola FEMSA closed its acquisition of Spaipa, the second largest family owned franchise in Brazil, with operations in the state of Paraná and in parts of the state of São Paulo. Spaipa sold approximately 233.3 million unit cases (including beer) in the twelve months ended June 30, 2013.

In December 2013, FEMSA Comercio, through one of its subsidiaries, purchased the operating assets and trademarks of Doña Tota, a leading quick-service restaurant operator in Mexico. The founding shareholders of Doña Tota hold a 20% stake in the FEMSA Comercio subsidiary that now operates the Doña Tota business.

For more information on Coca-Cola FEMSA's recent transactions, see **Item 4. Information on the Company Coca-Cola FEMSA.**

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Ownership Structure

We conduct our business through our principal sub-holding companies as shown in the following diagram and table:

Principal Sub-holding Companies Ownership Structure

As of March 31, 2014

- (1) Compañía Internacional de Bebidas, S.A. de C.V., which we refer to as CIBSA.
 - (2) Percentage of issued and outstanding capital stock owned by CIBSA (63.0% of shares with full voting rights).
 - (3) Ownership in CB Equity held through various FEMSA subsidiaries.
 - (4) Combined economic interest in Heineken N.V. and Heineken Holding N.V.
- The following table presents an overview of our operations by reportable segment and by geographic area:

Operations by Segment Overview

Year Ended December 31, 2013 and % of growth (decrease) vs. last year⁽¹⁾

	Coca-Cola FEMSA		FEMSA Comercio		CB Equity ⁽²⁾	
	(in millions of Mexican pesos, except for employees and percentages)					
Total revenues	Ps.156,011	6%	Ps. 97,572	13%		
Gross Profit	72,935	6%	34,586	14%		
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	289	61%	11	148%	4,587	(45%)
Total assets	216,665	30%	39,617	27%	82,576	4%
Employees	84,922	16%	102,989	12%		

- (1) The sum of the financial data for each of our segments and percentages with respect thereto differ from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation, and certain assets and activities of FEMSA.
- (2) CB Equity holds our Heineken N.V. and Heineken Holding N.V. shares.

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	Year Ended December 31,		
	2013	2012	2011
Coca-Cola FEMSA	Ps.156,011	Ps.147,739	Ps.123,224
FEMSA Comercio	97,572	86,433	74,112
Other	17,254	15,899	13,360
Consolidated total revenues	Ps.258,097	Ps.238,309	Ps.201,540

- (1) The sum of the financial data for each of our segments and percentages with respect thereto differ from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation, and certain assets and activities of FEMSA.

Total Revenues Summary by Geographic Area⁽¹⁾

	Year Ended December 31,		
	2013	2012	2011
Mexico and Central America ⁽²⁾	Ps.171,726	Ps.155,576	Ps.129,716
South America ⁽³⁾	55,157	56,444	52,149
Venezuela	31,601	26,800	20,173
Consolidated total revenues	258,097	238,309	201,540

- (1) The sum of the financial data for each geographic area differs from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation.

- (2) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico-only) revenues were Ps. 163,351 million, Ps. 148,098 million and Ps. 122,690 million for the years ended December 31, 2013, 2012 and 2011, respectively.

- (3) South America includes Brazil, Colombia and Argentina. South America revenues include Brazilian revenues of Ps. 31,138 million, Ps. 30,930 million and Ps. 31,405 million; Colombian revenues of Ps. 13,354 million, Ps. 14,597 million and Ps. 12,320 million; and Argentine revenues of Ps. 10,729 million, Ps. 10,270 million and Ps. 8,399 million, for the years ended December 31, 2013, 2012 and 2011, respectively.

Significant Subsidiaries

The following table sets forth our significant subsidiaries as of December 31, 2013:

Name of Company	Jurisdiction of Establishment	Percentage Owned
CIBSA:	Mexico	100.0%
Coca-Cola FEMSA	Mexico	47.9% ⁽¹⁾
Emprex:	Mexico	100.0%
FEMSA Comercio	Mexico	100.0%
CB Equity⁽²⁾	United Kingdom	100.0%

- (1) Percentage of capital stock. FEMSA, through CIBSA, owns 63.0% of the shares of Coca-Cola FEMSA with full voting rights.

