

MEXICAN ECONOMIC DEVELOPMENT INC

Form 20-F

April 21, 2017

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As filed with the Securities and Exchange Commission on April 21, 2017

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 20-F**

**ANNUAL REPORT PURSUANT TO SECTION 13**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

Commission file number 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**

(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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**Monterrey, NL 64410 Mexico**

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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:**  
**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**  
**2.875% Senior Notes due 2023**  
**4.375% Senior Notes due 2043**

**Name of each exchange on which registered:**  
**New York Stock Exchange**

**New York Stock Exchange**  
**New York Stock Exchange**

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

None

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

None

**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, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.**

Large Accelerated filer  
Non-accelerated filer

Accelerated filer  
Emerging growth company

**If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.**

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The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

**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 consolidated financial statements and is free of material misstatements of fact that are not material inconsistencies with the information in the audited consolidated 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. and its subsidiaries, except where the context otherwise requires, its subsidiaries on a consolidated basis. We refer to our former subsidiary Cuauhtémoc Moctezuma Holding, S.A. de C.V. (formerly FEMSA Cerveza, S.A. de C.V.) as Cuauhtémoc Moctezuma or FEMSA Cerveza, to our subsidiary Coca-Cola FEMSA, S.A.B. de C.V., as Coca-Cola FEMSA, to our subsidiary FEMSA Comercio, S.A. de C.V., as FEMSA Comercio, and to our subsidiary that holds our equity investment in Heineken, as CB Equity. FEMSA Comercio comprises a Retail Division, Fuel Division and Health Division, which we refer to as the Retail Division, Fuel Division and Health Division, respectively.

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).

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

### **Currency Translations and Estimates**

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 20.6170 to US\$ 1.00, the noon buying rate for Mexican pesos on December 30, 2016, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. On April 12, 2017, this exchange rate was Ps. 18.7665 to US\$ 1.00. See **Item 3. Key Information Exchange Rate Information** for information regarding exchange rates since 2012.

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 where 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, 2016 and 2015, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016, 2015 and 2014. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

Pursuant to IFRS, the information presented in this annual report presents financial information for 2016, 2015, 2014, 2013, and 2012 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). Furthermore, for our Venezuelan entities we were able to convert local currency using one of the three legal exchange rates in that country. For further information, see Notes 3.3 and 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. See Note 3.3 to our audited consolidated financial statements.

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

Except when specifically indicated, information in this annual report on Form 20-F is presented as of December 31, 2016 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.

	2016 <sup>(1)</sup>	2016 <sup>(2) (3)</sup>	Year Ended December 31, 2015 <sup>(2) (4)</sup> 2014 <sup>(2)</sup>		2013 <sup>(5)</sup>	2012 <sup>(6)</sup>
	(in millions of Mexican pesos or millions of U.S. dollars, except percentages and share and per share data)					
Income Statement Data:						
Total revenues	\$ 19,377	Ps. 399,507	Ps. 311,589	Ps. 263,449	Ps. 258,097	Ps. 238,309
Gross Profit	7,188	148,204	123,179	110,171	109,654	101,300
Income before Income Taxes and Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method	1,385	28,556	25,163	23,744	25,080	27,530
Income taxes	383	7,888	7,932	6,253	7,756	7,949
Consolidated net income	1,318	27,175	23,276	22,630	22,155	28,051
Controlling interest net income	1,025	21,140	17,683	16,701	15,922	20,707
Non-controlling interest net income	293	6,035	5,593	5,929	6,233	7,344
Basic controlling interest net income:						
Per Series B Share	0.05	1.05	0.88	0.83	0.79	1.03
Per Series D Share	0.06	1.32	1.10	1.04	1.00	1.30
Diluted controlling interest net income:						
Per Series B Share	0.05	1.05	0.88	0.83	0.79	1.03
Per Series D Share	0.06	1.32	1.10	1.04	0.99	1.29
Weighted average number of shares outstanding (in millions):						
Series B Shares	9,246.4	9,246.4	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	8,644.7	8,644.7
Allocation of earnings:						
Series B Shares	46.11%	46.11%	46.11%	46.11%	46.11%	46.11%
Series D Shares	53.89%	53.89%	53.89%	53.89%	53.89%	53.89%
Financial Position Data:						
Total assets	\$ 26,465	Ps. 545,623	Ps. 409,332	Ps. 376,173	Ps. 359,192	Ps. 295,942
Current liabilities	4,185	86,289	65,346	49,319	48,869	48,516
Long-term debt <sup>(7)</sup>	6,401	131,967	85,969	82,935	72,921	28,640
Other long-term liabilities	1,998	41,197	16,161	13,797	14,852	8,625
Capital stock	162	3,348	3,348	3,347	3,346	3,346
Total equity	13,881	286,170	241,856	230,122	222,550	210,161
Controlling interest	10,279	211,904	181,524	170,473	159,392	155,259
Non-controlling interest	3,602	74,266	60,332	59,649	63,158	54,902
Other Information						
Depreciation	\$ 586	Ps. 12,076	Ps. 9,761	Ps. 9,029	Ps. 8,805	Ps. 7,175
Capital expenditures <sup>(8)</sup>	1,075	22,155	18,885	18,163	17,882	15,560
Gross margin <sup>(9)</sup>	37%	37%	40%	42%	42%	43%

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 20.6170 to US\$ 1.00 solely for the convenience of the reader.

