Table of Contents

As filed with the Securities and Exchange Commission on April 8, 2013.

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, 2012

Commission file number 333-08752

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)

Juan F. Fonseca

General Anaya No. 601 Pte.

Colonia Bella Vista

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:	Name of each exchange on which registered:
American Depositary Shares, each representing 10 BD Units, and each BD Unit consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value	New York Stock Exchange

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.

x Yes ¨ No

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

¨ Yes x No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). N/A

¨ Yes ¨ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be file by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

x Yes ¨ No

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

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

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

U.S. GAAP ¨ IFRS x Other ¨

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

¨ Item 17 ¨ Item 18

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 x No

TABLE OF CONTENTS

		Page
INTRODUCTION		1
	References	1
	Currency Translations and Estimates	1
	Forward-Looking Information	1
ITEMS 1.- 2.	NOT APPLICABLE	2
ITEM 3.	KEY INFORMATION	2
	Selected Consolidated Financial Data	2
	Dividends	3
	Exchange Rate Information	5
	Risk Factors	6
ITEM 4.	INFORMATION ON THE COMPANY	17
	The Company	17
	Overview	17
	Corporate Background	18
	Ownership Structure	22
	Significant Subsidiaries	23
	Business Strategy	23
	Coca-Cola FEMSA	24
	FEMSA Comercio	41
	Equity Method Investment in the Heineken Group	45
	Other Business	46
	Description of Property, Plant and Equipment	46
	Insurance	48
	Capital Expenditures and Divestitures	48
	Regulatory Matters	49
ITEM 4A.	UNRESOLVED STAFF COMMENTS	56
ITEM 5.	OPERATING AND FINANCIAL REVIEW AND PROSPECTS	56
	Overview of Events, Trends and Uncertainties	56
	Recent Developments	56
	Operating Leverage	57
	Adoption of IFRS	61
	Operating Results	65
	Liquidity and Capital Resources	68

TABLE OF CONTENTS

(continued)

		Page
ITEM 6.	DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	74
	Directors	74
	Senior Management	80
	Compensation of Directors and Senior Management	82
	EVA Stock Incentive Plan	82
	Insurance Policies	83
	Ownership by Management	83
	Board Practices	84
	Employees	85
ITEM 7.	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	86
	Major Shareholders	86
	Related-Party Transactions	87
	Voting Trust	87
	Interest of Management in Certain Transactions	87
	Business Transactions between Coca-Cola FEMSA, FEMSA and The Coca-Cola Company	89
ITEM 8.	FINANCIAL INFORMATION	90
	Consolidated Financial Statements	90
	Dividend Policy	90
	Legal Proceedings	90
	Significant Changes	92
ITEM 9.	THE OFFER AND LISTING	92
	Description of Securities	92
	Trading Markets	93
	Trading on the Mexican Stock Exchange	93
	Price History	94
ITEM 10.	ADDITIONAL INFORMATION	96
	Bylaws	96
	Taxation	103
	Material Contracts	105
	Documents on Display	112
ITEM 11.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	112
	Interest Rate Risk	112
	Foreign Currency Exchange Rate Risk	114
	Equity Risk	117
	Commodity Price Risk	117

TABLE OF CONTENTS

(continued)

		Page
ITEM 12.	DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	117
ITEM 12A.	DEBT SECURITIES	117
ITEM 12B.	WARRANTS AND RIGHTS	117
ITEM 12C.	OTHER SECURITIES	117
ITEM 12D.	AMERICAN DEPOSITARY SHARES	117
ITEM 13.- 14.	NOT APPLICABLE	118
ITEM 15.	CONTROLS AND PROCEDURES	118
ITEM 16A.	AUDIT COMMITTEE FINANCIAL EXPERT	120
ITEM 16B.	CODE OF ETHICS	120
ITEM 16C.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	120
ITEM 16D.	NOT APPLICABLE	121
ITEM 16E.	PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	121
ITEM 16F.	NOT APPLICABLE	122
ITEM 16G.	CORPORATE GOVERNANCE	122
ITEM 16H.	NOT APPLICABLE	123
ITEM 17.	NOT APPLICABLE	123
ITEM 18.	FINANCIAL STATEMENTS	123
ITEM 19.	EXHIBITS	124

Table of Contents

INTRODUCTION

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

References

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

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

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

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 12.9635 to US$ 1.00, the noon buying rate for Mexican pesos on December 31, 2012, as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. On March 31, 2013, this exchange rate was Ps. 12.3155 to US$ 1.00. **See Item 3. Key Information Exchange Rate Information for information regarding exchange rates since 2008.**

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 or 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.

Table of Contents

ITEMS 1-2. NOT APPLICABLE

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

We prepared our consolidated financial statements included in this annual report in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Our date of transition to IFRS was January 1, 2011. These consolidated annual financial statements are our first financial statements prepared in accordance with IFRS. IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied in preparing these financial statements. Note 27 to our audited consolidated financial statements contains an explanation of our adoption of IFRS and reconciliation between Mexican Financial Reporting Standards (*Normas de Información Financiera Mexicanas*, or Mexican FRS) and IFRS as of January 1, 2011 and December 31, 2011 and for the year ended December 31, 2011.

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2012 and 2011, and January 1, 2011, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011. Our consolidated financial statements as of and for the year ended December 31, 2012 were prepared in accordance with IFRS. The consolidated financial statements as of and for the year ended December 31, 2011 were prepared in accordance with IFRS, but they differ from the information previously published for 2011 because they were originally presented in accordance with Mexican FRS.

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

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

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.

Table of Contents

	Year Ended December 31,		
	2012(1)(2)	2012(2)	2011(3)
	(in millions of Mexican pesos or millions of U.S. dollars, except share and per share data)		
Income Statement Data:			
IFRS			
Total revenues	US$ 18,383	Ps.238,309	Ps.201,540
Gross Profit	7,814	101,300	84,296
Income before Income Taxes and Share of the Profit of Associates and Joint Ventures Accounted for Using the Equity Method	2,124	27,530	23,552
Income taxes	613	7,949	7,618
Consolidated net income	2,164	28,051	20,901
Controlling interest net income	1,597	20,707	15,332
Non-controlling interest net income	567	7,344	5,569
Basic controlling interest net income:			
Per Series B Share	0.08	1.03	0.77
Per Series D Share	0.10	1.30	0.96
Diluted controlling interest net income:			
Per Series B Share	0.08	1.03	0.76
Per Series D Share	0.10	1.29	0.96
Weighted average number of shares outstanding (in millions):			
Series B Shares	9,246.4	9,246.4	9,246.4
Series D Shares	8,644.7	8,644.7	8,644.7
Allocation of earnings:			
Series B Shares	46.11%	46.11%	46.11%
Series D Shares	53.89%	53.89%	53.89%
Financial Position Data:			
IFRS			
Total assets	US$ 22,829	Ps.295,942	Ps.263,362
Current liabilities	3,743	48,516	39,325
Long-term debt(4)	2,209	28,640	23,819
Other long-term liabilities	665	8,625	8,047
Capital stock	258	3,346	3,345
Total equity	16,212	210,161	192,171
Controlling interest	11,977	155,259	144,222
Non-controlling interest	4,235	54,902	47,949
Other Information			
IFRS			
Depreciation	US$ 553	Ps. 7,175	Ps. 5,694
Capital expenditures(5)	1,200	15,560	12,666
Gross margin(6)	43%	43%	42%

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 12.9635 to US$ 1.00 solely for the convenience of the reader.

(2) Includes results of Grupo Fomento Queretano from May 2012. **See Item 4 Information on the Company The Company Corporate History.**

(3) Includes results of Grupo Tampico from October 2011 and from Grupo CIMSA from December 2011. **See Item 4 Information on the Company The Company Corporate History.**

(4) Includes long-term debt minus the current portion of long-term debt.

(5) Includes investments in property, plant and equipment, intangible and other assets, net of cost of long lived assets sold.

(6) Gross margin is calculated by dividing gross profit by total revenues.

Dividends

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

Table of Contents

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 2008 to 2012 fiscal years:

Date Dividend Paid	Fiscal Year with Respect to which Dividend was Declared	Aggregate Amount of Dividend Declared	Per Series B Share Dividend	Per Series B Share Dividend	Per Series D Share Dividend	Per Series D Share Dividend
May 8, 2008	2007[1]	Ps.1,620,000,000	Ps.0.0807	$ 0.0076	Ps.0.1009	$ 0.0095
May 4, 2009 and November 3, 2009[2]	2008	Ps.1,620,000,000	Ps.0.0807	$ 0.0061	Ps.0.1009	$ 0.0076
May 4, 2009			Ps.0.0404	$ 0.0030	Ps.0.0505	$ 0.0038
November 3, 2009			Ps.0.0404	$ 0.0030	Ps.0.0505	$ 0.0038
May 4, 2010 and November 3, 2010[3]	2009	Ps.2,600,000,000	Ps.0.1296	$ 0.0105	Ps.0.1621	$ 0.0132
May 4, 2010			Ps.0.0648	$ 0.0053	Ps.0.0810	$ 0.0066
November 3, 2010			Ps.0.0648	$ 0.0053	Ps.0.0810	$ 0.0066
May 4, 2011 and November 2, 2011[4]	2010	Ps.4,600,000,000	Ps.0.2294	$ 0.0199	Ps.0.28675	$ 0.0249
May 4, 2011			Ps.0.1147	$ 0.0099	Ps.0.14338	$ 0.0124
November 2, 2011			Ps.0.1147	$ 0.0100	Ps.0.14338	$ 0.0125
May 3, 2012 and November 6, 2012[5]	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[6]	2012	Ps.6,684,103,000	Ps.0.3333	N/a[7]	Ps. 0.4166	N/a
May 7, 2013			Ps.0.1666	N/a	Ps.0.2083	N/a
November 7, 2013			Ps.0.1666	N/a	Ps.0.2083	N/a

(1) The per series dividend amount has been adjusted for comparability purposes to reflect the 3:1 stock split effective May 25, 2007.

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

(3) The dividend payment for 2009 was divided into two equal payments. The first payment was payable on May 4, 2010, with a record date of May 3, 2010, and the second payment was payable on November 3, 2010, with a record date of November 2, 2010.

(4) The dividend payment for 2010 was divided into two equal payments. The first payment was payable on May 4, 2011, with a record date of May 3, 2011, and the second payment was payable on November 2, 2011, with a record date of November 1, 2011.

(5) The dividend payment for 2011 was divided into two equal payments. 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.

(6) The dividend payment for 2012 was divided into two equal payments. The first payment will become payable on May 7, 2013 with a record date of May 6, 2013, and the second payment will become payable on November 7, 2013 with a record date of November 6, 2013.

(7) The U.S. dollar amounts of the 2012 dividend payments will be based on the exchange rate at the time such payments are made.

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

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

Table of Contents

Subject to certain exceptions contained in the deposit agreement dated May 11, 2007, among FEMSA, 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 and exchange rate fluctuations may affect the ability of holders of our ADSs to receive U.S. dollars and the U.S. dollar amount actually received by holders of our ADSs.

Exchange Rate Information

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

Year ended December 31,	Exchange Rate			
	High	Low	Average(1)	Year End
2008	Ps.13.94	Ps.9.92	Ps.11.21	Ps.13.83
2009	15.41	12.63	13.58	13.06
2010	13.19	12.16	12.64	12.38
2011	14.25	11.51	12.46	13.95
2012	14.37	12.63	13.14	12.96

(1) Average month-end rates.

	Exchange Rate		
	High	Low	Period End
2011:			
First Quarter	Ps.12.25	Ps.11.92	Ps.11.92
Second Quarter	11.97	11.51	11.72
Third Quarter	13.87	11.57	13.77
Fourth Quarter	14.25	13.10	13.95
2012:			
First Quarter	Ps.13.75	Ps.12.63	Ps.12.81
Second Quarter	14.37	12.73	13.41
Third Quarter	13.72	12.74	12.86
Fourth Quarter	13.25	12.71	12.96
October	13.09	12.71	13.09
November	13.25	12.92	12.92
December	13.01	12.72	12.96
2013:			
January	Ps.12.79	Ps.12.59	Ps.12.73
February	12.88	12.63	12.78
March	12.80	12.32	12.32
First Quarter	12.88	12.32	12.32

Table of Contents

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 Coca-Cola FEMSA s results and financial condition.

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

The Coca-Cola Company may unilaterally set the price for its concentrate. In addition, under Coca-Cola FEMSA s bottler agreements, 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 also makes significant contributions to Coca-Cola FEMSA s marketing expenses, although it is not required to contribute a particular amount. Accordingly, The Coca-Cola Company may discontinue or reduce such contributions at any time.

Coca-Cola FEMSA depends on The Coca-Cola Company to renew Coca-Cola FEMSA s bottler agreements. As of December 31, 2012, Coca-Cola FEMSA had eight bottler agreements in Mexico: (i) the agreements for Mexico s Valley territory, which expire in June 2013 and April 2016, (ii) the agreements for the Central territory, which expire in August 2013, May 2015 and July 2016, (iii) the agreement for the Northeast territory, which expires in September 2014, (iv) the agreement for the Bajio territory, which expires in May 2015, and (v) the agreement for the Southeast territory, which expires in June 2013. Coca-Cola FEMSA s bottler agreements with The Coca-Cola Company will expire for Coca-Cola FEMSA s territories in other countries as follows: Argentina in September 2014; Brazil in April 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016 and Panama in November 2014. All of Coca-Cola FEMSA s bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew the applicable agreement. In addition, these agreements generally may be terminated in the case of material breach. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA.** Termination would prevent Coca-Cola FEMSA from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on Coca-Cola FEMSA s business, financial condition, results and prospects.

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

The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA s business. As of March 31, 2013, The Coca-Cola Company indirectly owned 28.7% of Coca-Cola FEMSA s outstanding capital stock, representing 37.0% of Coca-Cola FEMSA s shares with full voting rights. The Coca-Cola Company is entitled to appoint five of Coca-Cola FEMSA s maximum of 21 directors and the vote of at least two of them is required to approve certain actions by Coca-Cola FEMSA s board of directors. As of March 31, 2013, we indirectly owned 48.9% of Coca-Cola FEMSA s outstanding capital stock, representing 63.0% of Coca-Cola FEMSA s shares with full voting rights. We are entitled to appoint 13 of Coca-Cola FEMSA s maximum of 21 directors and all of its executive officers. We and The Coca-Cola Company together, or only we in certain circumstances, have the power to determine the outcome of all actions requiring the approval of Coca-Cola FEMSA s board of directors, and we and The Coca-Cola Company together, or only we in certain circumstances, have the power to determine the outcome of all actions requiring the approval of Coca-Cola FEMSA s shareholders. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA.** The interests of The Coca-Cola Company may be different from the interests of Coca-Cola FEMSA s remaining shareholders, which may result in Coca-Cola FEMSA taking actions contrary to the interests of Coca-Cola FEMSA s remaining shareholders.

Table of Contents

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

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

Changes in consumer preference could reduce demand for some of Coca-Cola FEMSA s products.

The non-alcoholic beverage industry is rapidly evolving as a result of, among other things, changes in consumer preferences. Specifically, consumers are becoming increasingly more aware of and concerned about environmental and health issues. 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. In addition, 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 (HFCS), which could reduce demand for certain of Coca-Cola FEMSA s products. A reduction in consumer demand would adversely affect Coca-Cola FEMSA s results.

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

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

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

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

Table of Contents

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

In addition to water, Coca-Cola FEMSA s most significant raw materials are (1) concentrate, which Coca-Cola FEMSA acquires from affiliates of The Coca-Cola Company, (2) sweeteners and (3) packaging materials. Prices for sparkling beverages concentrate are determined by The Coca-Cola Company as a percentage of the weighted average retail price in local currency, net of applicable taxes. We cannot assure you that The Coca-Cola Company will not increase the price of the concentrate for sparkling beverages or change the manner in which such price will be calculated in the future. The prices for Coca-Cola FEMSA s remaining raw materials are driven by market prices and local availability, the imposition of import duties and restrictions and fluctuations in exchange rates. Coca-Cola FEMSA is also required to meet all of its supply needs from suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to it. Coca-Cola FEMSA s sales prices are denominated in the local currency in each country in which it operates, while the prices of certain materials, including those used in the bottling of Coca-Cola FEMSA s products, mainly resin, preforms to make plastic bottles, finished plastic bottles, aluminum cans and HFCS, are paid in or determined with reference to the U.S. dollar, and therefore may increase if the U.S. dollar appreciates against the currency of the countries in which Coca-Cola FEMSA operates, as was the case in 2008 and 2009. In 2011, the U.S. dollar did not appreciate against the currencies of most of the countries in which Coca-Cola FEMSA operated; however, in 2012, the U.S. dollar did appreciate against some of those currencies. We cannot anticipate whether the U.S. dollar will appreciate or depreciate with respect to such currencies in the future. **See Item 4. Information on the Company Coca-Cola FEMSA Raw Materials.**

Coca-Cola FEMSA s most significant packaging raw material costs arise from the purchase of resin and plastic preforms to make plastic bottles and from the purchase of finished plastic bottles, the prices of which are tied to crude oil prices and global resin supply. The average prices that Coca-Cola FEMSA paid for resin and plastic preforms in U.S. dollars were lower in 2012, as compared to 2011. We cannot provide any assurance that prices will not increase in future periods. During 2012, average sweetener prices, as a whole, were lower as compared to 2011 in all of the countries in which Coca-Cola FEMSA operates. From 2009 through 2012, international sugar prices were volatile due to various factors, including shifting demands, availability and climate issues affecting production and distribution. In all of the countries in which Coca-Cola FEMSA operates, other than Brazil, sugar prices are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay in excess of international market prices. **See Item 4. Information on the Company Coca-Cola FEMSA Raw Materials.** We cannot assure you that Coca-Cola FEMSA s raw material prices will not further increase in the future. Increases in the prices of raw materials would increase Coca-Cola FEMSA s cost of goods sold and adversely affect Coca-Cola FEMSA s financial performance.

Taxes could adversely affect Coca-Cola FEMSA s business.

The countries in which Coca-Cola FEMSA operates may adopt new tax laws or modify existing laws to increase taxes applicable to Coca-Cola FEMSA s business. For example, in Mexico, a general tax reform became effective on January 1, 2010, pursuant to which, as applicable to Coca-Cola-FEMSA, there was a temporary increase in the income tax rate from 28% to 30% from 2010 through 2012. Pursuant to an amendment issued at the end of 2012, the 30% income tax rate will continue to apply through 2013. In addition, the value added tax (VAT) rate in Mexico increased in 2010 from 15% to 16%.

In Panama, there was an increase in a certain consumer tax, effective as of April 1, 2010, affecting syrups, powders and concentrate. Some of these materials are used for the production of Coca-Cola FEMSA s sparkling beverages. These taxes increased from 6% to 10%.

In November 2012, the government of the Province of Buenos Aires adopted Law No. 14,394, which increased the tax rate applied to product sales within the Province of Buenos Aires. If the products are manufactured in plants located in the territory of the Province of Buenos Aires, Law No. 14,394 increases the tax rate from 1% to 1.75%; if the products are manufactured in any other Argentine province, the law increases the tax rate from 3% to 4%.

In Brazil, the federal taxes applied on the production and sale of beverages are based on the national average retail price, calculated based on a yearly survey of each Brazilian beverage brand, combined with a fixed tax rate and a multiplier specific for each class of presentation (glass, plastic or can). On October 1, 2012, a number of changes to the Brazilian tax rate became effective. These changes include increases in the multipliers used to calculate soft drink taxes when presented in cans or glasses. Upon effectiveness, the multiplier for cans increased from 30.0% to 31.9%, and beginning in September 2014, the multiplier will gradually increase up to 38.1% in October 1, 2018. The multiplier for glasses increased from 35.0% to 37.2%, and beginning in September 2014, the multiplier will gradually increase up to 44.4% in October 1, 2018. In addition, the amendment suspended the 50% production tax benefit that had previously applied to juice-added soft drinks, and raised the rate for such beverages to the level currently applied to cola beverages. The amendments that benefited Coca-Cola FEMSA s Brazilian subsidiary were the reduction of the production tax on concentrate, from 27.0% to 20.0%, and the elimination of the sale tax on mineral water (sparkling or still).

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

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

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

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which Coca-Cola FEMSA operates. Currently, there are no price controls on Coca-Cola FEMSA s products in any of the territories in which it has operations, except for those in (i) Argentina, where authorities directly supervise certain products sold through supermarkets to control inflation; and (ii) Venezuela, where the government has recently imposed price controls on certain products including bottled water. The imposition of these restrictions or voluntary price restraints in other territories may have an adverse effect on Coca-Cola FEMSA s results and financial position. **See Item 4. Information on the Company Regulatory Matters Price Controls.** We cannot assure you that governmental authorities in any country where Coca-Cola FEMSA operates will not impose statutory price controls or that it will not need to implement voluntary price restraints in the future.

