MEXICAN ECONOMIC DEVELOPMENT INC
Form 20-F
April 21, 2017
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As filed with the Securities and Exchange Commission on April 21, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

Commission file number 001-35934

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

(Exact name of registrant as specified in its charter)

Mexican Economic Development, Inc.

(Translation of registrant s name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

General Anaya No. 601 Pte.

Colonia Bella Vista

Monterrey, NL 64410 Mexico

(Address of principal executive offices)

Juan F. Fonseca

General Anaya No. 601 Pte.

Colonia Bella Vista

Monterrey, NL 64410 Mexico

(52-818) 328-6167

investor@femsa.com.mx

(Name, telephone, e-mail and/or facsimile number and

address of company contact person)

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

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

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

None

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

None

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be 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.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large Accelerated filer	Accelerated filer
Non-accelerated filer	Emerging growth company

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

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

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

U.S. GAAP	IFRS	Other

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

Item 17	Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes	No

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INTRODUCTION

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

References

The terms FEMSA, our company, we, us and our, are used in this annual report to refer to Fomento Económico Mexicano, S.A.B. de C.V. a except where the context otherwise requires, its subsidiaries on a consolidated basis. We refer to our former subsidiary Cuauhtémoc Moctezuma Holding, S.A. de C.V. (formerly FEMSA Cerveza, S.A. de C.V.) as Cuauhtémoc Moctezuma or FEMSA Cerveza , to our subsidiary Coca-Cola FEMSA, S.A.B. de C.V., as Coca-Cola FEMSA , to our subsidiary FEMSA Comercio, S.A. de C.V., as FEMSA Comercio , and to our subsidiary that holds our equity investment in Heineken, as CB Equity. FEMSA Comercio comprises a Retail Division, Fuel Division and Health Division, which we refer to as the Retail Division , Fuel Division and Health Division , respectively.

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

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

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

Currency Translations and Estimates

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

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

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

Forward-Looking Information

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

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ITEMS 1-2. NOT APPLICABLE

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016, 2015 and 2014. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Pursuant to IFRS, the information presented in this annual report presents financial information for 2016, 2015, 2014, 2013, and 2012 in nominal terms in Mexican pesos, taking into account local inflation of any hyperinflationary economic environment and converting from local currency to Mexican pesos using the official exchange rate at the end of the period published by the local central bank of each country categorized as a hyperinflationary economic environment (for this annual report, only Venezuela). Furthermore, for our Venezuelan entities we were able to convert local currency using one of the three legal exchange rates in that country. For further information, see Notes 3.3 and 3.4 to our audited consolidated financial statements. For each non-hyperinflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for equity and the average exchange rate for the income statement. See Note 3.3 to our audited consolidated financial statements.

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

Except when specifically indicated, information in this annual report on Form 20-F is presented as of December 31, 2016 and does not give effect to any transaction, financial or otherwise, subsequent to that date.

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

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

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

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

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

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

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

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

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

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Dividends

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

The following table sets forth for each year the nominal amount of dividends per share that we declared in Mexican peso and U.S. dollar amounts and their respective payment dates for the 2012 to 2016 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(7)	Per Series D Share Dividend	Per Series D Share Dividend(7)
May 3, 2012 and November 6, 2012(1)	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(2)	2012	Ps. 6,684,103,000	Ps. 0.3333	$ 0.0264	Ps. 0.4166	$ 0.0330
May 7, 2013			Ps. 0.1666	$ 0.0138	Ps. 0.2083	$ 0.0173
November 7, 2013			Ps. 0.1666	$ 0.0126	Ps. 0.2083	$ 0.0158
December 18, 2013(3)	2012	Ps. 6,684,103,000	Ps. 0.3333	$ 0.0257	Ps. 0.4166	$ 0.0321
May 7, 2015 and November 5, 2015 (4)	2014	Ps. 7,350,000,000	Ps. 0.3665	$ 0.0230	Ps. 0.4581	$ 0.0287
May 7, 2015			Ps. 0.1833	$ 0.0120	Ps. 0.2291	$ 0.0149
November 5, 2015			Ps. 0.1833	$ 0.0110	Ps. 0.2291	$ 0.01318
May 5, 2016 and November 3, 2016(5)	2015	Ps. 8,355,000,000	Ps. 0.4167	$ 0.0225	Ps. 0.5208	$ 0.0282
May 5, 2016			Ps. 0.2083	$ 0.0117	Ps. 0.2604	$ 0.0146
November 3, 2016			Ps. 0.2083	$ 0.0108	Ps. 0.2604	$ 0.0135
May 5, 2017 and November 3, 2017(6)	2016	Ps. 8,636,000,000	Ps. 0.4307	N/A	Ps. 0.5383	N/A
May 5, 2017			Ps. 0.2153	N/A	Ps. 0.2692	N/A
November 3, 2017			Ps. 0.2153	N/A	Ps. 0.2692	N/A

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

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

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

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

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

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

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

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

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

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

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Exchange Rate Information

The following table sets forth, for the periods indicated, the high, low, average and year-end noon exchange rate, expressed in Mexican pesos per US$ 1.00, as published by the Federal Reserve Bank of New York. The rates have not been restated in constant currency units and therefore represent nominal historical figures.

Year ended December 31,	Exchange Rate			
	High	Low	Average(1)	Year End
2012	14.37	12.63	13.14	12.96
2013	13.43	11.98	12.86	13.10
2014	14.79	12.85	13.35	14.75
2015	17.36	14.56	15.97	17.20
2016	20.84	17.19	18.70	20.62

(1) Average month-end rates.

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

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RISK FACTORS

Risks Related to Our Company

Coca-Cola FEMSA

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

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

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

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

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

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

The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA s business. As of April 7, 2017, The Coca-Cola Company indirectly owned 28.1% of Coca-Cola FEMSA s outstanding capital stock, representing 37.0% of Coca-Cola FEMSA s capital stock with full voting rights. The Coca-Cola Company is entitled to appoint five of Coca-Cola FEMSA s maximum of 21 directors and the vote of at least two of them is required to approve certain actions by Coca-Cola FEMSA s board of directors. As of April 7, 2017, we indirectly owned 47.9% of Coca-Cola FEMSA s outstanding capital stock, representing 63.0% of Coca-Cola FEMSA s capital stock with full voting rights. We are entitled to appoint 13 of Coca-Cola FEMSA s maximum of 21 directors and all of its executive officers. We and the Coca-Cola Company together, or only we in certain circumstances, have the power to determine the outcome of all actions requiring approval by Coca-Cola FEMSA s board of directors, and we and The Coca-Cola Company together, or only we in certain circumstances, have the power to determine the outcome of all actions requiring approval of our shareholders. The interests of The Coca-Cola Company may be different from the interests of Coca-Cola FEMSA s other shareholders, which may result in Coca-Cola FEMSA taking actions contrary to the interests of such other shareholders.

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

The non-alcoholic beverage industry is evolving mainly as a result of changes in consumer preferences and regulatory actions. There have been different plans and actions adopted in recent years by governmental authorities in some of the countries where Coca-Cola FEMSA operates, including an increase in taxes or the imposition of new taxes on the sale of beverages containing certain sweeteners, and other regulatory measures, such as restrictions on advertising for some of Coca-Cola FEMSA s products. Moreover, researchers, health advocates and dietary guidelines are encouraging consumers to reduce their consumption of certain types of beverages sweetened with sugar and High Fructose Corn Syrup, or HFCS. In addition, concerns over the environmental impact of plastic may reduce the consumption of Coca-Cola FEMSA s products sold in plastic bottles or result in additional taxes that would adversely affect consumer demand. Increasing public concern about these issues, new or increased taxes, other regulatory measures or Coca-Cola FEMSA s failure to meet consumers preferences, could reduce demand for some of Coca-Cola FEMSA s products, which would adversely affect its business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

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

We cannot assure you that water will be available in sufficient quantities to meet Coca-Cola FEMSA s future production needs or will prove sufficient to meet its water supply needs. Continued water scarcity in the regions where Coca-Cola FEMSA operates may adversely affect its business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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FEMSA Comercio

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

The retail sector is highly competitive in the markets where FEMSA Comercio operates. The Retail Division participates in the retail sector primarily through its OXXO stores, which face competition from small-format stores like 7-Eleven, Circle K stores and other numerous chains of retailers across Mexico, and from other regional small-format retailers to small informal neighborhood stores. In particular, small informal neighborhood stores can sometimes avoid regulatory oversight and taxation, enabling them to sell certain products at prices below average market prices. In addition, these small informal neighborhood stores could improve their technological capabilities so as to enable credit card transactions and electronic payment of utility bills, which would diminish one of the Retail Division s competitive advantages.

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

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

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

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

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

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

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

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

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

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

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

Although FEMSA Comercio constantly improves and protects its IT systems with advanced security measures, they may still be subject to defects, interruptions, or security breaches such as viruses or data theft. Such a defect, interruption, or breach could adversely affect the financial situation, operation results and prospects of FEMSA Comercio.

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

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

Taxes could adversely affect FEMSA Comercio s business.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Mexico and the Other Countries Where We Operate

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

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. For the year ended December 31, 2016, 64% of our consolidated total revenues were attributable to Mexico. During 2013, 2014 and 2015 the Mexican gross domestic product, or GDP, increased by approximately 1.4%, 2.3% and 2.6%, respectively, and in 2016 it increased by approximately 2.3% on an annualized basis compared to 2015, due to stronger performance in the services and primary sectors, which were partially offset by lower volumes in the oil and gas industries. We cannot assure that such conditions will not slow down in the future or will not have a material adverse effect on our business, financial condition, results of operations and prospects going forward. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery in Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our results.

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

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

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

Depreciation of the Mexican peso and of our other local currencies relative to the U.S. dollar increases the cost of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars, and thereby negatively affects our financial position and results. A severe devaluation or depreciation of the Mexican peso may result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated debt or obligations in other currencies. The Mexican peso is a free-floating currency and as such, it experiences exchange rate fluctuations relative to the U.S. dollar over time. During 2016, the Mexican peso depreciated relative to the U.S. dollar by approximately 19.9% compared to 2015. During 2015, 2014 and 2013, the Mexican peso experienced fluctuations relative to the U.S. dollar consisting of 16.6% of depreciation, 12.6% of depreciation and 1.0% of depreciation respectively, compared to the years of 2014, 2013 and 2012. Through April 12, 2017, the Mexican peso has appreciated 9.0% since December 31, 2016.

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

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

Political events in Mexico could adversely affect our operations.

Mexican political events may significantly affect our operations. The most recent presidential and congressional elections took place in July 2012 and 2015, respectively. Enrique Peña Nieto, a member of the Institutional Revolutionary Party (*Partido Revolucionario Institucional* or PRI), was elected President of Mexico and took office on December 1, 2012. Mexico s next presidential election will be in July 2018. The Mexican president strongly influences new policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law, policy and regulations in Mexico, which could negatively affect our business, financial condition, results of operations and prospects. In response to these actions, opponents of the administration could react with, among other things, riots, protests and looting that could negatively affect our operations. For example, the Mexican Congress has approved a number of structural reforms intended to modernize certain sectors of and foster growth in the Mexican economy, which continue to face implementation challenges.

Furthermore, no single party has a majority in the Senate or the *Cámara de Diputados* (House of Representatives), and the absence of a clear majority by a single party could result in government gridlock and political uncertainty on further reforms and secondary legislation to modernize key sectors of the Mexican economy. Mexico s next federal legislative election will be in July 2018. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

Technology and cyber-security risks.

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

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

The presence of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, pose a risk to our business. These incidents are relatively concentrated along the northern Mexican border, as well as in certain other Mexican states such as Sinaloa, Morelos, Michoacan and Guerrero. The north of Mexico is an important region for our retail operations, and an increase in crime rates could negatively affect our sales and customer traffic, increase our security expenses, and result in higher turnover of personnel or damage to the perception of our brands. This situation could worsen and adversely impact our business and financial results because consumer habits and patterns adjust to the increased perceived and real security risks, as people refrain from going out as much and gradually shift some on-premise consumption to off-premise consumption of food and beverages on certain social occasions.

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

The devaluation of the local currencies against the U.S. dollar in our non-Mexican territories can increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso can negatively affect the translation of our results for these countries. In recent years, the Venezuelan currency has been volatile against the Mexican peso. During 2016, in addition to the Venezuelan currency, the currency of Argentina also depreciated against the Mexican peso. Future currency devaluation or the imposition of exchange controls in any of these countries, or in Mexico, would have an adverse effect on our financial position and results.

We have operated under exchange controls in Venezuela since 2003, which limit our ability to remit dividends abroad or make payments other than in local currency and that may increase the real price paid for raw materials and services purchased in local currency. Prior to 2014, we had historically used the official exchange rate in our Venezuelan operations. Commencing in 2014, the Venezuelan government announced a series of changes to the Venezuelan exchange control regime allowing the use of alternative exchanges rates in addition to the official exchange rate.

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

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

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

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

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

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

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

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Heineken operates in a large number of countries.

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

The Mexican peso may strengthen compared to the Euro.

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

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

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

Risks Related to Our Principal Shareholders and Capital Structure

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

As of March 16, 2017, a voting trust owned 38.69% of our capital stock and 74.86% of our capital stock with full voting rights, consisting of Series B Shares. Consequently, the voting trust has the power to elect a majority of the members of our board of directors and to play a significant or controlling role in the outcome of substantially all matters to be decided by our board of directors or our shareholders. The interests of the voting trust may differ from those of our other shareholders. **See Item 7. Major Shareholders and Related-Party Transactions and Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights.**

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

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

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

Our shares are traded on the New York Stock Exchange, or NYSE, in the form of ADSs. We cannot assure that holders of our shares in the form of ADSs will receive notice of shareholders meetings from our ADS 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.

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Holders of BD Units in the United States and holders of ADSs may not be able to participate in any future preemptive rights offering and as a result may be subject to dilution of their equity interests.

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

We may decide not to file a registration statement with the SEC to allow holders of our shares or ADSs who are located in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, the sale by the ADS 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.**

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

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

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

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

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

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

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

We are a holding company. Accordingly, our cash flows are principally derived from dividends, interest and other distributions made to us by our subsidiaries. Currently, our subsidiaries do not have contractual obligations that require them to pay dividends to us. In addition, debt and other contractual obligations of our subsidiaries may in the future impose restrictions on our subsidiaries ability to make dividend or other payments to us, which in turn may adversely affect our ability to pay dividends to shareholders and meet our debt and other obligations. As of March 31, 2017, we had no restrictions on our ability to pay dividends. Further, our non-controlling shareholder position in Heineken means that we will be unable to require payment of dividends with respect to the Heineken shares.

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ITEM 4. INFORMATION ON THE COMPANY

The Company

Overview

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

We conduct our operations through the following principal holding companies:

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

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

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

Corporate Background

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

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

In 1974, the Monterrey Group was split between two branches of the descendants of the founding families of Cervecería Cuauhtémoc, S.A. The steel and other packaging operations formed the basis for the creation of Corporación Siderúrgica, S.A. (now Alfa, S.A.B. de C.V.), controlled by the Garza Sada family, and the beverage and banking operations were consolidated under the Valores Industriales, S.A. de C.V. (the corporate predecessor of FEMSA) corporate umbrella controlled by the Garza Lagüera family. FEMSA s shares were first listed on what is now the Bolsa Mexicana de Valores, S.A.B. de C.V. (which we refer to as the Mexican Stock Exchange) on September 19, 1978. Between the decades of 1970 and 1980, FEMSA diversified its operations through acquisitions in the soft drinks and mineral water industries, the establishment of the first stores under the trade name OXXO and other investments in the hotel, construction, auto parts, food and fishing industries, which were considered non-core businesses and were subsequently divested.

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

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

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

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

In January 2010, FEMSA announced that its board of directors unanimously approved a definitive agreement under which FEMSA would exchange its brewery business of Cuauhtémoc Moctezuma for a 20% economic interest in the Heineken Group, one of the world s leading brewers. In April 2010, FEMSA announced the closing of the transaction, after Heineken N.V., Heineken Holding N.V. and FEMSA approved the transaction. Under the terms of the agreement, FEMSA received 43,018,320 shares of Heineken Holding N.V. and 43,009,699 shares of Heineken N.V., with an additional 29,172,504 shares of Heineken N.V. (which shares we refer to as the Allotted Shares) delivered pursuant to an allotted share delivery instrument, or the ASDI, with the final installment delivered in October 2011. As of December 31, 2016, FEMSA s interest in Heineken N.V. represented 12.53% of Heineken N.V. s outstanding capital and 14.94% of Heineken Holding N.V. s outstanding capital, resulting in our 20% economic interest in the Heineken Group. The principal terms of the Heineken transaction documents are summarized below in **Item 10. Additional Information Material Contracts.**

In January 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Since January 25, 2017, Coca-Cola FEMSA controls KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines s business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company.

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

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

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

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

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

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

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

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

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

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Ownership Structure

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

Principal Sub-holding Companies Ownership Structure

As of March 31, 2017

(1) Compañía Internacional de Bebidas, S.A. de C.V., which we refer to as CIBSA.
(2) Percentage of issued and outstanding capital stock owned by CIBSA (63% of Coca-Cola FEMSA s capital stock with full voting rights). **See Item 4. Information on the Company Coca-Cola FEMSA Capital Stock.**
(3) Ownership in CB Equity held through various FEMSA subsidiaries.
(4) Combined economic interest in Heineken N.V. and Heineken Holding N.V.
(5) Includes the Retail Division, the Health Division and the Fuel Division.

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

Operations by Segment Overview

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

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

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

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Total Revenues Summary by Segment[1]

	Year Ended December 31, 2016		
	2016	2015	2014
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	Ps. 177,718	Ps. 152,360	Ps. 147,298
FEMSA Comercio			
Retail Division	137,139	119,884	109,624
Health Division	43,411	13,053	
Fuel Division	28,616	18,510	
Other	29,491	22,774	20,069
Consolidated total revenues	Ps. 399,507	Ps. 311,589	Ps. 263,449

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

Total Revenues Summary by Geographic Area[1]

	Year Ended December 31, 2016		
	2016	2015	2014
	(in millions of Mexican pesos)		
Mexico and Central America[2]	Ps. 267,732	Ps. 228,563	Ps. 186,736
South America[3]	113,937	74,928	69,172
Venezuela	18,937	8,904	8,835
Consolidated total revenues	Ps. 399,507	Ps. 311,589	Ps. 263,449

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

(2) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico-only) revenues were Ps. 254,643 million, Ps. 218,809 million and Ps. 178,125 for the years ended December 31, 2016, 2015 and 2014, respectively.

(3) South America includes Brazil, Colombia, Argentina and Chile. South America revenues include revenues from our operations in Brazil of Ps. 48,924, Ps. 39,749 million and Ps. 45,799 million; revenues from our operations in Colombia of Ps. 17,027, Ps. 14,283 million and Ps. 14,207 million; revenues from our operations in Argentina of Ps. 12,340 million, Ps. 14,004 million and Ps. 9,714 million for the years ended December 31, 2016, 2015 and 2014, respectively and revenues from our operations in Chile of Ps. 36,631 and 7,586 million for the years ended December 31, 2016 and 2015, respectively.