(2) The exchange rate used to translate our operations in Venezuela as of and for the year ended on December 31, 2016 was the DICOM rate of 673.76 bolivars to US\$ 1.00 compared to the year ended on December 31, 2015 which was the SIMADI rate of 198.70 bolivars to US\$ 1.00 and compared to the year ended on December 31, 2014 which was the SICAD-II rate of 49.99 bolivars to US\$ 1.00. See Note 3.3 of our audited consolidated financial statements.

(3) Includes results of Vonpar, S.A. ( Vonpar or Group Vonpar ), from December 2016, and other business acquisitions. See **Item 4. Information on the Company The Company Corporate Background** and Note 4 to our audited consolidated financial statements.

(4) Includes results of Socofar, S.A. ( Socofar or Group Socofar ), from October 2015, the Fuel Division from March 2015 and other business acquisitions. See **Item 4. Information on the Company The Company Corporate Background** and Note 4 of our audited consolidated financial statements.

(5) Includes results of Coca-Cola FEMSA Philippines, Inc., or KOF Philippines (formerly Coca-Cola Bottlers Philippines, Inc.), from February 2013 using the equity method, Grupo Yoli, S.A. de C.V. ( Group Yoli ) from June 2013, Companhia Fluminense de Refrigerantes ( Companhia Fluminense ) from September 2013, Spaipa S.A. Indústria Brasileira de Bebidas ( Spaipa ) from November 2013 and other business acquisitions. See **Item 4. Information on the Company Coca-Cola FEMSA Corporate History**, Note 10 and Note 4 to our audited consolidated financial statements.

(6) Includes results of Grupo Fomento Queretano, S.A.P.I. de C.V. ( Group Fomento Queretano ) from May 2012. See **Item 4. Information on the Company Coca-Cola FEMSA Corporate** and Note 4 to our audited consolidated financial statements.

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- (7) Includes long-term debt minus the current portion of long-term debt.
- (8) Includes investments in property, plant and equipment, intangible and other assets, net of cost of long lived assets sold, and write-off.
- (9) Gross margin is calculated by dividing gross profit by total revenues.

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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 2012 to 2016 fiscal years:

<b>Date Dividend Paid</b>	<b>Fiscal Year with Respect to which Dividend was Declared</b>	<b>Aggregate Amount of Dividend Declared</b>	<b>Per Series B Share Dividend</b>	<b>Per Series B Share Dividend<sup>(7)</sup></b>	<b>Per Series D Share Dividend</b>	<b>Per Series D Share Dividend<sup>(7)</sup></b>
May 3, 2012 and						
November 6, 2012 <sup>(1)</sup>	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
November 6, 2012			Ps. 0.1546	\$ 0.0119	Ps. 0.1932	\$ 0.0149
May 7, 2013 and						
November 7, 2013 <sup>(2)</sup>	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 <sup>(3)</sup>	2012	Ps. 6,684,103,000	Ps. 0.3333	\$ 0.0257	Ps. 0.4166	\$ 0.0321
May 7, 2015 and November 5, 2015 <sup>(4)</sup>	2014	Ps. 7,350,000,000	Ps. 0.3665	\$ 0.0230	Ps. 0.4581	\$ 0.0287
May 7, 2015			Ps. 0.1833	\$ 0.0120	Ps. 0.2291	\$ 0.0149
November 5, 2015			Ps. 0.1833	\$ 0.0110	Ps. 0.2291	\$ 0.01318
May 5, 2016 and November 3, 2016 <sup>(5)</sup>	2015	Ps. 8,355,000,000	Ps. 0.4167	\$ 0.0225	Ps. 0.5208	\$ 0.0282
May 5, 2016			Ps. 0.2083	\$ 0.0117	Ps. 0.2604	\$ 0.0146
November 3, 2016			Ps. 0.2083	\$ 0.0108	Ps. 0.2604	\$ 0.0135
May 5, 2017 and November 3, 2017 <sup>(6)</sup>	2016	Ps. 8,636,000,000	Ps. 0.4307	N/A	Ps. 0.5383	N/A
May 5, 2017			Ps. 0.2153	N/A	Ps. 0.2692	N/A
November 3, 2017			Ps. 0.2153	N/A	Ps. 0.2692	N/A

(1) 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.

(2) 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.

(3) The dividend payment declared in December 2013 was payable on December 18, 2013 with a record date of December 17, 2013.

(4) The dividend payment for 2014 was divided into two equal payments in Mexican pesos. The first payment was payable on May 7, 2015 with a record date of May 6, 2015, and the second payment was payable on November 5, 2015 with a record date of November 4, 2015. The dividend payment for 2014 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. See Note 22 to our financial statements.

(5) The dividend payment for 2015 was divided into two equal payments. The first payment was payable on May 5, 2016 with a record date of May 4, 2016, and the second payment was payable on November 3, 2016 with a record date of November 1, 2016. The dividend payment for 2015 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. See Note 22 to our financial statements.