In January 2010, the Venezuelan government amended the *Ley para la Defensa y Acceso a las Personas a los Bienes y Servicios* (Access to Goods and Services Defense Law). Any violation by a company that produces, distributes and sells goods and services could lead to fines, penalties or the confiscation of the assets used to produce, distribute and sell these goods without compensation. Although Coca-Cola FEMSA believes it is in compliance with this law, 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.

In July 2011, the Venezuelan government passed the *Ley de Costos y Precios Justos* (Fair Costs and Prices Law). The purpose of this law is to establish the regulations and administrative processes necessary to maintain the price stability of, and equal access to, goods and services. The law also creates the National Ministry of Costs and Prices, the main role of which is to oversee price controls and set maximum retail prices on certain consumer goods and services. Of Coca-Cola FEMSA s products, only certain of its bottled water beverages were affected by these regulations, which mandated lower sale prices as of April 2012. Any failure to comply with this law would result in fines, temporary suspension or the closure of operations. We cannot assure you that the Venezuelan government s future regulation of goods and services will not result in a forced reduction of prices in other of Coca-Cola FEMSA s products, which could have a negative effect on Coca-Cola FEMSA s results.

Table of Contents

In May 2012, the Venezuelan government adopted significant changes to labor regulations. This amendment to Venezuela s labor regulations could have a negative impact on Coca-Cola FEMSA s business and operations. The principal changes that impact on Coca-Cola FEMSA s operations are: (i) the requirement that employee terminations are now subject to governmental authorization; (ii) retroactive assessments for any modifications to Coca-Cola FEMSA s severance payment system; (iii) the reduction of the maximum daily and weekly work hours (from 44 to 40 weekly); and (iv) the increase in obligatory weekly breaks, prohibiting any corresponding reduction in salaries.

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

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

Economic and political conditions in the countries in which Coca-Cola FEMSA operates other than Mexico may increasingly adversely affect its business.

In addition to Mexico, Coca-Cola FEMSA conducts operations in Brazil, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Argentina. Total revenues from Coca-Cola FEMSA s combined non-Mexican operations decreased as a percentage of its consolidated total revenues from 63.8% in 2011 to 60.8% in 2012; for the same non-Mexican operations, Coca-Cola FEMSA s gross profit decreased as a percentage of its consolidated gross profit from 62.2% in 2011 to 59.3% in 2012. Given the relevance of Coca-Cola FEMSA s non-Mexican operations, its results continue to be affected by the economic and political conditions in the countries, other than Mexico, where it conducts operations.

Coca-Cola FEMSA s business may be affected by the general conditions of the Brazilian economy, the rate of inflation, Brazilian interest rates or exchange rates for Brazilian reais. Decreases in the growth rate of the Brazilian economy, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for Coca-Cola FEMSA s products, lower real pricing of its products or a shift to lower margin products.

Consumer demand, preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic and political conditions in the other countries in which Coca-Cola FEMSA operates. These conditions vary by country and may not be correlated to conditions in Coca-Cola FEMSA s Mexican operations. In Venezuela, Coca-Cola FEMSA continues to face exchange rate risk as well as scarcity of and restrictions on importing raw materials. Deterioration in economic and political conditions in any of these countries would have an adverse effect on Coca-Cola FEMSA s financial position and results.

Venezuelan political events may affect Coca-Cola FEMSA s operations. Although Venezuela will hold elections on April 14, 2013, in light of the death of President Hugo Chavez, political uncertainty remains. We cannot provide any assurances that political developments in Venezuela, over which Coca-Cola FEMSA has no control, will not have an adverse effect on Coca-Cola FEMSA s business, financial condition or results.

Table of Contents

On October 7, 2012, General Otto Peréz Molina, representing the *Partido Patriota* (Patriot Party), was elected to the presidency in Guatemala. We cannot assure you that the elected president will continue to apply the same policies that have been applied to Coca-Cola FEMSA in the past.

Depreciation of the local currencies of the countries in which Coca-Cola FEMSA operates against the U.S. dollar may increase Coca-Cola FEMSA s operating costs. Coca-Cola FEMSA has also operated under exchange controls in Venezuela since 2003, which limit its ability to remit dividends abroad or make payments other than in local currencies and that may increase the real price paid for raw materials and services purchased in local currency. In February 2013, the Venezuelan government announced a devaluation in its official exchange rate, from 4.30 to 6.30 bolivars per US$ 1.00. For further information, please see Note 3.3 and Note 29 to our audited consolidated financial statements. Future changes in the Venezuelan exchange control regime, and future currency devaluations or the imposition of exchange controls in any of the countries in which Coca-Cola FEMSA has operations could have an adverse effect on its financial position and results.

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

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

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

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

As a result of the acquisition of 51% of the outstanding shares of the Coca-Cola Bottlers Philippines, Inc. (CCBPI), Coca-Cola FEMSA has expanded its geographic reach from Latin America to include the Philippines. The Philippines presents different risks than the risks Coca-Cola FEMSA faces in Latin America. Coca-Cola FEMSA has not previously conducted business in CCPBI s territories. Coca-Cola FEMSA now faces competitive pressures that are different than those Coca-Cola FEMSA has historically faced. In the Philippines, Coca-Cola FEMSA is the only beverage company competing across categories, and it faces significant competition in each category. In addition, the per capita income of the population in Philippines is lower than the average per capita income in the countries in which Coca-Cola FEMSA currently operates, and the distribution and marketing practices in the Philippines differ from Coca-Cola FEMSA s historical practices. Coca-Cola FEMSA may have to adapt its marketing and distribution strategies to compete effectively. Coca-Cola FEMSA s inability to compete effectively may have an adverse effect on its future results. **See Item 4. Information on the Company The Company Recent Acquisitions.**

FEMSA Comercio

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

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

Table of Contents

Sales of OXXO convenience stores may be adversely affected by changes in economic conditions in Mexico.

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

Taxes could adversely affect FEMSA Comercio s business.

Mexico may adopt new tax laws or modify existing laws to increase taxes applicable to FEMSA Comercio s business. For example, a general tax reform became effective on January 1, 2010, pursuant to which, as applicable to FEMSA Comercio, there was a temporary increase in the income tax rate from 28% to 30% from 2010 through 2012. Pursuant to an amendment issued at the end of 2012, the 30% income tax rate will continue to apply through 2013. In addition, the VAT rate in Mexico increased in 2010 from 15% to 16%. If the VAT rate increases, it could cause lower traffic or ticket figures for FEMSA Comercio.

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

FEMSA Comercio increased the number of OXXO stores at a compound annual growth rate of 13.6% from 2008 to 2012. The growth in the number of OXXO stores has driven growth in total revenue and results at FEMSA Comercio over the same period. As the overall number of stores increases, percentage growth in the number of OXXO stores is likely to decrease. In addition, as convenience store penetration in Mexico grows, the number of viable new store locations may decrease, and new store locations may be less favorable in terms of same store sales, average ticket and store traffic. As a result, FEMSA Comercio s future results and financial condition may not be consistent with prior periods and may be characterized by lower growth rates in terms of total revenue and results. In Colombia, FEMSA Comercio may not be able to maintain similar historic growth rates to those in Mexico.

FEMSA Comercio s business may be adversely affected by an increase of insecurity in Mexico.

In recent years, crime rates have remained high, particularly in the north of Mexico, and there has been a particular increase in drug-related crime and other organized crime. Although FEMSA Comercio has stores across the majority of the Mexican territory, the north of Mexico represents an important region in FEMSA Comercio s operations. An increase in crime rates could negatively affect sales and customer traffic, increase security expenses incurred in each store, result in higher turnover of personnel or damage to the perception of the OXXO brand, each of which could have an adverse effect on FEMSA Comercio s business.

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

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

Table of Contents

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

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

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

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

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

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

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

Heineken is present in a large number of countries.

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

Strengthening of the Mexican peso compared to the Euro.

In the event of a depreciation of the euro against the Mexican peso, the fair value of FEMSA s investment in 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.

Table of Contents

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 15, 2013, a voting trust, of which the participants are members of seven families, owned 38.69% of our capital stock and 74.86% of our capital stock with full voting rights, consisting of the Series B Shares. Consequently, the voting trust has the power to elect a majority of the members of our board of directors and to play a significant or controlling role in the outcome of substantially all matters to be decided by our board of directors or our shareholders. The interests of the voting trust may differ from those of our other shareholders. **See Item 7. Major Shareholders and Related Party Transactions and Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights.**

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

Holders of Series D-B and D-L Shares have limited voting rights and are only entitled to vote on specific matters, such as certain changes in the form of our corporate organization, dissolution, or liquidation, a merger with a company with a distinct corporate purpose, a merger in which we are not the surviving entity, a change of our jurisdiction of incorporation, the cancellation of the registration of the Series D-B and D-L Shares and any other matters that expressly require approval from such holders under the Mexican Securities Law. As a result of these limited voting rights, Series D-B and D-L holders will not be able to influence our business or operations. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders and Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights.**

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

Our shares are traded on the New York Stock Exchange, or NYSE, in the form of ADSs. We cannot assure you that holders of our shares in the form of ADSs will receive notice of shareholders meetings from our ADS depositary in sufficient time to enable such holders to return voting instructions to the ADS depositary in a timely manner. In the event that instructions are not received with respect to any shares underlying ADSs, the ADS depositary 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 depositary will vote these shares in the same manner as the majority of the shares of each class for which voting instructions are received.

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 depositary of preemptive rights and the distribution of the proceeds from such sales to the holders of our shares in the form of ADSs is not possible. As a result, the equity interest of holders of our shares in the form of ADSs would be diluted proportionately. **See Item 10. Additional Information Bylaws Preemptive Rights.**

Table of Contents

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, all or a substantial portion of our assets and their respective assets 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.

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

We are a holding company. Accordingly, our cash flows are principally derived from dividends, interest and other distributions made to us by our subsidiaries. Currently, our subsidiaries do not have contractual obligations that require them to pay dividends to us. In addition, debt and other contractual obligations of our subsidiaries may in the future impose restrictions on our subsidiaries ability to make dividend or other payments to us, which in turn may adversely affect our ability to pay dividends to shareholders and meet its debt and other obligations. As of December 31, 2012, we had no restrictions on our ability to pay dividends. Given the exchange of 100% of our ownership of the business of Cuauhtémoc Moctezuma Holding, S.A. de C.V. (formerly FEMSA Cerveza, S.A. de C.V.) (which we refer to as Cuauhtémoc Moctezuma or FEMSA Cerveza) for a 20% economic interest in Heineken, our non-controlling shareholder position in Heineken means that we will be unable to require payment of dividends with respect to the Heineken shares.

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

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

We are a Mexican corporation, and our Mexican operations are our single most important geographic territory. Given the exchange of 100% of our FEMSA Cerveza business for a 20% economic interest in the Heineken Group, FEMSA shareholders may face a lesser degree of exposure with respect to economic conditions in Mexico and a greater degree of indirect exposure to the political, economic and social circumstances affecting the markets in which Heineken is present. For the year ended December 31, 2012, 62% of our consolidated total revenues were attributable to Mexico and at the net income level the percentage attributable to our Mexican operations is further reduced. The Mexican economy experienced a downturn as a result of the impact of the global financial crisis on many emerging economies that began in the second half of 2008 and continued through 2010.

In 2012, Mexican gross domestic product, or GDP, increased by approximately 3.9% on an annualized basis compared to 2011, due to an improvement in most sectors of the economy, driven by agriculture. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our results. Given the global macroeconomic downturn in 2009 and 2010, and the slow and incipient recovery in 2011 and 2012, which also affected the Mexican economy, we cannot assure you that such conditions will not have a material adverse effect on our results and financial position going forward.

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

In addition, an increase in interest rates in Mexico would increase the cost to us of variable rate debt, Mexican peso-denominated funding, which constituted 18.3% of our total debt as of December 31, 2012 (the total amount of the debt and the variable rate debt used in the calculation of this percentage considers converting only the units of investments debt for the related cross currency swap, and it also includes the effect of related interest rate swaps), and have an adverse effect on our financial position and results.

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

Depreciation of the Mexican peso relative to the U.S. dollar increases the cost to us of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars, and thereby negatively affects our financial position and results. A severe devaluation or depreciation of the Mexican peso may result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated debt or obligations in other currencies. Although the value of the Mexican peso against the U.S. dollar had been fairly stable until mid-2008, in the fourth quarter of 2008, the Mexican peso depreciated approximately 27% compared to the fourth quarter of 2007. Since 2008, the Mexican peso has continued to experience exchange rate fluctuations relative to the U.S. dollar, as follows. During 2010 and 2011, the Mexican peso experienced different fluctuations relative to the U.S. dollar of approximately 5.6% of recovery and 12.7% of depreciation compared to the years of 2009 and 2010 respectively. During 2012, the Mexican peso experienced an appreciation relative to the U.S. dollar of approximately 7.1% compared to 2011. In the first quarter of 2013, the Mexican peso appreciated approximately 5.0% relative to the U.S. dollar compared to the fourth quarter of 2012.

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

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

Political events in Mexico could adversely affect our operations.

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

16

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

The presence and increasing levels of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, pose a risk to our business. Organized criminal activity and related violent incidents remained high during 2012 and to a lesser extent in the first quarter of 2013 and are relatively concentrated along the northern Mexican border, as well as in certain other Mexican states such as Sinaloa, Michoacán and Guerrero. The principal driver of organized criminal activity is the drug trade that aims to supply and profit from the uninterrupted demand for drugs and the supply of weapons from the United States. This situation could impact our business because consumer habits and patterns adjust to the increased perceived and real insecurity 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. Insecurity could increase, and this could therefore adversely affect our operational and financial results.

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

Total revenues increased in certain of our non-Mexican beverage operations at a higher rate relative to their respective Mexican operations in 2012. The recurrence of such a higher rate of total revenue growth could result in a greater contribution to the respective results for these territories, but may also expose us to greater risk in these territories as a result. The devaluation of the local currencies against the U.S. dollar in our non-Mexican territories can increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso can negatively affect our results for these countries. In recent years, the value of the currency in the countries in which we operate had been relatively stable except in Venezuela. Future currency devaluation or the imposition of exchange controls in any of these countries, including Mexico, would have an adverse effect on our financial position and results.

ITEM 4. INFORMATION ON THE COMPANY

The Company

Overview

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

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

- Coca-Cola FEMSA, which engages in the production, distribution and marketing of beverages;
- FEMSA Comercio, which operates small-format stores; and
- CB Equity, which holds our investment in Heineken.

Table of Contents

Corporate Background

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

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

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

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

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

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

In November 2007, Administración S.A.P.I., a Mexican company owned directly or indirectly by Coca-Cola FEMSA and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle, S.A.P.I. de C.V. (which we refer to as Jugos del Valle). The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In 2008, Coca-Cola FEMSA, The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and the Brazilian operations, respectively, of Jugos del Valle. Taking into account the participation held by Grupo Fomento Queretano, Coca-Cola FEMSA currently holds an interest of 25.1% in the Mexican joint business and approximately 19.7% in the Brazilian joint businesses. Jugos del Valle sells fruit juice-based beverages and fruit derivatives.

Table of Contents

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

In January 2010, FEMSA announced that its Board of Directors unanimously approved a definitive agreement under which FEMSA would exchange its FEMSA Cerveza business for a 20% economic interest in Heineken, one of the world s leading brewers. In April 2010, FEMSA announced the closing of the transaction, after Heineken N.V., Heineken Holding N.V. and FEMSA held their corresponding AGMs and approved the transaction. Under the terms of the agreement, FEMSA received 43,018,320 shares of Heineken Holding N.V. and 43,009,699 shares of Heineken N.V., with an additional 29,172,504 shares of Heineken N.V. (which shares we refer to as the Allotted Shares) to be delivered pursuant to an allotted share delivery instrument, or the ASDI. Heineken also assumed US$ 2.1 billion of indebtedness, including FEMSA Cerveza s unfunded pension obligations. The Allotted Shares were delivered to FEMSA in several installments during 2010 and 2011, with the final installment delivered on October 5, 2011. As of December 31, 2012, 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. The principal terms of the Heineken transaction documents are summarized below in Item 10. Additional Information Material Contracts.

In February 2010, FEMSA signed an agreement with subsidiaries of The Coca-Cola Company to amend the shareholders agreement for Coca-Cola FEMSA. The purpose of the amendment is to set forth that the appointment and compensation of the chief executive officer and all officers reporting to the chief executive officer, as well as the adoption of decisions related to the ordinary operations of Coca-Cola FEMSA, shall only require a simple majority vote of the board of directors. Decisions related to extraordinary matters (such as business acquisitions or combinations in an amount exceeding US$ 100 million, among others) shall continue to require the vote of the majority of the board of directors, including the affirmative vote of two of the board members appointed by The Coca-Cola Company. The amendment was approved at Coca-Cola FEMSA s extraordinary shareholders meeting on April 14, 2010, and is reflected in the bylaws of Coca-Cola FEMSA. This amendment was signed without transfer of any consideration. The percentage of our voting interest in our subsidiary Coca-Cola FEMSA remains the same after the signing of this amendment.

In September 2010, FEMSA sold Promotora de Marcas Nacionales, S. de R.L. de C.V., which we refer to as Promotora, to The Coca-Cola Company. Promotora was the owner of the *Mundet* brands of soft drinks in Mexico.

On December 31, 2010, FEMSA sold its flexible packaging and label operations, Grafo Regia, S.A. de C.V., to a Mexican subsidiary of GPC III, B.V. This transaction was part of FEMSA s strategy to divest non-core businesses.

During the third quarter of 2010, Coca-Cola FEMSA completed a transaction with a Brazilian subsidiary of The Coca-Cola Company to produce, sell and distribute *Matte Leão* branded products. This transaction reinforced Coca-Cola FEMSA s non-carbonated product offering through the platform that is operated by The Coca-Cola Company and its bottling partners in Brazil. As a part of the agreement, Coca-Cola FEMSA has been selling and distributing certain *Matte Leão* branded ready-to-drink products since the first quarter of 2010. As of March 31, 2013, Coca-Cola FEMSA had a 19.4% indirect interest in the *Matte Leão* business in Brazil.

Table of Contents

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

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

In October 2011, Coca-Cola FEMSA merged with Administradora de Acciones del Noreste, S.A.P.I. de C.V., which constituted the beverage division of Grupo Tampico, S.A. de C.V. (which we refer to as Grupo Tampico) and was one of the largest family-owned *Coca-Cola* product bottlers in Mexico, as calculated by sales volume. This franchise territory operates in the states of Tamaulipas, San Luis Potosí and Veracruz, as well as in certain parts of the states of Hidalgo, Puebla and Querétaro, and sold 155.7 million unit cases of beverages in 2011. The aggregate enterprise value of this transaction was Ps. 9,300 million and a total of 63.5 million new Coca-Cola FEMSA Series L Shares were issued in connection with this transaction. Coca-Cola FEMSA began to consolidate the beverage division of Grupo Tampico in its financial statements as of October 2011.

In December 2011, Coca-Cola FEMSA merged with Corporación de los Ángeles, S.A. de C.V. (which we refer to as Grupo CIMSA), a Mexican family-owned bottler of *Coca-Cola* trademark products. This franchise territory operates mainly in the states of Morelos and Mexico, as well as in certain parts of the states of Guerrero and Michoacán, and sold 154.8 million unit cases of beverages in 2011. The aggregate enterprise value at the announcement date of this transaction was Ps. 11,000 million. A total of 75.4 million new Coca-Cola FEMSA Series L Shares were issued in connection with the transaction, and Coca-Cola FEMSA began to consolidate Grupo CIMSA in its financial statements as of December 2011. As part of its merger with Grupo CIMSA, Coca-Cola FEMSA acquired a 13.2% equity interest in Promotora Industrial Azucarera, S.A. de C.V., one of Mexico s leading sugar producers, which we refer to as Piasa.

In 2012, Coca-Cola FEMSA began the construction of a production plant in Minas Gerais, Brazil, which has required an investment of 400 million Brazilian reais (equivalent to approximately US$ 198 million). We expect that the construction will generate 800 direct and indirect jobs. It is anticipated that the new plant will be completed as of December 2013 and will begin operations in the first quarter of 2014. The plant will be located on a parcel of land 300,000 square meters in size, and it is expected that by 2015 the annual production capacity will be approximately 1.2 billion liters of sparkling beverages, representing an increase of approximately 47% as compared to the current installed capacity of Coca-Cola FEMSA s plant in Belo Horizonte, Brazil. The new plant will produce all of Coca-Cola FEMSA s existing brands and presentations of *Coca-Cola* products.