Significant Subsidiaries

The following table sets forth our significant subsidiaries as of December 31, 2016:

Name of Company	Jurisdiction of Establishment	Percentage Owned
CIBSA:	Mexico	100.0%
Coca-Cola FEMSA	Mexico	47.9%[1]
Emprex:	Mexico	100.0%
FEMSA Comercio[2]	Mexico	100.0%
CB Equity[3]	United Kingdom	100.0%

(1) Percentage of capital stock. FEMSA, through CIBSA, owns 63% of the shares of Coca-Cola FEMSA with full voting rights.

(2) Includes the Retail Division, the Health Division and the Fuel Division.

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

Business Strategy

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.

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.

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

Recent examples include our entry into the drugstore business in Mexico and South America, and into the fuel service station business in Mexico, where we are applying our retail and operational capabilities to develop attractive value propositions for consumers in these formats.

Coca-Cola FEMSA

Overview

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

- Mexico a substantial portion of central Mexico, the southeast and northeast of Mexico (including the Gulf region).
- Central America Guatemala (Guatemala City and surrounding areas), Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).
- Colombia most of the country.
- Venezuela nationwide.
- Brazil a major part of the states of Sao Paulo and Minas Gerais, the states of Parana, Santa Catarina and Mato Grosso do Sul and part of the states of Rio de Janeiro, Rio Grande do Sul and Goias.
- Argentina Buenos Aires and surrounding areas.
- The Philippines nationwide (through a joint venture with The Coca-Cola Company).

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

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The following is an overview of Coca-Cola FEMSA s operations by consolidated reporting segment in 2016.

Operations by Consolidated Reporting Segment Overview

Year Ended December 31, 2016

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

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

Corporate History

Coca-Cola FEMSA commenced operations in 1979, when one of our subsidiaries acquired certain sparkling beverage bottlers in Mexico City and surrounding areas. In 1991, we transferred our ownership in the bottlers to FEMSA Refrescos, S.A. de C.V., Coca-Cola FEMSA s corporate predecessor. 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. In September 1993, we sold Series L shares that represented 19.0% 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 NYSE.

In a series of transactions since 1994, Coca-Cola FEMSA has acquired new territories, brands and other businesses which today comprise its business. In May 2003, Coca-Cola FEMSA acquired Panamerican Beverages Inc., or Panamco, and began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central and gulf regions of Mexico and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories.

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

In November 2007, Coca-Cola FEMSA acquired together with The Coca-Cola Company 100.0% of the shares of capital stock of Jugos del Valle, S.A.P.I. de C.V., or Jugos del Valle. In 2008, 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.

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. 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.

In July 2008, Coca-Cola FEMSA acquired the Agua de los Angeles bulk water business in Mexico City and surrounding areas from Grupo Embotellador CIMSA, S.A. de C.V., at the time one of the Coca-Cola bottling franchises in Mexico. The trademarks remain with The Coca-Cola Company. 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 together 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.

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

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

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

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

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

In May 2012, Coca-Cola FEMSA merged with Grupo Fomento Queretano, a Mexican bottler with operations mainly in the state of Queretaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. As part of 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 Mercantil de Pachuca, S.A. de C.V., or Santa Clara, a producer of milk and dairy products in Mexico.

In January 2013, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Since January 25, 2017, Coca-Cola FEMSA controls KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines s business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company.

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

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

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

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

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

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

Capital Stock

As of April 7, 2017, we indirectly owned Series A shares equal to 47.9% of Coca-Cola FEMSA capital stock (63.0% of Coca-Cola FEMSA s capital stock with full voting rights). As of April 7, 2017, The Coca-Cola Company indirectly owned Series D shares equal to 28.1% of the capital stock of Coca-Cola FEMSA (37.0% of Coca-Cola FEMSA s capital stock with full voting rights). Series L shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the NYSE, constitute the remaining 24.0% of Coca-Cola FEMSA s capital stock.

Business Strategy

Coca-Cola FEMSA operates with a large geographic footprint in Latin America. Coca-Cola FEMSA has created a more flexible organizational structure to execute its strategies and continue with its track record of growth. Coca-Cola FEMSA has also 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.

To maximize growth and profitability and to create value for our shareholders and customers, Coca-Cola FEMSA plans on executing the following key strategies: (i) continue evolving its commercial and client segmentation models to capture the industry s long-term value potential; (ii) implement multi-segmentation strategies to target customers by consumption occasion, competitive environment and income level; (iii) implement well-planned product development, packaging, pricing and marketing strategies through different distribution channels; (iv) drive product innovation along its different product categories; (v) develop new businesses and distribution channels; and (vi) drive operational efficiencies throughout its organization to achieve the full operating potential of its commercial models and processes. In furtherance of these efforts, Coca-Cola FEMSA intends to continue to focus on, among other initiatives, the following:

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

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

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

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

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

Replicating its best practices throughout the value chain;

Rationalizing and adapting its organizational and asset structure in order to be in a better position to anticipate and respond to industry changes and trends in a competitive environment;

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

Broadening its geographic footprint through organic growth and strategic joint ventures, mergers and acquisitions.

Coca-Cola FEMSA seeks to increase sales of its products in the territories where it operates. To that end, Coca-Cola FEMSA s marketing teams continuously develop sales strategies tailored to its different customers across 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 Item 4. Information on the Company Coca-Cola FEMSA Our Products and Item 4. Information on the Company Coca-Cola FEMSA Packaging** In addition, because Coca-Cola FEMSA views its relationship with The Coca-Cola Company as integral to its business, Coca-Cola FEMSA uses market information systems and strategies developed with The Coca-Cola Company to improve its business and marketing strategies. **See Item 4. Information on the Company Coca-Cola FEMSA 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 anticipate and respond to consumer demand for its products.

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

As of December 31, 2016, Coca-Cola FEMSA had the following centers of excellence:

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

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

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

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

Coca-Cola FEMSA is further accelerating its cultural evolution by creating a unified corporate culture founded on leadership, talent and innovation. 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. Coca-Cola FEMSA s Strategic Talent Management Model is designed to enable Coca-Cola FEMSA to reach its full potential by developing the capabilities of its employees and executives. This holistic model works to build the skills necessary for its employees and executives to reach their maximum potential, while contributing to the achievement of its short- and long-term objectives. To support this capability development model, Coca-Cola FEMSA s board of directors allocates a portion of its yearly operating budget to fund these management training programs.

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 core foundation, its ethics and values. Coca-Cola FEMSA focuses on three main areas, (i) its people, by encouraging the comprehensive development of its employees and their families; (ii) its communities, by promoting the generation of sustainable communities where it serves, healthy habits, self-care, adequate nutrition and physical activity, and supporting the development of its value chain; and (iii) its planet, by establishing guidelines that Coca-Cola FEMSA believes will result in efficient use of natural resources to minimize the impact that its operations might have on the environment and contributing to creating a broader awareness of caring for its environment through education and community programs.

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

Coca-Cola FEMSA pledges to continue working to innovate and implement measures to help people lead active and healthy lifestyles.

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KOF Philippines Joint Venture

On January 25, 2013, as part of Coca-Cola FEMSA s efforts to expand its geographic reach, it acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Coca-Cola FEMSA has an option to acquire the remaining 49.0% stake in KOF Philippines at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in KOF Philippines to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date.

Pursuant to the Coca-Cola FEMSA s shareholders agreement with The Coca-Cola Company, during a four-year period that ended on January 25, 2017, all decisions relating to KOF Philippines were approved jointly with The Coca-Cola Company. Since January 25, 2017, Coca-Cola FEMSA controls KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines s business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) KOF Philippines s chief financial officer. Coca-Cola FEMSA has the right to appoint (and may remove) the chief executive officer and all other officers of KOF Philippines. Commencing on February 1, 2017, Coca-Cola FEMSA started consolidating KOF Philippines s financial results in its financial statements. Coca-Cola FEMSA s results for the first quarter of 2017 and its future results in 2017 will reflect a reduction in its share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, as a result of this consolidation.

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

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

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Coca-Cola FEMSA s Territories

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

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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 drinks).

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

The following table sets forth Coca-Cola FEMSA main products as of December 31, 2016:

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

Nevada

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

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama.
(2) Includes Brazil, Colombia and Argentina.
(3) Flavored water. In Brazil, also a flavored sparkling beverage.
(4) Juice-based beverage.
(5) Juice-based beverage in Central America.
(6) Milk and value-added dairy and juices.
(7) Juice-based beverage. Includes Hi-C Orangeade in Argentina.
(8) Milk, value-added dairy and coffee.
(9) Ready to drink tea.
(10) Isotonic drinks.
(11) Orangeade. Includes Del Valle Fresh in Costa Rica, Nicaragua, Panama, Colombia and Venezuela.
(12) Energy drinks in Mexico, Guatemala, Costa Rica, Panama, Brazil and Colombia.

Packaging

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 Coca-Cola FEMSA refers to as PET. Coca-Cola FEMSA uses the term presentation to refer to the packaging unit in which it 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 allow 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 Coca-Cola FEMSA refers to as fountain. Coca-Cola FEMSA also sells bottled water products in bulk sizes, which refer to presentations equal to or larger than 5.0 liters, which have a much lower average price per unit case than Coca-Cola FEMSA s other beverage products.

Sales Volume and Transactions Overview

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

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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 its territories. Coca-Cola FEMSA s territories in Brazil are densely populated but have lower consumption of beverage products as compared to Mexico. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower consumption of beverages. In Venezuela, Coca-Cola FEMSA faces operational disruptions from time to time and adverse economic conditions have affected per capita income, both of which have had an adverse effect on Coca-Cola FEMSA s volumes sold.

The following table illustrates Coca-Cola FEMSA s historical sales volume and number of transactions for each of its consolidated reporting segments, as well as its unit case and transaction mix by category.

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

(1) Includes sales volume and transactions from the operations of Vonpar from December 2016.
(2) Excludes beer sales volume and transactions.
(3) Includes bulk water volume and transactions.

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

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

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

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

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

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

The following discussion analyzes Coca-Cola FEMSA s historical sales volume, number of transactions and unit case and transaction mix by category for each of its consolidated reporting segments.

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

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

	Year Ended December 31,		
	2016	**2015**	**2014**
	(millions of unit cases or millions of single units, except percentages)		
Sales Volume			
Mexico	1,850.7	1,784.6	1,754.9
Central America(1)	174.9	167.8	163.6
Total Sales Volume	2,025.6	1,952.4	1,918.5
Growth	3.7%	1.8%	(1.8)%
Unit Case Mix by Category			
Sparkling beverages	74.1%	74.0%	73.2%
Water(1)	19.6%	20.2%	21.3%
Still beverages	6.2%	5.8%	5.5%
Total	100.0%	100.0%	100.0%
Number of Transactions			
Mexico	9,884.1	9,429.1	9,214.0
Central America(1)	1,498.0	1,448.0	1,409.0
Total Number of Transactions	11,382.1	10,877.1	10,623.0
Growth	4.6%	2.4%	
Transaction Mix by Category			
Sparkling beverages	82.9%	83.1%	82.9%
Water(1)	6.9%	7.0%	7.6%
Still beverages	10.2%	9.9%	9.5%
Total	100.0%	100.0%	100.0%

(1) Includes Guatemala, Nicaragua, Costa Rica and Panama.
(2) Includes bulk water volumes and transactions.

Total sales volume in Coca-Cola FEMSA s Mexico and Central America consolidated reporting segment increased by 3.7% to 2,025.6 million unit cases in 2016 as compared to 2015, as a result of volume increase in both Mexico and Central America as discussed below. Sales volume of Coca-Cola FEMSA s sparkling beverage portfolio increased by 3.9%, mainly driven by a 2.8% increase in sales volume of *Coca-Cola* brand products and an 8.3% increase in sales volume of Coca-Cola FEMSA s flavored sparkling beverage portfolio. Sales volume of Coca-Cola

FEMSA s still beverage portfolio increased by 11.8%, mainly due to the performance of the Jugos del Valle portfolio and Coca-Cola FEMSA s Santa Clara dairy business in Mexico. Sales volume of bottled water, including bulk water, increased by 0.7%, mainly driven by an increase in sales volume of *Ciel* flavored water products in Mexico.

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

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

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

In 2016, the total number of transactions in Mexico and Central America increased by 4.8% to 9,884.1 million, and by 3.4% to 1,498.0 million, respectively, as compared to 2015. The number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio increased by 4.5% and 3.1%, respectively, as compared to 2015. Transactions for Coca-Cola FEMSA s still beverage category increased by 9.2% and 4.9%, respectively, as compared to 2015. Transactions for bottled water, including bulk water, increased by 3.1% and 3.8%, respectively, as compared to 2015.

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

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

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

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

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

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

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

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

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

	Year Ended December 31,		
	2016	**2015**	**2014**
	(millions of unit cases or millions of single units, except percentages)		
Sales Volume			
Brazil[1]	649.2	693.6	733.5
Colombia	307.0	320.0	298.4
Argentina	209.1	233.9	225.8
Total Sales Volume	1,165.3	1,247.6	1,257.7
Growth	(6.6)%	(0.8)%	22.6%
Unit Case Mix by Category			
Sparkling beverages	83.0%	82.8%	84.1%
Water[2]	10.3%	10.4%	9.7%
Still beverages	6.7%	6.8%	6.2%
Total	100.0%	100.0%	100.0%

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	Year Ended December 31, 2016	2015	2014
	(millions of unit cases or millions of single units, except percentages)		
Number of Transactions			
Brazil[1]	4,206.1	4,578.6	4,902.3
Colombia	2,400.9	2,410.7	2,199.8
Argentina	1,012.6	1,095.0	1,038.4
Total Number of Transactions	7,619.6	8,084.3	8,140.5
Growth	(5.7)%	(0.7)%	
Transaction Mix by Category			
Sparkling beverages	79.0%	79.4%	81.0%
Water[2]	10.7%	10.5%	9.5%
Still beverages	10.3%	10.1%	9.5%
Total	100.0%	100.0%	100.0%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Venezuela. Coca-Cola FEMSA s product portfolio in Venezuela consists of *Coca-Cola* trademark beverages. 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 related to difficulties in accessing raw materials due to the delay in obtaining the corresponding import authorizations and the Venezuelan exchange controls.

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

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

(1) Includes bulk water volumes and transactions.

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

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

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

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

The number of transactions in 2015 in Venezuela decreased by 3.6% to 1,318.1 million transactions as compared to 2014. The number of transactions for Coca-Cola FEMSA s sparkling beverage portfolio in 2015 decreased by 3.2% as compared to 2014, mainly driven by a contraction of 8.7% in the number of transactions of Coca-Cola FEMSA s flavored sparkling beverage products. Transactions for Coca-Cola

FEMSA s still beverage category in 2015 decreased by 12.5% as compared to 2014. Transactions for bottled water, including bulk water, increased by 5.3% as compared to 2014.

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

Seasonality

Sales of Coca-Cola FEMSA s products are seasonal in all of the countries where it operates, as its sales volumes generally increase during the summer of each country and during the year-end 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 year-end 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 year-end holidays in December.

Marketing

Coca-Cola FEMSA, in conjunction with The Coca-Cola Company, has developed a marketing strategy to promote the sale and consumption of its products. Coca-Cola FEMSA relies extensively on advertising, sales promotions and retailer support programs to target the particular preferences of its consumers. Coca-Cola FEMSA s consolidated marketing expenses in 2016, net of contributions by The Coca-Cola Company, were Ps.5,030 million. The Coca-Cola Company contributed an additional Ps.4,518 million in 2016, which mainly includes contributions for coolers, bottles and cases. Through the use of advanced information technology, Coca-Cola FEMSA has collected customer and consumer information that allow 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. Coolers play an integral role in Coca-Cola FEMSA s clients plans for success. Increasing both cooler coverage and the number of cooler doors among Coca-Cola FEMSA s retailers is important to ensure that Coca-Cola FEMSA s wide variety of products are properly displayed, while strengthening Coca-Cola FEMSA s merchandising capacity in the traditional sales channel to significantly improve its point-of-sale execution.

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 in the countries where Coca-Cola FEMSA operates, with Coca-Cola FEMSA s input at the local or regional level. Point-of-sale merchandising and advertising efforts are proposed and implemented by Coca-Cola FEMSA, with a focus on increasing Coca-Cola FEMSA s connection with customers and consumers.

Channel Marketing. In order to provide more dynamic and specialized marketing of its 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 accounts, 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 implemented a multi-segmentation strategy in all of its markets. These strategies consist of the implementation of different product/price/package portfolios by market cluster or group. These clusters are defined based on consumption occasion, competitive environment and income level, rather than solely on the types of distribution channels.

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. Our marketing, segmentation and distribution activities are facilitated by Coca-Cola FEMSA s management information systems, and are all incorporated within Coca-Cola FEMSA s centers of excellence.

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Product Sales and Distribution

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

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

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama.
(2) Includes Colombia, Brazil and Argentina.
(3) Estimated.

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

As part of the pre-sale system, sales personnel also provide merchandising services during retailer visits, which Coca-Cola FEMSA believes enhances 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 of 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 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.

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Brazil. In Brazil, Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third party distributors, 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. Coca-Cola FEMSA also sells its products through modern distribution channels. Modern distribution channels in Brazil include large and organized chain retail outlets such as wholesale supermarkets, discount stores and convenience stores that sell fast-moving consumer goods, where retailers can buy large volumes of products from various producers.

Territories other than Mexico and Brazil. 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 its territories, an important part of its total sales volume is sold through small retailers, with low supermarket penetration.

Competition

While 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 where Coca-Cola FEMSA operates are highly competitive. Coca-Cola FEMSA s principal competitors are local *Pepsi* bottlers and other bottlers and distributors of local 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.

While competitive conditions are different in each of Coca-Cola FEMSA s territories, Coca-Cola FEMSA competes mainly in terms of price, packaging, effective promotional activities, access to retail outlets and sufficient shelf space, customer service, product innovation and product alternatives and the ability to identify and satisfy consumer preferences. 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. **See Item 4 Coca-Cola FEMSA Our Products and Item 4 Coca-Cola FEMSA Packaging.**

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 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 local brands in our Mexican territories, as well as B brand producers, such as Ajemex, S.A. de C.V. (*Big Cola* bottler) and Consorcio AGA, S.A. de C.V. (*Red Cola* bottler), that offer various presentations of sparkling and still beverages.

In the countries that comprise 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 (*Postobón* and *Colombiana* bottler). Postobón sells *manzana Postobón* (apple Postobón), which is the second most popular flavor in the Colombian sparkling beverage industry in terms of total sales volume. Postobón also sells *Pepsi* products. Postobón is a vertically integrated producer, the owners of which hold other significant commercial interests in Colombia. 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.

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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 guarana, 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 that represent a significant portion of the sparkling beverage market.

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 this country.