(6) The dividend payment for 2016 will be divided into two equal payments. The first payment will become payable on May 5, 2017 with a record date of May 4, 2017, and the second payment will become payable on November 3, 2017 with a record date of November 1, 2017. The dividend payment for 2016 was derived from the balance of the net tax profit account for the fiscal year ended December 31, 2013. See Note 22 to our financial statements.

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

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At the annual ordinary general shareholders meeting, or AGM, the board of directors submits the audited consolidated 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 audited consolidated 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 Mellon (formerly The Bank of New York), as ADS depositary, 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 depositary in Mexican pesos and will be converted by the ADS depositary into U.S. dollars. As a result, restrictions on conversion of Mexican pesos into foreign currencies may affect the ability of holders of our ADSs to receive U.S. dollars, and exchange rate fluctuations may affect the U.S. dollar amount actually received by holders of our ADSs.

**Table of Contents****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 US\$ 1.00, as published by the Federal Reserve Bank of New York. 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 <sup>(1)</sup>	
2012	14.37	12.63	13.14	12.96
2013	13.43	11.98	12.86	13.10
2014	14.79	12.85	13.35	14.75
2015	17.36	14.56	15.97	17.20
2016	20.84	17.19	18.70	20.62

(1) Average month-end rates.

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



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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 business, financial condition, results of operations and prospects.*

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 the territories where it operates. Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages from companies designated by The Coca-Cola Company, which price may be unilaterally determined from time to time by The Coca-Cola Company, in all such territories. Coca-Cola FEMSA is also required to purchase sweeteners and other raw materials only from companies authorized by The Coca-Cola Company. **See Item 4. Information on the Company Coca-Cola FEMSA's Territories.** Pursuant to Coca-Cola FEMSA's bottler agreements and as a shareholder, The Coca-Cola Company has the right to participate in the process for making certain decisions related to Coca-Cola FEMSA's business.

In addition, under Coca-Cola FEMSA's bottler agreements, Coca-Cola FEMSA is prohibited from bottling or distributing any other beverages without The Coca-Cola Company's authorization or consent, and Coca-Cola FEMSA 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 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 Coca-Cola FEMSA's bottler agreements. 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. Termination of any such bottler agreement would prevent Coca-Cola FEMSA from selling *Coca-Cola* trademark beverages in the affected territory. The foregoing and any other adverse changes in Coca-Cola FEMSA's relationship with The Coca-Cola Company would have an adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations 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 shareholders other than The Coca-Cola Company.*

The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA's business. As of April 7, 2017, The Coca-Cola Company indirectly owned 28.1% of Coca-Cola FEMSA's outstanding capital stock, representing 37.0% of Coca-Cola FEMSA's capital stock 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 7, 2017, we indirectly owned 47.9% of Coca-Cola FEMSA's outstanding capital stock, representing 63.0% of Coca-Cola FEMSA's capital stock 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 approval by 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 approval of our shareholders. The interests of The Coca-Cola Company may be different from the interests of Coca-Cola FEMSA's other shareholders, which may result in Coca-Cola FEMSA taking actions contrary to the interests of such other shareholders.

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### ***Changes in consumer preferences 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 mainly as a result of changes in consumer preferences and regulatory actions. There have been different plans and actions adopted in recent years by governmental authorities in some of the countries where Coca-Cola FEMSA operates, including an increase in taxes or the imposition of new taxes on the sale of beverages containing certain sweeteners, and other regulatory measures, such as restrictions on advertising for some of 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, new or increased taxes, other regulatory measures or Coca-Cola FEMSA's failure to meet consumers' preferences, could reduce demand for some of Coca-Cola FEMSA's products, which would adversely affect its business, financial condition, results of operations and prospects.

### ***The reputation of Coca-Cola trademarks and trademark infringement could adversely affect Coca-Cola FEMSA's business.***

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

### ***If Coca-Cola FEMSA is unable to protect its information systems against service interruption, misappropriation of data or breaches of security, Coca-Cola FEMSA's operations could be disrupted, which could have a material adverse effect on its business, financial condition, results of operations and prospects.***

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

### ***Negative or inaccurate information on social media could adversely affect Coca-Cola FEMSA's reputation.***

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

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### ***Competition could adversely affect Coca-Cola FEMSA's business, financial condition, results of operations and prospects.***

The beverage industry in the territories where Coca-Cola FEMSA operates is highly competitive. Coca-Cola FEMSA faces competition from other bottlers of sparkling beverages, such as *Pepsi* trademark products and other bottlers and distributors of local beverage brands, and from producers of low-cost beverages or B brands. 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. Coca-Cola FEMSA expects that it will continue to face strong competition in its beverage categories in all of its territories and anticipate that existing or new competitors may broaden their product lines and extend their geographic scope.

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

### ***Water shortages or any failure to maintain existing concessions could adversely affect Coca-Cola FEMSA's business, financial condition, results of operations and prospects.***

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 (including governments at the federal, state or municipal level) 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 several factors, including having paid all fees in full, having complied with applicable laws and obligations and receiving approval for renewal from local and/or federal water authorities. See **Item 4. Information on the Company Regulatory Matters Water Supply**. In some of Coca-Cola FEMSA's 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.

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

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. Continued water scarcity in the regions where Coca-Cola FEMSA operates may adversely affect its business, financial condition, results of operations and prospects.