In May 2012, Coca-Cola FEMSA closed its merger with Grupo Fomento Queretano, S.A.P.I. de C.V. (Grupo Fomento Queretano), one of the oldest family-owned beverage players in the *Coca-Cola* system in Mexico, with operations mainly in the state of Querétaro, as well as in parts of the states of Mexico, Hidalgo, and Guanajuato. Coca-Cola FEMSA sold approximately 74 million unit cases of beverages in this franchise territory during 2012. The aggregate enterprise value of this transaction was Ps. 6,600 million and a total of 45.1 million new Coca-Cola FEMSA series L shares were issued in connection with this transaction. Coca-Cola FEMSA began to consolidate Grupo Fomento Queretano in its financial statements as of May 2012. As part of the merger with Grupo Fomento Queretano, Coca-Cola FEMSA also acquired an additional 12.9% equity interest in Piasa.

Table of Contents

In August 2012, Coca-Cola FEMSA acquired, through Jugos del Valle, an indirect participation in Santa Clara Mercantil de Pachuca, S.A. de C.V. (Santa Clara), an important producer of milk and dairy products in Mexico. Coca-Cola FEMSA currently owns an indirect participation of 23.8% in Santa Clara.

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

Recent Acquisitions

In November 2012, through FEMSA Comercio, we agreed to acquire a 75% stake in Farmacias YZA, a leading drugstore operator in Southeast Mexico, with the current shareholders staying as partners with the remaining 25%. Farmacias YZA, headquartered in Merida, Yucatan, operated 333 stores as of the date of the agreement. We believe we can contribute our significant expertise in the development of small-box retail formats to what is already a successful regional player in this industry. In turn, this transaction opens a new avenue for growth for FEMSA Comercio. The transaction is pending customary regulatory approvals and is expected to close in the second quarter of 2013.

In December 2012, Coca-Cola FEMSA reached an agreement with The Coca-Cola Company to acquire a 51% non-controlling majority stake of CCBPI for US$ 688.5 million in an all-cash transaction. Coca-Cola FEMSA closed this transaction on January 25, 2013. The implied enterprise value of 100% of CCPBI is US$ 1,350 million. Coca-Cola FEMSA will have an option to acquire all of the remaining 49% of the capital stock of CCBPI at any time during the seven years following the closing, at the same enterprise value adjusted for a carrying cost and certain other adjustments. Coca-Cola FEMSA will have a put option, exercisable six years after the initial closing, to sell its ownership in CCBPI back to The Coca-Cola Company at a price that will be calculated using the same EBITDA multiple used in the acquisition of the 51% stake of CCBPI, capped at the aggregate enterprise value for the amount acquired, adjusted for certain items. Coca-Cola FEMSA will be managing the day-to-day operations of the business. The Coca-Cola Company will have certain rights on the operational business plan. Given the terms of both the options agreement and Coca-Cola FEMSA s shareholders agreement with The Coca-Cola Company, Coca-Cola FEMSA will not consolidate the results of CCBPI, and will recognize the results of CCBPI using the equity method. CCBPI sold approximately 531 million unit cases of beverages during 2012 and generated revenues of approximately US$ 1.1 billion.

In January 2013, Coca-Cola FEMSA entered into an agreement to merge Grupo Yoli, S.A. de C.V. (Grupo Yoli) into Coca-Cola FEMSA. Grupo Yoli operates mainly in the state of Guerrero, Mexico, as well as in parts of the state of Oaxaca, Mexico. The merger agreement was approved by both Coca-Cola FEMSA and Grupo Yoli s boards of directors and is subject to the approval of the Comisión Federal de Competencia (the Mexican Antitrust Comission, or CFC) and the shareholders meetings of both companies. Grupo Yoli sold approximately 99 million unit cases in 2012. The aggregate enterprise value of this transaction was Ps. 8,806 million. Coca-Cola FEMSA will issue approximately 42.4 million new series L shares to the shareholders of Grupo Yoli once the transaction closes. As part of this transaction, Coca-Cola FEMSA will increase its participation in Piasa by 9.5%. Coca-Cola FEMSA expects to close this transaction in the second quarter of 2013.

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, 2013

(1) Compañíá Internacional de Bebidas, S.A. de C.V., which we refer to as CIBSA.

(2) Percentage of issued and outstanding capital stock owned by CIBSA (63.0% of shares with full voting rights).

(3) Ownership in CB Equity held through various FEMSA subsidiaries.

(4) Combined economic interest in Heineken N.V. and Heineken Holding N.V.

The following table presents an overview of our operations by reportable segment and by geographic area:

Operations by Segment Overview

Year Ended December 31, 2012 and % of growth vs. last year[(1)]

	Coca-Cola FEMSA		FEMSA Comercio		CB Equity[(2)]	
	(in millions of Mexican pesos, except for employees and percentages)					
Total revenues	Ps.147,739	20%	Ps.86,433	17%	Ps.	
Gross Profit	68,630	21%	30,250	19%		
Total assets	166,103	17%	31,092	17%	79,268	4%
Employees	73,395	5%	91,943	10%		

Total Revenues Summary by Segment[(1)]

	Year Ended December 31, 2012	2011
Coca-Cola FEMSA	Ps.147,739	Ps.123,224
FEMSA Comercio	86,433	74,112
CB Equity[(2)]		
Other	15,899	13,360
Consolidated total revenues	Ps.238,309	Ps.201,540

Total Revenues Summary by Geographic Area[(3)]

	Year Ended December 31, 2012	2011
Mexico and Central America[(4)]	Ps.155,576	Ps.129,716
South America[(5)]	56,444	52,149
Venezuela	26,800	20,173
Consolidated total revenues	238,309	201,540

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

(2) CB Equity holds Heineken N.V. and Heineken Holding N.V. shares.

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

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

(5) Includes Colombia, Brazil and Argentina. Brazilian revenues were Ps. 30,930 million and Ps. 31,405 million for the years ended December 31, 2012 and 2011, respectively.

Significant Subsidiaries

The following table sets forth our significant subsidiaries as of February 28, 2013:

Name of Company	Jurisdiction of Establishment	Percentage Owned
CIBSA:	Mexico	100.0%
Coca-Cola FEMSA	Mexico	48.9%[1]
Grupo Industrial Emprex, S.A. de C.V.:	Mexico	100.0%
FEMSA Comercio	Mexico	100.0%
CB Equity[2]	United Kingdom	100.0%

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

(2) Ownership in CB Equity held through various FEMSA subsidiaries.

Business Strategy

FEMSA is a leading company that participates in the beverage industry through Coca-Cola FEMSA, the largest franchise bottler of Coca-Cola products in the world; in the retail industry through FEMSA Comercio, operating OXXO, the largest and fastest-growing chain of small-format stores in Latin America; and in the beer industry, through its ownership of the second largest equity stake in Heineken, one of the world s leading brewers with operations in 178 countries.

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

We believe that the competencies that our businesses have developed can be replicated in other geographic regions. This underlying principle guided our consolidation efforts, which culminated in Coca-Cola FEMSA s acquisition of Panamco in May 2003. The continental platform that this combination produced encompassing a significant territorial expanse in Mexico and Central America, including some of the most populous metropolitan areas in Latin America has provided us with opportunities to create value through both an improved ability to execute our strategies and the use of superior marketing tools. We have also increased our capabilities to operate and succeed in other geographic regions, by developing significant management and marketing tools to gain an understanding of local consumer needs and trends, as is the case with OXXO s Colombian operations. Going forward, we intend to use those capabilities to continue our international expansion of both Coca-Cola FEMSA and FEMSA Comercio, expanding both our geographic footprint and our presence in beverage categories and small box retail formats, as well as taking advantage of potential opportunities to leverage our skill set and key competencies.

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

Table of Contents

Coca-Cola FEMSA

Overview

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

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

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

Colombia most of the country.

Venezuela nationwide.

Brazil the area of greater São Paulo, Campinas, Santos, the state of Mato Grosso do Sul, part of the state of Minas Gerais and part of the state of Goiás.

Argentina Buenos Aires and surrounding areas.

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

The following is an overview of Coca-Cola FEMSA s operations by reporting segment in 2012.

Operations by Reporting Segment Overview

Year Ended December 31, 2012[1]

	Total Revenues	Percentage of Total Revenues	Gross Profit	Percentage of Gross Profit
Mexico and Central America[2]	66,141	44.8%	31,643	46.1%
South America[3] (excluding Venezuela)	54,821	37.1%	23,667	34.5%
Venezuela	26,777	18.1%	13,320	19.4%
Consolidated	147,739	100.0%	68,630	100.0%

(1) Expressed in millions of Mexican pesos, except for percentages.

(2) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama. Includes results of Grupo Fomento Queretano from May 2012.

(3) Includes Colombia, Brazil and Argentina.

Corporate History

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

Table of Contents

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

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

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

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

In November 2007, Administración, S.A.P.I. de C.V., or Administración, a Mexican company owned directly and indirectly by Coca-Cola FEMSA and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle, S.A.P.I. de C.V. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In 2008, Coca-Cola FEMSA, The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle. Taking into account the participation held by Grupo Fomento Queretano, Coca-Cola FEMSA currently holds an interest of 25.1% in the Mexican joint business and approximately 19.7% in the Brazilian joint businesses. Jugos del Valle sells fruit juice-based beverages and fruit derivatives.

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

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

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

In February 2009, Coca-Cola FEMSA acquired with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, S.A., a subsidiary of SABMiller plc. Coca-Cola FEMSA acquired the production assets and the distribution territory, and The Coca-Cola Company acquired the *Brisa* brand. Coca-Cola FEMSA and The Coca-Cola Company equally shared in paying the purchase price of US$ 92 million. Following a transition period, in June 2009, Coca-Cola FEMSA started to sell and distribute the *Brisa* portfolio of products in Colombia.

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

In August 2010, Coca-Cola FEMSA acquired from The Coca-Cola Company, along with other Brazilian *Coca-Cola* bottlers, the business operations of the *Matte Leao* tea brand. As of March 31, 2013, Coca-Cola FEMSA had a 19.4% indirect interest in the Matte Leao business in Brazil.

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

In October 2011, Coca-Cola FEMSA closed its merger with the beverage division of Grupo Tampico, one of the largest family-owned *Coca-Cola* bottlers calculated by sales volume in Mexico. This franchise territory operates in the states of Tamaulipas, San Luis Potosí, and Veracruz, as well as in parts of the states of Hidalgo, Puebla and Queretaro, and sold 155.7 million unit cases of beverages in 2011. The aggregate enterprise value of this transaction was Ps. 9,300 million and Coca-Cola FEMSA issued a total of 63.5 million new Series L shares in connection with this transaction. Coca-Cola FEMSA began to consolidate the beverage division of Grupo Tampico in its financial statements as of October 2011.

In December 2011, Coca-Cola FEMSA closed its merger with Grupo CIMSA, a Mexican family-owned *Coca-Cola* bottler with operations mainly in the states of Morelos and Mexico, as well as in parts of the states of Guerrero and Michoacán. This franchise territory sold 154.8 million unit cases of beverages in 2011. The aggregate enterprise value of this transaction was Ps. 11,000 million and Coca-Cola FEMSA issued a total of 75.4 million new Series L shares in connection with this transaction. Coca-Cola FEMSA began to consolidate Grupo CIMSA in its financial statements as of December 2011. As part of Coca-Cola FEMSA s merger with Grupo CIMSA, it also acquired a 13.2% equity interest in Piasa.

In May 2012, Coca-Cola FEMSA closed its merger with Grupo Fomento Queretano, one of the oldest family-owned beverage players in the *Coca-Cola* system in Mexico, with operations mainly in the state of Querétaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. Coca-Cola FEMSA sold approximately 74 million unit cases of beverages in this franchise territory during 2012. The aggregate enterprise value of this transaction was Ps. 6,600 million and Coca-Cola FEMSA issued a total of 45.1 million new Series L shares in connection with this transaction. Coca-Cola FEMSA began to consolidate Grupo Fomento Queretano in its financial statements as of May 2012. As part of Coca-Cola FEMSA s merger with Grupo Fomento Queretano it also acquired an additional 12.9% equity interest in Piasa.

In August 2012, Coca-Cola FEMSA acquired, through Jugos del Valle, an indirect participation in Santa Clara, an important producer of milk and dairy products in Mexico. Coca-Cola FEMSA currently owns an indirect participation of 23.8% in Santa Clara.

Recent Acquisitions

In December 2012, Coca-Cola FEMSA reached an agreement with The Coca-Cola Company to acquire a 51% non-controlling majority stake of CCBPI for US$ 688.5 million in an all-cash transaction. Coca-Cola FEMSA closed this transaction on January 25, 2013. The implied enterprise value of 100% of CCBPI is US$ 1,350 million. Coca-Cola FEMSA will have an option to acquire all of the remaining 49% of the capital stock of CCBPI at any time during the seven years following the closing, at the same enterprise value adjusted for a carrying cost and certain other adjustments. Coca-Cola FEMSA will have a put option, exercisable six years after the initial closing, to sell its ownership in CCBPI back to The Coca-Cola Company at a price that will be calculated using the same EBITDA multiple used in the acquisition of the 51% stake of CCBPI, capped at the aggregate enterprise value for the amount acquired, adjusted for certain items. Coca-Cola FEMSA will be managing the day-to-day operations of the business. The Coca-Cola Company will have certain rights on the operational business plan. Given the terms of both the options agreements and Coca-Cola FEMSA s shareholders agreement with The Coca-Cola Company, Coca-Cola FEMSA will not consolidate the results of CCBPI. Coca-Cola FEMSA will recognize the results of CCBPI using the equity method. CCBPI sold approximately 531 million unit cases of beverages during 2012 and generated revenues of approximately US$ 1.1 billion.

Table of Contents

In January 2013, Coca-Cola FEMSA entered into an agreement to merge Grupo Yoli into its company. Grupo Yoli operates mainly in the state of Guerrero, Mexico as well as in parts of the state of Oaxaca, Mexico. The merger agreement was approved by both Coca-Cola FEMSA s and Grupo Yoli s boards of directors and is subject to the approval of the *Comisión Federal de Competencia* (the Mexican Antitrust Comission, or CFC) and the shareholders meetings of both companies. Grupo Yoli sold approximately 99 million unit cases in 2012. The aggregate enterprise value of this transaction was Ps. 8,806 million. Coca-Cola FEMSA will issue approximately 42.4 million new Series L shares to the shareholders of Grupo Yoli once the transaction closes. As part of this transaction, Coca-Cola FEMSA will increase its participation in Piasa by 9.5%. Coca-Cola FEMSA expects to close this transaction in the second quarter of 2013.

Capital Stock

As of March 31, 2013, we indirectly owned Series A Shares equal to 48.9% of Coca-Cola FEMSA s capital stock (63.0% of Coca-Cola FEMSA s shares with full voting rights). As of March 31, 2013, The Coca-Cola Company indirectly owned Series D shares equal to 28.7% of the capital stock of Coca-Cola FEMSA s company (37.0% of Coca-Cola FEMSA s shares with full voting rights). Series L shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange, constitute the remaining 22.4% of Coca-Cola FEMSA s capital stock.

Business Strategy

In August 2011, Coca-Cola FEMSA restructured its operations under two new divisions: (1) Mexico & Central America and (2) South America, creating a more flexible structure to execute its strategies and extend its track record of growth. Previously, Coca-Cola FEMSA managed its business under three divisions Mexico, Latincentro and Mercosur. With this new business structure, Coca-Cola FEMSA aligned its business strategies more efficiently, ensuring a faster introduction of new products and categories, and a more rapid and effective design and deployment of commercial models.

Coca-Cola FEMSA operates with a large geographic footprint in Latin America, in two divisions:

- Mexico and Central America (covering certain territories in Mexico and Guatemala, and all of Nicaragua, Costa Rica and Panama); and

- South America (covering certain territories in Brazil and Argentina, and all of Colombia and Venezuela).

Table of Contents

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

- working with The Coca-Cola Company to develop a business model to continue exploring and participating in new lines of beverages, extending existing product lines and effectively advertising and marketing Coca-Cola FEMSA s products;
- developing and expanding Coca-Cola FEMSA s still beverage portfolio through innovation, strategic acquisitions and by entering into agreements to acquire companies with The Coca-Cola Company;
- expanding Coca-Cola FEMSA s bottled water strategy with The Coca-Cola Company through innovation and selective acquisitions to maximize profitability across Coca-Cola FEMSA s market territories;
- strengthening Coca-Cola FEMSA s selling capabilities and go-to-market strategies, including pre-sale, conventional selling and hybrid routes, in order to get closer to Coca-Cola FEMSA s clients and help them satisfy the beverage needs of consumers;
- implementing selective packaging strategies designed to increase consumer demand for Coca-Cola FEMSA s products and to build a strong returnable base for the *Coca-Cola* brand;
- replicating Coca-Cola FEMSA s best practices throughout the value chain;
- rationalizing and adapting Coca-Cola FEMSA s organizational and asset structure in order to be in a better position to respond to a changing competitive environment;
- committing to building a multi-cultural collaborative team, from top to bottom; and
- broadening Coca-Cola FEMSA s geographic footprint through organic growth and strategic joint ventures, mergers and acquisitions.

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

Coca-Cola FEMSA also continuously seeks to increase productivity in its facilities through infrastructure and process reengineering for improved asset utilization. Coca-Cola FEMSA s capital expenditure program includes investments in production and distribution facilities, bottles, cases, coolers and information systems. Coca-Cola FEMSA believes that this program will allow it to maintain its capacity and flexibility to innovate and to respond to consumer demand for its products.

Coca-Cola FEMSA focuses on management quality as a key element of its growth strategy and remains committed to fostering the development of quality management at all levels. Both we and The Coca-Cola Company provide Coca-Cola FEMSA with managerial experience. To build upon these skills, the board of directors has allocated a portion of Coca-Cola FEMSA s operating budget to pay for management training programs designed to enhance its executives abilities and provide a forum for exchanging experiences, know-how and talent among an increasing number of multinational executives from Coca-Cola FEMSA s new and existing territories.

Sustainable development is a comprehensive part of Coca-Cola FEMSA s strategic framework for business operation and growth. Coca-Cola FEMSA bases its efforts in its Corporate Values and Ethics. Coca-Cola FEMSA focuses on three core areas, (i) its people, by encouraging the development of its employees and their families; (ii) its communities, by promoting development in the communities it serves, an attitude of health, self-care, adequate nutrition and physical activity, and evaluating the impact of its value chain; and (iii) its planet, by establishing guidelines that it believes will result in efficient use of natural resources to minimize the impact that its operations might have on the environment and create a broader awareness of caring for its environment.

Table of Contents

Coca-Cola FEMSA s Territories

The following map shows Coca-Cola FEMSA s territories, giving estimates in each case of the population to which Coca-Cola FEMSA offers products, the number of retailers of Coca-Cola FEMSA s beverages and the per capita consumption of Coca-Cola FEMSA s beverages as of December 31, 2012:

Per capita consumption data for a territory is determined by dividing total beverage sales volume within the territory (in bottles, cans, and fountain containers) by the estimated population within such territory, and is expressed on the basis of the number of eight-ounce servings of Coca-Cola FEMSA s products consumed annually per capita. In evaluating the development of local volume sales in Coca-Cola FEMSA s territories and to determine product potential, Coca-Cola FEMSA and The Coca-Cola Company measure, among other factors, the per capita consumption of all Coca-Cola FEMSA s beverages.

Table of Contents

Coca-Cola FEMSA s Products

Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters, and still beverages (including juice drinks, coffee, teas, milk, value-added dairy and isotonic). The following table sets forth Coca-Cola FEMSA s main brands as of December 31, 2012:

Colas:	**Mexico and Central America(1)**	**South America(2)**	**Venezuela**
Coca-Cola	ü	ü	ü
Coca-Cola Light	ü	ü	ü
Coca-Cola Zero	ü	ü	

Flavored sparkling beverages:	**Mexico and Central America(1)**	**South America(2)**	**Venezuela**
Ameyal	ü		
Canada Dry	ü		
Chinotto			ü
Crush		ü	
Escuis	ü		
Fanta	ü	ü	
Fresca	ü		
Frescolita	ü		ü
Hit			ü
Kist	ü		
Kuat		ü	
Lift	ü		
Mundet	ü		
Quatro		ü	
Schweppes	ü	ü	ü
Simba		ü	
Sprite	ü	ü	
Victoria	ü		
Yoli	ü		

Water:	**Mexico and Central America(1)**	**South America(2)**	**Venezuela**
Alpina	ü		
Aquarius(3)		ü	
Bonaqua		ü	
Brisa		ü	
Ciel	ü		
Crystal		ü	
Dasani	ü		
Manantial		ü	
Nevada			ü

Other Categories:	**Mexico and Central America(1)**	**South America(2)**	**Venezuela**
Cepita		ü	
Del Prado(4)	ü		
Estrella Azul(5)	ü		
FUZE Tea	ü		ü

Hi-C(6)	ü	ü	
Leche Santa Clara(5)	ü		
Jugos del Valle(7)	ü	ü	ü
Matte Leao(8)		ü	
Powerade(9)	ü	ü	ü
Valle Frut(10)	ü	ü	ü

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

Table of Contents

(2) Includes Colombia, Brazil and Argentina

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

(4) Juice-based beverage in Central America

(5) Milk and value-added dairy and juices

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

(7) Juice-based beverage

(8) Ready to drink tea

(9) Isotonic

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

Sales Overview

Coca-Cola FEMSA measures total sales volume in terms of unit cases. Unit case refers to 192 ounces of finished beverage product (24 eight-ounce servings) and, when applied to soda fountains, refers to the volume of syrup, powders and concentrate that is required to produce 192 ounces of finished beverage product. The following table illustrates Coca-Cola FEMSA s historical sales volume for each of its territories.