Raw Materials

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

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

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. Prices for certain raw materials, including those used in the bottling of Coca-Cola FEMSA s products, mainly resin, finished plastic bottles, aluminum cans, HFCS and certain sweeteners, are paid in or determined with reference to the U.S. dollar, and therefore local prices in a particular country may increase based on changes in the applicable exchange rates. Coca-Cola FEMSA s most significant packaging raw material costs arise from the purchase of resin, the price of which is related to crude oil prices and global resin supply. The average price that we paid for resin in U.S. dollars in 2016 decreased 14.1% as compared to 2015 in all Coca-Cola FEMSA s territories, excluding Venezuela; however, given that high currency volatility has affected and continues to affect most of Coca-Cola FEMSA s territories, the average price for resin in local currencies was higher in 2016 in Argentina and Mexico. In 2016, we purchased certain raw materials in advance and entered into certain derivative transactions, which helped Coca-Cola FEMSA capture opportunities with respect to raw material costs and currency exchange rates.

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Under Coca-Cola FEMSA s agreements with The Coca-Cola Company, Coca-Cola FEMSA may use raw or refined sugar or HFCS as sweeteners in its products. Sugar prices in all of the countries where 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 for sugar in excess of international market prices for sugar in certain countries. In recent years, international sugar prices experienced significant volatility. Across Coca-Cola FEMSA s territories, Coca-Cola FEMSA s average price for sugar in U.S. dollars, taking into account its financial hedging activities decreased approximately 1.1% (excluding Venezuela) or 12.0% (including Venezuela) in 2016 as compared to 2015; however, the average price for sugar in local currency was higher in all of Coca-Cola FEMSA s operations, except for Guatemala.

Coca-Cola FEMSA categorizes water as a raw material in its business. Coca-Cola FEMSA obtains water for the production of some of its natural spring water products, such as *Manantial* in Colombia and *Crystal* in Brazil, from spring water pursuant to concessions granted.

None of the materials or supplies that 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, national emergency situations, water shortages or the failure to maintain our existing water concessions.

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, and Envases Universales de México, S.A.P.I. de C.V. 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. Also, Coca-Cola FEMSA has introduced into its business Asian global suppliers, such as Far Eastern New Century Corp. or FENC, which supports its PET strategy mainly for Central America and is known as one of the top five PET global suppliers.

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

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 April 7, 2017, it held a 36.4% and 2.7% equity interest, respectively. Coca-Cola FEMSA purchases HFCS from Ingredion México, S.A. de C.V., Almidones Mexicanos, S.A. de C.V., known as Almex and Cargill de México, S.A. de C.V.

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

In Central America, the majority of Coca-Cola FEMSA s raw materials such as glass and plastic bottles are purchased from several local suppliers. Coca-Cola FEMSA purchases all of its cans from PROMESA. Sugar is available from suppliers that represent several local producers. 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.

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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. Sugar prices in Colombia increased approximately 15.0% in U.S. dollars and 27.0% in local currency, as compared to 2015. Coca-Cola FEMSA purchases plastic bottles from Amcor Rigid Plastics de Colombia, S.A. and Tapón Corona de Colombia S.A. (affiliate of Envases Universales de México, S.A.P.I. de C.V.). Coca-Cola FEMSA has historically purchased all of its glass bottles from Peldar O-I; however, Coca-Cola FEMSA has engaged new suppliers and has acquired glass bottles from Al Tajir and Frigoglass in both cases from the United Arab Emirates. Coca-Cola FEMSA purchases all of its cans from Crown Colombiana, S.A. and Envases Universales de México, S.A.P.I. de C.V. Grupo Ardila Lulle, owners of Coca-Cola FEMSA s competitor Postobón, own a minority equity interest in Peldar O-I and Crown Colombiana, S.A.

Sugar is available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil increased approximately 36.0% in U.S. dollars and increased 42.0% in local currency as compared to 2015. Taking into account Coca-Cola FEMSA s financial hedging activities, Coca-Cola FEMSA s sugar prices in Brazil decreased approximately 21.0% in U.S. dollars and decreased 16.0% in local currency as compared to 2015. Coca-Cola FEMSA purchases glass bottles, plastic bottles and cans from several domestic and international suppliers.

In Argentina, Coca-Cola FEMSA mainly use HFCS that it purchases from several different local suppliers as a sweetener in its products. 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 Andina Empaques S.A., a local subsidiary of Embotelladora Andina, S.A., a *Coca-Cola* bottler with operations in Chile, Argentina, Brazil and Paraguay, and other local suppliers. Coca-Cola FEMSA also acquires plastic preforms from Alpla Avellaneda, S.A. and other suppliers, such as AMCOR Argentina.

Venezuela. In Venezuela, Coca-Cola FEMSA uses sugar as a sweetener in all of its caloric beverages, 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. Because sugar distribution to the food and beverages industry and to retailers is controlled by the government, Coca-Cola FEMSA experienced material disruptions during 2016 with respect to access to sufficient sugar supply. For this reason, in 2016 Coca-Cola FEMSA decided to adjust its product portfolio from caloric beverages to non-caloric beverages. We cannot assure you that Coca-Cola FEMSA will not continue to experience disruptions in its ability to meet its sugar requirements in the future should the Venezuelan government continue to impose restrictive measures. Coca-Cola FEMSA buys glass bottles from one local supplier, Productos de Vidrio, C.A., the only supplier authorized by The Coca-Cola Company. Coca-Cola FEMSA acquires most of its plastic non-returnable bottles from Alpla de Venezuela, S.A. and most of its aluminum cans from a local producer, Dominguez Continental, C.A.

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

FEMSA Comercio

Overview

FEMSA Comercio operates through the following divisions:

- *Retail Division*: operates the largest chain of small-format stores in Mexico, measured in terms of number of stores as of December 31, 2016, mainly under the trade name OXXO. As of December 31, 2016, the Retail Division operated 15,225 OXXO stores, of which 15,160 are located throughout Mexico and the remaining 65 OXXO stores are located in Colombia.

- *Health Division*: operates drugstores and related operations with 2,120 points of sale in Mexico, Chile and Colombia as of December 31, 2016.

Fuel Division: operates retail service stations for fuels, motor oils and other car care products. As of December 31, 2016, the Fuel Division operated 382 service stations, concentrated mainly in the northern part of Mexico with a presence in 16 different states throughout the country.

Operations by Division Overview

Year Ended December 31, 2016

	(in millions of Mexican pesos, except percentages)			
	Total Revenues		Gross Profit	
	2016	2016 vs. 2015[(1)(2)]	2016	2016 vs. 2015[(1)(2)]
Retail Division	Ps. 137,139	14.4%	Ps. 50,990	16.8%
Health Division	43,411	232.6%	12,738	245.4%
Fuel Division	28,616	54.6%	2,248	58.3%

(1) The operations that compose the Health Division have been treated as a separate reportable segment since 2016.

(2) Includes the Group Socofar s operations recorded since October 2015.

Corporate History

Retail Division

FEMSA s retail business started in 1978 with the opening of two OXXO stores in Monterrey, Nuevo Leon, one store in Mexico City and another store in Guadalajara, Jalisco. 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 1994, FEMSA Comercio consolidated its retail business into an independent business unit, and by 1998, it reached 1,000 OXXO stores in Mexico. By 2007, the store count surpassed 5,000 across Mexico, and in 2009, OXXO entered Colombia, where it has continued expanding its presence. Currently, there are 65 OXXO stores in Colombia.

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

In January 2016, in order to explore the fast casual dining industry in the United States, FEMSA Comercio, through its subsidiary Cadena Comercial USA, completed the acquisition of an 80% economic stake in Specialty s, which then operated 56 café restaurants in the states of California, Washington and Illinois. In January 2017, Cadena Comercial USA completed the acquisition of the remaining 20% economic stake in Specialty s becoming its sole owner.

In June 2016, the Retail Division, through its subsidiary Cadena Comercial Andina, SpA, acquired Big John, a leading convenience store operator based in Santiago, Chile. At the time of the acquisition, Big John operated 49 stores, mainly in the Santiago metropolitan area. In March 2017, the Retail Division opened its first OXXO store in Chile.

Health Division

Leveraging FEMSA Comercio s capabilities and skills in successfully operating small-box retail formats, in May 2013, FEMSA Comercio, through its subsidiary CCF, closed the acquisition of Farmacias YZA, a leading drugstore operator in Southeast Mexico, headquartered in Merida, Yucatan, to create another avenue for growth for FEMSA Comercio. The founding shareholders of Farmacias YZA hold a 25% stake in CCF.

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In a separate transaction, on May 13, 2013, CCF acquired Farmacias FM Moderna, a leading drugstore operator in the western state of Sinaloa.

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

In September 2015, the Retail Division acquired 60% of Socofar, a leading South American drugstore operator based in Santiago, Chile. Socofar operated, directly and through franchises, at that time, more than 600 drugstores and 150 beauty stores throughout Chile and 150 drugstores throughout Colombia.

In June 2016, CCF acquired 100% of Farmacias Generix, a regional pharmacy chain consisting at the time the transaction of 70 drugstores in the Mexican states of Jalisco, Guanajuato, Mexico City, Queretaro and Nuevo Leon.

In July 2016, Sofocar through one of its subsidiaries, Drogueria y Farmacias Cruz Verde S.A.S., acquired 100% of Farmacias Acuña, a regional pharmacy chain consisting at the time of 51 drugstores in Colombia.

Fuel Division

Since 1995, FEMSA Comercio has provided operational and administrative services for gasoline service stations through agreements with third parties, using the commercial brand OXXO GAS. Over time, this brand has become synonymous of quality service among our customers, and revenues per service station have consistently grown. Historically, Mexican legislation precluded FEMSA Comercio from participating in the retail of gasoline, and therefore from owning PEMEX franchises, due to FEMSA s foreign institutional investor base. In March 2015, following changes to the legal framework and considering the potential expansion and synergies arising from this business as part of Mexico s energy reform, FEMSA Comercio began to acquire and lease PEMEX s service station franchises and to obtain permits to operate each of the franchises.

Retail Division

Business Strategy

The Retail Division intends to continue increasing its store base while capitalizing on the retail business and market knowledge gained at existing stores. We intend to open new stores in locations where we believe there is high growth potential or unsatisfied demand, while also increasing customer traffic and average ticket per customer in existing stores. Our expansion focuses on both entering new markets and strengthening our presence nationwide and across different income levels of population. A fundamental element of the Retail Division s business strategy is to leverage its retail store formats, know-how, technology and operational practices to continue growing in a cost-effective and profitable manner. This scalable business platform is expected to provide a strong foundation for continued organic growth, improving traffic and average ticket sales at our existing stores and facilitating entry into new small-format retail industries.

The Retail Division has developed proprietary models to assist in identifying appropriate store locations, store formats and product categories. These models utilize location-specific demographic data and the Retail Division s experience in similar locations to fine-tune the store formats, product price ranges and product offerings to the target market. Market segmentation is becoming an important strategic tool that is expected to allow the Retail Division to improve the operating efficiency of each location, cover a wider array of consumption occasions and increase its overall profitability.

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The Retail Division continues to improve its information gathering and processing systems to allow it to connect with its customers at all levels and anticipate and respond efficiently to their changing demands and preferences. Most of the products carried through OXXO stores are bar-coded, and all OXXO stores are equipped with point-of-sale systems integrated into a company-wide computer network. To implement more effective business strategies, the Retail Division created a department in charge of product category management, for products such as beverages, fast food and perishables, responsible for analyzing data gathered to better understand our customers, develop integrated marketing plans and allocate resources more efficiently. This department 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 allow the Retail Division to redesign and adjust its key operating processes and certain related business decisions. Our IT system also allows us to manage each store s working capital, inventories and investments in a cost-effective way while maintaining high sales volume and store quality. Supported by continued investments in IT, our supply chain network allows us to optimize working capital requirements through inventory rotation and reduction, reducing out-of-stock days and other inventory costs.

The Retail Division has adopted innovative promotional strategies in order to increase store traffic and sales. In particular, the OXXO stores sell high-frequency items such as beverages, snacks and cigarettes at competitive prices. The Retail Division s ability to implement this strategy profitably is partly attributable to the size of the OXXO stores chain, as such division is able to work together with its suppliers to implement their revenue-management strategies through differentiated promotions. OXXO stores 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 by expanding the offerings in the grocery product category in certain stores.

Another fundamental element of our strategy consists of leveraging our reputation for quality and the position of our brand in the minds of our customers to expand our offering of private-label products. Our private-label products represent an alternative for value-conscious consumers, which, combined with our market position, allows the Retail Division to increase sales and margins, strengthen customer loyalty and bolster its bargaining position with suppliers.

Historically, the Retail Division 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 small-format store, as well as a role in our ability to accelerate and streamline the new-store development process, the Retail Division has focused on a strategy of rapid, profitable growth.

Finally, to further increase customer traffic into our stores, the Retail Division has incorporated additional services, such as utility bill payment, deposits into bank accounts held at our correspondent bank partners, remittances, prepayment of mobile phone fees and charges and other financial services, and it constantly increases the services offered in its stores.

Store Locations

With 15,160 OXXO stores in Mexico and 65 OXXO stores in Colombia as of December 31, 2016, the Retail Division operates the largest small-format store chain in the Americas measured by number of stores. The Retail Division has expanded its operations by opening 1,145 net new OXXO stores in Mexico and 19 in Colombia during 2016.

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OXXO Stores

Regional Allocation in Mexico and Latin America(*)

as of December 31, 2016

The Retail Division has aggressively expanded its number of OXXO stores over the past several years. The average investment required to open a new OXXO 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. The Retail Division is generally able to use supplier credit to fund the initial inventory of new OXXO stores.

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OXXO Stores

Total Growth

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Total OXXO stores	15,225	14,061	12,853	11,721	10,601
Store growth (% change over previous year)	8.3%	9.4%	9.7%	10.6%	10.9%

The Retail Division currently expects to continue implementing its expansion strategy by emphasizing growth in areas of high economic potential in existing markets and by expanding in underserved and unexploited markets.

Most of the OXXO stores are operated under lease agreements, which are denominated in Mexican peso and adjusted annually to an inflation index. This approach provides the Retail Division the flexibility to adjust locations as cities grow and effectively adjust its footprint based on stores performance.

The identification of locations and pre-opening planning in order to optimize the results of new OXXO stores are important elements in the Retail Division s growth plan. The Retail Division continuously reviews store performance against certain operating and financial benchmarks to optimize the overall performance of the chain. Stores of the Retail Division that are unable to maintain benchmark standards are generally closed. Between December 31, 2012 and 2016, the total number of OXXO stores increased by 4,624, which resulted from the opening of 4,844 new stores and the closing of 220 stores.

Competition

The Retail Division, mainly through OXXO stores, competes in the overall retail market, which we believe is highly competitive. OXXO stores face competition from small-format stores like 7-Eleven, Circle 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 human resources to operate those stores. The Retail Division operates in each state in Mexico and has a much broader geographic coverage than any of its competitors in Mexico.

Market and Store Characteristics

Market Characteristics

The Retail Division 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 59% of OXXO stores customers are between the ages of 15 and 35. The Retail Division also segments the market according to demographic criteria, including income level.

OXXO Store Characteristics

The average size of an OXXO store is approximately 104 square meters of selling space, excluding space dedicated to refrigeration, storage or parking. The average constructed area of a store is approximately 188 square meters and, when parking areas are included, the average store size is approximately 415 square meters. In 2016, a typical OXXO store carried an average of 3,105 different stock keeping units (SKUs) in 31 main product categories.

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Retail Division Operating Indicators

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(percentage increase compared to previous year)				
Total Retail Division revenues(1)	14.4%	21.2%(3)	12.4%	12.9%	16.6%
OXXO same-store sales(2)	7.0%	6.9%	2.7%	2.4%	7.7%

(1) Includes revenues of Big John. **See Item 4. Information on the Company Corporate Background** and Note 4 to our audited consolidated financial statements.

(2) 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.

(3) Includes revenues of Farmacias Farmacon from June 2015 and Socofar from October 2015. See Item 4. Information on the Company Corporate Background and Note 4 to our audited consolidated financial statements. We have restated 2015 information by segment in our consolidated financial statements for comparative purposes. Otherwise, the percentage is compared as reported last year.

Beer, cigarettes, soft drinks and other beverages and snacks represent the main product categories for OXXO stores. The Retail Division has a distribution agreement with Cuauhtémoc Moctezuma, 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.

Approximately 56% of OXXO stores are operated by independent managers responsible for all aspects of store operations. The store managers are commission agents and are not employees of the Retail Division. Each store manager is the legal employer of the store s staff, which typically numbers six people per store. The Retail Division continually invests in on-site operating personnel, with the objective of promoting loyalty, customer service and low personnel turnover in the stores.

Advertising and Promotion

The Retail Division s marketing efforts for OXXO stores 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.

The Retail Division manages its advertising for OXXO stores 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. The Retail Division 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 store chain s image and brand name are presented consistently across all stores, irrespective of location.

Inventory and Purchasing

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

Management believes that the OXXO store chain s scale of operations provides the Retail Division 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, and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 59% of the OXXO store 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 the Retail Division s distribution system, which includes 17 regional warehouses located in Monterrey, Guadalajara, Mexicali, Merida, Leon, Obregon, Puebla, Queretaro, Chihuahua, Reynosa, Saltillo, Tijuana, Toluca, Veracruz, Villahermosa and two in Mexico City. Our logistics services subsidiary operates a fleet of approximately 978 trucks that make deliveries from the distribution centers to each store approximately twice per week.

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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.

Quick-Service Restaurant Market

Following the rationale that the Retail Division has developed certain capabilities and skills that should be well suited to different types of small-format retail, in 2013 the Retail Division entered the quick-service restaurant market in Mexico through the 80% acquisition of Doña Tota, with the founding shareholders retaining 20%. This is a leading regional chain specializing in Mexican food with a particularly strong presence in the northeast of the country. This acquisition presented the Retail Division with the opportunity to grow Doña Tota s stand-alone store base across the country, as well as the possibility to acquire prepared food capabilities and expertise.

In January 2016, in order to explore the fast casual dining industry in the United States, FEMSA Comercio, through its subsidiary Cadena Comercial USA, completed the acquisition of an 80% economic stake in Specialty s, which operated 56 café restaurants in California, Washington and Illinois, as of that date. In January 2017, Cadena Comercial USA completed the acquisition of the remaining 20% economic stake in Specialty s becoming its sole owner.

Other Stores

The Retail Division also operates other small-format stores, which include soft discount stores with a focus on perishables and liquor stores.

Health Division

Business Strategy

The Health Division s vision is focused on two main strategies: first, to gain relevant scale by building a Latin American pharmacy retail platform that operates across several countries and markets, and second, to constantly improve our value proposition and service by being closer to our customers and by giving them access to a broader assortment, better options and availability of required medications, as well as relevant health and wellness products and services. In order to achieve this, the Health Division is working on leveraging two strong capability sets: i) the Health-industry marketing and operational skills acquired through the incorporation of Chile-based Socofar, and ii) the skills that FEMSA Comercio has developed in the operation and growth of other small retail formats, particularly in Mexico. These capabilities include commercial, marketing and production skills as well as site selection, logistics, business processes, human resources, inventory and supplier management.

The drugstore market in Mexico is still fragmented, and FEMSA Comercio believes it is well equipped to create value by growing further in this market and by playing a value-creating role in its long-term consolidation. Furthermore, the acquisition of Socofar gives FEMSA Comercio the opportunity to pursue a regional strategy across South America from a solid platform anchored in the Chilean market and with compelling growth opportunities in Colombia and beyond.