### ***Increases in the prices of raw materials would increase Coca-Cola FEMSA's cost of goods sold and may adversely affect its business, financial condition, results of operations and prospects.***

In addition to water, Coca-Cola FEMSA's most significant raw materials are (i) concentrate, which it acquires from affiliates of The Coca-Cola Company, (ii) sweeteners and (iii) packaging materials.

Prices for *Coca-Cola* trademark beverages concentrate are determined by The Coca-Cola Company as a percentage of the weighted average retail price in local currency, net of applicable taxes. The Coca-Cola Company has the right to unilaterally change concentrate prices or change the manner in which such prices are calculated. In the past, The Coca-Cola Company has increased concentrate prices for *Coca-Cola* trademark beverages in some of the countries where Coca-Cola FEMSA operates. 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.

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The prices for Coca-Cola FEMSA's other 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 (including sweeteners and packaging materials) 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 where 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, HFCS and certain sweeteners, are paid in, or determined with reference to, the U.S. dollar, and therefore may increase if the U.S. dollar appreciates against the applicable local currency. Coca-Cola FEMSA cannot anticipate whether the U.S. dollar will appreciate or depreciate with respect to such local currencies in the future. **See Item 4. Information on the Company Coca-Cola FEMSA Raw Materials.**

Coca-Cola FEMSA's most significant packaging raw material costs arise from the purchase of resin, the price of which is related to crude oil prices and global resin supply. Crude oil prices have a cyclical behavior and are determined with reference to the U.S. dollar; therefore, high currency volatility may affect Coca-Cola FEMSA's average price for resin in local currencies. Since 2010, international sugar prices have been volatile due to various factors, including shifting demand, availability and climate issues affecting production and distribution. In all of the countries where Coca-Cola FEMSA operates, other than Brazil, sugar prices are subject to local regulations and other barriers to market entry that cause it to purchase sugar above 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 or that Coca-Cola FEMSA will be successful in mitigating any such increase through derivative instruments or otherwise. Increases in the prices of raw materials would increase Coca-Cola FEMSA's cost of goods sold and adversely affect its business, financial condition, results of operations and prospects.

***Taxes could adversely affect Coca-Cola FEMSA's business, financial condition, results of operations and prospects.***

The countries where Coca-Cola FEMSA operates may adopt new tax laws or modify existing tax laws to increase taxes applicable to its business or products. Coca-Cola FEMSA's products are subject to certain taxes in many of the countries where it operates, which impose taxes on sparkling beverages. **See Item 4. Information on the Company Regulatory Matters Taxation of Sparkling Beverages.** The imposition of new taxes increases in existing taxes, or changes in the interpretation of tax laws and regulation by tax authorities may have a material adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.

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

***Regulatory developments may adversely affect Coca-Cola FEMSA's business, financial condition, results of operations and prospects.***

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

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

*Unfavorable outcome of legal proceedings could have an adverse effect on Coca-Cola FEMSA's business, financial condition, results of operations and prospects.*

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

*Weather conditions may adversely affect Coca-Cola FEMSA's business, financial condition, results of operations and prospects.*

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

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

Coca-Cola FEMSA has and it may continue to acquire bottling operations and other businesses. Key elements to achieving the benefits and expected synergies of its acquisitions and mergers are the integration of acquired or merged businesses' operations into Coca-Cola FEMSA's own in a timely and effective manner and the retention of qualified and experienced key personnel. 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, financial condition, results of operations and prospects could be adversely affected if it is unable to do so.

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### **FEMSA Comercio**

***Competition from other retailers in the markets where FEMSA Comercio operates could adversely affect its business, financial condition, results of operations and prospects.***

The retail sector is highly competitive in the markets where FEMSA Comercio operates. The Retail Division participates in the retail sector primarily through its OXXO stores, which face competition from small-format stores like 7-Eleven, Circle K stores and other numerous chains of retailers across Mexico, and 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 prices below average 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 one of the Retail Division's competitive advantages.

In the pharmacy sector, FEMSA Comercio participates through the Health Division in Mexico, Chile and Colombia. In Mexico, it faces competition from other drugstore chains such as Farmacias Guadalajara, Farmacias del Ahorro and Farmacias Benavides, as well as independent pharmacies, supermarkets and other informal neighborhood drugstores. In Chile, relevant competitors are chain drugstores such as Farmacias Ahumada and Salcobrand, while in Colombia, the most relevant competitors are La Rebaja and Copidrogas.

The Retail Division and the Health Division may face additional competition from new market participants. The increase in competition may limit the number of new store locations available and could require FEMSA Comercio to modify its product offering or pricing scheme. As a consequence, future competition may affect the financial situation, operation results and prospects of the Retail Division and the Health Division.

For the Fuel Division, the opening of the Mexican fuel distribution market is expected to alter the competitive dynamics of the industry. The consolidation process, expected to take place as large companies and international competitors enter the market may occur rapidly and materially alter the market dynamics in Mexico. Currently, the Fuel Division faces competition from small, independently owned and operated service stations, as well as from regional chains such as Corpogas, Hidrosina, Petro-7 and Orsan.