	Sales Volume Year Ended December 31,		
	2012	2011	2010
	(millions of unit cases)		
Mexico and Central America			
Mexico(1)	1,720.3	1,366.5	1,242.3
Central America(2)	151.2	144.3	137.0
South America (excluding Venezuela)			
Colombia	255.8	252.1	244.3
Brazil(3)	494.2	485.3	475.6
Argentina	217.0	210.7	189.3
Venezuela	207.7	189.8	211.0
Consolidated Volume	3,046.2	2,648.7	2,499.5

(1) Includes results of Grupo Fomento Queretano from May 2012, Grupo CIMSA from December 2011 and Grupo Tampico from October 2011.

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

(3) Excludes beer sales volume.

Product and Packaging Mix

Out of the more than 121 brands and line extensions of beverages that Coca-Cola FEMSA sells and distributes, Coca-Cola FEMSA s most important brand, *Coca-Cola*, together with its line extensions, *Coca-Cola Light* and *Coca-Cola Zero*, accounted for 60.2% of total sales volume in 2012. Coca-Cola FEMSA s next largest brands, *Ciel* (a water brand from Mexico and its line extensions), *Fanta* (and its line extensions), *ValleFrut* (and its line extensions), and *Sprite* (and its line extensions) accounted for 12.8%, 4.7%, 2.6% and 2.6%, respectively, of total sales volume in 2012. Coca-Cola FEMSA uses the term line extensions to refer to the different flavors in which Coca-Cola FEMSA offers its brands. Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages in each of its territories in containers authorized by The Coca-Cola Company, which consist of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles mainly made of polyethylene terephthalate, which we refer to as PET.

Coca-Cola FEMSA uses the term presentation to refer to the packaging unit in which Coca-Cola FEMSA sells its products. Presentation sizes for Coca-Cola FEMSA s *Coca-Cola* trademark beverages range from a 6.5-ounce personal size to a 3-liter multiple serving size. For all of Coca-Cola FEMSA s products excluding water, Coca-Cola FEMSA considers a multiple serving size as equal to, or larger than, 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. Coca-Cola FEMSA offers both returnable and non-returnable presentations, which allows it to offer portfolio alternatives based on convenience and affordability to implement revenue management strategies and to target specific distribution channels and population segments in its territories. In addition, Coca-Cola FEMSA sells some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which we refer to as fountain. Coca-Cola FEMSA also sells bottled water products in bulk sizes, which refer to presentations equal to or larger than 5 liters, which have a much lower average price per unit case than Coca-Cola FEMSA s other beverage products.

Table of Contents

The characteristics of Coca-Cola FEMSA s territories are very diverse. Central Mexico and Coca-Cola FEMSA s territories in Argentina are densely populated and have a large number of competing beverage brands as compared to the rest of Coca-Cola FEMSA s territories. Coca-Cola FEMSA s territories in Brazil are densely populated but have lower per capita consumption of beverage products as compared to Mexico. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower per capita consumption of beverages. In Venezuela, Coca-Cola FEMSA faces operational disruptions from time to time, which may have an effect on its volumes sold, and consequently, may result in lower per capita consumption.

The following discussion analyzes Coca-Cola FEMSA s product and packaging mix by reporting segment. The volume data presented is for the years 2012, 2011 and 2010.

Mexico and Central America. Coca-Cola FEMSA s product portfolio consists of *Coca-Cola* trademark beverages. In 2008, as part of Coca-Cola FEMSA s efforts to strengthen its multi-category beverage portfolio, Coca-Cola FEMSA incorporated the *Jugos del Valle* line of juice-based beverages in Mexico and subsequently in Central America. In 2012, Coca-Cola FEMSA launched *FUZE* Tea in the division. Per capita consumption of Coca-Cola FEMSA s beverage products in Mexico and Central America was 650 and 182 eight-ounce servings, respectively, in 2012.

The following table highlights historical sales volume and mix in Mexico and Central America for Coca-Cola FEMSA s products:

	Year Ended December 31,		
	2012	**2011**	**2010**
Total Sales Volume(1)			
Total (millions of unit cases)	1,871.5	1,510.8	1,379.3
Growth (%)	23.9	9.5	1.2
		(in percentages)	
Unit Case Volume Mix by Category			
Sparkling beverages	73.0	74.9	75.2
Water(2)	21.4	19.7	19.4
Still beverages	5.6	5.4	5.4
Total	100.0	100.0	100.0

(1) Includes results from the operations of Grupo Fomento Queretano from May 2012, Grupo CIMSA from December 2011 and Grupo Tampico from October 2011.

(2) Includes bulk water volumes.

In 2012, multiple serving presentations represented 66.2% of total sparkling beverages sales volume in Mexico, a 140 basis points decrease compared to 2011; and 56.1% of total sparkling beverages sales volume in Central America, a 40 basis points increase compared to 2011. Coca-Cola FEMSA s strategy is to foster consumption of single serve presentations while maintaining multiple serving volumes. In 2012, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 33.7% in Mexico, a 200 basis points increase compared to 2011; and 33.6% in Central America, a 190 basis points increase compared to 2011.

In 2012, Coca-Cola FEMSA s sparkling beverages decreased as a percentage of its total sales volume from 74.9% in 2011 to 73.0% in 2012, mainly due to the integration of Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano in Mexico, which have a higher mix of bulk water in their portfolios.

Table of Contents

In 2012, Coca-Cola FEMSA s most popular sparkling beverage presentations in Mexico were the 2.5-liter returnable plastic bottle, the 3.0-liter non-returnable plastic bottle and the 0.6-liter non-returnable plastic bottle (the 20-ounce bottle that is also popular in the United States) which together accounted for 51.2% of total sparkling beverage sales volume in Mexico.

Total sales volume reached 1,871.5 million unit cases in 2012, an increase of 23.9% compared to 1,510.8 million unit cases in 2011. The non-comparable effect of the integration of Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano in Mexico contributed 332.7 million unit cases in 2012 of which 62.5% were sparkling beverages, 5.1% bottled water, 27.9% bulk water and 4.5% still beverages. Excluding the integration of these territories, volume grew 1.9% to 1,538.8 million unit cases. Organically sparkling beverages sales volume increased 2.5% as compared to 2011. The bottled water category, including bulk water, decreased 2.6%. The still beverage category increased 8.9%.

South America (Excluding Venezuela). Coca-Cola FEMSA s product portfolio in South America consists mainly of *Coca-Cola* trademark beverages and the *Kaiser* beer brands in Brazil, which Coca-Cola FEMSA sells and distributes. In 2008, as part of Coca-Cola FEMSA s efforts to strengthen its multi-category beverage portfolio, it incorporated the *Jugos del Valle* line of juice-based beverages in Colombia. This line of beverages was relaunched in Brazil in 2009 as well. The acquisition of *Brisa* in 2009 helped Coca-Cola FEMSA to become the leader, calculated by sales volume, in the water market in Colombia.

In 2010, Coca-Cola FEMSA incorporated ready to drink beverages under the *Matte Leao* brand in Brazil. During 2011, as part of Coca-Cola FEMSA s continuous effort to develop non-carbonated beverages, Coca-Cola FEMSA launched *Cepita* in non-returnable polyethylene terephthalate (PET) bottles and *Hi-C*, an orangeade, both in Argentina. Since 2009, as part of Coca-Cola FEMSA s efforts to foster sparkling beverage per capita consumption in Brazil, Coca-Cola FEMSA re-launched a 2.0-liter returnable plastic bottle for the *Coca-Cola* brand and introduced two single-serve 0.25-liter presentations. Per capita consumption of Coca-Cola FEMSA s beverages in Colombia, Brazil and Argentina was 130, 264 and 404 eight-ounce servings, respectively, in 2012.

The following table highlights historical total sales volume and sales volume mix in South America (excluding Venezuela), not including beer:

	Year Ended December 31,		
	2012	**2011**	**2010**
Total Sales Volume			
Total (millions of unit cases)	967.0	948.1	909.2
Growth (%)	2.0	4.3	11.2
	(in percentages)		
Unit Case Volume Mix by Category			
Sparkling beverages	84.9	85.9	85.5
Water(1)	10.0	9.2	10.1
Still beverages	5.1	4.9	4.4
Total	100.0	100.0	100.0

(1) Includes bulk water volume.

Total sales volume was 967.0 million unit cases in 2012, an increase of 2.0% compared to 948.1 million unit cases in 2011. Growth in sparkling beverages, mainly driven by sales of the *Coca-Cola* brand in Argentina and the *Fanta* brand in Brazil and Colombia, accounted for the largest component of growth during the year. Coca-Cola FEMSA s growth in still beverages was primarily driven by the *Jugos del Valle* line of products in Brazil and the *Cepita* juice brand in Argentina. The growth in sales volume of Coca-Cola FEMSA s water portfolio, including bulk water, was driven mainly by the *Crystal* brand in Brazil and the *Brisa* brand in Colombia.

Table of Contents

In 2012, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 40.4% in Colombia, remaining flat as compared to 2011; 28.9% in Argentina, an increase of 110 basis points and 14.4% in Brazil, a 150 basis points decrease compared to 2011. In 2012, multiple serving presentations represented 62.9%, 72.5% and 85.2% of total sparkling beverages sales volume in Colombia, Brazil and Argentina, respectively.

Coca-Cola FEMSA continues to distribute and sell the *Kaiser* beer portfolio in its Brazilian territories through the 20-year term, consistent with the arrangements in place since 2006 with Cervejarias Kaiser, a subsidiary of the Heineken Group prior to the acquisition of Cervejarias Kaiser by Cuauhtémoc Moctezuma Holding, S.A. de C.V., formerly known as FEMSA Cerveza. Beginning in the second quarter of 2005, Coca-Cola FEMSA ceased including beer that it distributes in Brazil in its reported sales volumes. On April 30, 2010, the transaction pursuant to which we exchanged 100% of our beer operations for a 20% economic interest in the Heineken Group closed.

Venezuela. Coca-Cola FEMSA s product portfolio in Venezuela consists of *Coca-Cola* trademark beverages. Per capita consumption of Coca-Cola FEMSA s beverages in Venezuela during 2012 was 164 eight-ounce servings. At the end of 2011, Coca-Cola FEMSA launched *Del Valle Fresh*, an orangeade, in Venezuela, which contributed significantly to incremental volume growth in this country during 2012. During 2012, Coca-Cola FEMSA launched two new presentations for Coca-Cola FEMSA s sparkling beverage portfolio: a 0.355-liter non-returnable PET presentation and a 1-liter non-returnable PET presentation.

The following table highlights historical total sales volume and sales volume mix in Venezuela:

	Year Ended December 31,		
	2012	**2011**	**2010**
Total Sales Volume			
Total (millions of unit cases)	207.7	189.8	211.0
Growth (%)	9.4	(10.0)	(6.3)
	(in percentages)		
Unit Case Volume Mix by Category			
Sparkling beverages	87.9	91.7	91.3
Water(1)	5.6	5.4	6.5
Still beverages	6.5	2.9	2.2
Total	100.0	100.0	100.0

(1) Includes bulk water volume.

Coca-Cola FEMSA has implemented a product portfolio rationalization strategy that allows it to minimize the impact of certain operating disruptions that have been recurrent in Venezuela over the last several years. During 2011, Coca-Cola FEMSA faced a 26-day strike at one of its Venezuelan production and distribution facilities and a difficult economic environment that prevented it from growing sales volume of Coca-Cola FEMSA s products. As a result, Coca-Cola FEMSA s sparkling beverage volume decreased by 9.6%.

In 2012, multiple serving presentations represented 79.9% of total sparkling beverages sales volume in Venezuela, a 140 basis points increase compared to 2011. In 2012, returnable presentations represented 7.5% of total sparkling beverages sales volume in Venezuela, a 50 basis points decrease compared to 2011. Total sales volume was 207.7 million unit cases in 2012, an increase of 9.4% compared to 189.8 million unit cases in 2011.

Seasonality

Sales of Coca-Cola FEMSA s products are seasonal, as Coca-Cola FEMSA s sales levels generally increase during the summer months of each country and during the Christmas holiday season. In Mexico, Central America, Colombia and Venezuela, Coca-Cola FEMSA typically achieves its highest sales during the summer months of April through September as well as during the Christmas holidays in December. In Brazil and Argentina, Coca-Cola FEMSA s highest sales levels occur during the summer months of October through March and the Christmas holidays in December.

Table of Contents

Marketing

Coca-Cola FEMSA, in conjunction with The Coca-Cola Company, has developed a marketing strategy to promote the sale and consumption of Coca-Cola FEMSA s products. Coca-Cola FEMSA relies extensively on advertising, sales promotions and retailer support programs to target the particular preferences of Coca-Cola FEMSA s consumers. Coca-Cola FEMSA s consolidated marketing expenses in 2012, net of contributions by The Coca-Cola Company, were Ps. 3,681 million. The Coca-Cola Company contributed an additional Ps. 3,018 million in 2012, which mainly includes contributions for coolers, bottles and cases. Through the use of advanced information technology, Coca-Cola FEMSA has collected customer and consumer information that allows it to tailor its marketing strategies to target different types of customers located in each of its territories and to meet the specific needs of the various markets it serves.

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

Coolers. Cooler distribution among retailers is important for the visibility and consumption of Coca-Cola FEMSA s products and to ensure that they are sold at the proper temperature.

Advertising. Coca-Cola FEMSA advertises in all major communications media. Coca-Cola FEMSA focuses its advertising efforts on increasing brand recognition by consumers and improving its customer relations. National advertising campaigns are designed and proposed by The Coca-Cola Company s local affiliates, with Coca-Cola FEMSA s input at the local or regional level.

Channel Marketing. In order to provide more dynamic and specialized marketing of Coca-Cola FEMSA s products, Coca-Cola FEMSA s strategy is to classify its markets and develop targeted efforts for each consumer segment or distribution channel. Coca-Cola FEMSA s principal channels are small retailers, on-premise consumption such as restaurants and bars, supermarkets and third party distributors. Presence in these channels entails a comprehensive and detailed analysis of the purchasing patterns and preferences of various groups of beverage consumers in each of the different types of locations or distribution channels. In response to this analysis, Coca-Cola FEMSA tailors its product, price, packaging and distribution strategies to meet the particular needs of and exploit the potential of each channel.

Multi-Segmentation. Coca-Cola FEMSA has been implementing a multi-segmentation strategy in the majority of its markets. This strategy consists of the implementation of different product/price/package portfolios by market cluster or group. These clusters are defined based on consumption occasion, competitive intensity and socio-economic levels, rather than solely on the types of distribution channels.

Client Value Management. Coca-Cola FEMSA has been transforming its commercial models to focus on its customers value potential using a value-based segmentation approach to capture the industry s potential. Coca-Cola FEMSA started the rollout of this new model in its Mexico, Central America, Colombia and Brazil operations in 2009 and has covered close to 95% of its total volumes as of the end of 2012, including the later rollout in Argentina and, more recently, in Venezuela.

Coca-Cola FEMSA believes that the implementation of these strategies described above also enables it to respond to competitive initiatives with channel-specific responses as opposed to market-wide responses. In addition, it allows Coca-Cola FEMSA to be more efficient in the way it goes to market and invests its marketing resources in those segments that could provide a higher return. Coca-Cola FEMSA s marketing, segmentation and distribution activities are facilitated by its management information systems. Coca-Cola FEMSA has invested significantly in creating these systems, including in hand-held computers to support the gathering of product, consumer and delivery information for most of its sales routes throughout its territories.

Table of Contents

Product Sales and Distribution

The following table provides an overview of Coca-Cola FEMSA s distribution centers and the retailers to which Coca-Cola FEMSA sells its products:

Product Distribution Summary

as of December 31, 2012

	Mexico and Central America(1)	South America(2)	Venezuela
Distribution centers	149	64	33
Retailers(3)	956,618	653,321	209,232

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

(2) Includes Colombia, Brazil and Argentina.

(3) Estimated.

Coca-Cola FEMSA continuously evaluates its distribution model in order to fit with the local dynamics of the marketplace and analyze the way it goes to market, recognizing different service needs from its customers, while looking for a more efficient distribution model. As part of this strategy, Coca-Cola FEMSA is rolling out a variety of new distribution models throughout its territories looking for improvements in its distribution network.

Coca-Cola FEMSA uses several sales and distribution models depending on market, geographic conditions and the customer s profile: (1) the pre-sale system, which separates the sales and delivery functions, permitting trucks to be loaded with the mix of products that retailers have previously ordered, thereby increasing both sales and distribution efficiency, (2) the conventional truck route system, in which the person in charge of the delivery makes immediate sales from inventory available on the truck, (3) a hybrid distribution system, where the same truck carries product available for immediate sale and product previously ordered through the pre-sale system, (4) the telemarketing system, which could be combined with pre-sales visits and (5) sales through third-party wholesalers of Coca-Cola FEMSA s products.

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

Coca-Cola FEMSA s distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to its fleet of trucks, Coca-Cola FEMSA distributes its products in certain locations through electric carts and hand-trucks in order to comply with local environmental and traffic regulations. In some of its territories, Coca-Cola FEMSA retains third parties to transport its finished products from the bottling plants to the distribution centers.

Mexico. Coca-Cola FEMSA contracts with one of our subsidiaries for the transportation of finished products to its distribution centers from its production facilities. From the distribution centers, Coca-Cola FEMSA then distributes its finished products to retailers through its own fleet of trucks.

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

Brazil. In Brazil, Coca-Cola FEMSA sold 31.9% of its total sales volume through supermarkets in 2012. Also in Brazil, the delivery of Coca-Cola FEMSA s finished products to customers is completed by a third party, while Coca-Cola FEMSA maintains control over the selling function. In designated zones in Brazil, third-party distributors purchase Coca-Cola FEMSA s products at a discount from the wholesale price and resell the products to retailers.

Table of Contents

Territories other than Mexico and Brazil. Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third party distributors. In most of Coca-Cola FEMSA s territories, an important part of its total sales volume is sold through small retailers, with low supermarket penetration.

Competition

Although Coca-Cola FEMSA believes that its products enjoy wider recognition and greater consumer loyalty than those of its principal competitors, the markets in the territories in which Coca-Cola FEMSA operates are highly competitive. Coca-Cola FEMSA s principal competitors are local *Pepsi* bottlers and other bottlers and distributors of national and regional beverage brands. Coca-Cola FEMSA faces increased competition in many of its territories from producers of low price beverages, commonly referred to as B brands. A number of Coca-Cola FEMSA s competitors in Central America, Venezuela, Brazil and Argentina offer beer in addition to sparkling beverages, still beverages, and water, which may enable them to achieve distribution efficiencies.

Price discounting and packaging have joined consumer sales promotions, customer service and non-price retailer incentives as the primary means of competition among bottlers. Coca-Cola FEMSA competes by seeking to offer products at an attractive price in the different segments in its markets and by building on the value of its brands. Coca-Cola FEMSA believes that the introduction of new products and new presentations has been a significant competitive technique that allows it to increase demand for its products, provide different options to consumers and increase new consumption opportunities.

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

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

South America (excluding Venezuela). Coca-Cola FEMSA s principal competitor in Colombia is Postobón, a well-established local bottler that sells flavored sparkling beverages (under the brands *Postobón* and *Speed*), some of which have a wide consumption preference, such as *manzana Postobón* (apple Postobón), which is the second most popular flavor in the Colombian sparkling beverage industry in terms of total sales volume. Postobón also sells *Pepsi* products. Postobón is a vertically integrated producer, the owners of which hold other significant commercial interests in Colombia. Coca-Cola FEMSA also competes with low-price producers, such as the producers of *Big Cola*, which principally offer multiple serving size presentations in the sparkling and still beverage industry.

In Brazil, Coca-Cola FEMSA competes against AmBev, a Brazilian company with a portfolio of brands that includes *Pepsi*, local brands with flavors such as guaraná, and proprietary beer brands. Coca-Cola FEMSA also competes against B brands or Tubainas, which are small, local producers of low-cost flavored sparkling beverages in multiple serving presentations that represent a significant portion of the sparkling beverage market.

Table of Contents

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

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

Raw Materials

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

As part of the cooperation framework that Coca-Cola FEMSA reached with The Coca-Cola Company at the end of 2006, The Coca-Cola Company provides a relevant portion of the funds derived from the concentrate increase for marketing support of Coca-Cola FEMSA s sparkling and still beverages portfolio.