- (2) Ownership in CB Equity held through various FEMSA subsidiaries. CB Equity holds our Heineken N.V and Heineken Holding N.V. shares.

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Business Strategy

FEMSA is a leading company that participates in the beverage industry through Coca-Cola FEMSA, the largest franchise bottler of Coca-Cola products in the world, and in the beer industry, through its ownership of the second largest equity stake in Heineken, one of the world's leading brewers with operations in over 70 countries. In the retail industry FEMSA participates through FEMSA Comercio, operating various small-format chain stores, including OXXO, the largest and fastest-growing chain of stores in Latin America. Each of these businesses is supported by our strategic business unit.

We understand the importance of connecting with our end consumers by interpreting their needs, and ultimately delivering the right products to them for the right occasions and the optimal value proposition. We strive to achieve this by developing brand value, expanding our significant distribution capabilities, and improving the efficiency of our operations while aiming to reach our full potential. We continue to improve our information gathering and processing systems in order to better know and understand what our consumers want and need, and we are improving our production and distribution by more efficiently leveraging our asset base.

We believe that the competencies that our businesses have developed can be replicated in other geographic regions. This underlying principle guided our consolidation efforts, which led to our current continental footprint. We have presence in Mexico, Central and South America and the Philippines including some of the most populous metropolitan areas in Latin America which has provided us with opportunities to create value through both an improved ability to execute our strategies and the use of superior marketing tools. We have also increased our capabilities to operate and succeed in other geographic regions, by developing management to gain an understanding of local consumer needs. Going forward, we intend to use those capabilities to continue our international expansion of both Coca-Cola FEMSA and FEMSA Comercio, expanding both our geographic footprint and our presence in the non-alcoholic beverage industry and small box retail formats, as well as taking advantage of potential opportunities to leverage our skill set and key competencies.

Our objective is to create economic, social and environmental value for our stakeholders including our employees, our consumers, our shareholders and the enterprises and institutions within our society now and into the future.

Coca-Cola FEMSA

Overview

Coca-Cola FEMSA is the largest franchise bottler of *Coca-Cola* trademark beverages in the world. Coca-Cola FEMSA operates in territories in the following countries:

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

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

Colombia most of the country.

Venezuela nationwide.

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

Argentina Buenos Aires and surrounding areas.

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

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

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The following is an overview of Coca-Cola FEMSA's operations by consolidated reporting segment in 2013.

Operations by Consolidated Reporting Segment Overview

Year Ended December 31, 2013

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

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

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

Corporate History

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

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

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

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

In November 2006, we acquired, through a subsidiary, 148,000,000 of Coca-Cola FEMSA's Series D shares from certain subsidiaries of The Coca-Cola Company representing 9.4% of the total outstanding voting shares and 8.0% of the total outstanding equity of Coca-Cola FEMSA, at a price of US\$ 2.888 per share for an aggregate amount of US\$ 427.4 million. With this purchase, we increased our ownership to 53.7% of Coca-Cola FEMSA's capital stock. Pursuant to Coca-Cola FEMSA's bylaws, the acquired shares were converted from Series D shares to Series A shares.

In November 2007, Administración, S.A.P.I. de C.V., or Administración, a Mexican company owned directly and indirectly by Coca-Cola FEMSA and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle, S.A.P.I. de C.V., or Jugos del Valle. Jugos del Valle sells fruit juice-based beverages and fruit derivatives. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In 2008, Coca-Cola FEMSA, The Coca-Cola Company and all Mexican and Brazilian Coca-Cola bottlers entered

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into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle. Taking into account the participation held by Grupo Yoli, as of April 4, 2014, Coca-Cola FEMSA held an interest of 26.2% in the Mexican joint business. In August 2010, Coca-Cola FEMSA 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. In January 2013, Coca-Cola FEMSA's Brazilian joint business of Jugos del Valle merged with Leão Alimentos. Taking into account Coca-Cola FEMSA's participation and the participations held by Companhia Fluminense and Spaipa, as of April 4, 2014, Coca-Cola FEMSA had a 26.1% indirect interest in Leão Alimentos in Brazil.

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

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

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