***FEMSA Comercio's points of sale performance may be adversely affected by changes in economic conditions in the markets where it operates.***

The markets in which FEMSA Comercio operates are highly sensitive to economic conditions, because a decline in consumer purchasing power is often a consequence of an economic slowdown which in turn results in a decline in the overall consumption of main product categories. During periods of economic slowdown, FEMSA Comercio's points of sale may experience a decline in same-store traffic and average ticket per customer, which may result in a decline in overall performance.

***FEMSA Comercio's business expansion strategy and entry into new markets and retail formats may lead to decreased profit margins.***

FEMSA Comercio has recently entered into new markets through the acquisition of other small-format retail businesses such as quick-service restaurants. In recent years, the Retail Division and the Health Division have continued with this strategy. These new businesses are currently less profitable than OXXO, and might therefore marginally dilute FEMSA Comercio margins in the short to medium term.

***Regulatory changes in Mexico may adversely affect FEMSA Comercio's business.***

In the markets where it operates, FEMSA Comercio is subject to regulation in areas such as labor, taxation, zoning, operations and related local permits and health and safety regulations. Changes in existing laws and regulations, the adoption of new laws or regulations, or a stricter interpretation or enforcement thereof in the countries where FEMSA Comercio operates may increase its operating and compliance costs or impose restrictions on its operations which, in turn, may adversely affect the financial situation, operation results and prospects of FEMSA Comercio's business. In addition, changes in current laws and regulations may negatively impact customer traffic, revenues, operational costs and commercial practices, which may have an adverse effect on the financial situation, operation results and prospects of FEMSA Comercio.

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***FEMSA Comercio's business depends heavily on information technology and a failure, interruption, or breach of its IT systems could adversely affect it.***

FEMSA Comercio's businesses rely heavily on advanced information technology (which we refer to as IT) systems to effectively manage its data, communications, connectivity, and other business processes. FEMSA Comercio invests aggressively in IT to maximize its value generation potential. The development of IT systems, hardware and software needs to keep pace with the businesses' growth due to the high speed at which the division adds new services and products to its commercial offerings. If these systems become obsolete or if the planning for future IT investments is inadequate, FEMSA Comercio businesses could be adversely affected.

Although FEMSA Comercio constantly improves and protects its IT systems with advanced security measures, they 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 the financial situation, operation results and prospects of FEMSA Comercio.

***FEMSA Comercio's business may be adversely affected by an increase in the price of electricity in the markets where it operates.***

The performance of FEMSA Comercio's points of sale would be adversely affected by increases in the price of utilities on which the stores and stations depend, such as electricity. As an example, given the relevance of the Mexican market, the price of electricity in Mexico has generally remained stable or decreased in recent years, except for 2016, when the price gradually increased. Electricity prices could potentially increase further as a result of inflation, shortages, interruptions in supply, or other reasons, and such an increase could adversely affect the financial situation, operation results and prospects of FEMSA Comercio's business.

***Taxes could adversely affect FEMSA Comercio's business.***

The imposition of new taxes or increases in existing taxes, or changes in the interpretation of tax laws and regulations by tax authorities, may have a material adverse effect on the financial situation, operation results and prospects of FEMSA Comercio's business.

***The Retail Division may not be able to maintain its historic growth rate.***

The Retail Division increased the number of OXXO stores at a compound annual growth rate of 9.5% from 2012 to 2016. The growth in the number of OXXO stores has driven growth in total revenue and results at the Retail Division over the same period. As the overall number of stores increases, percentage growth in the number of OXXO stores is likely to slow. 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. Thus, our future results and financial situation may not be consistent with prior periods and may be characterized by lower growth rates in terms of total revenue and results of operations. In Colombia, OXXO stores may not be able to achieve or maintain historic growth rates like those in Mexico. We cannot assure that the revenues and cash flows of the Retail Division that come from future retail stores will be comparable with those generated by existing retail stores.

***The Health Division's sales may be affected by a material change in institutional sale trends in some of the markets where it operates.***

In some of the markets where the Health Division operates, sales are highly dependent of institutional sales, as well as traditional open market sales. The institutional market involves public and private health care providers, and the performance of the Health Division could be affected by its ability to maintain and grow its client base.

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### ***The Health Division's performance may be affected by contractual conditions with its suppliers.***

The Health Division, especially in Mexico, acquires the majority of its inventories and healthcare products from a limited number of suppliers. Its ability to maintain favorable conditions in its current price and service agreements could potentially affect the Health Division's operating and financial performance.

### ***Energy regulatory changes may impact fuel prices and therefore adversely affect the Fuel Division's business.***

The Fuel Division mainly sells gasoline and diesel through owned or leased retail service stations. Until last year, the prices of these products were regulated in Mexico by a government agency named *Comisión Reguladora de Energía* (Energy Regulatory Commission). Starting in 2017, fuel prices are gradually beginning to follow the dynamics of the international fuel market, in accordance with the regulatory framework, which may also adversely affect the financial situation, operation results and prospects of the Fuel Division's business.

### ***The Fuel Division's performance may be affected by changes in commercial terms with suppliers, or disruptions to the industry supply chain***

The Fuel Division mainly purchases gasoline and diesel for its operations in Mexico. The fuel market in Mexico is currently undergoing structural changes that should gradually increase the number of suppliers as well as liberalize retail prices to consumers. As the industry evolves, commercial terms for the Fuel Division could deteriorate in the future, and potential disruptions to the order of the supply chain to our gas stations could adversely impact the financial performance and prospects of the Fuel Division.