In addition to concentrate, Coca-Cola FEMSA purchases sweeteners, carbon dioxide, resin and preforms to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for most of Coca-Cola FEMSA s beverages. Coca-Cola FEMSA s bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company, including affiliates of FEMSA. Prices for packaging materials and HFCS historically have been determined with reference to the U.S. dollar, although the local currency equivalent in a particular country is subject to price volatility in accordance with changes in exchange rates. Coca-Cola FEMSA s most significant packaging raw material costs arise from the purchase of resin, plastic preforms to make plastic bottles and finished plastic bottles, which Coca-Cola FEMSA obtains from international and local producers. The prices of these materials are tied to crude oil prices and global resin supply. In recent years Coca-Cola FEMSA has experienced volatility in the prices it pays for these materials. Across Coca-Cola FEMSA s territories, its average price for resin in U.S. dollars decreased approximately 6.0% in 2012 as compared to 2011.

Under Coca-Cola FEMSA s agreements with The Coca-Cola Company, it may use raw or refined sugar or HFCS as sweeteners in its products. Sugar prices in all of the countries in which Coca-Cola FEMSA operates, other than Brazil, are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay in excess of international market prices for sugar in certain countries. In recent years, international sugar prices experienced significant volatility.

None of the materials or supplies that Coca-Cola FEMSA uses is presently in short supply, although the supply of specific materials could be adversely affected by strikes, weather conditions, governmental controls or national emergency situations.

Mexico and Central America. In Mexico, Coca-Cola FEMSA purchases its returnable plastic bottles from Graham Packaging México, S.A. de C.V., known as Graham, which is the exclusive supplier of returnable plastic bottles to The Coca-Cola Company and its bottlers in Mexico. Coca-Cola FEMSA mainly purchases resin from Indorama Ventures Polymers México, S. de R.L. de C.V. (formerly Arteva Specialties, S. de R.L. de C.V.), M. & G. Polímeros México, S.A. de C.V. and DAK Resinas Americas Mexico, S.A. de C.V., which ALPLA México, S.A. de C.V., known as ALPLA, and Envases Universales de México, S.A.P.I. de C.V. manufacture into non-returnable plastic bottles for Coca-Cola FEMSA.

Coca-Cola FEMSA purchases all of its cans from Fábricas de Monterrey, S.A. de C.V., known as FAMOSA, a wholly-owned subsidiary of the Heineken Group, and Envases Universales de México, S.A.P.I. de C.V., through Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a company owned by various *Coca-Cola* bottlers, in which, as of March 31, 2013, Coca-Cola FEMSA holds a 30.0% equity interest. Coca-Cola FEMSA mainly purchases its glass bottles from EXCO Integral Services, S.A. de C.V. (formerly Compañía Vidriera, S.A. de C.V., or VITRO), FEVISA Industrial, S.A. de C.V., known as FEVISA, and Glass & Silice, S.A. de C.V., a wholly-owned subsidiary of the Heineken Group.

Coca-Cola FEMSA purchases sugar from, among other suppliers, Piasa and Beta San Miguel, S.A. de C.V., both sugar cane producers in which, as of March 31, 2013, Coca-Cola FEMSA held an approximate 26.1% and 2.7% equity interest, respectively. Coca-Cola FEMSA purchase HFCS from CP Ingredientes, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

Sugar prices in Mexico are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay higher prices than those paid in the international market for sugar. As a result, sugar prices in Mexico have no correlation to international market prices for sugar. In 2012, sugar prices decreased approximately 15% as compared to 2011.

In Central America, the majority of Coca-Cola FEMSA s raw materials such as glass and plastic bottles are purchased from several local suppliers. Coca-Cola FEMSA purchases all of Coca-Cola FEMSA s cans from PROMESA. Sugar is available from suppliers that represent several local producers. Local sugar prices, in the countries that comprise the region, have increased mainly due to volatility in international prices. In Costa Rica, Coca-Cola FEMSA acquires plastic non-returnable bottles from ALPLA C.R. S.A., and in Nicaragua Coca-Cola FEMSA acquires such plastic bottles from ALPLA Nicaragua, S.A.

South America (excluding Venezuela). In Colombia, Coca-Cola FEMSA uses sugar as a sweetener in most of its products, which Coca-Cola FEMSA buys from several domestic sources. In 2011, Coca-Cola FEMSA started to use HFCS as an alternative sweetener for its products. Coca-Cola FEMSA purchases HFCS from Archer Daniels Midland Company. Coca-Cola FEMSA purchases plastic bottles from Amcor and Tapón Corona de Colombia S.A. Coca-Cola FEMSA purchases all of its glass bottles from Peldar O-I and cans from Crown, both suppliers in which Grupo Ardila Lulle, owners of Coca-Cola FEMSA s competitor Postobón, owns a minority equity interest. Glass bottles and cans are available only from these local sources.

Sugar is available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil in recent periods have been volatile, mainly due to the increased demand for sugar cane for production of alternative fuels, and Coca-Cola FEMSA s average acquisition cost for sugar in 2012 decreased approximately 24% as compared to 2011. Coca-Cola FEMSA purchases glass bottles, plastic bottles and cans from several domestic and international suppliers.

In Argentina, Coca-Cola FEMSA mainly uses HFCS that it purchases from several different local suppliers as a sweetener in its products instead of sugar. Coca-Cola FEMSA purchases glass bottles, plastic cases and other raw materials from several domestic sources. Coca-Cola FEMSA purchases plastic preforms, as well as returnable plastic bottles, at competitive prices from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina S.A., a *Coca-Cola* bottler with operations in Argentina, Chile and Brazil, and other local suppliers. Coca-Cola FEMSA also acquires plastic preforms from ALPLA Avellaneda S.A. and other suppliers.

Venezuela. In Venezuela, Coca-Cola FEMSA uses sugar as a sweetener in most of its products, which Coca-Cola FEMSA purchases mainly from the local market. Since 2003, from time to time, Coca-Cola FEMSA has experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permission to import in a timely manner. While sugar distribution to the food and beverages industry and to retailers is controlled by the government, Coca-Cola FEMSA did not experience any disruptions during 2012 with respect to access to sufficient sugar supply. However, we cannot assure you that Coca-Cola FEMSA will not experience disruptions in its ability to meet its sugar requirements in the future should the Venezuelan government impose restrictive measures in the future. Coca-Cola FEMSA buys glass bottles from one local supplier, Productos de Vidrio, S.A., but there are alternative suppliers authorized by The Coca-Cola Company. Coca-Cola FEMSA acquires most of its plastic non-returnable bottles from ALPLA de Venezuela, S.A. and all of its aluminum cans from a local producer, Dominguez Continental, C.A.

Table of Contents

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

FEMSA Comercio

Overview and Background

FEMSA Comercio operates the largest chain of small-format stores in Mexico, measured in terms of number of stores as of December 31, 2012, under the trade name OXXO. As of December 31, 2012, FEMSA Comercio operated 10,601 OXXO stores, of which 10,567 are located throughout the country, with a particularly strong presence in the northern part of Mexico, and the remaining 34 stores are located in Bogotá, Colombia.

FEMSA Comercio, the largest single customer of Cuauhtémoc Moctezuma and of the Coca-Cola system in Mexico, was established by FEMSA in 1978 when two OXXO stores were opened in Monterrey, one store in Mexico City and another store in Guadalajara. The motivating factor behind FEMSA s entrance into the retail industry was to enhance beer sales through company-owned retail outlets as well as to gather information on customer preferences. In 2012, a typical OXXO store carried 2,427 different store keeping units (SKUs) in 31 main product categories.

In recent years, FEMSA Comercio has represented an effective distribution channel for our beverage products, as well as a rapidly growing point of contact with our consumers. Based on the belief that location plays a major role in the long-term success of a retail operation such as a convenience store, as well as a role in our continually improving ability to accelerate and streamline the new-store development process, FEMSA Comercio has focused on a strategy of rapid, profitable growth. FEMSA Comercio opened 1,092, 1,135 and 1,040 net new OXXO stores in 2010, 2011 and 2012, respectively. The accelerated expansion in the number of stores yielded total revenue growth of 16.6% to reach Ps. 86,433 million in 2012. Same store sales increased an average of 7.7%, driven by increases in store traffic and average customer ticket. FEMSA Comercio performed approximately 3.0 billion transactions in 2012 compared to 2.7 billion transactions in 2011.

Business Strategy

A fundamental element of FEMSA Comercio s business strategy is to utilize its position in the convenience store market to grow in a cost-effective and profitable manner. As a market leader in convenience store retailing, based on internal company surveys, management believes that FEMSA Comercio has an in-depth understanding of its markets and significant expertise in operating a national store chain. FEMSA Comercio intends to continue increasing its store base while capitalizing on the market knowledge gained at existing stores.

FEMSA Comercio has developed proprietary models to assist in identifying appropriate store locations, store formats and product categories. Its model utilizes location-specific demographic data and FEMSA Comercio s experience in similar locations to fine tune the store format and product offerings to the target market. Market segmentation is becoming an important strategic tool, and it should increasingly allow FEMSA Comercio to improve the operating efficiency of each location and the overall profitability of the chain.

FEMSA Comercio has made and will continue to make significant investments in IT to improve its ability to capture customer information from its existing stores and to improve its overall operating performance. The majority of products carried through OXXO stores are bar-coded, and all OXXO stores are equipped with point-of-sale systems that are integrated into a company-wide computer network. To implement revenue management strategies, FEMSA Comercio created a division in charge of product category management for products, such as beverages, fast food and perishables, to enhance and better utilize its consumer information base and market intelligence capabilities. FEMSA Comercio utilizes a technology platform supported by an enterprise resource planning (ERP) system, as well as other technological solutions such as merchandising and point-of-sale systems, which will allow FEMSA Comercio to continue redesigning its key operating processes and enhance the usefulness of its market information going forward. In addition, FEMSA Comercio has expanded its operations by opening 11 new stores in Bogotá, Colombia in 2012.

Table of Contents

FEMSA Comercio has adopted innovative promotional strategies in order to increase store traffic and sales. In particular, FEMSA Comercio sells high-frequency items such as beverages, snacks and cigarettes at competitive prices. FEMSA Comercio s ability to implement this strategy profitably is partly attributable to the size of the OXXO chain, as FEMSA Comercio is able to work together with its suppliers to implement their revenue-management strategies through differentiated promotions. OXXO s national and local marketing and promotional strategies are an effective revenue driver and a means of reaching new segments of the population while strengthening the OXXO brand. For example, the organization has refined its expertise in executing cross promotions (discounts on multi-packs or sales of complementary products at a special price) and targeted promotions to attract new customer segments, such as housewives, by expanding the offerings in the grocery product category in certain stores. FEMSA Comercio is also strengthening its capabilities to increasingly provide consumers with services such as utility bill payment and other basic transactions.

Table of Contents

Store Locations

With 10,567 OXXO stores in Mexico and 34 stores in Colombia as of December 31, 2012, FEMSA Comercio operates the largest small-format store chain in Latin America measured by number of stores. OXXO stores are concentrated in the northern part of Mexico, but also have a growing presence in the rest of the country.

FEMSA Comercio

Regional Allocation of OXXO Stores in Mexico and Latin America(*)

as of December 31, 2012

FEMSA Comercio has aggressively expanded its number of stores over the past several years. The average investment required to open a new store varies, depending on location and format and whether the store is opened in an existing retail location or requires construction of a new store. FEMSA Comercio is generally able to use supplier credit to fund the initial inventory of new stores.

Growth in Total OXXO Stores

	Year Ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
Total OXXO stores	10,601	9,561	8,426	7,334	6,374
Store growth (% change over previous year)	10.9%	13.5%	14.9%	15.1%	14.6%

FEMSA Comercio currently expects to continue the growth trend established over the past several years by emphasizing growth in areas of high economic potential in existing markets and by expanding in underserved and unexploited markets. Management believes that the southeast part of Mexico is particularly underserved by the convenience store industry.

The identification of locations and pre-opening planning in order to optimize the results of new stores are important elements in FEMSA Comercio s growth plan. FEMSA Comercio continuously reviews store performance against certain operating and financial benchmarks to optimize the overall performance of the chain. Stores unable to maintain benchmark standards are generally closed. Between December 31, 2008 and 2012, the total number of OXXO stores increased by 4,227, which resulted from the opening of 4,328 new stores and the closing of 101 existing stores.

Table of Contents

Competition

FEMSA Comercio, mainly through OXXO, competes in the overall retail market, which we believe is highly competitive. OXXO stores face competition from small-format stores like 7-Eleven, Super Extra, Super City, Círculo K stores and other numerous chains of retailers across Mexico, from other regional small-format retailers to small informal neighborhood stores. OXXO competes both for consumers and for new locations for stores and the managers to operate those stores. FEMSA Comercio operates in the 32 Mexican states and has much broader geographical coverage than any of its competitors in Mexico.

Market and Store Characteristics

Market Characteristics

FEMSA Comercio is placing increased emphasis on market segmentation and differentiation of store formats to more appropriately serve the needs of customers on a location-by-location basis. The principal segments include residential neighborhoods, commercial and office locations and stores near schools and universities, along with other types of specialized locations.

Approximately 64% of OXXO s customers are between the ages of 15 and 35. FEMSA Comercio also segments the market according to demographic criteria, including income level.

Store Characteristics

The average size of an OXXO store is approximately 103 square meters of selling space, excluding space dedicated to refrigeration, storage or parking. The average constructed area of a store is approximately 186 square meters and, when parking areas are included, the average store size is approximately 429 square meters.

FEMSA Comercio Operating Indicators

	Year Ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
	(percentage increase compared to previous year)				
Total FEMSA Comercio revenues	16.6%	19.0%	16.3%	13.6%	12.0%
OXXO same-store sales[(1)]	7.7%	9.2%	5.2%	1.3%	0.4%

(1) Same-store sales growth is calculated by comparing the sales of stores for each year that have been in operation for more than 12 months with the sales of those same stores during the previous year.

Beer, cigarettes, soft drinks and other beverages, snacks and cellular telephone air-time represent the main product categories for OXXO stores. FEMSA Comercio has a distribution agreement with Cuauhtémoc Moctezuma (which is now part of the Heineken Group). As a result of this agreement, OXXO stores only carry beer brands produced and distributed by Cuauhtémoc Moctezuma. OXXO stores will continue to benefit from the existing relationship under which Cuauhtémoc Moctezuma will continue to be the exclusive supplier of beer to OXXO until June 2020.

Approximately 65% of OXXO stores are operated by independent managers responsible for all aspects of store operations. The managers are commission agents and are not employees of FEMSA Comercio. Each store manager is the legal employer of the store s staff, which typically numbers six people per store. FEMSA Comercio continually invests in on-site operating personnel, with the objective of promoting loyalty, customer service and low personnel turnover in the stores.

Table of Contents

Advertising and Promotion

FEMSA Comercio s marketing efforts include both specific product promotions and image advertising campaigns. These strategies seek to increase store traffic and sales, and to reinforce the OXXO name and market position.

FEMSA Comercio manages its advertising on three levels depending on the nature and scope of the specific campaign: local or store-specific, regional and national. Store-specific and regional campaigns are closely monitored to ensure consistency with the overall corporate image of OXXO stores and to avoid conflicts with national campaigns. FEMSA Comercio primarily uses point of purchase materials, flyers, handbills and print and radio media for promotional campaigns, although television is used occasionally for the introduction of new products and services. The OXXO chain s image and brand name are presented consistently across all stores, irrespective of location.

Inventory and Purchasing

FEMSA Comercio has placed considerable emphasis on improving operating performance. As part of these efforts, FEMSA Comercio continues to invest in extensive information management systems to improve inventory management. Electronic data collection has enabled FEMSA Comercio to reduce average inventory levels. Inventory replenishment decisions are carried out on a store-by-store basis.

Management believes that the OXXO chain s scale of operations provides FEMSA Comercio with a competitive advantage in its ability to realize strategic alliances with suppliers. General category offerings are determined on a national level, although purchasing decisions are implemented on a local, regional or national level, depending on the nature of the product category. Given the fragmented nature of the retail industry in Mexico in general, Mexican producers of beer, soft drinks, bread, dairy products, snacks, cigarettes and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 51% of the OXXO chain s total sales consist of products that are delivered directly to the stores by suppliers. Other products with longer shelf lives are distributed to stores by FEMSA Comercio s distribution system, which includes 14 regional warehouses located in Monterrey, Guadalajara, Mexicali, Mérida, León, Obregón, Puebla, Chihuahua, Reynosa, Tijuana, Toluca, Villahermosa and two in Mexico City. The distribution centers operate a fleet of approximately 746 trucks that make deliveries to each store approximately twice per week.

Seasonality

OXXO stores experience periods of high demand in December, as a result of the holidays, and in July and August, as a result of increased consumption of beer and soft drinks during the hot summer months. The months of November and February are generally the weakest sales months for OXXO stores. In general, colder weather during these months reduces store traffic and consumption of cold beverages.

Other Stores

FEMSA Comercio also operates other small format stores, which include soft discount stores with a focus on perishables, liquor stores and smaller convenience stores.

Equity Method Investment in the Heineken Group

As of December 31, 2012, FEMSA owned a non-controlling interest in the Heineken Group, one of the world s leading brewers. As of December 31, 2012, our 20% economic interest in the Heineken Group was comprised of 43,018,320 shares of Heineken Holding N.V. and 72,182,203 shares of Heineken N.V. For 2012, FEMSA recognized equity income of Ps. 8,311 regarding its 20% economic interest in the Heineken Group; see note 10 to our audited consolidated financial statements.

Table of Contents

As described above, FEMSA Comercio has a distribution agreement with Cuauhtémoc Moctezuma (which is now a part of the Heineken Group) pursuant to which OXXO stores only carry beer brands produced and distributed by Cuauhtémoc Moctezuma. OXXO stores will continue to benefit from the existing relationship under which Cuauhtémoc Moctezuma will continue to be the exclusive supplier of beer to OXXO until June 2020. As of April 30, 2010, Coca-Cola FEMSA has agreed with Cervejarias Kaiser (also now part of the Heineken Group) to continue to distribute and sell the *Kaiser* beer portfolio in Coca-Cola FEMSA s Brazilian territories for a 20-year term beginning in 2003, consistent with the arrangement already in place. In addition, our logistic services, corporate and shared services subsidiary continues to provide certain services to Cuauhtémoc Moctezuma and its subsidiaries.

Other Business

Our other business consists of the following smaller operations that support our core operations:

- Our logistics services subsidiary provides a broad range of logistics and vehicle maintenance services to Coca-Cola FEMSA, FEMSA Comercio and third-party clients in the beverages, consumer products and retail industries. It has operations in Mexico, Brazil, Colombia, Panama, Costa Rica and Nicaragua.

- Our refrigeration business produces vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 475,416 units at December 31, 2012. In 2012, this business sold 389,132 refrigeration units, 36.0% of which were sold to Coca-Cola FEMSA, and the remainder of which were sold to third parties.

- Our corporate services subsidiary employs all of our corporate staff, including the personnel managing the areas of finance, corporate accounting, taxation, legal, financial and strategic planning, human resources, corporate affairs and internal audit. Through this subsidiary, we direct, control, supervise and review the operations of our sub-holding companies. As of December 31, 2012, FEMSA Comercio and our other business subsidiaries pay management fees for the services provided to them. In addition, Coca-Cola FEMSA has entered into a services agreement pursuant to which it pays for specific services. As part of the Heineken transaction, the corporate and shared services subsidiaries continue to provide some limited corporate services and shared services to subsidiaries of Cuauhtémoc Moctezuma (now part of the Heineken Group), for which such companies continue to pay.

- Until December 31, 2010, our labeling and flexible packaging business was our wholly-owned subsidiary. In 2010, this business sold 14% of its label sales volume to Cuauhtémoc Moctezuma, 20% to Coca-Cola FEMSA and 66% to third parties. Our labeling and flexible packaging business was sold on December 31, 2010.

- Until December 31, 2012, Quimiproductos, our manufacturer and supplier of cleaning and sanitizing products and services related to food and beverage industrial processes, as well as of water treatment, was our wholly-owned subsidiary. In 2012, this business sold 38% of its products to Cuauhtémoc Moctezuma, 27% to Coca-Cola FEMSA and 35% to third parties. Our Quimiproductos business was sold on December 31, 2012.

- Until September 23, 2010 we owned the Mundet brands in Mexico, which were disposed through the sale to The Coca-Cola Company of Promotora de Marcas Nacionales, S. de R.L. de C.V., which was a wholly owned subsidiary of FEMSA.

Description of Property, Plant and Equipment

As of December 31, 2012, we owned all of our manufacturing facilities and substantially all of our warehouses and distribution centers. Our properties primarily consisted of production and distribution facilities for our soft drink operations and office space. In addition, FEMSA Comercio owns approximately 10.6% of the OXXO store locations, while the other stores are located in properties that are rented under long-term lease arrangements with third parties.