Store Locations

As of December 31, 2016, the Health Division operates 2,120 points of sale, including 1,077 in Mexico, 873 in Chile and 170 in Colombia.

During 2016, the Health Division expanded its operations by 220 additional stores. The average investment required to open a new store varies, depending on location and whether the store is opened in an existing store location or requires construction of a new store. The Health Division currently expects to continue implementing its expansion strategy by emphasizing growth in markets where it currently operates and by expanding in underserved and unexploited markets. Most of the drugstore-related real estate is operated under lease agreements.

Competition

The Health Division competes in the overall pharmacy services market, which we believe is highly competitive. Our stores face competition from other drugstore chains, independent pharmacies and supermarkets, online retailers, and convenience stores. The biggest chains competing with the Health Division in Mexico in terms of number of drugstores are Farmacias Guadalajara, Farmacias del Ahorro and Farmacias Benavides, while in Chile, the biggest chains are Farmacias Ahumada and Salcobrand. In Colombia, Copidrogas, La Rebaja, Colsubsidio, Olimpica, and Cafam are relevant players.

Market and Store Characteristics

Market Characteristics

The drugstore market in Mexico is highly fragmented among national and regional chains as well as independent drugstores, supermarkets and other informal neighborhood drugstores. There are more than 29,000 drugstores; however, the Health Division only has 3.6% of the total number of pharmacies in Mexico with a presence in 15 of 32 states in the country.

The market in Colombia is similar but slightly less fragmented and in general includes national and regional chains. The national healthcare system in Colombia covers a large amount of the country s population and works through *Entidades Promotoras de Salud* (Health Promoting Entities) in the private and public sectors to provide healthcare services to the Colombian population.

In Chile, the market is more concentrated among a limited number of participants and our operation is the leading drugstore operator in the country in terms of number of stores. Our operation also is the largest distributor of pharmaceuticals in the country. The Chilean market, where our operation s healthcare services are shared by both institutional and personal consumers, represents an attractive growth opportunity.

The Health Division 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, selecting sites with the greatest proximity to the customers.

The Health Division s customers are aged 18 and above, however 65% are between the ages of 26 and 55. Additionally, 58% of the Health Division s customers are female. The Health Division also segments the market according to demographic criteria, including income level and purchase frequency.

Store Characteristics

The Health Division s stores are operated under the following trade names: Farmacias YZA, Farmacias Moderna, Farmacias Farmacon and Farmacias Generix in Mexico; Farmacias Cruz Verde in Chile and Colombia and beauty stores under the trade name Maicao in Chile. The average size of the Health Division s stores is 80 square meters in Mexico, 150 square meters in Chile and 89 square meters in Colombia, including selling space and storage area. On average, each store has between 6 and 11 employees depending on the size of and traffic into the store. Patented and generic pharmaceutical drugs, beauty products, medical supplies, household goods and personal care products are the main products sold at the Health Division s stores.

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The Health Division s stores also offer different value-added services, such as correspondent banking, product delivery services, medical examinations and some financial services in Chile.

Advertising and Promotion

The Health Division s marketing efforts for its stores include both specific product promotions and image advertising campaigns. These strategies seek to increase store traffic and sales, and to reinforce the brands and market positions. In Chile, sanitary law forbids advertising of pharmaceutical products through mass media. Nevertheless, it is possible to advertise OTC products using point of purchase materials, flyers and print catalogs. Television, radio, newspapers and digital media are used in seasonal and promotional campaigns.

Inventory and Purchasing

The South American operations of our Health Division seek to align the purchasing and logistics process with consumer needs. A key competitive advantage is our strong logistics chain, which relies on an integrated view of the supply chain. In Chile, we operate 4 distribution centers, the largest of which is a modern distribution center with advanced technology that services 1,500 stores and healthcare institution customers throughout the country. Of the remaining distribution centers one provides exclusive service to our beauty stores, one serves institutional customers and one focuses on high volume products. In Colombia, we operate one distribution center that distributes products to all our locations throughout the country.

In Mexico, we continue to integrate the companies we have acquired into a single model of operation and have built 2 distribution centers. One distribution center serves a significant part of the needs of stores located in the north of Mexico, while the second distribution center provides service to stores located in the south. The distribution of some products in Mexico still relies on third-party distributors.

Seasonality

The Health Division s sales can be seasonal in nature with pharmaceutical drug sales affected by the timing and severity of the cough, cold and flu season. Revenues tend to be higher during the winter season but can be offset by extreme weather due to the rainy season in certain regions of Mexico in December and January. Revenues in our Chilean operation tend to be higher during December, driven by the Christmas season, mainly due to an increase in the purchase of beauty and personal care products to be given away; otherwise, early in the year during January and February, revenues tend to fall slightly, mainly driven by the holiday period.

Fuel Division

Business Strategy

A fundamental element of the Fuel Division s business strategy is to increase at an accelerated rate its offering of service stations, in previously identified regions in Mexico, by way of leases, procurement or construction of stations.

The Fuel Division s business strategy aims to strengthen its services in its retail gas stations in Mexico to fulfill consumers needs and increase traffic in those service stations while developing and maintaining an attractive value proposition to draw potential customers and face the future entry of new competitors in the industry. Furthermore, the Fuel Division s service stations often have an OXXO store on the premises, strengthening the OXXO brand and complementing the value proposition.

The Fuel Division s business strategy includes the analysis and potential development of new businesses in the fuel value chain, such as the final distribution and wholesale of fuel to its own service stations and to third parties.

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Service Station Locations

As of December 31, 2016, the Fuel Division operated 382 service stations, concentrated mainly in the northern part of the country but with a presence in 16 different states throughout Mexico.

In 2016, the Fuel Division leased 70 additional service stations and built 5 new service stations.

Competition

Despite the existence of other groups competing in this sector, the Fuel Division s main competitors are small retail service station chains owned by regional family businesses, which compete in the aggregate with the Fuel Division in total sales, new station locations and labor. The biggest chains competing with the Fuel Division in terms of number of service stations are Petro-7, operated by 7-Eleven Mexico; Corpo Gas; Hidrosina and Orsan.

Market and Store Characteristics

Market Characteristics

The retail service station market in Mexico is highly fragmented. There are currently approximately 11,500 service stations; however, the Fuel Division, with approximately 3.3% of the total number of stations, is the largest participant in this market. The majority of the retail service stations in the country are owned by small regional family businesses.

Service Station Characteristics

Each service station under the OXXO GAS trade name comprises offices, parking lots, a fuel service area and an area for storage of gasoline in underground tanks. We are in an ongoing effort to re-brand some of our service stations with a new image featuring the trademark of OXXO GAS. This change will undoubtedly allow customers to more easily identify our service stations in the market. The average size of the fuel service dispatch area is 250 square meters. On average, each service station has 13 employees.

Gasoline, diesel, oil and additives are the main products sold at OXXO GAS service stations.

Up until April of 2016, legal restrictions prevented the Fuel Division, as a franchisee of PEMEX, from having a different supplier of gasoline. However, the current law allows other suppliers to operate in Mexico.

Advertising and Promotion

Through promotional activities, the Fuel Division seeks to provide additional value to customers by offering, along with gasoline, oils and additives, quality products and services at affordable prices. The best tool for communicating these promotions has been coupon promotions in partnership with third parties.

Seasonality

The Fuel Division experiences especially high demand during the months of May and August. The lowest demand is in January and December due to the rainy season and the year-end holiday period, because most service stations are not located on highways to holiday destinations.

Equity Investment in the Heineken Group

As of December 31, 2016, FEMSA owned a non-controlling interest in the Heineken Group, one of the world s leading brewers. As of December 31, 2016, our 20% economic interest in the Heineken Group comprised 43,018,320 shares of Heineken Holding N.V. and 72,182,203 shares of Heineken N.V. For 2016, FEMSA recognized equity income of Ps. 6,342 million regarding its 20% economic interest in the Heineken Group; see Note 10 to our audited consolidated financial statements.

As described above, the Retail Division has a distribution agreement with subsidiaries of Cuauhtémoc Moctezuma, now a part of the Heineken Group, pursuant to which OXXO stores in Mexico 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. Coca-Cola FEMSA also 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 subsidiary provides certain services to Cuauhtémoc Moctezuma and its subsidiaries.

Other Businesses

Our other businesses consist 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, Nicaragua and Peru.

Our refrigeration business produces vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 547,584 units at December 31, 2016. In 2016, this business sold 486,037 refrigeration units, 21% of which were sold to Coca-Cola FEMSA, and the remainder of which were sold to other clients. Also, this business includes manufacturing operations for food processing, storage and weighing equipment.

Description of Property, Plant and Equipment

As of December 31, 2016, Coca-Cola FEMSA owned all of its manufacturing facilities and distribution centers, consisting primarily of production and distribution facilities for its soft drink operations and office space. In addition, the Retail Division owns approximately 12% of OXXO stores, while the remaining stores are located on leased properties and substantially almost all of its warehouses are under long-term lease arrangements with third parties. The Health Division owns 7 distribution centers, 4 of which are in Chile, 2 in Mexico, and 1 in Colombia, and also includes a manufacturing facility for generic pharmaceuticals in Chile. Most of the Health Division s stores are under lease arrangements with third parties.

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, 2016

Country	Installed Capacity (thousands of unit cases)	Utilization[1] [2] (%)
Mexico	2,712,271	66
Guatemala	43,237	76
Nicaragua	64,795	79
Costa Rica	81,200	59
Panama	63,343	54
Colombia	613,011	49
Venezuela	235,862	51
Brazil[3]	1,201,791	57
Argentina	366,613	54

(1)

Calculated based on each bottling facility s theoretical capacity assuming total available time in operation and without taking into account ordinary interruptions, such as planned downtime for preventive maintenance, repairs, sanitation, set-ups and changeovers for different flavors and presentations. Additional factors that affect utilization levels include seasonality of demand for our products, supply chain planning due to different geographies and different packaging capacities.

(2) Annualized rate.

(3) Includes the installed capacity and utilization of Coca-Cola FEMSA s plant located in Porto Real up to October 2016, when the plant was shut down to achieve cost efficiencies and expected synergies.

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The table below summarizes by country plant location and facility area of Coca-Cola FEMSA s production facilities:

Bottling Facility by Location

As of December 31, 2016

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	San Cristobal de las Casas, Chiapas	45
	Cuautitlan, Estado de Mexico	35
	Los Reyes la Paz, Estado de Mexico	50
	Toluca, Estado de Mexico	317
	Leon, Guanajuato	124
	Morelia, Michoacan	50
	Ixtacomitan, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	La Pureza Altamira, Tamaulipas	300
	Poza Rica, Veracruz	42
	Pacifico, Estado de Mexico	89
	Cuernavaca, Morelos	37
	Toluca, Estado de Mexico (Ojuelos)	41
	San Juan del Rio, Queretaro	84
	Queretaro, Queretaro	80
	Cayaco, Acapulco	104
Guatemala	Guatemala City	46
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San Jose	52
	Coronado, San Jose	14
Panama	Panama City	29
Colombia	Barranquilla	37
	Bogota, DC	105
	Bucaramanga	26
	Cali	76
	Manantial, Cundinamarca	67
	Tocancipa	298
	Medellin	47
Venezuela	Antimano	15
	Barcelona	141
	Maracaibo	68
	Valencia	100
Brazil	Campo Grande	36
	Jundiai	191
	Mogi das Cruzes	119
	Maringa	160
	Marilia	159
	Curitiba	119
	Bauru	39
	Itabirito	320
	Antonio Carlos	1,519
	Porto Alegre	196
	Santo Angelo	43

Argentina	Alcorta, Buenos Aires	73
	Monte Grande, Buenos Aires	32

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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 and riot. We also maintain a freight transport insurance policy that covers damages to goods in transit. In addition, we maintain a liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. In 2016, the policies for all risk property insurance were issued by Chubb de México, Compañía de Seguros, S.A. de C.V., policies for liability insurance were issued by Mapfre Tepeyac Seguros, S.A., and the policy for freight transport insurance was issued by AXA Seguros, S.A. de CV. Our all risk coverage was partially reinsured in the international reinsurance market. We believe that our coverage is consistent with the coverage maintained by similar companies.

Capital Expenditures and Divestitures

Our consolidated capital expenditures, net of disposals, for the years ended December 31, 2016, 2015 and 2014 were Ps. 22,155 million, Ps. 18,885 million and Ps. 18,163 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,		
	2016	2015	2014
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	Ps. 12,391	Ps. 11,484	Ps. 11,313
FEMSA Comercio			
Retail Division	7,632	5,625	5,191
Health Division	474	423	
Fuel Division	299	228	
Other	1,359	1,125	1,659
Total	Ps. 22,155	Ps. 18,885	Ps. 18,163

Coca-Cola FEMSA

In 2016, Coca-Cola FEMSA focused its capital expenditures on investments in (i) increasing production capacity; (ii) placing coolers with retailers; (iii) returnable bottles and cases; (iv) improving the efficiency of our distribution infrastructure; and (v) information technology. Through these measures, Coca-Cola FEMSA continuously seeks to improve its profit margins and overall profitability.

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FEMSA Comercio

Retail Division

The Retail Division s principal investment activity is the construction and opening of new stores, which are mostly OXXO Stores. During 2016, FEMSA Comercio opened 1,164 net new OXXO stores. The Retail Division invested Ps. 7,632 million in 2016 in the addition of new stores, warehouses and improvements to leased properties.

Health Division

The Health Division s principal investment activity is the construction and opening of new drugstores in the countries where we operate. During 2016, the Health Division opened 74 net new drugstores in Mexico and 25 net new drugstores in Chile and Colombia. The Health Division invested Ps. 474 million in 2016 in the addition of new stores, warehouses and improvements to leased properties.

Fuel Division

In 2016, the Fuel Division s business addressed its investments on capital expenditure mainly to the addition of 75 new retail service stations. During 2016, the Fuel Division invested Ps. 299 million.

Regulatory Matters

Antitrust Legislation

The *Ley Federal de Competencia Económica* (Federal Antitrust Law) regulates monopolistic practices in Mexico and requires approval of certain mergers and acquisitions. The Federal Antitrust Law subjects the activities of certain Mexican companies, including us, to regulatory scrutiny. The *Comisión Federal de Competencia Económica* (Federal Antitrust Commission, or the COFECE) is the Mexican antitrust authority, which has constitutional autonomy. COFECE has the ability to regulate essential facilities, order the divestment of assets and eliminate barriers to competition, set higher fines for violations of the Federal Antitrust Law, implement important changes to rules governing mergers and anti-competitive behavior and limit the availability of legal defenses against the application of the law.

In Mexico, 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.**

We are subject to antitrust legislation in the countries where we operate, primarily in relation to mergers and acquisitions that we are involved in. The transactions in which we participate may be subject to the requirement to obtain certain authorizations from the relevant authorities. Management believes that we are currently in compliance in all material respects with antitrust legislation in the countries where we operate.

Recent Tax Reforms

On April 1, 2015, the Brazilian government issued Decree No. 8.426/15 to impose, as of July 2015, PIS/COFINS (Social Contributions on Gross Revenues) of 4.65% on financial income (except for foreign exchange variations).

Since 2016, the Brazilian rates of value-added tax in certain states changed as follows: Mato Grosso do Sul from 17% to 20%; Minas Gerais, 18% and an additional 2% to be charged on sales to non-taxpayers, as a contribution to a poverty eradication fund; Rio de Janeiro, the contribution to poverty eradication increased from 1% to 2% as of April 2016; and Parana, 16% and an additional 2% to be charged on sales to non-taxpayers, as a contribution to a poverty eradication fund. In addition and specifically for sales of beer, the value-tax added tax rate increased to a maximum of 25%.

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In addition, as of January 1, 2016, the Brazilian federal production tax rates were reduced and the rates of the federal sales tax were increased, being both taxes average of 16.2% over net sales.

On January 1, 2015, a general tax reform became effective in Colombia. This reform included the imposition of a new temporary tax on net equity through 2017 to Colombian residents and non-residents who own property in Colombia directly or indirectly through branches or permanent establishments. The relevant taxable base will be determined annually based on a formula. For net equity that exceeds 5.0 billion Colombian pesos (approximately US$ 2.1 million) the rate was 1.15% in 2015, 1.00% in 2016 and will be 0.40% in 2017. In addition, the tax reform in Colombia imposed that the supplementary income tax at a rate of 9% as contributions to social programs, which was previously scheduled to decrease to 8% by 2015, will remain indefinitely. Additionally, this tax reform included the imposition of a temporary contribution to social programs at a rate of 5%, 6%, 8% and 9% for the years 2015, 2016, 2017 and 2018, respectively. Finally, this reform establishes an income tax deduction of 2% of value-added tax paid in the acquisition or import of hard assets, such as tangible and amortizable assets that are not sold or transferred in the ordinary course of business and that are used for the production of goods or services.

On January 1, 2017, a new general tax reform became effective in Colombia. This reform reduced the corporate income tax rate from 35.0% to 34.0% for 2017 and then to 33.0% for the following years. In addition, for entities located outside of free trade zones, the reform imposed an extra income tax rate of 6.0% for 2017 and 4.0% for 2018. For taxpayers located in free trade zones, the special income tax rate increased from 15.0% to 20.0% starting in 2017. Additionally, the reform eliminated the temporary tax on net equity, the supplementary income tax of 9.0% for contributions to social programs and the temporary contribution to social programs at a rate of 5.0%, 6.0%, 8.0% and 9.0% for the years 2015, 2016, 2017 and 2018, respectively. For 2017, dividends paid to individuals that are Colombian residents will be subject to a withholding of 35.0%, and dividends paid to foreign individuals or non-Colombian resident entities will be subject to a withholding of 5.0%. This reform increased the rate of the presumptive income on net equity (*renta presuntiva sobre el patrimonio*), which is generated when a loss or low net income is recorded, from 3.0% to 3.5% for 2017. Finally, starting in 2017, the Colombian general value-added tax rate increased from 16.0% to 19.0%.

On December 30, 2015, the Venezuelan government enacted a package of tax reforms that became effective in 2016. This reform, among other things, (i) eliminates the inflationary adjustments for the calculation of income tax as well as the new investment tax deduction and (ii) imposes a new tax on financial transactions effective as of February 1, 2016, for those identified as special taxpayers at a rate of 0.75% over certain financial transactions, such as bank withdrawals, transfer of bonds and securities, payment of debts without intervention of the financial system and debits on bank accounts for cross-border payments, which will be immediately withheld by the banks. Given the inherent uncertainty as to how the Venezuelan Tax Administration will require that the aforementioned inflation adjustments be applied, starting 2016 the Company decided to recognize the effects of elimination of the inflationary adjustments.

On November 18, 2014, a tax reform became effective in Venezuela. This reform included changes on how the carrying value of operating losses is reported. The reform established that operating losses carried forward year over year (but limited to three fiscal years) may not exceed 25% of the taxable income in the relevant period. The reform also eliminated the possibility to carry over losses relating to inflationary adjustments and included changes that grant Venezuelan tax authorities broader powers and authority in connection with their ability to enact administrative rulings related to income tax withholding and to collect taxes and increase fines and penalties for tax-related violations, including the ability to confiscate assets without a court order.