### ***The Fuel Division's business could be affected by new safety and environmental regulations enforced by government, global environmental regulations and new energy technologies.***

Federal, state and municipal laws and regulations for the installation and operation of service stations are becoming more stringent. Compliance with these laws and regulations is often difficult and costly. Global trends to reduce the consumption of fossil fuels through incentives and taxes could push sales of these fuels at service stations to slow or decrease in the future and automotive technologies, including efficiency gains in traditional fuel vehicles and increased popularity of alternative fuel vehicles, such as electric and liquefied petroleum gas (LPG) vehicles, have caused a significant reduction in fuel consumption globally. Other new technologies could further reduce the sale of traditional fuels, all of which could adversely affect operation results and financial situation of the Fuel Division.

## **Risks Related to Mexico and the Other Countries Where 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. For the year ended December 31, 2016, 64% of our consolidated total revenues were attributable to Mexico. During 2013, 2014 and 2015 the Mexican gross domestic product, or GDP, increased by approximately 1.4%, 2.3% and 2.6%, respectively, and in 2016 it increased by approximately 2.3% on an annualized basis compared to 2015, due to stronger performance in the services and primary sectors, which were partially offset by lower volumes in the oil and gas industries. We cannot assure that such conditions will not slow down in the future or will not have a material adverse effect on our business, financial condition, results of operations and prospects going forward. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in the 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.



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In addition, an increase in interest rates in Mexico would increase the cost of our debt and would cause an adverse effect on our financial position and results. Mexican peso-denominated debt (including currency hedges) constituted 36.4% of our total debt as of December 31, 2016.

### ***Depreciation of the Mexican peso and of our other local currencies relative to the U.S. dollar could adversely affect our financial position and results.***

Depreciation of the Mexican peso and of our other local currencies relative to the U.S. dollar increases the cost 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 fluctuations relative to the U.S. dollar over time. During 2016, the Mexican peso depreciated relative to the U.S. dollar by approximately 19.9% compared to 2015. During 2015, 2014 and 2013, the Mexican peso experienced fluctuations relative to the U.S. dollar consisting of 16.6% of depreciation, 12.6% of depreciation and 1.0% of depreciation respectively, compared to the years of 2014, 2013 and 2012. Through April 12, 2017, the Mexican peso has appreciated 9.0% since December 31, 2016.

While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could impose restrictive exchange rate policies in the future, 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. The most recent presidential and congressional elections took place in July 2012 and 2015, respectively. Enrique Peña Nieto, a member of the Institutional Revolutionary Party (*Partido Revolucionario Institucional* or PRI), was elected President of Mexico and took office on December 1, 2012. Mexico's next presidential election will be in July 2018. The Mexican president strongly influences new policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law, policy and regulations in Mexico, which could negatively affect our business, financial condition, results of operations and prospects. In response to these actions, opponents of the administration could react with, among other things, riots, protests and looting that could negatively affect our operations. For example, the Mexican Congress has approved a number of structural reforms intended to modernize certain sectors of and foster growth in the Mexican economy, which continue to face implementation challenges.

Furthermore, 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 on further reforms and secondary legislation to modernize key sectors of the Mexican economy. Mexico's next federal legislative election will be in July 2018. 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 of operations and prospects.

### ***Economic, political and social conditions in other countries may adversely affect our results.***

Many countries worldwide, including Mexico, have suffered significant economic, political and social volatility recently, and this may occur again in the future. Global instability has been caused by many different factors, including substantial fluctuations in economic growth, high levels of inflation, changes in currency values, changes in governmental economic or tax policies and regulations, and overall political, social and economic instability. We cannot assure you that such conditions will not return or that such conditions will not have a material adverse effect on our financial situation and results.

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The Mexican economy and the market value of securities issued by Mexican issuers may be, to varying degrees, affected by economic and market conditions in other emerging market countries and in the United States. Furthermore, economic conditions in Mexico are highly correlated with economic conditions in the United States as a result of the North American Free Trade Agreement (NAFTA), and increased economic activity between the two countries. In November 2016, presidential elections took place in the United States that resulted in a change of the nation's leadership. President Donald Trump has made public his intention to terminate or re-negotiate the terms of NAFTA, but the content of any potential revisions has not been specified. Furthermore, President Donald Trump has stated that if Canada and Mexico do not agree to re-negotiate the pact, the United States may withdraw from NAFTA. In addition, President Donald Trump has repeatedly announced during his campaign his plan to build a wall along the U.S.-Mexico border in order to stop immigrants from coming into the United States illegally, which may create frictions among the Mexican government and the U.S. government and reduce economic activity between those countries, thus affecting the travel of visitors from Mexico to the United States. However, there can be no assurance as to what a new U.S. administration will do, and the impact of these measures or any others adopted by the new U.S. administration cannot be predicted.

Adverse economic conditions in the United States, the termination or re-negotiation of NAFTA in North America or other related events could have an adverse effect on the Mexican economy. Although economic conditions in other emerging market countries and in the United States may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican issuers or of Mexican assets. There can be no assurance that future developments in other emerging market countries and in the United States, over which we have no control, will not have a material adverse effect on our financial situation and results.