Table of Contents

The table below summarizes by country the installed capacity and percentage utilization of Coca-Cola FEMSA s production facilities:

Bottling Facility Summary

As of December 31, 2012

Country	Installed Capacity (thousands of unit cases)	Utilization(1) (%)
Mexico	2,671,963	62.0
Guatemala	35,527	77.0
Nicaragua	66,516	60.0
Costa Rica	81,424	56.0
Panama	55,863	52.0
Colombia	514,813	49.0
Venezuela	288,751	69.0
Brazil	720,704	64.0
Argentina	347,307	62.0

(1) Annualized rate.

The table below summarizes by country the location and facility area of each of Coca-Cola FEMSA s production facilities.

Bottling Facilities by Location as of December 31, 2012

Country	Location	Production Area (thousands of sq. meters)
Mexico	San Cristóbal de las Casas, Chiapas	45
	Cuautitlán, Estado de México	35
	Los Reyes la Paz, Estado de México	50
	Toluca, Estado de México	242
	León, Guanajuato	124
	Morelia, Michoacán	50
	Ixtacomitán, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	La Pureza Altamira, Tamaulipas	300
	Poza Rica, Veracruz	42
	Pacífico, Estado de México	89
	Cuernavaca, Morelos	37
	Toluca, Estado de México	41
	San Juan del Río, Querétaro	84
	Querétaro, Querétaro	80
Guatemala	Guatemala City	47
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San José	52
	Coronado, San José	14
Panama	Panama City	29

Country	Location	Production Area (thousands of sq. meters)
Colombia	Barranquilla	37
	Bogotá, DC	105
	Bucaramanga	26
	Cali	76
	Manantial, Cundenamarca	67
	Medellín	47
Venezuela	Antímano	15
	Barcelona	141
	Maracaibo	68
	Valencia	100
Brazil	Campo Grande	36
	Jundiaí	191
	Mogi das Cruzes	119
	Belo Horizonte	73
Argentina	Alcorta, Buenos Aires	73
	Monte Grande, Buenos Aires	32

Insurance

We maintain an all risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disaster, including hurricane, hail, earthquake and damages caused by human acts, including explosion, fire, vandalism, riot and losses incurred in connection with goods in transit. In addition, we maintain an all risk liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. In 2012, the policies for all risk property insurance and all risk liability insurance were issued by ACE Seguros, S.A., and the coverage was partially reinsured in the international reinsurance market. In 2013, all risk liability insurance policy will be issued by XL Insurance Mexico SA de CV. We believe that our coverage is consistent with the coverage maintained by similar companies operating in Mexico.

Capital Expenditures and Divestitures

Our consolidated capital expenditures for the years ended December 31, 2012 and 2011 were Ps. 15,560 million and Ps. 12,666 million respectively, and were for the most part financed from cash from operations generated by our subsidiaries. These amounts were invested in the following manner:

	Year Ended December 31, 2012	2011
	(In millions of Mexican pesos)	
Coca-Cola FEMSA	Ps. 10,259	Ps. 7,862
FEMSA Comercio	4,707	4,186
Other	594	618
Total	Ps. 15,560	Ps. 12,666

Coca-Cola FEMSA

During 2012, Coca-Cola FEMSA s capital expenditures focused on increasing production capacity, placing coolers with retailers, returnable bottles and cases, improving the efficiency of distribution infrastructure, and IT. Capital expenditures in Mexico and Central America were approximately Ps. 5,350 million and accounted for approximately 52% of Coca-Cola FEMSA s capital expenditures, with South America representing the balance.

48

Table of Contents

FEMSA Comercio

FEMSA Comercio s principal investment activity is the construction and opening of new stores. During 2012, FEMSA Comercio opened 1,040 net new OXXO stores. FEMSA Comercio invested Ps. 4,707 million in 2012 in the addition of new stores, warehouses and improvements to leased properties.

Regulatory Matters

Competition Legislation

The *Ley Federal de Competencia Económica* (Federal Economic Competition Law or Mexican Competition Law) became effective on June 22, 1993. The Mexican Competition Law and the *Reglamento de la Ley Federal de Competencia Económica* (Regulations under the Mexican Competition Law), effective as of October 13, 2007, regulate monopolistic practices and require Mexican government approval of certain mergers and acquisitions. The Mexican Competition Law subjects the activities of certain Mexican companies, including us, to regulatory scrutiny. In addition, the Regulations under the Mexican Competition Law prohibit members of any trade association from reaching any agreement relating to the price of their products. Management believes that we are currently in compliance in all material respects with Mexican competition legislation.

In Mexico and in some of the other countries in which we operate, we are involved in different ongoing competition related proceedings. We believe that the outcome of these proceedings will not have a material adverse effect on our financial position or results. **See Item 8. Financial Information Legal Proceedings Coca-Cola FEMSA Antitrust Matters.**

Price Controls

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which Coca-Cola FEMSA operates. Currently, there are no price controls on Coca-Cola FEMSA s products in any of its territories, except for (i) Argentina, where authorities directly supervise certain products sold through supermarkets to control inflation, and (ii) Venezuela, where the government has recently imposed price controls on certain products including bottled water. **See Item 3. Key Information Risk Factors *Regulatory developments may adversely affect Coca-Cola FEMSA s business*.**

Taxation of Sparkling Beverages

All the countries in which Coca-Cola FEMSA operates, except for Panama, impose a value-added tax on the sale of sparkling beverages, with a rate of 16% in Mexico, 12% in Guatemala, 15% in Nicaragua, 13% in Costa Rica, 16% in Colombia (applied only to the first sale in supply chain), 12% in Venezuela, 21% in Argentina, and 17% (Mato Grosso do Sul and Goiás) and 18% (São Paulo, Minas Gerais and Rio de Janeiro) in Brazil. Also, Coca-Cola FEMSA s Brazilian bottler is responsible for charging and collecting the value-added tax from each of its retailers, based on average retail prices for each state where the company operates, defined primarily through a survey conducted by the government of each state and generally updated every three months. In addition, several of the countries in which Coca-Cola FEMSA operates impose the following excise or other taxes:

- Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.30 as of December 31, 2012) per liter of sparkling beverage.

- Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, currently assessed at 16.74 colones per 250 ml (Ps. 0.42 as of December 31, 2012), and an excise tax currently assessed at 5.79 colones per 250 ml (approximately Ps. 0.15 as of December 31, 2012).

Nicaragua imposes a 9.0% tax on consumption, and municipalities impose a 1% tax on Coca-Cola FEMSA s Nicaraguan gross income.

Panama imposes a 5.0% tax based on the cost of goods produced. Panama also imposes a 10% selective consumption tax on syrups, powders and concentrate.

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

Brazil s federal government assesses an average production tax of approximately 4.7% and an average sales tax of approximately 10.8%. Most of these taxes are fixed, based on average retail prices in each state where the company operates (VAT) or fixed by the federal government (excise and sales tax).

Environmental Matters

In all of our territories, our operations are subject to federal and state laws and regulations relating to the protection of the environment.

Mexico

The Mexican federal authority in charge of overseeing compliance with the federal environmental laws is the *Secretaria del Medio Ambiente y Recursos Naturales* or Secretary of Environment and Natural Resources, which we refer to as SEMARNAT . An agency of SEMARNAT, the *Procuraduría Federal de Protección al Ambiente* or Federal Environmental Protection Agency, which we refer to as PROFEPA , has the authority to enforce the Mexican federal environmental laws. As part of its enforcement powers, PROFEPA can bring administrative, civil and criminal proceedings against companies and individuals that violate environmental laws, regulations and Mexican Official Standards and has the authority to impose a variety of sanctions. These sanctions may include, among other things, monetary fines, revocation of authorizations, concessions, licenses, permits or registrations, administrative arrests, seizure of contaminating equipment, and in certain cases, temporary or permanent closure of facilities. Additionally, as part of its inspection authority, PROFEPA is entitled to periodically inspect the facilities of companies whose activities are regulated by the Mexican environmental legislation and verify compliance therewith. Furthermore, in special situations or certain areas where federal jurisdiction is not applicable or appropriate, the state and municipal authorities can administer and enforce certain environmental regulations of their respective jurisdictions.

In Mexico, the principal legislation relating to environmental matters is the *Ley General de Equilibrio Ecológico y Protección al Ambiente* (Federal General Law for Ecological Equilibrium and Environmental Protection, or the Mexican Environmental Law) and the *Ley General para la Prevención y Gestión Integral de los Residuos* (General Law for the Prevention and Integral Management of Waste). Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to air and water emissions and hazardous wastes and set forth standards for waste water discharge that apply to our operations. We are also subject to certain minimal restrictions on the operation of delivery trucks in Mexico City. We have implemented several programs designed to facilitate compliance with air, waste, noise and energy standards established by current Mexican federal and state environmental laws, including a program that installs catalytic converters and liquid petroleum gas in delivery trucks for our operations in Mexico City.

In addition, we are subject to the *Ley de Aguas Nacionales de 1992* (as amended, the 1992 Water Law), enforced by the *Comisión Nacional del Agua* (National Water Commission). Adopted in December 1992, and amended in 2004, the 1992 Water Law provides that plants located in Mexico that use deep water wells to supply their water requirements must pay a fee to the local governments for the discharge of residual waste water to drainage. Pursuant to this law, certain local authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by the National Water Commission. In the case of non-compliance with the law, penalties, including closures, may be imposed. All of Coca-Cola FEMSA s bottler plants located in Mexico have met these standards. In addition, Coca-Cola FEMSA s plants in Apizaco and San Cristóbal are certified with ISO 14001.

Table of Contents

In Coca-Cola FEMSA s Mexican operations, it established a partnership with The Coca-Cola Company and ALPLA, a supplier of plastic bottles to Coca-Cola FEMSA in Mexico, to create *Industria Mexicana de Reciclaje* (IMER), a PET recycling facility located in Toluca, Mexico. This facility started operations in 2005 and has a recycling capacity of approximately 25,000 metric tons per year from which 15,000 metric tons can be re-used in PET bottles for food packaging purposes. Coca-Cola FEMSA has also continued contributing funds to a nationwide recycling company, *Ecología y Compromiso Empresarial* (Environmentally Committed Companies). In addition, Coca-Cola FEMSA s plants located in Toluca, Reyes, Cuautitlán, Apizaco, San Cristóbal, Morelia, Ixtacomitan, Coatepec, Poza Rica and Cuernavaca have received a *Certificado de Industria Limpia* (Certificate of Clean Industry).

As part of our environmental protection and sustainability strategies, several of our subsidiaries have entered into 20-year wind power purchase agreements with the Mareña Renovables Wind Farm to receive electrical energy for use at production and distribution facilities of FEMSA and Coca-Cola FEMSA throughout Mexico, as well as for a significant number of OXXO stores. The Mareña Renovables Wind Farm will be located in the state of Oaxaca and is expected to have a capacity of 396 megawatts. We anticipate the Mareña Renovables Wind Farm will begin operations in 2014.

As part of Coca-Cola FEMSA s environmental protection and sustainability strategies, in December 2009, Coca-Cola FEMSA, jointly with strategic partners, entered into a wind energy supply agreement with a Mexican subsidiary of the Spanish wind farm developer, GAMESA Energía, S.A., or GAMESA, to supply clean energy to Coca-Cola FEMSA s bottling facility in Toluca, Mexico, owned by its subsidiary, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), or Propimex, and to some of its suppliers of PET bottles. In 2010, GAMESA sold its interest in the Mexican subsidiary that owned the wind farm to Iberdrola Renovables México, S.A. de C.V. The wind farm generating such energy, which is located in La Ventosa, Oaxaca, is expected to generate approximately 100 thousand megawatt hours of energy annually. The energy supply services began in April 2010.

Central America

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

Colombia

Coca-Cola FEMSA s Colombian operations are subject to several Colombian federal, state and municipal laws and regulations related to the protection of the environment and the disposal of treated water and toxic and hazardous materials. These laws include the control of atmospheric emissions, noise emissions, disposal of treated water and strict limitations on the use of chlorofluorocarbons. For Coca-Cola FEMSA s plants in Colombia, it has obtained the *Certificación Ambiental Fase IV* (Phase IV Environmental Certificate) demonstrating its compliance at the highest level with relevant Colombian regulations. Coca-Cola FEMSA is also engaged in nationwide reforestation programs, and national campaigns for the collection and recycling of glass and plastic bottles. In 2011, jointly with the FEMSA Foundation, Coca-Cola FEMSA was commended with the Western Hemisphere Corporate Citizenship Award for the social responsibility programs it carried out to respond to the extreme weather experienced in Colombia in 2010 and 2011, known locally as the winter emergency. In addition, Coca-Cola FEMSA also obtained the ISO 9001, ISO 22000, ISO 14001 and PAS 220 certifications for its plants located in Medellín, Cali, Bogotá, Barranquilla, Bucaramanga and La Calera, as recognition for the highest quality and food harmlessness in its production processes. These six plants joined a small group of companies that have obtained these certifications.

Table of Contents

Venezuela

Coca-Cola FEMSA s Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the *Ley Orgánica del Ambiente* (Organic Environmental Law), the *Ley Sobre Sustancias, Materiales y Desechos Peligrosos* (Substance, Material and Dangerous Waste Law), the *Ley Penal del Ambiente* (Criminal Environmental Law) and the *Ley de Aguas* (Water Law). Since the enactment of the Organic Environmental Law in 1995, Coca-Cola FEMSA s Venezuelan subsidiary has presented the proper authorities with plans to bring their production facilities and distribution centers into compliance with applicable laws, which mainly consist of building or expanding the capacity of water treatment plants in Coca-Cola FEMSA s bottling facilities. Even though Coca-Cola FEMSA has had to adjust some of the originally proposed timelines due to construction delays, in 2009, Coca-Cola FEMSA completed the construction and received all the required permits to operate a new water treatment plant in its bottling facility located in the city of Barcelona. At the end of 2011, Coca-Cola FEMSA concluded the construction of a new water treatment plant in its bottling plant in the city of Valencia, which began operations in February 2012. During 2011, Coca-Cola FEMSA also commenced construction of a new water treatment plant in its Antimano bottling plant in Caracas, which construction was concluded during the second quarter of 2012. Coca-Cola FEMSA is also concluding the process of obtaining the necessary authorizations and licenses before it can begin the construction and expansion of its current water treatment plant in its bottling facility in Maracaibo. In December 2011, Coca-Cola FEMSA obtained the ISO 14000 certification for all of its plants in Venezuela.

In addition, in December 2010, the Venezuelan government approved the *Ley Integral de Gestión de la Basura* (Comprehensive Waste Management Law), which regulates solid waste management and which may be applicable to manufacturers of products for mass consumption. The full scope of this law has not yet been established.

Brazil

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

Coca-Cola FEMSA s production plant located in Jundiaí has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by the law. The plant has been certified for: (i) ISO 9001 since 1993; (ii) ISO 14001 since March 1997; (iii) norm OHSAS 18001 since 2005; (iv) ISO 22000 since 2007; and (v) PAS: 220 since 2010.

In Brazil it is also necessary to obtain concessions from the government to cast drainage. In December, 2010, Coca-Cola FEMSA increased the capacity of the water treatment plant in its Jundiaí facility. In 2012, Coca-Cola FEMSA s production plants in Jundiaí and Mogi das Cruzes were certified in standard FSSC22000, and its plant located in Campo Grande is in the process of obtaining this certification as well.

In Brazil, a municipal regulation of the City of São Paulo, implemented pursuant to Law 13.316/2002, came into effect in May 2008. This regulation requires Coca-Cola FEMSA to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the City of São Paulo; such percentage increases each year. Beginning in May 2011, Coca-Cola FEMSA was required to collect 90% of the PET bottles sold in the city of São Paulo for recycling. Currently, Coca-Cola FEMSA is not able to collect the entire required volume of PET bottles it has sold in the City of São Paulo for recycling. If Coca-Cola FEMSA does not meet the requirements of this regulation, which we believe to be more onerous than those imposed by the countries with the highest recycling standards, it could be fined and be subject to other sanctions, such as the suspension of operations in any of its plants and/or distribution centers located in the City of São Paulo. In May 2008, Coca-Cola FEMSA, together with other bottlers in the city of São Paulo, through the *Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas* (Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In addition, in November 2009, in response to a municipal authority request for Coca-Cola FEMSA to demonstrate the destination of the PET bottles sold by it in the City of São Paulo, Coca-Cola FEMSA filed a motion showing all of its recycling programs and requesting a more practical timeline to comply with the requirements of the law. In October 2010, the municipal authority of the City of São Paulo levied a fine on Coca-Cola FEMSA s Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps. 1,548,874 as of December 31, 2012) on the grounds that the report submitted by Coca-Cola FEMSA s Brazilian operating subsidiary did not comply with the 75% proper disposal requirement for the period from May 2008 to May 2010. Coca-Cola FEMSA filed an appeal against this fine. In July 2012, the State Appellate Court of São Paulo rendered a decision admitting the interlocutory appeal filed on behalf of ABIR in order to suspend the fines and other sanctions to ABIR s associated companies, including Coca-Cola FEMSA s Brazilian subsidiary, for alleged noncompliance with the municipal regulation pending the final resolution of the lawsuit. Coca-Cola FEMSA is currently awaiting final resolution on both matters.

Table of Contents

In August 2010, Law No. 12.305/2010 established the Brazilian National Solid Waste Policy. This policy is based on the principle of shared responsibility between the government, companies and the public, and provides for the post-consumption return of products to companies and requires public authorities to implement waste management programs. This law is regulated by Federal Decree No. 7.404/2010, and was published in December 2010. Coca-Cola FEMSA is currently discussing with the relevant authorities the impact this law may have on Brazilian companies in complying with the regulation in effect in the City of São Paulo. In response to the Brazilian National Solid Waste Policy, in December 2012, a proposal was provided to the Ministry of the Environment by almost 30 associations involved in the packaging sector, including ABIR in its capacity as representative for The Coca-Cola Company, Coca-Cola FEMSA s Brazilian subsidiary, and other bottlers. The proposal involved creating a coalition to implement systems for reverse logistics packaging non-dangerous waste that makes up the dry portion of municipal solid waste or its equivalent. The goal of the proposal is to create methodologies for sustainable development, and protect the environment, society, and the economy. Coca-Cola FEMSA has not yet received a response from the Ministry of Environment.

Argentina

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

For all of Coca-Cola FEMSA s plant operations, it employs an environmental management system: *Sistema de Administración Ambiental* (Environmental Administration System, or EKOSYSTEM) that is contained within *Sistema Integral de Calidad* (Integral Quality System, or SICKOF).

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

We do not believe that Coca-Cola FEMSA s business activities pose a material risk to the environment, and we believe that Coca-Cola FEMSA is in material compliance with all applicable environmental laws and regulations.

Other regulations

In December 2009, the Venezuelan government issued a decree requiring a reduction in energy consumption by at least 20% for industrial companies whose consumption is greater than two megawatts per hour and to submit an energy-usage reduction plan. Some of Coca-Cola FEMSA s bottling operations in Venezuela outside of Caracas met this threshold and it submitted a plan, which included the purchase of generators for its plants. In January 2010, the Venezuelan government subsequently implemented power cuts and other measures for all industries in Caracas whose consumption was above 35 kilowatts per hour.

In January 2010, the Venezuelan government amended the *Ley para la Defensa y Acceso a las Personas a los Bienes y Servicios* (Defense of and Access to Goods and Services Law). Any violation by a company that produces, distributes and sells goods and services could lead to fines, penalties or the confiscation of the assets used to produce, distribute and sell these goods without compensation. Although we believe Coca-Cola FEMSA is in compliance with this law, consumer protection laws in Venezuela are subject to continuing review and changes, and any such changes could lead to an adverse impact on Coca-Cola FEMSA.

In July 2011, the Venezuelan government passed the *Ley de Costos y Precios Justos* (Fair Costs and Prices Law). The purpose of this law is to establish the regulations and administrative processes necessary to maintain the price stability of, and equal access to, goods and services. The law also creates the National Ministry of Costs and Prices, whose main role is to oversee price controls and set maximum retail prices on certain consumer goods and services. Of Coca-Cola FEMSA s products, only certain of its bottled water beverages were affected by these regulations, which mandated a lowering of its sale prices as of April 2012. Any failure to comply with this law would result in fines, temporary suspension or the closure of operations. While Coca-Cola FEMSA is currently in compliance with this law, we cannot assure you that the Venezuelan government s future regulation of goods and services will not result in a forced reduction of prices in respect of certain of Coca-Cola FEMSA s other products, which could have a negative effect on its results.

In May 2012, the Venezuelan government adopted significant changes to its labor regulations. This amendment to Venezuela s labor regulations could have a negative impact on Coca-Cola FEMSA s business and operations. The principal changes that impact Coca-Cola FEMSA s operations are: (i) the requirement that employee terminations are now subject to governmental authorization; (ii) retroactive assessments for any modifications to Coca-Cola FEMSA s severance payment system; (iii) the reduction of the maximum daily and weekly work hours (from 44 to 40 weekly); and (iv) the increase in obligatory weekly breaks, prohibiting any corresponding reduction in salaries.