In Guatemala, the income tax rate for 2014 was 28% and it decreased for 2015 to 25%, as scheduled.

On January 27, 2016, the Chilean National Congress approved a bill with the main object of simplifying the new income tax system enacted under the Tax Reform Law published in September 2014 (Law N° 20.780). In addition, in July 2016 Chilean tax authorities issued a public ruling containing extensive guidance on the new dual income tax regimes that will apply as from January 1, 2017. The new ruling revokes previous rulings issued in 2015 and reflects changes introduced in a February 2016 law designed to simplify and clarify the 2014 tax reform law, including the provisions relating to the dual income tax regimes. Some types of taxpayers are restricted to one of the two tax regimes, but taxpayers eligible for either regime must opt into their preferred regime before December 31, 2016. Starting in 2017, Chilean taxpayers subject to the first category income tax (FCIT) will be subject to one of the following two tax regimes: (i) the fully integrated regime, under which shareholders will be taxed on their share of the profits that are accrued annually by the Chilean entity; the combined income tax rate under the regime will be 35%, (ii) the partially integrated regime, under which shareholders will be taxed when profits are distributed. The combined income tax rate under the regime generally will be 44.45% (27% plus a 35%WHT); however, foreign shareholders (Non-Chilean shareholders) that are residents in a country that has concluded a tax treaty with Chile (i.e. Mexico) will be entitled to a full tax credit, and thus may benefit from a combined rate of 35%. All entities directly or indirectly held by FEMSA are deemed under the partially integrated regime.

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Taxation of Sparkling Beverages

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

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

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

Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, currently assessed at 18.46 colones (Ps.0.68 as of December 31, 2016) per 250 ml, and an excise tax currently assessed at 6.384 colones (approximately Ps.0.23 as of December 31, 2016) per 250 ml.

Nicaragua imposes a 9.0% tax on consumption, and municipalities impose a 1.0% tax on Coca-Cola FEMSA s Nicaraguan gross income.

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

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

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

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

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

Price Controls

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

Environmental Matters

In all of the countries where we operate, we are subject to federal and state laws and regulations relating to the protection of the environment. In Mexico, the principal legislation is the Federal General Law for Ecological Equilibrium and Environmental Protection (*Ley General de Equilibrio Ecológico y Protección al Ambiente*, or the Mexican Environmental Law), and the General Law for the Prevention and Integral Management of Waste (*Ley General para la Prevención y Gestión Integral de los Residuos*) which are enforced by the Ministry of the Environment and Natural Resources (*Secretaría del Medio Ambiente y Recursos Naturales,* or SEMARNAT). SEMARNAT can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to close non-complying facilities. Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to hazardous wastes and set forth standards for waste water discharge that apply to Coca-Cola FEMSA s operations. Coca-Cola FEMSA is also subject to certain minor restrictions on the operation of delivery trucks in Mexico City.

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

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

As part of 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 green energy to Coca-Cola FEMSA s bottling facility in Toluca, Mexico, owned by its subsidiary, Propimex, S. de R.L. de C.V., or Propimex, and to some of its suppliers of PET bottles. In 2010, GAMESA sold its interest in the Mexican entity that owned the wind farm to Iberdrola Renovables México, S.A. de C.V. This wind farm, which is located in La Ventosa, Oaxaca, generates approximately 100,000 megawatt hours annually. In 2014, 2015 and 2016, this wind farm provided Coca-Cola FEMSA with approximately 64,460, 64,430 and 57,750 megawatt hours, respectively.

Additionally, Coca-Cola FEMSA has also entered into 20-year wind power supply agreements with two suppliers to receive clean and renewable energy for use at our production and distribution facilities throughout Mexico: (a) Energía Eólica del Sur, S.A.P.I. de C.V. (formerly known as Mareña Renovables Wind Power Farm), or Energía Eólica del Sur, which is expected to begin operations in 2018; and (b) Enel Green Power which provided megawatt hours to Coca-Cola FEMSA s production and distribution facilities in 2016. In 2016, five of Coca-Cola FEMSA s manufacturing facilities received megawatt hours from renewable energy sources such as bagasse cogeneration from the PIASA Tres Valles sugar mill.

FEMSA Comercio has also entered into 20-year wind power supply agreements with four suppliers to receive clean and renewable energy for use at its convenience and drug stores throughout Mexico: (a) Energía Eólica del Sur; (b) Enel Green Power which is expected to begin operations in 2018 as well; (c) Enel Green Power which provided megawatt hours to 436 OXXO stores and 280 drug stores in 2016; and (d) Ventika, which provided megawatt hours to 2,685 OXXO stores in 2016. In 2016, 14.7% of FEMSA Comercio s energy consumption in Mexico came from renewable energy sources.

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 Rican operations have participated in a joint effort along with the local division of The Coca-Cola Company, Misión Planeta, for the collection and recycling of non-returnable plastic bottles.

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

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 Organic Environmental Law (*Ley Orgánica del Ambiente*), the Substance, Material and Dangerous Waste Law (*Ley Sobre Sustancias, Materiales y Desechos Peligrosos*), the Criminal Environmental Law (*Ley Penal del Ambiente*) and the Water Law (*Ley de Aguas*). Since the enactment of the Organic Environmental Law in 1995, Coca-Cola FEMSA s Venezuelan subsidiary has presented the corresponding authorities with plans to bring Coca-Cola FEMSA s 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. Coca-Cola FEMSA currently has water treatment plants in its bottling facilities located in the cities of Barcelona, Valencia and in its Antimano bottling plant in Caracas, and Coca-Cola FEMSA is still under construction and expansion of its current water treatment plant in its bottling facility in Maracaibo.

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 and disposal of wastewater and solid waste, soil contamination by hazardous chemicals, which impose penalties, such as fines, facility closures or criminal charges depending upon the level of non-compliance.

Coca-Cola FEMSA s production plant located in Jundiai has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by applicable law. This production plant has been certified for GAO-Q and GAO-E. In addition, the plants of Jundiai, Mogi das Cruzes, Campo Grande, Marilia, Maringa, Curitiba and Bauru have been certified for (i) ISO 9001; (ii) ISO 14001and; (iii) norm OHSAS 18001. In 2012, the Jundiai, Campo Grande, Bauru, Marilia, Curitiba, Maringa and Mogi das Cruzes plants were certified in standard FSSC22000.

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

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

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

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 Ministry of Natural Resources and Sustainable Development (*Secretaría de Ambiente y Desarrollo Sustentable*) and the Provincial Organization for Sustainable Development (*Organismo Provincial para el Desarrollo Sostenible*) for the province of Buenos Aires. Coca-Cola FEMSA s Alcorta plant is in compliance with environmental standards and Coca-Cola FEMSA has been, and continues to be, certified for ISO 14001:2004 for the plants and operative units in Buenos Aires.

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

Coca-Cola FEMSA has spent, and may be required to spend in the future, funds for compliance with and remediation under local environmental laws and regulations. Currently, Coca-Cola FEMSA does not believe that such costs will have a material adverse effect on its results or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly 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 Coca-Cola FEMSA 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. We are not aware of any significant pending regulatory changes that would require a significant amount of additional remedial capital expenditures.

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

Water Supply

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

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

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

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

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In Argentina, a state water company provides water to Coca-Cola FEMSA s Alcorta plant on a limited basis; however, Coca-Cola FEMSA believes the authorized amount meets its requirements for this plant. In Coca-Cola FEMSA s Monte Grande plant in Argentina, it pumps water from wells, in accordance with Law No. 25.688.

In Nicaragua, the use of water is regulated by the National Water Law (*Ley General de Aguas Nacionales*), and Coca-Cola FEMSA obtain water directly from wells. In Costa Rica, the use of water is regulated by the Water Law (*Ley de Aguas*). In both of these countries, Coca-Cola FEMSA exploits water from 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 Panama Use of Water Regulation (*Reglamento de Uso de Aguas de Panamá*).

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 Water Law (*Ley de Aguas*).

In addition, Coca-Cola FEMSA obtains water for the production of some of its natural spring water products, such as *Manantial* in Colombia and *Crystal* in Brazil, from spring water pursuant to concessions granted.

We cannot assure that water will be available in sufficient quantities to meet Coca-Cola FEMSA s future production needs, that Coca-Cola FEMSA will be able to maintain its current concessions or that additional regulations relating to water use will not be adopted in the future in Coca-Cola FEMSA s territories. We believe Coca-Cola FEMSA is in material compliance with the terms of its existing water concessions and that Coca-Cola FEMSA is in compliance with all relevant water regulations currently in place.

Other Regulations

In January 2012, the Costa Rican government approved a decree which regulates the sale of food and beverages in public schools. According to the decree, the sale of all sparkling beverages and certain still beverages that contain certain amounts of sugar, syrup or HFCS in any type of presentation in schools is prohibited. Coca-Cola FEMSA is still allowed to sell water and certain still beverages in schools. Although Coca-Cola FEMSA is in compliance with this law, 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; these restrictions and any further restrictions could have an adverse impact on Coca-Cola FEMSA s results of operations.

In May 2012, the Venezuelan government adopted significant changes to labor regulations that had a negative impact on Coca-Cola FEMSA s business and operations. The principal changes that impacted Coca-Cola FEMSA s operations were and still are: (i) the requirement that employee terminations are now subject to governmental authorization; (ii) retroactive assessments for any modifications to our severance payment system; (iii) a reduction in the maximum daily and weekly working hours (from 44 to 40 weekly); (iv) an increase in mandatory weekly breaks, prohibiting a reduction in salaries as a result of such increase; and (v) the requirement that all third party contractors participating in the manufacturing and sales processes of our products be included in our payroll. Coca-Cola FEMSA is currently in compliance with these labor regulations.

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

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In August 2013, the current Mexican president, Enrique Peña Nieto, proposed a constitutional reform to provide for modernization and growth of the Mexican energy sector (the Mexican Energy Reform). Following intense review of and debate on the proposal, in December 2013 the Mexican government approved a decree containing amendments and additions to the Mexican Constitution in matters of energy. The Mexican Energy Reform provides for the opening of the Mexican energy market to the participation of private parties including companies with foreign investment, allowing for FEMSA Comercio to participate directly in the retail of fuel products. However, secondary legislation and regulation of the approved Mexican Energy Reform is in transition, and deregulation of fuel prices will be conducted gradually; starting in March 2017 in the states of Baja California and Sonora and concluding in December 2017 in the states of the Yucatan peninsula. Gasoline and diesel prices are established by the Mexican executive power by decree, taking into account the price of petroleum, currency exchange rates, taxes, transportation cost differences between regions and other factors, and starting January 1, 2018, retail prices for gasoline and diesel will be freely determined by market conditions. As part of the secondary legislation in connection with the Mexican Energy Reform, the *Agencia de Seguridad, Energia y Ambiente* (the Security, Energy and Environment Agency, or ASEA) was created as a decentralized administrative body of SEMARNAT. ASEA is responsible for regulating and supervising industrial and operational safety and environmental protection in the installations and activities of the hydrocarbons sector, which includes all our Fuel Division operations. Additionally, the *Comisión Reguladora de Energía* (the Energy Regulatory Commission, or CRE) is the regulatory body responsible for the authorization of sale of fuel to the public at gas stations. The Fuel Division is in compliance with ASEA and CRE regulations and administrative provisions.

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

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

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

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

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

In all of the countries where the Health Division operates, we are subject to local laws, regulations and administrative practices concerning retail and wholesale pharmacy operations, regulations prohibiting kickbacks, beneficiary inducement and the submission of false claims, licensure and registration requirements concerning the operation of pharmacies and the practice of pharmacy health regulation, as well as other health care laws and regulations. We believe that the Health Division is in material compliance with all such applicable laws, regulations and administrative practices.

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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (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 has continued to grow organic volumes at a steady but moderate pace, highlighting Mexico where operative results were strong. However, in the short term there is some pressure from macroeconomic uncertainty in certain South American markets, including currency volatility. Volume growth is mainly driven by the *Coca-Cola* brand across markets, together with the solid performance of Coca-Cola FEMSA s still beverage portfolio

The Retail Division has maintained high rates of store openings across formats and continues to grow at solid rates in terms of total revenues. The Retail Division has lower operating margins than our beverage business. Given that the Retail Division has lower operating margins and given its fixed cost structure, it is more sensitive to changes in sales which could negatively affect operating margins.

The Health Division has continued its moderate rate of revenue growth, highlighting the strong growth trends delivered by Socofar s operations in Chile and Colombia, partially benefited from a positive foreign exchange translation effect. However, in Mexico, the continued expansion across new territories and the integration process of its four legacy brands into a single business platform are pressuring the Health Division s results in the short term. Additionally, currency volatility between the Chilean and Colombian peso, compared with the Mexican peso, could further affect the Health Division s results.

The Fuel Division has continued its steady expansion across certain regions in Mexico. The implementation of the Mexican Energy Reform enacted by the current administration, which could result in certain business opportunities for the Fuel Division, is moving forward but it is still subject to further regulatory changes that could bring more uncertainties to the industry in the short and medium term. Macroeconomic uncertainties that affect gasoline prices can also put pressure on the Fuel Division s operating margins, which are structurally lower than those of FEMSA Comercio s other divisions.

Our consolidated results are also significantly affected by the performance of the Heineken Group, as a result of our 20% economic interest. Our consolidated net income for 2016 included Ps. 6,342 million related to our non-controlling interest in the Heineken Group, as compared to Ps. 5,879 million for 2015.

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

Since January 25, 2017, Coca-Cola FEMSA has had control of KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines s business, including its annual normal operations plan, are now approved by a majority of KOF Philippines s board of directors, without requiring the affirmative vote of any director appointed by The Coca-Cola Company. Beginning on February 1, 2017, Coca-Cola FEMSA started consolidating KOF Philippines s financial results in its financial statements. The results for the first quarter of 2017 and future results in 2017 will reflect a reduction in Coca-Cola FEMSA s share of the profit of associates and joint ventures, accounted for using the equity method, as a result of this consolidation. For further information, see Note 28 to our audited consolidated financial statements.

In January 2017, FEMSA Comercio, through its subsidiary Cadena Comercial USA Corporation, LLC., completed the acquisition of the remaining 20% economic stake in Specialty s and became its sole owner.

In February 2017, Heineken announced that it had reached an agreement to acquire Brasil Kirin Holding S.A (Brasil Kirin) for consideration of 664 million. The transaction is expected to close in the first half of 2017. We will recognize the results of operation of this business combination using the equity method, once Brasil Kirin has been consolidated in the financial statements of Heineken.

In March 2017, Coca-Cola FEMSA acquired, through Jugos del Valle and its Brazilian, Argentine and Colombian subsidiaries, a participation in the Mexican, Brazilian, Argentine and Colombian AdeS soy-based beverage business. As a result of this acquisition, Coca-Cola FEMSA has exclusive distribution rights of AdeS soy-based beverages in these territories.

Effects of Changes in Economic Conditions

Our results are affected by changes in economic conditions in Mexico, Brazil and in the other countries where we operate. For the years ended December 31, 2016, 2015, and 2014, 64%, 70% and 68% respectively, of our total sales were attributable to Mexico. Other than Venezuela and Chile, the participation of these other countries as a percentage of our total sales has not changed significantly during the last five years.

The Mexican economy is gradually recovering from the impact of the global financial crisis on many emerging economies in 2009. According to the INEGI, Mexican GDP expanded by 2.3% in 2016 and by approximately 2.6% and 2.3% in 2015 and 2014, respectively. According to the *Banco Nacional de México* survey regarding the economic expectations of specialists, Mexican GDP is expected to increase by 1.49% in 2017, as of the latest estimate, published on April 3, 2017. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery in Mexico.

Our results are affected by the economic conditions in the countries where we conduct operations. Some of these economies continue to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect these economies. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our results and financial condition. Our business may also be significantly affected by the interest rates, inflation rates and exchange rates of the currencies of the countries where we operate. Decreases in growth rates, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. In addition, an increase in interest rates would increase the cost to us of variable rate funding, which would have an adverse effect on our financial position.

Beginning in the fourth quarter of 2014 and through 2016, the exchange rate between the Mexican peso and the U.S. dollar fluctuated from a low of Ps. 13.39 per US$ 1.00, to a high of Ps. 20.84 per US$ 1.00. At December 30, 2016, the exchange rate (noon buying rate) was Ps. 20.6170 per US$ 1.00. On April 12, 2017, this exchange rate was Ps. 18.7665 per US$ 1.00. **See Item 3. Key Information Exchange Rate Information.** A depreciation of the Mexican peso or local currencies in the countries where 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 where 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.

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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 s operations are characterized by low margin and relatively high 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 2.3 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. 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 and 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. Impairment losses are recognized in current earnings in the period the related impairment is determined.

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We assess at each reporting date whether there is an indication that a 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 3.16 and 12 to our audited consolidated financial statements.

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 based on our experience in the industry for similar assets, see Notes 3.12, 3.14, 11 and 12 to our audited consolidated financial statements.

Employee benefits

We regularly 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 to our audited consolidated financial statements.

Income taxes

Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. 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 continuing in the future, 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, related to 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. We periodically assess 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. Our 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. We believe 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.

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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.

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* and IAS 19, *Employee Benefits,* 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 3.24 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.

- Indemnifiable assets are recognized at the acquisition date on the same basis as indemnifiable liabilities, subject to any contractual limitations.

For each acquisition, our judgment must be exercised to determine the fair value of the assets acquired, the liabilities assumed and any non-controlling interest in the acquire. In particular, we must apply estimates or make judgments as to what techniques to use, especially in forecasting CGU s cash flows, computing WACC and estimating inflation as part of the identification of intangible assets with indefinite lives (mainly, goodwill, distribution and trademark rights).

Judgments

In the process of applying our accounting policies, we have made the following judgments which have the most significant effects on the amounts recognized in the consolidated financial statements.

Investments in associates

If we hold, directly or indirectly, 20 percent 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 percent 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 percent-owned corporate investee require a careful evaluation of voting rights and their impact on our ability to exercise significant influence. We consider the existence of the following circumstances which may indicate that we are in position to exercise significant influence over a less than 20 percent-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.

We also consider the existence and effect of potential voting rights that are currently exercisable or currently convertible when assessing whether we have significant influence.

In addition, we evaluate certain indicators that provide evidence of significant influence, such as:

- Whether the extent of our ownership is significant relative to other shareholders (i.e. a lack of concentration of other shareholders);
- Whether our significant shareholders, fellow subsidiaries or officers hold additional investment in the investee; and
- Whether we are part of significant investee committees, such as the executive committee or the finance committee.

Joint arrangements

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When we are a party to an arrangement we shall assess whether the contractual arrangement gives all the parties or a group of the parties, control of the arrangement collectively; joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. We need to apply judgment when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. When assessing joint control, we consider the following facts and circumstances such as:

- Whether all the parties, or a group of the parties, control the arrangement, considering the definition of joint control, as described in note 3.11.2 to our audited consolidated financial statements; and
- Whether decisions about the relevant activities require the unanimous consent of all the parties, or of a group of the parties.
- As mentioned in Note 10 to our audited consolidated financial statements, Coca-Cola FEMSA accounts for its 51% investment at KOF Philippines as a joint venture. This is based on the facts that (i) Coca-Cola FEMSA and TCCC make all operating decisions jointly during the initial four-year period, and (ii) potential voting rights to acquire the remaining 49% of KOF Philippines are not likely to be executed in the foreseeable future due to the fact the call option was out of the money as of December 31, 2016 and 2015.
- Starting in February 2017 Coca-Cola FEMSA will take control over the relevant activities of KOF Philippines in accordance with the shareholders agreements and will consolidate KOF Philippines results. See Note 28.