### ***Technology and cyber-security risks.***

We use information systems to operate our business, to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting and legal and tax requirements. Because information systems are critical to many of the our operating activities, our business may be impacted by system shutdowns, service disruptions or security breaches, such as failures during routine operations, network or hardware failures, malicious or disruptive software, unintentional or malicious actions of employees or contractors, cyber-attacks by common hackers, criminal groups or nation-state organizations or social-activist (hacktivist) organizations, natural disasters, failures or impairments of telecommunication networks, or other catastrophic events. Such incidents could result in unauthorized disclosure of material confidential information and we could experience delays in reporting our financial results. In addition, misuse, leakage or falsification of information could result in violations of data privacy laws and regulations, damage our reputation and credibility and, therefore, could have a material adverse effect on our financial situation and results, or may require us to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and information systems.

### ***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. These incidents are relatively concentrated along the northern Mexican border, as well as in certain other Mexican states such as Sinaloa, Morelos, Michoacan 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. 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 where 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 the translation of our results for these countries. In recent years, the Venezuelan currency has been volatile against the Mexican peso. During 2016, in addition to the Venezuelan currency, the currency of 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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We have operated under exchange controls in Venezuela since 2003, which limit our ability to remit dividends abroad or make payments other than in local currency and that may increase the real price paid for raw materials and services purchased in local currency. Prior to 2014, we had historically used the official exchange rate in our Venezuelan operations. Commencing in 2014, the Venezuelan government announced a series of changes to the Venezuelan exchange control regime allowing the use of alternative exchange rates in addition to the official exchange rate.

In January 2014, the Venezuelan government announced an exchange rate determined by the state-run system known as the *Sistema Complementario de Administración de Divisas*, or SICAD. In March 2014, the Venezuelan government announced a new law that authorized an alternative method of exchanging Venezuelan bolivars to U.S. dollars known as SICAD II. In February 2015, the Venezuelan government announced that it was replacing SICAD II with a new market-based exchange rate determined by the system known as the *Sistema Marginal de Divisas*, or SIMADI. In February 2016, the Venezuelan government announced a 37% devaluation of the official exchange rate and changed the existing three-tier exchange rate system into a dual system by combining the official exchange rate and the SICAD exchange rate into a single official exchange rate and maintaining the SIMADI exchange rate.

In March 2016, the Venezuelan government announced that it was replacing the SIMADI exchange rate with a new market-based exchange rate known as *Divisas Complementarias*, or DICOM, and the official exchange rate with a preferential exchange rate denominated *Divisa Protegida*, or DIPRO. The DIPRO exchange rate is determined by the Venezuelan government and may be used to settle imports of a list of goods and raw materials. The DICOM exchange rate is determined based on supply and demand of U.S. dollars. As of April 14, 2017, the DIPRO and DICOM exchange rates were 10 bolivars and 713.96 bolivars per U.S. dollar, respectively. See Note 3.3 (a) to our audited consolidated financial statements.

We translated our results of operations in Venezuela for the full year ended December 31, 2016 into our reporting currency, the Mexican peso, using the DICOM exchange rate of 673.76 bolivars per US\$1.00, which was the exchange rate in effect as of such date. As a result, in 2016, we recognized a reduction in equity of Ps. 2,286 million. Since 2014, Coca-Cola FEMSA has recognized a reduction in equity in an aggregate amount of Ps. 20,230 million. Coca-Cola FEMSA will closely monitor any further developments that may affect the exchange rates to translate the financial statements of its Venezuelan subsidiary in the future.

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

### **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 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 operates in a large number of countries.***

Heineken is a global brewer and distributor of beer in a large number of countries. Because of FEMSA's investment in Heineken, 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.

### ***The Mexican peso may strengthen 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 16, 2017, a voting trust owned 38.69% of our capital stock and 74.86% of our capital stock with full voting rights, consisting of 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 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 our debt and other obligations. As of March 31, 2017, we had no restrictions on our ability to pay dividends. Further, our non-controlling shareholder position in Heineken means that we will be unable to require payment of dividends with respect to the Heineken shares.

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### **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 and business contexts we frequently refer to ourselves as FEMSA. Our principal headquarters 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](http://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:

Coca-Cola FEMSA, which produces, distributes and sells beverages and is the largest franchise bottler of *Coca-Cola* products in the world by volume;

FEMSA Comercio, comprising the Retail Division operating various small-format chain stores, including OXXO, the largest and fastest-growing chain in the Americas by number of stores; the Health Division, which includes drugstores and related operations; and the Fuel Division operating the OXXO GAS chain of retail service stations for fuels, motor oils and other car care products. As of December 31, 2016 and 2015, the Health Division and the Fuel Division, respectively, are treated as separate business segments; and

CB Equity, which holds our investment in Heineken, one of the world's leading brewers, with operations in over 70 countries.

##### **Corporate Background**

FEMSA traces its origins to the establishment of Mexico's first brewery, Cervecería Cuauhtémoc, S.A., 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 Cervecería Cuauhtémoc, S.A. are participants of the voting trust that controls the management of our company.

The strategic integration of the company dates back to 1936 when its 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 and steel businesses and other packaging operations.