In November, 2012, the government of the Province of Buenos Aires, Argentina, adopted Law No. 14,394, which increased the tax rate applied to product sales within the Province of Buenos Aires. If the products are manufactured in plants located in the territory of the Province of Buenos Aires, Law No. 14,394 increases the tax rate from 1% to 1.75%; if the products are manufactured in any other Argentine province, the law increases the tax rate from 3% to 4%.

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

In December 2012, the Cost Rican government repealed Article 61 of their *Código Fiscal* (Fiscal Code), which had allowed Costa Rican subsidiaries to follow certain specified procedures to prevent tax withholdings on dividends paid to parent companies.

Water Supply

In Mexico, Coca-Cola FEMSA obtains water directly from municipal utility companies and pumps water from its own wells pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the 1992 Water Law, and regulations issued thereunder, which created the National Water Commission. The National Water Commission is in charge of overseeing the national system of water use. Under the 1992 Water Law, concessions for the use of a specific volume of ground or surface water generally run from five- to fifty-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request that concession terms be extended before they expire. The Mexican government is authorized to reduce the volume of ground or surface water granted for use by a concession by whatever volume of water is not used by the concessionaire for two consecutive years. However, because the current concessions for each of Coca-Cola FEMSA s plants in Mexico do not match each plant s projected needs for water in future years, we successfully negotiated with the Mexican government the right to transfer the unused volume under concessions from certain plants to other plants anticipating greater water usage in the future. These concessions may be terminated if, among other things, we use more water than permitted or we fail to pay required concession-related fees and do not cure such situations in a timely manner.

Although we have not undertaken independent studies to confirm the sufficiency of the existing groundwater supply, we believe that our existing concessions satisfy our current water requirements in Mexico.

In Argentina, a state water company provides water to Coca-Cola FEMSA s Alcorta plant on a limited basis; however, we believe the authorized amount meets Coca-Cola FEMSA s requirements for this plant. In Coca-Cola FEMSA s Monte Grande plant in Argentina, it pumps water from its own wells, in accordance with Law 25.688.

In Brazil, Coca-Cola FEMSA buys water directly from municipal utility companies and we also capture water from underground sources, wells or surface sources (i.e., rivers), pursuant to concessions granted by the Brazilian government for each plant. According to the Brazilian Constitution, water is considered an asset of common use and can only be exploited for the national interest by Brazilians or companies formed under Brazilian law. Concessionaires and users have the responsibility for any damage to the environment. The exploitation and use of water is regulated by the *Código de Mineração* (Code of Mining, Decree Law No. 227/67), the *Código de Águas Minerais* (Mineral Water Code, Decree Law No. 7841/45), the National Water Resources Policy (Law No. 9433/97) and by regulations issued thereunder. The companies that exploit water are supervised by the *Departamento Nacional de Produção Mineiral DNPM* (National Department of Mineral Production) and the National Water Agency in connection with federal health agencies, as well as state and municipal authorities. In Coca-Cola FEMSA s Jundiaí and Belo Horizonte plants, we do not exploit mineral water. In the Mogi das Cruzes and Campo Grande plants, we have all the necessary permits for the exploitation of mineral water.

In Colombia, in addition to natural spring water, Coca-Cola FEMSA obtains water directly from its own wells and from utility companies. Coca-Cola FEMSA is required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees No. 1594 of 1984 and No. 2811 of 1974. In addition, on February 6, 2012, Colombia promulgated Decree No. 303, which requires Coca-Cola FEMSA to apply for water concessions and for authorization to discharge its water into public waterways. The National Institute of National Resources supervises companies that use water as a raw material for their business.

In Nicaragua, the use of water is regulated by the *Ley General de Aguas Nacionales* (National Water Law), and Coca-Cola FEMSA obtains water directly from its own wells. In Costa Rica, the use of water is regulated by the *Ley de Aguas* (Water Law). In both of these countries, Coca-Cola FEMSA owns and exploits its own water wells granted to it through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in Coca-Cola FEMSA s own plants. In Panama, Coca-Cola FEMSA acquires water from a state water company, and the use of water is regulated by the *Reglamento de Uso de Aguas de Panamá* (Panama Use of Water Regulation). In Venezuela, Coca-Cola FEMSA uses private wells in addition to water provided by the municipalities, and it has taken the appropriate actions, including actions to comply with water regulations, to have water supply available from these sources, regulated by the *Ley de Aguas* (Water Law).

We cannot assure you that water will be available in sufficient quantities to meet our future production needs, that we will be able to maintain our current concessions or that additional regulations relating to water use will not be adopted in the future in our territories. We believe that we are in material compliance with the terms of our existing water concessions and that we are in compliance with all relevant water regulations.

Table of Contents

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview of Events, Trends and Uncertainties

Management currently considers the following events, trends and uncertainties to be important to understanding its results and financial position during the periods discussed in this section:

- Coca-Cola FEMSA continues growing organic volumes at a steady but moderate pace, and additionally integrated Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano in its Mexican operations. Volume growth was mainly driven by the *Coca-Cola* brand, together with the performance of Coca-Cola FEMSA s still beverage portfolio.

- FEMSA Comercio has maintained high rates of OXXO store openings and continues to grow in terms of total revenues. FEMSA Comercio has lower operating margins than our beverage business. Given that FEMSA Comercio has lower operating margins and given its fixed cost structure, it is more sensitive to changes in sales which could negatively affect operating margins.

Our results and financial position are affected by the economic and market conditions in the countries where our subsidiaries conduct their operations, particularly in Mexico. Changes in these conditions are influenced by a number of factors, including those discussed in **Item 3. Key Information Risk Factors.**

Recent Developments

In November 2012, through FEMSA Comercio, we agreed to acquire a 75% stake in Farmacias YZA, a leading drugstore operator in Southeast Mexico, with the current shareholders staying as partners with the remaining 25%. Farmacias YZA, headquartered in Merida, Yucatan, operated 333 stores as of the date of the agreement. We believe we can contribute our significant expertise in the development of small-box retail formats to what is already a successful regional player in this industry. In turn, this transaction opens a new avenue for growth for FEMSA Comercio. The transaction is pending customary regulatory approvals and is expected to close in the second quarter of 2013.

In December 2012, Coca-Cola FEMSA reached an agreement with The Coca-Cola Company to acquire a 51% non-controlling majority stake of CCBPI for US $688.5 million in an all-cash transaction. Coca-Cola FEMSA closed this transaction on January 25, 2013. The implied enterprise value of 100% of CCBPI is US$ 1,350 million. Coca-Cola FEMSA will have an option to acquire all of the remaining 49% of the capital stock of CCBPI at any time during the seven years following the closing, at the same enterprise value adjusted for a carrying cost and certain other adjustments. Coca-Cola FEMSA will have a put option, exercisable six years after the initial closing, to sell its ownership in CCBPI back to The Coca-Cola Company at a price that will be calculated using the same EBITDA multiple used in the acquisition of the 51% stake of CCBPI, capped at the aggregate enterprise value for the amount acquired, adjusted for certain items. Coca-Cola FEMSA will be managing the day-to-day operations of the business. The Coca-Cola Company will have certain rights on the operational business plan. Given the terms of both the options agreement and Coca-Cola FEMSA s shareholders agreement with The Coca-Cola Company, Coca-Cola FEMSA will not consolidate the results of CCBPI. Coca-Cola FEMSA will recognize the results of CCBPI using the equity method.

Table of Contents

In January 2013, Coca-Cola FEMSA entered into an agreement to merge Grupo Yoli into its company. Grupo Yoli operates in Mexico, mainly in the state of Guerrero, Mexico, as well as in parts of the state of Oaxaca, Mexico. The merger agreement was approved by both Coca-Cola FEMSA and Grupo Yoli s boards of directors and is subject to the approval of the CFC and the shareholders meetings of both companies. The aggregate enterprise value of this transaction was Ps. 8,806 million. Coca-Cola FEMSA will issue approximately 42.4 million new series L shares to the shareholders of Grupo Yoli once the transaction closes. As part of this transaction, Coca-Cola FEMSA will increase its participation in Piasa by 9.5%. Coca-Cola FEMSA expects to close this transaction in the second quarter of 2013.

Effects of Changes in Economic Conditions

Our results are affected by changes in economic conditions in Mexico and in the other countries in which we operate. For the years ended December 31, 2012, and 2011, 62%, and 61%, respectively, of our total sales were attributable to Mexico. As a result, we have significant exposure to the economic conditions of certain countries, particularly those in Central America, Colombia, Venezuela, Brazil and Argentina, although we continue to generate a substantial portion of our total sales from Mexico. The participation of these other countries as a percentage of our total sales has not changed significantly during the last five years and total sales are expected to increase in future periods due to acquisitions.

The Mexican economy is gradually recovering from a downturn as a result of the impact of the global financial crisis on many emerging economies in 2009. According to INEGI, in both 2012 and 2011 Mexican GDP expanded by approximately 3.9%. According to the *Banco Nacional de México* survey regarding the economic expectations of specialists, Mexican GDP is expected to increase by 3.54% in 2013, as of the latest estimate, published on March 1, 2013. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery in Mexico.

Our future results may be significantly affected by the general economic and financial conditions in the countries where we operate, including by levels of economic growth, by the devaluation of the local currency, by inflation and high interest rates or by political developments, and may result in lower demand for our products, lower real pricing or a shift to lower margin products. Because a large percentage of our costs are fixed costs, we may not be able to reduce such costs and expenses, and our profit margins may suffer as a result of downturns in the economy of each country.

Beginning in the fourth quarter of 2010 and through 2012, the exchange rate between the Mexican peso and the U.S. dollar fluctuated from a low of Ps. 11.51 per U.S. dollar, to a high of Ps. 14.37 per U.S. dollar. At December 31, 2012, the exchange rate (noon buying rate) was Ps. 12.9635 to US$ 1.00. On March 31, 2013, the exchange rate was Ps. 12.3155 to US$ 1.00. **See Item 3. Key Information Exchange Rate Information.** A depreciation of the Mexican peso or local currencies in the countries in which we operate relative to the U.S. dollar increases our cost of raw materials priced in U.S. dollars, including raw materials whose prices are set with reference to the U.S. dollar. In addition, a depreciation of the Mexican peso or local currencies in the countries in which we operate relative to the U.S. dollar will increase our U.S. dollar-denominated debt obligations, which could negatively affect our financial position and results. However, this effect could be offset by a corresponding appreciation of our U.S. dollar denominated cash position.

Operating Leverage

Companies with structural characteristics that result in margin expansion in excess of sales growth are referred to as having high operating leverage.

The operating subsidiaries of Coca-Cola FEMSA are engaged, to varying degrees, in capital-intensive activities. The high utilization of the installed capacity of the production facilities results in better fixed cost absorption, as increased output results in higher revenues without additional fixed costs. Absent significant increases in variable costs, gross profit margins will expand when production facilities are operated at higher utilization rates. Alternatively, higher fixed costs will result in lower gross profit margins in periods of lower output.

In addition, the commercial operations of Coca-Cola FEMSA are carried out through extensive distribution networks, the principal fixed assets of which are warehouses and trucks and are designed to handle large volumes of beverages. Fixed costs represent an important proportion of the total distribution expense of Coca-Cola FEMSA. Generally, the higher the volume that passes through the distribution system, the lower the fixed distribution cost as a percentage of the corresponding revenues. As a result, operating margins improve when the distribution capacity is operated at higher utilization rates. Alternatively, periods of decreased utilization because of lower volumes will negatively affect our operating margins.

FEMSA Comercio operations result in a low margin business with relatively fixed costs. These two characteristics make FEMSA Comercio a business with an operating margin that might be affected more easily by a change in sales levels.

Critical Accounting Judgments and Estimates

In the application of our accounting policies, which are described in Note 3 to our audited consolidated financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

Intangible assets with indefinite lives including goodwill are subject to annual impairment tests. An impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell or its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm s length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. In order to determine whether such assets are impaired, we initially calculate an estimation of the value in use of the cash generating units to which such assets have been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. We review annually the carrying value of our intangible assets with indefinite lives and goodwill for impairment based on recognized valuation techniques. While we believe that our estimates are reasonable, different assumptions regarding such estimates could materially affect our evaluations. Impairment losses are recognized in current earnings in the period the related impairment is determined.

We assess at each reporting date whether there is an indication that a depreciable long lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, we estimate the asset s recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. The key assumptions used to determine the recoverable amount for our CGUs, including a sensitivity analysis, are further explained in Notes 3.15 and 12 to our audited consolidated financial statements.

Table of Contents

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

Property, plant and equipment, including returnable bottles as they are expected to provide benefits over a period of more than one year, as well as intangible assets with defined useful lives, are depreciated/amortized over their estimated useful lives. We base our estimates on the experience of our technical personnel as well as on our experience in the industry for similar assets; see Notes 3.11, 3.13, 11 and 12 to our audited consolidated financial statements.

Post-employment and other long-term employee benefits

We annually evaluate the reasonableness of the assumptions used in our post-employment and other long-term employee benefit computations. Information about such assumptions is described in Note 16.1 to our audited consolidated financial statements.

Income taxes

Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. For our particular Mexican subsidiaries, we recognize deferred income taxes, based on our financial projections depending on whether we expect to incur the regular income tax (ISR) or the business flat tax (IETU) in the future. Additionally, we regularly review our deferred tax assets for recoverability, and record a deferred tax asset based on our judgment regarding the probability of historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences; see Note 24 to our audited consolidated financial statements.

Tax, labor and legal contingencies and provisions

We are subject to various claims and contingencies on a range of matters including, among others, tax, labor and legal proceedings as described in Note 25 to our audited consolidated financial statements. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a provision and/or discloses the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a provision for the estimated loss. Management s judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

Valuation of financial instruments

We are required to measure all derivative financial instruments at fair value. The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient reliable and verifiable data, recognized in the financial sector. We base our forward price curves upon market price quotations. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments; see Note 20 to our audited consolidated financial statements.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by us, liabilities assumed by us to the former owners of the acquiree and the equity interests issued by us in exchange for control of the acquiree.

Table of Contents

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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes* (which we refer to as IAS 12) and IAS 19, *Employee Benefits* (which we refer to as IAS 19), respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or to our share-based payment arrangements entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, *Share-based Payment* at the acquisition date, see Note 3.23 to our audited consolidated financial statements; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Management s judgment must be exercised to determine the fair value of assets acquired and liabilities assumed.

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

For each business combination, we elect whether we measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree s identifiable net assets.

Investments in Associates

If we hold, directly or indirectly, 20% or more of the voting power of the investee, it is presumed that we have significant influence, unless it can be clearly demonstrated that this is not the case. If we hold, directly or indirectly, less than 20% of the voting power of the investee, it is presumed that we do not have significant influence, unless such influence can be clearly demonstrated. Decisions regarding the propriety of utilizing the equity method of accounting for a less than 20%-owned corporate investee require a careful evaluation of voting rights and their impact on our ability to exercise significant influence. Management considers the existence of the following circumstances which may indicate that we are in a position to exercise significant influence over a less than 20 per cent-owned corporate investee:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between us and the investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

Management also considers whether the existence and effect of potential voting rights that are currently exercisable or currently convertible should also be considered when assessing whether we have significant influence. In addition, we evaluate the following indicators that provide evidence of significant influence:

Extent of our ownership is significant relative to other shareholdings (i.e. a lack of concentration of other shareholders);

Table of Contents

Our significant stockholders, our parent, fellow subsidiaries, or our officers, hold additional investment in the investee; and

We are part of significant investee committees, such as the executive committee or the finance committee.

Adoption of IFRS

As described in Note 2 to our audited consolidated financial statements, we adopted IFRS for the preparation of our financial information beginning in 2012. Pursuant to current SEC reporting requirements, foreign private issuers may provide in their SEC filings financial statements prepared in accordance with IFRS, without a reconciliation to U.S. GAAP.

The consolidated financial statements we issued for the year ended December 31, 2012 were our first annual financial statements that complied with IFRS. Our IFRS transition date was January 1, 2011, and therefore, the year ended December 31, 2011 was the comparative period to be covered. IFRS 1, First-Time Adoption of International Financial Reporting Standards (which we refer to as IFRS 1), sets forth mandatory exceptions and allows certain optional exemptions to the complete retrospective application of IFRS; see Note 27 to our audited consolidated financial statements;

Mandatory Exceptions

We have applied the following mandatory exceptions to retrospective application of IFRS, effective as of our IFRS transition date:

Derecognition of Financial Assets and Liabilities:

We applied the derecognition rules of IAS 39, *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after the date of transition. As a result, there was no impact in our consolidated financial statements due to the application of this exception.

Hedge Accounting:

We measured at fair value all derivative financial instruments and hedging relationships designated and documented effectively as accounting hedges as required by IAS 39 as of the transition date. As a result, there was no impact in our consolidated financial statements due to the application of this exception.

Non-controlling Interest:

We applied the requirements in IAS 27, Consolidated and Separate Financial Statements related to non-controlling interests prospectively beginning on the transition date. As a result, there was no impact in our consolidated financial statements due to the application of this exception.

Accounting Estimates:

Estimates prepared under IFRS as of January 1, 2011 are consistent with the estimates recognized under Mexican FRS as of the same date.

Table of Contents

Optional Exemptions

We have elected the following optional exemptions to retrospective application of IFRS, effective as of our IFRS transition date:

Business Combinations and Acquisitions of Associates and Joint Ventures

We elected not to apply IFRS 3 *Business Combinations*, to business combinations as well as to acquisitions of associates and joint ventures prior to our transition date.

Deemed Cost

An entity may elect to measure an item or all of property, plant and equipment at the Transition date at its fair value and use that fair value as its deemed cost at that date. In addition, a first-time adopter may elect to use a previous GAAP s revaluation of an item of property, plant and equipment at, or before, the Transition date as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to (i) fair value; or (ii) cost or depreciated cost in accordance with IFRS, adjusted to reflect changes in a general or specific price index.

We have presented our property, plant and equipment and our intangible assets at IFRS historical costs in all countries.

In Mexico, we ceased to record inflationary adjustments to our property, plant and equipment on December 31, 2007, due to both changes in Mexican FRS in effect at that time, and the fact that the Mexican peso was not deemed to be a currency of an inflationary economy as of that date. According to IAS 29 *Financial Reporting in Hyperinflationary Economies*, the last hyperinflationary period for the Mexican peso was in 1998. As a result, we eliminated the cumulative inflation recognized within long-lived assets for our Mexican operations, based on Mexican FRS for the years 1999 through 2007, which were not deemed hyperinflationary for IFRS purposes.

In Venezuela, this IFRS historical cost represents actual historical cost in the year of acquisition, indexed for inflation in a hyperinflationary economy based on the provisions of IAS 29.

Cumulative Translation Effect

We applied the exemption to not recalculate retroactively the translation differences in the financial statements of foreign operations; accordingly, at the transition date, we reclassified the cumulative translation effect to retained earnings.

The application of this exemption is detailed in Note 27.3 (h) to our audited consolidated financial statements.

Borrowing Costs

We began capitalizing our borrowing costs at the transition date in accordance with IAS 23, *Borrowing Costs*. The borrowing costs included previously under Mexican FRS were subject to the deemed cost exemption mentioned above.

Future Impact of Recently Issued Accounting Standards not yet in Effect

We have not early adopted the following new and revised IFRS, which were not yet effective as of December 31, 2012:

IFRS 9, Financial Instruments, issued in November 2009 and amended in October 2010, introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. The standard requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at FVTPL) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability s credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was recognized in profit or loss. We have not early adopted this standard. We have yet to complete our evaluation of whether this standard will have a material impact on our consolidated financial statements.

In May and June, 2011, the IASB issued new standards and amended some existing standards including requirements of accounting and presentation for particular topics that have not yet been applied in these consolidated financial statements. A summary of those changes and amendments includes the following:

IAS 28, Investments in Associates and Joint Ventures (2011) (which we refer to as IAS 28) prescribes the accounting for investments in associates and establishes the requirements to apply the equity method for those investments in associates and in joint ventures. The standard is applicable to all entities with joint control of, or significant influence over, an investee. This standard supersedes the previous version of IAS 28, Investments in Associates. The effective date of IAS 28 (2011) is January 1, 2013, with early application permitted, but it must be applied in conjunction with IFRS 10, IFRS 11 and IFRS 12. This standard has not been early adopted by us. We have yet to complete our evaluation, of whether this standard will have a material impact on our consolidated financial statements.

IFRS 10, Consolidated Financial Statements, establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires the controlling company to present its consolidated financial statements; modifies the definition about the principle of control, establishes such definition as the basis for consolidation; and establishes how to apply the principle of control to identify if an investment is subject to consolidation. The standard replaces IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation Special Purpose Entities. The effective date of IFRS 10 is January 1, 2013, with early application permitted, but it must be applied in conjunction with IAS 28 (2011), IFRS 11 and IFRS 12. This standard has not been early adopted by us. We have yet to complete our evaluation of whether this standard will have a material impact on our consolidated financial statements.