Venezuela exchange rates and consolidation

As is further explained in Note 3.3 to our audited consolidated financial statements, the exchange rate used to account for foreign currency denominated monetary items arising in Venezuela, and also the exchange rate used to translate the financial statements of our Venezuelan subsidiary for group reporting purposes are both key sources of estimation uncertainty in preparing the accompanying consolidated financial statements.

As is also explained in Note 3.3 to our audited consolidated financial statements, we believe that we currently control our subsidiary operations in Venezuela but we recognize the challenging economic and political environment in Venezuela. Should we in the future conclude that we no longer control such operations, our consolidated financial statements would change by material amounts.

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Future Impact of Recently Issued Accounting Standards not yet in Effect

We have not applied the following standards and interpretations that are issued but were not yet effective as of the date of issuance of our consolidated financial statements. We intend to adopt these standards, if applicable, when they become effective:

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15, Revenue from Contracts with Customers, was originally issued in May 2014 and supersedes IAS 18 Revenue and applies to annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. Revenue is recognized as control is passed, either over time or at a point in time. We do not plan to early adopt this standard, but we have determined that the adoption of this standard will be accounted for prospectively, as allowed by the corresponding transitional provisions, which provide for cumulative effect to be shown as an adjustment to retained earnings at the date of initial application.

The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) identify the contract(s) with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when (or as) the entity satisfies a performance obligation. Also, an entity needs to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

We are currently in the process of evaluating the potential impacts that the adoption of IFRS 15 may have on our consolidated financial statements. As part of such process, we are assessing the different revenue streams by reportable segment by applying them to the five-step revenue model in order to determine whether the performance obligations are satisfied over time or at a point in time and to identify potential gaps with our existing accounting policies, which are in accordance with IAS 18.

With regards to the Coca-Cola FEMSA reportable segment, revenue streams are mainly related to the sale of finished products and delivery of promotional products, which are currently recognized in the income statement when we transfer such goods to our customers. This revenue stream is supported by contracts maintained with different companies in the retail industry through both traditional and modern channels, in which prices with these customers are constantly negotiated due to the high turnover of our products and to remain competitive in the market. We are evaluating the potential impacts that the adoption of IFRS 15 may have on our consolidated financial statements. As part of this process, we are assessing whether such negotiations should be considered as modifications to the contracts and whether each transaction represents a separate performance obligation with the customer to be accounted for once the particular goods are delivered. Additionally, we are analyzing if any discounts offered to clients are already considered in each negotiation and recognized net of the related revenue and whether embedded derivatives may exist as well as significant financial components or agent or principal considerations as relate to our operation. Upon adoption of the new standard, other potential impacts could be identified as our new revenue accounting policy is developed and applied.

With regards to FEMSA Comercio, revenue streams are mainly related to direct sales to end consumers, in which discounts are also offered directly in the price per product available. This revenue stream is currently recognized in the income statement when we transfer such goods to our customers at the point of sale. Additionally, we provide certain services in which we act as an agent and recognize the corresponding net revenue in the income statement at the moment at which the transaction has been completed physically in the stores as meeting our performance obligation (i.e. sale of prepaid telephone minutes or other prepaid cards and services). We are analyzing whether embedded derivatives may exist as well as significant financial components or other agent or principal considerations as relate to this segment. Upon adoption of the new standard, other potential impacts could be identified as our new revenue accounting policy is developed and applied.

With regards to our other reportable segments, revenues are mainly related to contracts made directly with the end consumer, in which there are no discounts offered directly in the price of the contract. This revenue stream is currently recognized in the income statement when we provide such services according to the conditions in the contract. We are analyzing whether embedded derivatives may exist as well as significant financial components or other agent or principal considerations as relate to these segments. Upon adoption of the new standard, other potential impacts could be identified as our new revenue accounting policy is developed and applied.

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We have yet to complete our evaluation of whether there will be a significant impact as a consequence of this standard s adoption in the consolidated financial statements.

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The transition to IFRS 9 differs by requirements and is partly retrospective and partly prospective.

We plan to adopt the new standard on the required effective date. We are analyzing what impact the three aspects of IFRS 9 may have based on currently available information. Our conclusions may be subject to change based on further detailed analyses or additional reasonable and supportable information being made available to us in the future. Upon adoption of the new standard, other potential impacts could be identified as our new revenue accounting policy is developed and applied.

IFRS 16, *Leases*

IFRS 16 Leases was issued in January 2016 and supersedes IAS 17 Leases and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. We do not plan on early adopting this standard, but we have determined that the standard will be adopted applying the prospective transitional provisions, which provide that adoption effects will be reflected directly against retained earnings and the applicable assets and liabilities as of January 1, 2019.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the financial liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the life of the lease.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

We are currently in the process of performing our evaluation of the potential impacts that the adoption of IFRS 16 may have on our consolidated financial statements. As part of such process, we are assessing by reportable segment the different lease contracts, mainly those in which we act as a lessee as well as other contracts in which the definition of a lease could be met independent of our legal form. Based on the ongoing assessment, we may experience a material impact from the adoption of IFRS 16 on our consolidated financial statements ,especially as relates to the Retail Division, the Fuel Division and the Health Division reportable segments, which have significant real estate leases.

We are in the process of quantifying the effects of IFRS 16 as well as developing our accounting policy under the new standard. This process includes evaluating those lease contracts that may qualify for the accounting exceptions provided by the standard for those assets considered as low value and developing judgments on potentially subjective matters, particularly in respect of the definition of a lease and the assessment of a lease term.

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Amendments to IAS 7, *Disclosure Initiative*

The amendments to IAS 7 Statement of Cash Flows, require that the following changes in liabilities arising from financing activities be disclosed separately from changes in other assets and liabilities: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition.

These amendments are effective for annual periods beginning on or after January 1, 2017 with earlier application permitted, and entities need not provide comparative information when they first apply them. We are in the process of assessing the potential impacts from the adoption of these amendments on our consolidated financial statements.

Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments to IAS 12 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary differences. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. We are in the process of assessing the potential impacts from the adoption of these amendments on our consolidated financial statements. We do not expect a significant 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, 2016, 2015, and 2014:

	Year Ended December 31,			
	2016[1]	**2016**	**2015**	**2014**
	(in millions of U.S. dollars and Mexican pesos)			
Net sales	$ 19,335	Ps. 398,622	Ps. 310,849	Ps. 262,779
Other operating revenues	42	885	740	670
Total revenues.	19,377	399,507	311,589	263,449
Cost of goods sold	12,189	251,303	188,410	153,278
Gross profit	7,188	148,204	123,179	110,171
Administrative expenses	714	14,730	11,705	10,244
Selling expenses	4,634	95,547	76,375	69,016
Other income	56	1,157	423	1,098
Other expenses	287	5,909	2,741	1,277
Interest expense	468	9,646	7,777	6,701
Interest income	63	1,299	1,024	862

	Year Ended December 31,			
	2016[(1)]	2016	2015	2014
	(in millions of U.S. dollars and Mexican pesos)			
Foreign exchange gain (loss), net	55	1,131	(1,193)	(903)
Monetary position gain (loss), net	117	2,411	(36)	(319)
Market value gain on financial instruments	9	186	364	73
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	1,385	28,556	25,163	23,744
Income taxes	383	7,888	7,932	6,253
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	316	6,507	6,045	5,139
Consolidated net income	$ 1,318	Ps. 27,175	Ps. 23,276	Ps. 22,630
Controlling interest net income	1,025	21,140	17,683	16,701
Non-controlling interest net income	293	6,035	5,593	5,929
Consolidated net income	$ 1,318	Ps. 27,175	Ps. 23,276	Ps. 22,630

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 20.6170 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, 2016, 2015 and 2014.

	Year Ended December 31,					
	2016	2015		2014[(8)]	2016 vs. 2015	2015 vs. 2014[(9)]
			as reported last year			
	(in millions of Mexican pesos, except margins)				Percentage Growth (Decrease)	
Net sales						
Coca-Cola FEMSA	Ps. 177,082	Ps. 151,914	Ps. 151,914	Ps. 146,948	16.6%	3.4%
FEMSA Comercio						
Retail Division	137,031	119,838	132,891	109,624	14.3%	21.2%
Health Division	43,411	13,053			232.6%	
Fuel Division	28,616	18,510	18,510		54.6%	
Total revenues						
Coca-Cola FEMSA	177,718	152,360	152,360	147,298	16.6%	3.4%
FEMSA Comercio						
Retail Division	137,139	119,884	132,891	109,624	14.4%	21.2%
Health Division	43,411	13,053			232.6%	
Fuel Division	28,616	18,510	18,510		54.6%	
Cost of goods sold						
Coca-Cola FEMSA	98,056	80,330	80,330	78,916	22.1%	1.8%
FEMSA Comercio						
Retail Division	86,149	76,235	85,600	70,238	13.0%	21.9%
Health Division	30,673	9,365			227.5%	
Fuel Division	26,368	17,090	17,090		54.3%	
Gross profit						
Coca-Cola FEMSA	79,662	72,030	72,030	68,382	10.6%	5.3%
FEMSA Comercio						
Retail Division	50,990	43,649	47,291	39,386	16.8%	20.1%

Health Division	12,738	3,688		245.4%
Fuel Division	2,248	1,420	1,420	58.3%

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	Year Ended December 31,					
	2016	2015 restated for comparative purposes	2015 as reported last year	2014[8]	2016 vs. 2015	2015 vs. 2014[9]
	(in millions of Mexican pesos, except margins)				Percentage Growth (Decrease)	
Administrative expenses						
Coca-Cola FEMSA	7,423	6,405	6,405	6,385	15.9%	0.3%
FEMSA Comercio						
Retail Division	2,924	2,487	2,868	2,042	17.6%	40.5%
Health Division	1,769	414			327.3%	
Fuel Division	127	88	88		44.3%	
Selling expenses						
Coca-Cola FEMSA	48,039	41,879	41,879	40,465	14.7%	3.5%
FEMSA Comercio						
Retail Division	36,341	30,631	33,305	28,492	18.6%	16.9%
Health Division	9,365	2,682			249.2%	
Fuel Division	1,865	1,124	1,124		65.8%	
Depreciation						
Coca-Cola FEMSA	7,579	6,310	6,310	6,072	20.1%	3.9%
FEMSA Comercio						
Retail Division	3,607	3,027	3,182	2,779	19.2%	14.5%
Health Division	546	155			252.3%	
Fuel Division	82	56	56		46.4%	
Gross margin[1][2]						
Coca-Cola FEMSA	44.8%	47.3%	47.3%	46.4%	(2.5)p.p.	0.9p.p.
FEMSA Comercio						
Retail Division	37.2%	36.4%	35.6%	35.9%	0.8p.p.	(0.3)p.p.
Health Division	29.3%	28.3%			1.1p.p.	
Fuel Division	7.9%	7.7%	7.7%		0.2p.p.	
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes						
Coca-Cola FEMSA	147	155	155	(125)	(5.2%)[6]	(224%)[4]
FEMSA Comercio						
Retail Division	15	(10)	(10)	37	(250.0%)[7]	(127%)[5]
Health Division						
Fuel Division						
CB Equity[3]	6,342	5,879	5,879	5,244	7.9%	12.1%

(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.
(4) Reflects the percentage increase between the loss of Ps. 125 million recorded in 2014 and the gain of Ps. 155 million recorded in 2015.
(5) Reflects the percentage decrease between the gain of Ps. 37 million recorded in 2014 and the loss of Ps. 10 million recorded in 2015.
(6) Reflects the percentage decrease between the gain of Ps. 155 million recorded in 2015 and the gain of Ps. 147 million recorded in 2016.
(7) Reflects the percentage increase between the loss of Ps. 10 million recorded in 2015 and the gain of Ps. 15 million recorded in 2016.
(8) The Health Division was aggregated into the Retail Division, based on the non-significant operation
(9) The Retail Division comparison was made based on 2015 results as reported last year.

Results from our Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

FEMSA Consolidated

FEMSA s consolidated total revenues increased 28.2% to Ps. 399,507 million in 2016 compared to Ps. 311,589 million in 2015. Coca-Cola FEMSA s total revenues increased 16.6% to Ps. 177,718 million, supported by the positive translation effect originated by the appreciation of the Brazilian real and the Colombian peso, despite of the depreciation of the Venezuelan bolivar and the Argentine peso; all as compared to the Mexican peso. The Retail Division s revenues increased 14.4% to Ps. 137,139 million, driven by the opening of 1,164 net new OXXO stores combined with an average increase of 7.0% in same-store sales. The Health Division s revenues amounted to Ps. 43,411 million, an increase of 232.6% compared to 2015, driven by the integration of Socofar. The Fuel Division s revenues increased 54.6% to Ps. 28,616 million in 2016, compared to the ten-month period from March to December of 2015, driven by the addition of 75 total net new stations in the last twelve months, a 7.6% increase in same-store sales.

Consolidated gross profit increased 20.3% to Ps. 148,204 million in 2016 compared to Ps. 123,179 million in 2015. Gross margin decreased 240 basis points to 37.1% of total revenues compared to 2015, reflecting a contraction in Coca-Cola FEMSA s gross margin and the incorporation and growth of lower margin businesses in FEMSA Comercio.

Consolidated administrative expenses increased 25.8% to Ps. 14,730 million in 2016 compared to Ps. 11,705 million in 2015. As a percentage of total revenues, consolidated administrative expenses decreased 10 basis points, from 3.8% in 2015, compared to 3.7% in 2016.

Consolidated selling expenses increased 25.1% to Ps. 95,547 million in 2016 as compared to Ps. 76,375 million in 2015. As a percentage of total revenues, selling expenses decreased 60 basis points, from 24.5% in 2015 to 23.9% in 2016.

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 income mainly includes gains on sales of property, plant and equipment. During 2016, other income increased to Ps. 1,157 million from Ps. 423 million in 2015, reflecting recoveries from previous years and the write-off of certain contingencies.

Other expenses mainly includes contingencies associated with prior acquisitions or disposals, as well foreign exchange losses related to operating activities. During 2016, other expenses increased to Ps. 5,909 million from Ps. 2,741 million in 2015.

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

Comprehensive financing result decreased to Ps. 4,619 million from Ps. 7,618 million in 2015, mostly driven by a positive result caused by inflationary effects in Coca-Cola FEMSA s net monetary positions in Venezuela combined with a foreign exchange gain related to the effect of FEMSA s U.S. Dollar-denominated cash position, these movements where enough to offset an interest expense increase of 24.0% to Ps. 9,646 million in 2016, compared to Ps. 7,777 million in 2015 resulting from new debt issuance at Coca-Cola FEMSA in connection to the Vonpar acquisition, and the EUR 1,000 million bond issued by FEMSA during the first half of 2016.

Our accounting provision for income taxes in 2016 was Ps. 7,888 million, as compared to Ps. 7,932 million in 2015, resulting in an effective tax rate of 27.6% in 2016, as compared to 31.5% in 2015, slightly under our expected medium-term range of 30%. The lower effective tax rate registered during 2016 is mainly related to Coca-Cola FEMSA driven by certain tax efficiencies, lower effective tax rate in Colombia and ongoing efforts to reduce non-deductible items across our operations.

Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, increased 7.6% to Ps. 6,507 million in 2016 compared with Ps. 6,045 million in 2015, mainly driven by an increase in FEMSA s 20% participation in Heineken s results.

Consolidated net income was Ps. 27,175 million in 2016 compared to Ps. 23,276 million in 2015, resulting from growth in FEMSA s income before income taxes and share of the profit of associates and joint ventures and an increase in FEMSA s 20% participation in Heineken s results. Controlling interest amounted to Ps. 21,140 million in 2016 compared to Ps. 17,683 million in 2015. Controlling interest in 2016 per FEMSA Unit was Ps. 5.91 (US$ 2.87 per ADS).

Coca-Cola FEMSA

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

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

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

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

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

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

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

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

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

Income Taxes. In 2016, income tax as a percentage of income before taxes was 27.2% as compared to 30.6% in 2015. This lower effective tax rate in 2016 was mainly due to certain tax efficiencies across Coca-Cola FEMSA s operations, a lower effective tax rate in Colombia and ongoing efforts to reduce non-deductible items across Coca-Cola FEMSA s operations.

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

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

FEMSA Comercio

Retail Division

The Retail Division s total revenues increased 14.4% to Ps. 137,139 million in 2016 compared to Ps. 119,884 million in 2015, primarily as a result of the opening of 1,164 net new OXXO stores during 2016, together with an average increase in same-store sales of 7.0%. As of December 31, 2016, there were a total of 15,225 OXXO stores. As referenced above, OXXO same-store sales increased an average of 7.0% compared to 2015, driven by a 6.8% increase in average customer ticket while store traffic increased 0.2%.

Cost of goods sold increased 13.0% to Ps. 86,149 million in 2016, compared with Ps. 76,235 million in 2015. Gross margin increased 80 basis points to reach 37.2% of total revenues. This increase reflects healthy trends in our commercial income activity and the sustained growth of the services category, including income from financial services.

Administrative expenses increased 17.6% to Ps. 2,924 million in 2016, compared with Ps. 2,487 million in 2015; as a percentage of sales, such expenses reached 2.1%. Selling expenses increased 18.6% to Ps. 36,341 million in 2016 compared with Ps. 30,631 million in 2015; as a percentage of sales, such expenses reached 26.5%. The increase in expenses was driven by i) the electricity tariff pick-up seen during 2016, and ii) our initiative to improve the compensation structure of key store personnel.

Health Division

The Health Division s total revenues amounted to Ps. 43,411 million compared to Ps. 13,053 million in 2015 driven by the integration of Socofar and 220 net new store openings across territories. As of December 31, 2016, there were a total of 2,120 points of sale in Mexico, Chile and Colombia. The Health Division s same-store sales increased an average of 22.4% reflecting strong performance and positive foreign exchange translation effects from our South American operations.

Cost of goods sold amounted to Ps. 30,673 million in 2016, compared with Ps. 9,365 million in 2015. Gross margin increased 100 basis points to reach 29.3% of total revenues, reflecting higher structural gross margins at the Socofar operation.

Administrative expenses amounted to Ps. 1,769 million in 2016, compared with Ps. 414 million in 2015; as a percentage of sales, such expenses reached 4.1%. Selling expenses amounted to Ps. 9,365 million in 2016 compared with Ps. 2,682 million in 2015; as a percentage of sales, such expenses reached 21.5%. The increase in operating expenses was driven by the integration of Socofar and the organic expansion across Mexico.

Fuel Division

The Fuel Division s total revenues increased 54.6% to Ps. 28,616 million in 2016 compared to Ps. 18,510 million in the ten-month period from March to December 2015. Same-station sales increased an average of 7.6% compared to the comparable period in 2015, driven by a 6.9% increase in average volume and a slight increase of 0.7% in average price per liter.