In 1974, the Monterrey Group was split between two branches of the descendants of the founding families of Cervecería Cuauhtémoc, S.A. 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 the decades of 1970 and 1980, 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 American Depositary Shares, or ADSs, on the New York Stock Exchange, or NYSE.

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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.

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 composed 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.**

In January 2010, FEMSA announced that its board of directors unanimously approved a definitive agreement under which FEMSA would exchange its brewery business of Cuauhtémoc Moctezuma for a 20% economic interest in the Heineken Group, 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 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, with the final installment delivered in October 2011. As of December 31, 2016, 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 January 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Since January 25, 2017, Coca-Cola FEMSA controls KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines's business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company.

In May 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.



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In March 2015, following changes to the legal framework resulting from the adoption of Mexico's energy reform, FEMSA Comercio began to acquire service station franchises of Petroleos Mexicanos (PEMEX) and obtain permits from PEMEX to operate such service stations as franchisee. These acquisitions started taking place after two decades (1995-2015) of FEMSA Comercio providing operation services to retail service stations for fuels, motor oils and other car care products through agreements with third parties that owned PEMEX franchises.

In June 2015, CCF acquired 100% of Farmacias Farmacon, a regional pharmacy chain consisting at that time of more than 200 stores in the northwestern Mexican states of Sinaloa, Sonora, Baja California and Baja California Sur.

In September 2015, FEMSA Comercio acquired 60% of Group Socofar, a leading South American drugstore operator based in Santiago, Chile. Socofar operated at that time, directly and through franchises, more than 600 drugstores and 150 beauty stores throughout Chile and over 150 drugstores throughout Colombia. FEMSA Comercio has the right to appoint the majority of the members of Socofar's board of directors and exercises day-to-day operating control over Socofar. As part of the shareholders agreement entered into with the former controlling shareholder, such minority shareholder has the right to appoint two members of the board of directors of Socofar.

In 2016, FEMSA Comercio, through its subsidiary Cadena Comercial USA Corporation, LLC. (Cadena Comercial USA), completed the acquisition of an 80% economic stake in Specialty's Café & Bakery, Inc (Specialty's), which operates café restaurants in the states of California, Washington and Illinois. In January 2017, Cadena Comercial USA completed the acquisition of the remaining 20% economic stake in Specialty's becoming its sole owner.

In June 2016, FEMSA Comercio acquired Comercial Big John Limitada (Big John), a leading convenience store operator based in Santiago, Chile. At the time of the acquisition, Big John operated 49 stores, mainly in the Santiago metropolitan area.

For more information on FEMSA Comercio's recent transactions, see **Item 4. Information on the Company FEMSA Comercio Corporate History**.

In December 2016, Coca-Cola FEMSA acquired Vonpar, a Brazilian bottler of Coca-Cola trademark products, one of the largest privately owned bottlers in the Brazilian Coca-Cola system.

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

**Table of Contents****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, 2017

- (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% of Coca-Cola FEMSA's capital stock with full voting rights). See **Item 4. Information on the Company Coca-Cola FEMSA Capital Stock.**  
 (3) Ownership in CB Equity held through various FEMSA subsidiaries.  
 (4) Combined economic interest in Heineken N.V. and Heineken Holding N.V.  
 (5) Includes the Retail Division, the Health Division and the Fuel Division.
- The following table presents an overview of our operations by reportable segment and by geographic area:

**Operations by Segment Overview**

Year Ended December 31, 2016 and % of growth (decrease) vs. previous year

	Coca-Cola FEMSA		Retail Division		Health Division <sup>(4)</sup> (5)		Fuel Division		CB Equity <sup>(1)</sup>	
			(in millions of Mexican pesos, except for employees and percentages)							
Total revenues	Ps. 177,718	17%	Ps. 137,139	14%	Ps. 43,411	233%	Ps. 28,616	55%	Ps.	NA
Gross Profit	79,662	11%	50,990	17%	12,738	245%	2,248	58%		NA
Share of the profit (loss) of associates and joint ventures accounted for using the equity method, net of taxes	147	(5)% <sup>(2)</sup>	15	250% <sup>(3)</sup>		NA		NA	6,342	8%
Total assets	279,256	33%	59,740	34%	35,862	59%	3,649	13%	108,976	14%
Employees	85,145	2%	125,166	10%	21,246	6%	5,359	18%		NA

- (1) CB Equity holds our Heineken N.V. and Heineken Holding N.V. shares.  
 (2) Reflects the percentage decrease between the gain of Ps. 147 million recorded in 2016 and the gain of Ps. 155 million recorded in 2015.  
 (3) Reflects the percentage increase between the gain of Ps. 15 million recorded in 2016 and the loss of Ps. 10 million recorded in 2015.  
 (4) The operations that compose the Health Division have been treated as a separate reportable segment since 2016.  
 (5) Total revenues, gross profit and total assets include the Group Socofar's operations recorded since October 2015.

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**Total Revenues Summary by Segment<sup>(1)</sup>**

	<b>Year Ended December 31, 2016</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(in millions of Mexican pesos)</b>		
Coca-Cola FEMSA	Ps. 177,718	Ps. 152,360	Ps. 147,298
FEMSA Comercio			
Retail Division	137,139	119,884	109,624
Health Division	43,411	13,053	
Fuel Division	28,616	18,510	
Other	29,491	22,774	20,069