IFRS 11, Joint Arrangements, classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). Joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method. The determination of whether a joint arrangement is a joint operation or a joint venture is based on the parties rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. The effective date of IFRS 11 is January 1, 2013, with early application permitted, but it must be applied in conjunction with IAS 28 (2011), IFRS 10 and IFRS 12. This standard has not been early adopted by us. We have yet to complete our evaluation of whether this standard will have a material impact on our consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities, has the objective to require the disclosure of information to allow the users of financial information to evaluate the nature and risk associated with their interests in other entities, and the effects of such interests on their financial position, financial performance and cash flows. The effective date of IFRS 12 is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 28 (2011), IFRS 10 and IFRS 11. This standard has not been early adopted by us. We have yet to complete our evaluation of whether this standard will have a material impact on our consolidated financial statements.

IFRS 13, Fair Value Measurement, establishes a single framework for measuring fair value where that is required by other standards. The standard applies to both financial and non-financial items measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, and applies prospectively from the beginning of the annual period in which the standard is adopted. This standard has not been early adopted by us. We have yet to complete our evaluation of whether this standard will have a material impact on our consolidated financial statements.

Amendments to IAS 32, Financial Instruments: Presentation, and IFRS 7, Financial Instruments: Disclosures, as it relates to offsetting financial assets and financial liabilities and the related disclosures. The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of currently has a legally enforceable right of set-off and simultaneous realization and settlement . The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, with retrospective application required. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments to IFRS 7 are required for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. This standard has not been early adopted by us. We have yet to complete our evaluation of whether this standard will have a material impact on our consolidated financial statements.

Operating Results

The following table sets forth our consolidated income statement under IFRS for the years ended December 31, 2012, and 2011:

	Year Ended December 31,		
	2012[(1)]	2012	2011
	(in millions of U.S. dollars and Mexican pesos)		
Net sales	$ 18,276	Ps.236,922	Ps.200,426
Other operating revenues	107	1,387	1,114
Total revenues	18,383	238,309	201,540
Cost of goods sold	10,569	137,009	117,244
Gross profit	7,814	101,300	84,296
Administrative expenses	737	9,552	8,172
Selling expenses	4,789	62,086	50,685
Other income	135	1,745	381
Other Expenses	(152)	(1,973)	(2,072)
Interest expense	(193)	(2,506)	(2,302)
Interest income	60	783	1,014
Foreign exchange (loss) gain, net	(14)	(176)	1,148
(Loss) gain on monetary position for subsidiaries in hyperinflationary economies	(1)	(13)	53
Market value gain (loss) on financial instruments	1	8	(109)
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	2,124	27,530	23,552
Income taxes	613	7,949	7,618
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	653	8,470	4,967
Consolidated net income	$ 2,164	Ps. 28,051	Ps. 20,901
Controlling interest net income	1,597	20,707	15,332
Non-controlling interest net income	567	7,344	5,569
Consolidated net income	$ 2,164	Ps. 28,051	Ps. 20,901

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 12.9635 to US$ 1.00, provided solely for the convenience of the reader.

The following table sets forth certain operating results by reportable segment under IFRS for each of our segments for the years ended December 31, 2012 and 2011.

	As of December 31, Percentage Growth		
	2012	2011	2012 vs. 2011
Net sales			
Coca-Cola FEMSA	Ps.146,907	Ps.122,638	19.8%
FEMSA Comercio	86,433	74,112	16.6%
Total revenues			
Coca-Cola FEMSA	147,739	123,224	19.9%
FEMSA Comercio	86,433	74,112	16.6%
Cost of goods sold			

Coca-Cola FEMSA	79,109	66,693	18.6%
FEMSA Comercio	56,183	48,636	15.5%
Gross profit			
Coca-Cola FEMSA	68,630	56,531	21.4%
FEMSA Comercio	30,250	25,476	18.7%
Administrative expenses			
Coca-Cola FEMSA	6,217	5,140	21.0%
FEMSA Comercio	1,666	1,433	16.3%
Selling expenses			
Coca-Cola FEMSA	40,223	32,093	25.3%
FEMSA Comercio	21,686	18,353	18.2%
Depreciation			
Coca-Cola FEMSA	5,078	3,850	31.9%
FEMSA Comercio	1,940	1,685	15.1%
Gross margin(1)(2)			
Coca-Cola FEMSA	46.5%	45.9%	0.6p.p
FEMSA Comercio	35.0%	34.4%	0.6p.p
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes			
Coca-Cola FEMSA	180	86	109.3%
FEMSA Comercio	(23)		N/a
CB Equity(3)	8,311	4,880	70.3%

(1) Gross margin is calculated with reference to total revenues.

(2) As used herein, p.p refers to a percentage point increase (or decrease) contrasted with a straight percentage increase (or decrease).

(3) CB Equity holds Heineken N.V. and Heineken Holding N.V. shares.

Table of Contents

Results from our Operations for the Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

FEMSA Consolidated

FEMSA s consolidated total revenues increased 18.2% to Ps. 238,309 million in 2012 compared to Ps. 201,540 million in 2011. All of FEMSA s operations beverages and retail contributed positively to this revenue growth. Coca-Cola FEMSA s total revenues increased 19.9% to Ps. 147,739 million, driven by double-digit total revenue growth in both of its divisions and the integration of the beverage divisions of Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano in Mexico. FEMSA Comercio s revenues increased 16.6% to Ps. 86,433 million, mainly driven by the opening of 1,040 net new stores combined with an average increase of 7.7% in same-store sales.

Consolidated gross profit increased 20.2% to Ps. 101,300 million in 2012 compared to Ps. 84,296 million in 2011, driven by Coca-Cola FEMSA and FEMSA Comercio. Gross margin increased by 0.70 percentage points, from 41.8% of consolidated total revenues in 2011 to 42.5% in 2012.

Consolidated administrative expenses increased 16.9% to Ps. 9,552 million in 2012 compared to Ps. 8,172 million in 2011. As a percentage of total revenues, consolidated administrative expenses decreased from 4.1% in 2011 to 4.0% in 2012.

Consolidated selling expenses increased 22.5% to Ps. 62,086 million in 2012 as compared to Ps. 50,685 million in 2011. This increase was attributable to greater selling expenses at Coca-Cola FEMSA and FEMSA Comercio. As a percentage of total revenues, selling expenses increased 0.90 percentage points, from 25.1% in 2011 to 26.0% in 2012.

Some of our subsidiaries pay management fees to us in consideration for corporate services we provide to them. These fees are recorded as administrative expenses in the respective business segments. Our subsidiaries payments of management fees are eliminated in consolidation and, therefore, have no effect on our consolidated operating expenses.

Other expenses mainly include disposal and impairment of long-lived assets, contingencies, as well as their subsequent interest and penalties, severance payments derived from restructuring programs and donations. During 2012, other expenses decreased to Ps. 1,973 million from Ps. 2,072 million in 2011. In both 2012 and 2011, other expenses was largely driven by the net effect of certain items, such as a new labor law in Venezuela (LOTTT) in 2012, and losses on significant disposals of long-lived assets in 2011.

Table of Contents

Other income mainly includes gains on sales of shares and long-lived assets and the write-off of certain contingencies. During 2012, other income increased to Ps. 1,745 million from Ps. 381 million in 2011, largely driven by the net effect of certain items driven by the sale of Quimiproductos in the fourth quarter of 2012.

Net financing expenses[1] increased to Ps. 1,904 million from Ps. 196 million in 2011, driven by a non-cash foreign exchange loss of Ps. 176 million in 2012 compared to a tough comparison base of a non-cash foreign exchange gain of Ps. 1,148 million in 2011 resulting from the sequential appreciation of the Mexican Peso and its impact on the dollar-denominated portion of our cash balance.

Our accounting provision for income taxes in 2012 was Ps. 7,949 million, as compared to Ps. 7,618 million in 2011, resulting in an effective tax rate of 28.9% in 2012, as compared to 32.3% in 2011.

Share of the profit of associates and joint ventures was accounted for using the equity method, net of taxes. This line item increased 70.5% to Ps. 8,470 million in 2012 compared with Ps. 4,967 million in 2011, mainly driven by a non-cash exceptional gain related to the revaluation of certain previously held equity interests of Heineken in connection with an acquisition made in Asia.

Consolidated net income was Ps. 28,051 million in 2012 compared to Ps. 20,901 million in 2011, a difference mainly attributable to Coca-Cola FEMSA, FEMSA Comercio and a non-cash exceptional gain related to the revaluation of certain previously held equity interests of Heineken in Asia. Controlling interest net income amounted to Ps. 20,707 million in 2012 compared to Ps. 15,332 million in 2011, which difference was also due principally to a non-cash exceptional gain related to the revaluation of certain previously held equity interests of Heineken in Asia. Controlling interest net income in 2012 per FEMSA Unit[2] was Ps. 5.79 (US$ 4.45 per ADS).

Coca-Cola FEMSA

Coca-Cola FEMSA consolidated total revenues increased 19.9% to Ps. 147,739 million in 2012, as compared to 2011, driven by double-digit total revenue growth in both of its divisions, including Venezuela, and including the integration of Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano into its Mexican operations. Excluding the non-comparable effect of Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano in Coca-Cola FEMSA s Mexican operations, total revenues grew 11.6%. On a currency neutral basis and excluding the non-comparable effect of Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano in Mexico, total revenues increased 15.0%.

Total sales volume increased 15.0% to 3,046.2 million unit cases in 2012, as compared to 2011. The integration of Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano in Coca-Cola FEMSA s Mexican operations accounted for 332.7 million unit cases, of which sparkling beverages represented 62.5%, water 5.1%, bulk water 27.9% and still beverages 4.5%. Excluding non-comparable effects of Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano in Mexico, total sales volumes grew 2.4% to 2,713.5 million unit cases. On the same basis, the sparkling beverage category grew 2.0%, mainly driven by the *Coca-Cola* brand, which accounted for more than 65% of incremental volumes of Coca-Cola FEMSA. The still beverage category grew 13.5%, mainly driven by the performance of the Jugos del Valle line of business in Mexico, Venezuela and Brazil, and the Del Prado line of business in Central America, representing close to 30% of incremental volumes. Coca-Cola FEMSA s bottled water portfolio, including bulk water, grew 0.9%, and contributed the balance.

Consolidated average price per unit case increased by 4.4%, reaching Ps. 47.27 in 2012, as compared to Ps. 45.29 in 2011. In local currency, average price per unit case increased in all of Coca-Cola FEMSA s territories, mainly driven by price increases implemented during the year and higher volumes of sparkling beverages, which carry higher average prices per unit case.

1 Which includes interest expense, interest income, net foreign exchange (loss) gain, (loss) gain on monetary position for subsidiaries in hyperinflationary economies and market value gain (loss) on financial instruments.

2 FEMSA Units consist of FEMSA BD Units and FEMSA B Units. Each FEMSA BD Unit is comprised of one Series B Share, two Series D-B Shares and two Series D-L Shares. Each FEMSA B Unit is comprised of five Series B Shares. The number of FEMSA Units outstanding as of December 31, 2012 was 3,578,226,270 which is equivalent to the total number of FEMSA Shares outstanding as of the same date, divided by five.

67

Table of Contents

Cost of goods sold increased 18.6% to Ps. 79,109, mainly as a result of higher sweetener costs in Mexico during the first half of the year and the depreciation of the average exchange rate of the Brazilian real, the Argentinian peso and the Mexican peso as applied to Coca-Cola FEMSA s U.S. dollar-denominated raw material costs. Gross margin reached 46.5% in 2012, an expansion of 60 basis points as compared to 2011. Gross profit increased 21.4% to Ps. 68,630 million in 2012, as compared to 2011.

Administrative expenses increased 21.0% to Ps. 6,217 in 2012, compared with Ps. 5,140 in 2011; however, as a percentage of sales they remained stable at 4.2%

Selling expenses, in absolute terms, increased 25.3%, mainly as a result of the integration of Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano in Mexico. In addition, selling expenses grew as a consequence of higher labor costs in Venezuela and Brazil in combination with higher labor and freight costs in Argentina, and continued marketing investment to reinforce Coca-Cola FEMSA s execution in the marketplace, widen its cooler coverage and broaden its returnable base availability across its territories. During the year Coca-Cola FEMSA also recorded additional expenses related to the development of information systems and commercial capabilities in connection with its commercial models, and certain investments related, among others, to the development of new lines of business and non-carbonated beverage categories.

FEMSA Comercio

FEMSA Comercio total revenues increased 16.6% to Ps. 86,433 million in 2012 compared to Ps. 74,112 million in 2011, primarily as a result of the opening of 1,040 net new stores during 2012, together with an average increase in same-store sales of 7.7%. As of December 31, 2012, there were a total of 10,601 stores in Mexico. FEMSA Comercio same-store sales increased an average of 7.7% compared to 2011, driven by a 3.8% increase in store traffic and 3.8% in average ticket.

Cost of goods sold increased 15.5% to Ps. 56,183 million in 2012, below total revenue growth, compared with Ps. 48,636 million in 2011. As a result, gross profit reached Ps. 30,250 million in 2012, which represented a 18.7% increase from 2011. Gross margin expanded 0.60 percentage points to reach 35.0% of total revenues. This increase reflects a positive mix shift due to the growth of higher margin categories, a more effective collaboration and execution with our key supplier partners, including our achievement of certain sales objectives with some of these partners and the corresponding benefit accrued to us, a more efficient use of promotion-related marketing resources, and a better execution of segmented pricing strategies across markets.

Administrative expenses increased 16.3% to Ps. 1,666 million in 2012, compared with Ps. 1,433 million in 2011; however, as a percentage of sales, they remained stable at 1.9%.

Selling expenses increased 18.2% to Ps. 21,686 million in 2012 compared with Ps. 18,353 million in 2011,largely driven by the growing number of stores as well as incremental expenses relating to, among other things, the continued strengthening of FEMSA Comercio s organizational and IT structure, and the development of specialized distribution routes aimed at enabling our prepared food initiatives.

Liquidity and Capital Resources

Liquidity

Each of our sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2012, 81% of our outstanding consolidated total indebtedness was at the level of our sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA. We may decide to incur indebtedness at our holding company in the future to finance the operations and capital requirements of our subsidiaries or significant acquisitions, investments or capital expenditures. As a holding company, we depend on dividends and other distributions from our subsidiaries to service our indebtedness and to finance our operations and capital requirements.

Table of Contents

We continuously evaluate opportunities to pursue acquisitions or engage in joint ventures or other transactions. We would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock.

Our principal source of liquidity has generally been cash generated from our operations. We have traditionally been able to rely on cash generated from operations because a significant majority of the sales of Coca-Cola FEMSA and FEMSA Comercio are on a cash or short-term credit basis, and OXXO stores are able to finance a significant portion of their initial and ongoing inventories with supplier credit. Our principal use of cash has generally been for capital expenditure programs, debt repayment and dividend payments.

The following is a summary of the principal sources and uses of cash for the years ended December 31, 2012 and 2011, from our consolidated statement of cash flows:

Principal Sources and Uses of Cash

Years ended December 31, 2012 and 2011

(in millions of Mexican pesos)

	2012	2011
Net cash flows provided by operating activities	Ps.30,785	Ps.21,247
Net cash flows used in investing activities[1]	(14,643)	(18,089)
Net cash flows used in financing activities[2]	(3,418)	(6,258)
Dividends paid	(9,186)	(6,625)

(1) Includes investments in property, plant and equipment, investment in shares and other assets.

(2) Includes dividends declared and paid.

Our sub-holding companies generally incur short-term indebtedness in the event that they are temporarily unable to finance operations or meet any capital requirements with cash from operations. A significant decline in the business of any of our sub-holding companies may affect the sub-holding company s ability to fund its capital requirements. A significant and prolonged deterioration in the economies in which we operate or in our businesses may affect our ability to obtain short-term and long-term credit or to refinance existing indebtedness on terms satisfactory to us.

Our consolidated total indebtedness as of December 31, 2012, was Ps. 37,342 million compared to Ps. 29,392 million as of December 31, 2011. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 8,702 million and Ps. 28,640 million, respectively, as of December 31, 2012, as compared to Ps. 5,573 million and Ps. 23,819 million, respectively, as of December 31, 2011. Cash and cash equivalents were Ps. 36,521 million as of December 31, 2012, as compared to Ps. 25,841 million as of December 31, 2011.

Off-Balance Sheet Arrangements

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

Table of Contents

Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2012.

	Maturity				
	Less than 1 year	1 - 3 years	3 - 5 years	In excess of 5 years	Total
	(in millions of Mexican pesos)				
Long-Term Debt					
Mexican pesos	Ps.3,766	Ps.4,114	Ps.6,078	Ps.2,495	Ps.16,453
Brazilian reais	17	148	40	20	225
Colombian pesos		1,023			1,023
U.S. dollars	195	7,795		6,458	14,448
Argentine pesos	286	349			635
Capital Leases					
Colombian pesos	185				185
Brazilian reais	40	90	30		160
Interest payments[(1)]					
Mexican pesos	917	1,302	729	493	3,441
Brazilian reais	28	24	5	1	58
Colombian pesos	81	48			129
U.S. dollars	407	750	607	549	2,313
Argentine pesos	97	45			142
Interest rate swaps and cross currency swaps[(2)]					
Mexican pesos	958	1,236	666	493	3,353
Brazilian reais	28	24	5	1	58
Colombian pesos	80	48			128
U.S. dollars	424	750	607	550	2,331
Argentine pesos	97	45			142
Operating leases					
Mexican pesos	2,966	5,503	4,995	13,516	26,980
U.S. dollars	77	217	118	544	956
Others	97	79	7		183
Commodity price contracts					
Sugar[(3)]	1,567	1,069			2,636
Aluminum[(3)]	335				335
Expected benefits to be paid for pension and retirement plans, seniority premiums, post-retirement medical services and post-employment	543	631	689	2,047	3,910
Other long-term liabilities[(4)]	Ps.	Ps.	Ps.	Ps.4,250	Ps. 4,250

(1) Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2012 without considering interest rate swaps agreements. The debt and applicable interest rates in effect are shown in Note 18 to our audited consolidated financial statements. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 13.0101 per US$ 1.00, the exchange rate quoted to us by *Banco de México* for the settlement of obligations in foreign currencies on December 31, 2012.

(2) Reflects the amount of future payments that we would be required to make. The amounts were calculated by applying the difference between the interest rate swaps and cross currency swaps and the nominal interest rates contracted to long-term debt as of December 31, 2012, and the market value of the unhedged cross currency swaps (the amount of the debt used in the calculation of the interest considers converting only the units of investments debt for the related cross currency swap, and it also includes the effect of related interest rate swaps).

(3) Reflects the notional amount of the futures and forward contracts used to hedge sugar and aluminum cost with a fair value liability of Ps. 200 million; see Note 20.6 to our audited consolidated financial statements.

(4) Other long-term liabilities include provisions and others, but not deferred taxes. Other long-term liabilities additionally reflects those liabilities whose maturity date is undefined and depends on a series of circumstances out of our control, therefore these liabilities have been considered to have a maturity of more than five years.

Table of Contents

As of December 31, 2012, Ps. 8,702 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

As of December 31, 2012, our consolidated average cost of borrowing, after giving effect to the cross currency and interest rate swaps, was approximately 5.3%, a decrease of 1.0% percentage points compared to 6.3% in 2011 (the total amount of the debt used in the calculation of this percentage considers converting only the units of investments debt for the related cross currency swap, and it also includes the effect of related interest rate swaps). As of December 31, 2012, after giving effect to cross currency swaps, approximately 42.4% of our total consolidated indebtedness was denominated and payable in Mexican pesos, 50.6% in U.S. dollars, 3.3% in Colombian pesos, 2.6% in Argentine pesos and the remaining 1.1% in Brazilian reais.

Overview of Debt Instruments

The following table shows the allocations of total debt of our company as of December 31, 2012:

	Total Debt Profile of the Company			
	FEMSA and Others	Coca-Cola FEMSA	FEMSA Comercio	Total Debt
	(in millions of Mexican pesos)			
Short-term Debt				
Argentine pesos:				
Bank loans	Ps.	Ps.291	Ps.	Ps.291
U.S. dollars:				
Bank loans		3,903		3,903
Brazilian reais:				
Bank loans	19			19
Long-term Debt[(1)]				
Mexican pesos:				
Bank loans		4,380		4,380
Units of Investment (UDIs)	3,567			3,567
Senior notes	3,500	5,006		8,506
U.S. dollars:				
Bank loans		14,448		14,448
Brazilian reais:				
Bank Loans	161	64		225
Capital leases	149	11		160
Colombian pesos:				
Bank Loans	6	990	27	1,023
Capital leases		185		185
Argentine pesos:				
Bank Loans		635		635
Total	Ps.7,402	Ps.29,913	Ps. 27	Ps.37,342
Average Cost[(2)]				
Mexican pesos				