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Cost of goods sold increased 54.3% to Ps. 26,368 million in 2016, compared with Ps. 17,090 million in 2015. Gross margin increased 20 basis points to reach 7.9% of total revenues. This increase reflects the benefit of price increases as well as higher operating leverage.

Administrative expenses increased 44.3% to Ps. 127 million in 2016, compared with Ps. 88 million in the comparable period of 2015; as a percentage of sales, they reached 0.4%. Selling expenses increased 65.9% to Ps. 1,865 million in 2016 compared with Ps. 1,124 million in the comparable period of 2015; as a percentage of sales, they reached 6.6%.

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

FEMSA Consolidated

FEMSA s consolidated total revenues increased 18.3% to Ps. 311,589 million in 2015 compared to Ps. 263,449 million in 2014. Coca-Cola FEMSA s total revenues increased 3.4% to Ps. 152,360 million, driven by the local currency average price per unit case growth in all of their operations and volume growth in Mexico, Central America, Colombia and Argentina. The Retail Division s revenues increased 21.2% to Ps. 132,891 million, driven by the integration of Socofar and the opening of 1,208 net new OXXO stores combined with an average increase of 6.9% in same-store sales. The Fuel Division s revenues amounted to Ps. 18,510 million in 2015.

Consolidated gross profit increased 11.8% to Ps. 123,179 million in 2015 compared to Ps. 110,171 million in 2014. Gross margin decreased 230 basis points to 39.5% of consolidated total revenues compared to 2014, reflecting the creation of the Fuel Division, which has a lower margin than the rest of FEMSA s business units, and a margin contraction at the Retail Division driven by the integration of Socofar.

Consolidated administrative expenses increased 14.3% to Ps. 11,705 million in 2015 compared to Ps. 10,244 million in 2014, driven by higher expenses related to the integration of Socofar into the Retail Division. As a percentage of total revenues, consolidated administrative expenses decreased 10 basis points, from 3.9% in 2014 to 3.8% in 2015.

Consolidated selling expenses increased 10.7% to Ps. 76,375 million in 2015 as compared to Ps. 69,016 million in 2014, mainly driven by incremental expenses at the Retail Division, in particular the integration of Socofar into the Retail Division s business. As a percentage of total revenues, selling expenses decreased 160 basis points, from 26.1% in 2014 to 24.5% in 2015.

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 income mainly includes gains on sales of property, plant and equipment. During 2015, other income decreased to Ps. 423 million from Ps. 1,098 million in 2014, reflecting a difficult comparable base in 2014, when we registered the write-off of certain contingencies.

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 2015, other expenses increased to Ps. 2,741 million from Ps. 1,277 million in 2014 driven by operative currency fluctuation effects at Coca-Cola FEMSA and, to a lesser extent, by incremental disposals of certain fixed assets at the Retail Division.

Comprehensive financing result, defined above, increased to Ps. 7,618 million from Ps. 6,988 million in 2014, driven by an interest expense of Ps. 7,777 million in 2015 compared to Ps. 6,701 million in 2014, resulting mainly from higher interest expenses at Coca-Cola FEMSA Brazil following the reset of terms of certain cross-currency swaps related to the acquisitions of Spaipa and Companhia Fluminense in 2013.

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Our accounting provision for income taxes in 2015 was Ps. 7,932 million, as compared to Ps. 6,253 million in 2014, resulting in an effective tax rate of 31.5% in 2015, as compared to 26.3% in 2014, in line with our expected medium-term range of low 30 s. The lower effective tax rate registered during 2014 is mainly related to a one-time benefit resulting from the settlement of certain contingent tax liabilities under the tax amnesty program offered by the Brazilian tax authorities, which was registered during 2014.

Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, increased 17.6% to Ps. 6,045 million in 2015 compared with Ps. 5,139 million in 2014, mainly driven by an increase in FEMSA s 20% participation in Heineken s results.

Consolidated net income was Ps. 23,276 million in 2015 compared to Ps. 22,630 million in 2014, mainly as a result of growth in FEMSA s income before income taxes combined with an increase in FEMSA s 20% participation in Heineken s results, which more than compensated for higher interest expenses. Controlling interest amounted to Ps. 17,683 million in 2015 compared to Ps. 16,701 million in 2014. Controlling interest in 2015 per FEMSA BD Unit was Ps. 4.94 (US$ 2.87 per ADS).

Coca-Cola FEMSA

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

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

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

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

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

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

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

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

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

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

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

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

FEMSA Comercio

Retail Division

For comparison purposes the Retail Division is reported as disclosed in 2015. Accordingly, the below figures include the Health Division s results in 2015 and 2014.

The Retail Division s total revenues increased 21.2% to Ps. 132,891 million in 2015 compared to Ps. 109,624 million in 2014, primarily as a result of the opening of 1,208 net new OXXO stores during 2015, together with an average increase in same-store sales of 6.9%, as well as the additional revenues from the acquisitions of Socofar and Farmacias Farmacon drugstores in Chile and Mexico, respectively. As of December 31, 2015, there were a total of 14,061 OXXO stores. As referenced above, the Retail Division s same-store sales increased an average of 6.9% compared to 2014, driven by a 5.1% increase in average customer ticket while store traffic increased 1.7%.

Cost of goods sold increased 21.9% to Ps. 85,600 million in 2015, compared with Ps. 70,238 million in 2014. Gross margin contracted 30 basis points to reach 35.6% of total revenues. This decrease was mainly driven by the integration of the Farmacias Farmacon and Socofar drugstores, both of which have lower gross margins than the OXXO operations.

Administrative expenses increased 40.5% to Ps. 2,868 million in 2015, compared with Ps. 2,042 million in 2014, reaching 2.2% of sales. Selling expenses increased 16.9% to Ps. 33,305 million in 2015 compared with Ps. 28,492 million in 2014. The increase in operating expenses was driven by (i) expenses related to the incorporation of the Socofar and Farmacias Farmacon drugstore operations, (ii) the strong growth in openings of new stores across formats and (iii) the strengthening of FEMSA Comercio s business and organizational structure in preparation for the growth of new operations, particularly drugstores.

Health Division

As indicated above, the results of the Health Division were included in the Retail Division in 2015 and 2014 for comparison purposes.

The operations that comprise the Health Division segment were separated in 2016. For 2015, FEMSA Comercio s results were restated to reflect the aforementioned separation. As such, no results of operation are available for this segment for periods prior to 2015.

The Health Division s total revenues amounted to Ps. 13,053 million in 2015. Cost of goods sold reached Ps. 9,365 million in 2015 and administrative expenses amounted to Ps. 414 million in 2015. Selling expenses reached Ps. 2,682 million in 2015.

Fuel Division

The operations that comprise the Fuel Division were integrated in 2015. As such, no results of operation are available for this segment for periods prior to 2015.

The Fuel Division s total revenues amounted to Ps. 18,510 million in 2015. Cost of goods sold reached Ps. 17,090 million in 2015 and administrative expenses amounted to Ps. 88 million in 2015. Selling expenses reached Ps. 1,124 million in 2015.

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, 2016, 64% 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. Anticipating liquidity needs for general corporate purposes, in May 2013 we issued US$ 300 million aggregate principal amount of 2.875% Senior Notes due 2023 and US$ 700 million aggregate principal amount of 4.375% Senior Notes due 2043. In March 2016, we issued EUR 1,000 million aggregate principal amount of 1.750% fixed rate Senior Notes due 2023 with a total yield of 1.824%.

In May 2013, Coca-Cola FEMSA issued Ps. 7,500 million aggregate principal amount of 10-year fixed rate Mexican peso-denominated bonds (*certificados bursatiles*) bearing a 5.46% coupon and in April 2011, Coca-Cola FEMSA issued Ps. 2,500 million of 10-year fixed rate *certificados bursatiles* bearing an 8.27% coupon.

In addition, in November 2013 and January 2014, Coca-Cola FEMSA issued US$ 1.0 billion aggregate principal amount of 2.375% Senior Notes due 2018, US$ 750 million aggregate principal amount of 3.875% Senior Notes due 2023 and US$ 400 million aggregate principal amount of 5.250% Senior Notes due 2043. Also in January 2014, Coca-Cola FEMSA issued US$ 150 million aggregate principal amount of 3.875% Senior Notes due 2023 and US$ 200 million in aggregate principal amount of 5.250% Senior Notes due 2043. In February 2010, Coca-Cola FEMSA issued US$ 500 million aggregate amount of 4.625% Senior Notes due 2020. In December 2016, as part of the purchase price paid for our acquisition of Vonpar, Coca-Cola FEMSA issued and delivered a three-year promissory note to the sellers for a total amount of 1,090 million Brazilian reais (approximately Ps.7,022 million as of December 31, 2016). The promissory note bears interest at an annual rate of 0.375%, and is denominated and payable in Brazilian reais. The promissory note is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

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We may decide to incur additional 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.

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. 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. In our opinion, our working capital is sufficient for our present requirements.

Our sub-holding companies generally incur short-term indebtedness in the event that they are temporarily unable to finance operations or meet 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 where 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.

The following is a summary of the principal sources and uses of cash for the years ended December 31, 2016, 2015 and 2014, from our consolidated statement of cash flows:

Principal Sources and Uses of Cash

Years ended December 31, 2016, 2015 and 2014

(in millions of Mexican pesos)

	2016	2015	2014
Net cash flows provided by operating activities	Ps. 50,131	Ps. 36,742	Ps. 37,364
Net cash flows used in investing activities	(38,645)	(28,359)	(15,608)
Net cash flows provided (used in) by financing activities	1,297	(13,741)	(9,288)
Dividends paid	(12,045)	(10,701)	(3,152)

Principal Sources and Uses of Cash for the Year ended December 31, 2016 Compared to the Year Ended December 31, 2015

Our net cash generated by operating activities was Ps. 50,131 million for the year ended December 31, 2016 compared to Ps. 36,742 million generated by operating activities for the year ended December 31, 2015, an increase of Ps. 13,389 million. This increase was the result of:

i. An improvement of Ps. 2,490 million due to collection of trade receivables compared to last year, which was partially offset by greater stock inventory of Ps. 606 million and Ps. 311 due to a lower cash flow hedging effect of our commodities, compared to last year;

ii. An increase in the amount of Ps. 8,538 million due to lower suppliers payments compared to last year; and

iii. An increase in cash provided by other current financial liabilities in the amount of Ps. 3,212 million.

Our net cash used in investing activities was Ps. 38,645 million for the year ended December 31, 2016 compared to Ps. 28,359 million for the year ended December 31, 2015, an increase of Ps. 10,286 million. This was primarily the result of:

i. An increase in acquisition-related costs in the amount of Ps. 6,308 million, given by Coca-Cola FEMSA and our other business acquisitions,

ii. An increase in acquisition cost of property, plant and equipment and intangible assets of Ps. 1,598 and 1,338, respectively; due to the expansion plan of our businesses compared to last year.

Our net cash generated by financing activities was Ps. 1,297 million for the year ended December 31, 2016 compared to Ps. 13,741 million used in financing activities for the year ended December 31, 2015, an increase of Ps. 15,038 million. This increase was primarily due to:

i. A change of Ps. 10,062 which increased our cash flow due to lower payments of bank loans in 2016 of Ps. 5,458 million as compared to Ps. 15,520 million in 2015;

ii. A change of Ps. 18,207 million which increased our cash flow mainly due to the senior unsecured notes in the amount of EUR 1,000 issued in March 2016; and

iii. All these changes were partially offset by a net increase by derivative financial instruments of Ps. 11,816 million due to the acquisition of new cross-currency swaps and an increase in dividend payments of Ps. 1,344 compared to last year.

Principal Sources and Uses of Cash for the Year ended December 31, 2015 Compared to the Year Ended December 31, 2014

Our net cash generated by operating activities was Ps. 36,742 million for the year ended December 31, 2015 compared to Ps. 37,364 million generated by operating activities for the year ended December 31, 2014, a decrease of Ps. 622 million. This decrease was the result of:

i. A decrease in the cash provided by the changes in other current financial assets of Ps. 1,418 million due to restricted cash payments compared to last year, which was partially offset by a net increase in cash provided by accounts receivable and other current assets of Ps. 583 million compared to last year;

ii. An increase in the amount of cash provided because of the changes in other long-term liabilities of Ps. 3,130 million due to a decrease in contingencies payments over the prior year, which was offset by a decrease in cash provided of Ps. 3,208 because of the changes in inventories; and

iii. A decrease in cash provided by changes in suppliers and other accounts payable and other current financial liabilities of Ps. 2,717 million, besides there was a decrease in cash provided in income taxes paid of Ps. 2,833 million due to the increase of taxable income over the prior year, which were offset by an increase of Ps. 5,611 million in our cash flow from operating activities before changes in operating accounts due to our increased sales on a cash basis.

Our net cash used in investing activities was Ps. 28,359 million for the year ended December 31, 2015 compared to Ps. 15,608 million for the year ended December 31, 2014, an increase of Ps. 12,751 million. This was primarily the result of:

i. An increase in acquisition-related costs in the amount of Ps. 12,711 million, given by FEMSA Comercio and our other business acquisitions.

Our net cash used in financing activities was Ps. 13,741 million for the year ended December 31, 2015 compared to Ps. 9,288 million generated by financing activities for the year ended December 31, 2014, an increase of Ps. 4,453 million. This increase was primarily due to:

i. Higher payments of bank loans in 2015 of Ps. 15,520 million as compared to Ps. 5,721 million in 2014, offset by proceeds from bank borrowings of Ps. 8,442 million in 2015 compared to Ps. 5,354 million in 2014;

ii. Higher dividend payments of Ps. 10,701 million compared to Ps. 3,152 million in 2014, finally; and

iii. All these payments were partially offset by a net increase in cash provided by derivative financial instruments of Ps. 10,612 million due to the liquidation of cross-currency swaps.

Consolidated Total Indebtedness

Our consolidated total indebtedness as of December 31, 2016, was Ps. 139,248 million compared to Ps. 91,864 million in 2015 and Ps. 84,488 million as of December 31, 2014. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 7,281 million and Ps. 131,967 million, respectively, as of December 31, 2016, as compared to Ps. 5,895 million and Ps. 85,969 million, respectively, as of December 31, 2015, and Ps. 1,553 million and Ps. 82,935 million, respectively, as of December 31, 2014,. Cash and cash equivalents were Ps. 43,637 million as of December 31, 2016, as compared to Ps. 29,396 million as of December 31, 2015, and Ps. 35,497 million as of December 31, 2014.

Off-Balance Sheet Arrangements

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

Contractual Obligations

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

	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. 3,245	Ps.	Ps. 2,497	Ps. 7,494	Ps. 13,236
Brazilian reais	775	8,232[(5)]	487	160	9,654
Colombian pesos	793	1,171			1,964
U.S. dollars		20,625	14,515	51,026	86,166
Argentine pesos	40				40
Euro				21,627	21,627
Chilean pesos	484	1,157	1,777	1,097	4,514
Capital Leases					
U.S. dollars	7	11	2		20

Chilean pesos	25	48	41	114

	Maturity				
	Less than 1 year	1 - 3 years	3 - 5 years	In excess of 5 years	Total
	(in millions of Mexican pesos)				
Interest payments[1]					
Mexican pesos	738	1,231	1,079	558	3,606
Brazilian reais	139	268	189	206	802
Colombian pesos	164	102			266
U.S. dollars	3,215	5,889	4,493	29,062	42,659
Argentine pesos	52				52
Chilean pesos	180	332	264	100	876
Euro	378	757	757	462	2,354
Interest Rate Swaps and Cross-Currency Swaps [2]					
Mexican pesos	3,550	6,298	3,842	17,611	31,301
Brazilian reais	6,134	7,056	1,724	50	14,964
Colombian pesos	64	87			151
U.S. dollars	574	(70)	682	16,110	17,296
Argentine pesos	53				53
Chilean pesos	299	568	448	164	1,479
Euro	380	760	760	464	2,364
Operating leases					
Mexican pesos	4,130	9,138	8,362	28,560	50,190
U.S. dollars	363	725	528	468	2,084
Others	1,424	2,307	1,802	2,887	8,420
Commodity price contracts					
Sugar[3]	572				572
Aluminum[3]	74				74
Expected benefits to be paid for pension and retirement plans, seniority premiums, post-retirement medical services and post-employment	534	783	947	2,397	4,661
Other long-term liabilities[4]				25,947	25,947

(1) Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2016 without considering interest rate swap 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. 20.6170 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, 2016.

(2) Reflects the amount of future payments that we would be required to make. The amounts were calculated by applying the rates giving effect to interest rate swaps and cross-currency swaps applied to long-term debt as of December 31, 2016, and the market value of the unhedged cross-currency swaps (the amount of debt used in the calculation of the interest was obtained by converting only the units of investment 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. 375 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 reflect 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.

(5) A portion of our debt denominated in Brazilian reais consists of a promissory note for 1,090 million Brazilian reais (approximately Ps.7,022 million). This promissory note is denominated and payable in Brazilian reais; however, it is linked to the performance of the exchange rate between the Brazilian real and the U.S. dollar. As a result, the principal amount under the promissory note may be increased or reduced based on the depreciation or appreciation of the Brazilian real relative to the U.S. dollar.

As of December 31, 2016, Ps. 7,281 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

As of December 31, 2016, our consolidated average cost of borrowing, after giving effect to the cross-currency and interest rate swaps, was approximately 8.6% (the total amount of debt used in the calculation of this percentage was obtained by converting only the units of investment debt for the related cross-currency swap, and it also includes the effect of related interest rate swaps). As of December 31, 2015, our consolidated average cost of borrowing, after giving effect to the cross-currency swaps, was 7.5%. As of December 31, 2016, after giving effect to cross-currency swaps, approximately 36.4% of our total consolidated indebtedness was denominated and payable in Mexican pesos, 1.6% in U.S. dollars, 2.0% in Colombian pesos, 0.5% in Argentine pesos, 39.3% in Brazilian reais, 3.8% in Chilean pesos and the remaining 16.4% in Euros.

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Overview of Debt Instruments

The following table shows the allocations of total debt of our company as of December 31, 2016:

	Total Debt Profile of the Company			
	FEMSA and Others	Coca-Cola FEMSA (in millions of Mexican pesos)	FEMSA Comercio	Total Debt
Short-term Debt				
U.S. dollars:				
Bank loans		206		206
Argentine pesos:				
Notes Payable	Ps.	Ps. 644	Ps.	Ps. 644
Colombian pesos:				
Bank loans		723	1	724
Chilean pesos:				
Bank loans			338	338
Long-term Debt[(1)]				
Mexican pesos:				
Units of Investment (UDIs)	3,245			3,245
Domestic Senior notes		9,991		9,991
Euros:				
Senior unsecured notes	21,627			21,627
U.S. dollars:				
Senior Notes	20,246	65,921	21	86,188
Brazilian reais:				
Bank loans	234	2,372		2,606
Note payable		7,048		7,048
Colombian pesos:				
Bank loans		1,964		1,964
Argentine pesos:				
Bank loans		40		40
Chilean pesos:				
Bank loans	4,350		163	4,513
Capital leases			114	114
Total Debt	**Ps.** 49,702	**Ps.** 88,909	**Ps.** 637	**Ps.** 139,248
Average Cost [(2)]				
Mexican pesos	6.8%	7.6%		7.4%
U.S. dollars		5.2%		5.2%
Euro	1.8%			1.8%
Brazilian reais	4.8%	12.7%		12.6%
Argentine pesos		31.7%		31.7%
Colombian pesos		9.5%	2.1%	9.5%
Chilean pesos	6.4%		4.9%	6.4%
Total	4.1%	10.7%	4.9%	8.6%

(1) Includes the Ps. 5,369 million current portion of long-term debt.

(2) Includes the effect of cross currency and interest rate swaps (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). Average cost is determined based on interest rates as of December 31, 2016.

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Restrictions Imposed by Debt Instruments

Generally, the covenants contained in the credit agreements and other instruments governing indebtedness entered into by us or our sub-holding companies include limitations on the incurrence of any additional debt based on debt service coverage ratios or leverage tests. These credit agreements also generally include restrictive covenants applicable to the Company, our sub-holding companies and their subsidiaries.

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

Summary of Debt

The following is a summary of our indebtedness by sub-holding company and for FEMSA as of December 31, 2016:

Coca-Cola FEMSA

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

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

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

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

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FEMSA Comercio

As of December 31, 2016, the Retail Division had total outstanding debt of Ps. 637 million. Short-term debt (including the current portion of long-term debt) and long-term debt were Ps. 339 million and Ps. 298 million, respectively. As of December 31, 2016, cash and cash equivalents were Ps. 6,977 million.

FEMSA and other businesses

As of December 31, 2016, FEMSA and other businesses had total outstanding debt of Ps. 49,702 million, which is composed of Ps. 3,245 million of *unidades de inversión* (inflation indexed units, or UDIs), which mature in November 2017, Ps. 4,584 million of bank debt (of which Ps. 234 million is held by our logistics services subsidiary and Ps. 4,350 million is held by our holding company) in other legal currencies, Ps. 6,117 million of Senior Notes due 2023, Ps. 14,128 million of Senior Notes due 2043 and Ps. 21,627 million of Senior Unsecured Notes due 2023 that we issued in March 2016. **See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Liquidity.** FEMSA and other businesses average cost of debt, after giving effect to interest rate swaps and cross-currency swaps, as of December 31, 2016, was 6.8% in Mexican pesos (the amount of debt used in the calculation of this percentage was obtained by converting only the units of investments debt for the related cross-currency swap, and it also includes the effect of related interest rate swaps).

Contingencies

We have various loss contingencies, for which reserves have been recorded in those cases where we believe an unfavorable resolution is probable and can be reasonably quantified. **See Item 8. Financial Information Legal Proceedings.** Any amounts required to be paid in connection with these loss contingencies would be required to be paid from available cash.

The following table presents the nature and amount of loss contingencies recorded as of December 31, 2016:

	Loss Contingencies As of December 31, 2016 (in millions of Mexican pesos)	
Taxes, primarily indirect taxes	Ps.	11,065
Legal		2,785
Labor		2,578
Total	Ps.	16,428

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

We have other contingencies that, based on a legal assessment of their risk of loss, have been classified by our legal counsel as more than remote but less than probable. These contingencies have a financial impact that is disclosed as loss contingencies in the notes of the audited consolidated financial statements. These contingencies, or our assessment of them, may change in the future, and we may record reserves or be required to pay amounts in respect of these contingencies. As of December 31, 2016, the aggregate amount of such contingencies for which we had not recorded a reserve was Ps. 53,045 million.

Capital Expenditures

For the past five years, we have had significant capital expenditure programs, which for the most part were financed with cash from operations. Capital expenditures reached Ps. 22,155 million in 2016 compared to Ps. 18,885 million in 2015, an increase of 17%. This was driven by additional investments at FEMSA Comercio, mainly related to the opening of new stores, drugstores, and retail service stations. The principal components of our capital expenditures have been investments in equipment, market-related investments, investments in production capacity and distribution network expansion at Coca-Cola FEMSA and expansion of the Retail Division, the Health Division and the Fuel Division, as mentioned above. **See Item 4. Information on the Company Capital Expenditures and Divestitures.**

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Expected Capital Expenditures for 2017

Our capital expenditure budget for 2017 is expected to be US$ 1,283 (Ps. 28,752) million. The following discussion is based on each of our sub-holding companies internal budgets. The capital expenditure plan for 2017 is subject to change based on market and other conditions and the subsidiaries results and financial resources.

Coca-Cola FEMSA has budgeted approximately US$ 717 million for its capital expenditures in 2017, including its operations in the Philippines. Coca-Cola FEMSA s capital expenditures in 2017 are primarily intended for:

- investments in production capacity;
- market investments;
- returnable bottles and cases;
- improvements throughout our distribution network; and
- investments in information technology.

Coca-Cola FEMSA estimates that of its projected capital expenditures for 2017, approximately 30.0% will be for its Mexican territories and the remaining will be for its non-Mexican territories. Coca-Cola FEMSA believes that internally generated funds will be sufficient to meet its budgeted capital expenditure for 2017. Coca-Cola FEMSA s capital expenditure plan for 2017 may change based on market and other conditions, our results and financial resources.

The Retail Division s capital expenditures budget in 2017 is expected to total US$ 391 million, and will be allocated to the opening of new OXXO stores and to a lesser extent to the refurbishing of existing OXXO stores. In addition, investments are planned in FEMSA Comercio s IT, ERP software updates and transportation equipment.

The Health Division s capital expenditures budget in 2017 is expected to total US$ 57million, and will be allocated to the opening of new drugstores and, to a lesser extent, to the refurbishing of existing stores. In addition, investments are planned in warehouses, IT hardware and ERP software updates.

The Fuel Division s capital expenditures budget in 2017 is expected to total US$ 43 million, and will be allocated to the opening of new service stations, the change of our existing brand to a fresh image and, to a lesser extent, to the refurbishing of existing OXXO GAS service stations.

Hedging Activities

Our business activities require the holding or issuing of derivative instruments to hedge our exposure to market risks related to changes in interest rates, foreign currency exchange rates and commodity price risk. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk.**

The following table provides a summary of the fair value of derivative financial instruments as of December 31, 2016. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models we believe are supported by sufficient, reliable and verifiable market data, recognized in the financial sector.

Fair Value At December 31, 2016

	Maturity less than 1 year	Maturity 1 - 3 years	Maturity 3 - 5 years	Maturity in excess of 5 years	Fair Value Asset
	(in millions of Mexican pesos)				
Derivative financial instruments position	Ps. 1,655	Ps. (1,418)	Ps. (231)	Ps. 9,970	Ps. 9,977

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors

Management of our business is vested in the board of directors and in our chief executive officer. Our bylaws provide that the board of directors will consist of no more than 21 directors and their corresponding alternate directors elected by our shareholders at the AGM. Directors are elected for a term of one year. Alternate directors are authorized to serve on the board of directors in place of their specific directors who are unable to attend meetings and may participate in the activities of the board of directors. Our bylaws provide that the holders of the Series B Shares elect at least eleven directors and that the holders of the Series D Shares elect five directors. **See Item 10. Additional Information Bylaws.**

In accordance with our bylaws and article 24 of the Mexican Securities Law, at least 25% of the members of our board of directors must be independent (as defined by the Mexican Securities Law).

The board of directors may appoint interim directors in the event that a director is absent or an elected director and corresponding alternate are unable to serve. Such interim directors shall serve until the next AGM, at which the shareholders shall elect a replacement.

Our bylaws provide that the board of directors shall meet at least once every three months. Actions by the board of directors must be approved by at least a majority of the directors present and voting. The chairman of the board of directors, the chairman of our audit or corporate practices committee, or at least 25% of our directors may call a board of directors meeting and include matters in the meeting agenda.

Our board of directors was elected at the AGM held on March 16, 2017, and currently comprises 20 directors and 14 alternate directors. The following table sets forth the current members of our board of directors:

Series B Directors

José Antonio Fernández Carbajal[(1) (2)]	Born:	February 1954
	First elected (Chairman):	2001
	First elected (Director):	1984
	Term expires:	2018
Executive Chairman of the Board	Principal occupation:	Executive Chairman of the board of directors of FEMSA

	Other directorships:	Chairman of the boards of directors of Coca-Cola FEMSA, Fundación FEMSA A.C., and Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM); Chairman Emeritus of the US Mexico Foundation; member of the board of directors of Heineken Holding, N.V., and vice-chairman of the supervisory board; chairman of the Americas committee and member of the preparatory committee and selection appointment committee of Heineken, N.V.; member of the board of directors of Industrias Peñoles, S.A.B. de C.V. (Peñoles), Grupo Televisa, S.A.B. de C.V. (Televisa) and Co-chairman of the advisory board of Woodrow Wilson Center, Mexico Institute
	Business experience:	Joined FEMSA s strategic planning department in 1988, after which he held managerial positions at FEMSA Cerveza s commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991, and Chief Executive Officer in 1995, a position he held until December 31, 2013. On January 1, 2014, he was appointed Executive Chairman of our board of directors
	Education:	Holds an industrial engineering degree and an MBA from ITESM
	Alternate director:	Federico Reyes García
Javier Gerardo Astaburuaga Sanjines	Born:	July 1959
	First elected:	2006
	Term expires:	2018
Director	Principal occupation:	Vice-President of Corporate Development of FEMSA
	Other directorships:	Member of the board of directors of Coca-Cola FEMSA and Heineken N.V. Member of the audit committee of Heineken N.V., finances and investments committee of ITESM and of the investments committee of Grupo Acosta Verde
	Business experience:	Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance, held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer, and for two years was FEMSA Cerveza s Director of Sales for the north region of Mexico until 2003, in which year he was appointed FEMSA Cerveza s Co-Chief Executive Officer; held the position of Chief Financial and Corporate Officer of FEMSA from 2006-2015
	Education:	Holds a degree in accounting from ITESM and is licensed as a Certified Public Accountant, or CPA
Mariana Garza Lagüera Gonda(3)	Born:	April 1970
	First elected:	1998
	Term expires:	2018
Director	Principal occupation:	Private investor

	Other directorships:	Alternate member of the board of directors of Coca-Cola FEMSA; member of the boards of directors of ITESM, Museo de Historia Mexicana, Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V., Controladora Pentafem, S.A.P.I. de C.V. and Monte Serena, S.A. de C.V.
	Education:	Holds an industrial engineering degree from ITESM and a Master of International Management from the Thunderbird American Graduate School of International Management
	Alternate director:	Paulina Garza Lagüera Gonda[3]
Eva María Garza Lagüera Gonda[1][3]	Born:	April 1958
	First elected:	1999
	Term expires:	2018
Director	Principal occupation:	Private investor
	Other directorships:	Alternate member of the board of directors of Coca-Cola FEMSA; member of the boards of directors of ITESM, Premio Eugenio Garza Sada, Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V. and Controladora Pentafem, S.A.P.I. de C.V. Co-Founder and former President of Alternativas Pacíficas A.C.
	Education:	Holds a communications degree from ITESM
	Alternate director:	Othón Páez Garza
José Fernando Calderón Rojas[4]	Born:	July 1954
	First elected:	1984
	Term expires:	2018
Director	Principal occupation:	Chief Executive Officer and chairman of the boards of directors of Franca Servicios, S.A. de C.V., Servicios Administrativos de Monterrey, S.A. de C.V., Regio Franca, S.A. de C.V., and Franca Industrias, S.A. de C.V.
	Other directorships:	Member of the boards of directors of Alfa, S.A.B. de C.V. (Alfa), and member of the regional consulting board of BBVA Bancomer, S.A., (BBVA) and member of the audit and corporate practices committees of Alfa; member of Fundación UANL, A.C.; founder of Centro Integral Down A.C.; President of Patronato del Museo del Obispado A.C. and member of the external advisory board of Facultad de Derecho y Criminología of the Universidad Autónoma de Nuevo León (UANL)
	Education:	Holds a law degree from UANL, completed specialization studies in tax at UANL and various courses in business administration by ITESM
	Alternate director:	Francisco José Calderón Rojas[4]

Alfonso Garza Garza(5)(6)	Born:	July 1962
	First elected:	2001
Director	Term expires:	2018
	Principal occupation:	Vice President of Strategic Businesses of FEMSA
	Other directorships:	Alternate member of the boards of directors of Coca-Cola FEMSA; member of the board of directors of ITESM, Grupo Nutec, S.A. de C.V., American School Foundation of Monterrey, A.C. and Club Campestre de Monterrey, A.C.; vice-chairman of the executive commission of Confederación Patronal de la República Mexicana, S.P. (COPARMEX Nacional)
	Business experience:	Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Cerveza and as Chief Executive Officer of FEMSA Empaques
	Education:	Holds an industrial engineering degree from ITESM and an MBA from Instituto Panamericano de Alta Dirección de Empresa (IPADE)
	Alternate director:	Juan Carlos Garza Garza(5)(6)
Max Michel González(7) (8)	Born:	June 1968
	First elected:	1996
Director	Term expires:	2018
	Principal occupation:	Operations Manager at Servicios Liverpool, S.A. de C.V.
	Other directorships:	Alternate member of the board of directors of Coca-Cola FEMSA; member of the board of directors and audit committee of Grupo Lamosa, S.A.B. de C.V. (Lamosa). Member of the board of directors of El Puerto de Liverpool, S.A.B. de C.V. (Liverpool) and Afianzadora Sofimex, S.A.B. de C.V.
	Education:	Holds a business administration degree from Universidad Iberoamericana
	Alternate director:	Bertha Michel González(7) (8)
Alberto Bailleres González	Born:	August 1931
	First elected:	1989
Director	Term expires:	2018
	Principal occupation:	Chairman of the boards of directors of the following companies which are part of Grupo BAL, S.A. de C.V.: Peñoles, Grupo Nacional Provincial, S.A.B. (GNP), Fresnillo plc (Fresnillo), Grupo Palacio de Hierro, S.A.B. de C.V., Grupo Profuturo, S.A.B. de C.V., Controladora Petrobal, S.A. de C.V., Energía Bal, S.A. de C.V., Energía Eléctrica Bal, S.A. de C.V., EnerAB, S. de R.L. de C.V., Tane, S.A. de C.V., chairman of the governance board of Instituto Tecnológico Autónomo de México (ITAM) and founding member of Fundación Alberto Bailleres, A.C.

	Other directorships:	Member of the boards of directors of Grupo Financiero BBVA Bancomer, S.A. de C.V. (Grupo Financiero BBVA Bancomer), BBVA, Dine, S.A.B. de C.V. (Dine), Televisa, Grupo Kuo, S.A.B. de C.V. (Kuo), and member of the advisory board of JP Morgan International Council and Consejo Mexicano de Negocios
	Education:	Holds an economics degree and an Honorary Doctorate from ITAM
	Alternate director:	Arturo Fernández Pérez
Francisco Javier Fernández Carbajal[(2)]	Born:	April 1955
	First elected:	2004
	Term expires:	2018
Director	Principal occupation:	Chief Executive Officer of Servicios Administrativos Contry, S.A. de C.V.
	Other directorships:	Member of the boards of directors of Visa, Inc., Alfa, Cemex, S.A.B. de C.V., Frisa Forjados, S.A. de C.V., Corporación EG, S.A. de C.V., and alternate member of the board of directors of Peñoles
	Education:	Holds a mechanical and electrical engineering degree from ITESM and an MBA from Harvard University Business School
	Alternate director:	Daniel Alberto Rodríguez Cofré
Ricardo Guajardo Touché	Born:	May 1948
	First elected:	1988
	Term expires:	2018
Director	Principal occupation:	Chairman of the board of directors of Solfi, S.A. de C.V. (Solfi)
	Other directorships:	Member of the boards of directors of Coca-Cola FEMSA, Grupo Valores Operativos Monterrey, S.A.P.I. de C.V., Liverpool, Alfa, Grupo Financiero BBVA Bancomer, BBVA, Grupo Aeroportuario del Sureste, S.A. de C.V., Grupo Bimbo, S.A.B. de C.V. (Bimbo), Grupo Coppel, S.A. de C.V. (Coppel), ITESM and Vitro, S.A.B. de C.V.
	Education:	Holds an electrical engineering degree from ITESM and the University of Wisconsin and a master s degree from the University of California at Berkeley
Alfonso González Migoya	Born:	January 1945
	First elected:	2006
	Term expires:	2018
Director	Principal occupation:	Chairman of the board of directors of Controladora Vuela Compañía de Aviación, S.A.B. de C.V. (Volaris) and managing partner of Acumen Empresarial, S.A. de C.V.

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	Other directorships:	Member of the boards of directors of Coca-Cola FEMSA, Nemak, S.A.B. de C.V., Bolsa Mexicana de Valores, S.A.B. de C.V., Banregio Grupo Financiero, S.A., Grupo Cuprum, S.A. de C.V., Berel, S.A. de C.V., Servicios Corporativos JAVER, S.A.B. de C.V., and ITESM
	Education:	Holds a Mechanical Engineering degree from ITESM and a Master in Business Administration from the Stanford University Graduate School of Business
	Alternate Director:	Sergio Deschamps Ebergenyi
Carlos Salazar Lomelín	Born:	April 1951
	First elected:	2014
	Term expires:	2018
Director	Principal occupation:	Chief Executive Officer of FEMSA
	Other directorships:	Member of the boards of directors of Coca-Cola FEMSA, Grupo Financiero BBVA Bancomer, BBVA and Fundación FEMSA; member of the advisory board of Premio Eugenio Garza Sada, Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), Asociación Promotora de Exposiciones, A.C. and the ITESM s EGADE Business School; Executive Chairman of the Strategic Planning Board of the State of Nuevo León, Mexico
	Business experience:	In addition, Mr. Salazar has held managerial positions in several subsidiaries of FEMSA, including Grafo Regia, S.A. de C.V. and Plásticos Técnicos Mexicanos, S.A. de C.V., served as Chief Executive Officer of FEMSA Cerveza, where he also held various management positions in the Commercial Planning and Export divisions; in 2000 he was appointed as Chief Executive Officer of Coca-Cola FEMSA, a position he held until December 31, 2013; on January 1, 2014 he was appointed Chief Executive Officer of FEMSA
	Education:	Holds an economics degree from ITESM and performed postgraduate studies in business administration at ITESM and economic development in Italy
	Alternate director:	Miguel Eduardo Padilla Silva
Bárbara Garza Lagüera	Born:	December 1959
	First elected:	1998
	Term expires:	2018
Gonda[3]	Principal occupation:	Private Investor and President of the acquisitions committee of Colección FEMSA
Director		

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	Other directorships:	Member of the board of directors of Coca-Cola FEMSA; vice-chairman of the board of directors of ITESM Campus Mexico City and member of the boards of directors of, Solfi, Inmobiliaria Valmex, S.A. de C.V., Inversiones Bursátiles Industriales, S.A. de C.V., Desarrollo Inmobiliario la Sierrita, S.A. de C.V., Refrigeración York, S.A. de C.V., Peñitas, S.A. de C.V., Controladora Pentafem, S.A.P.I. de C.V., BECL, S.A. de C.V. and Supervision Commission: FONCA- Fondo Nacional Cultural y Artes
	Education:	Holds a business administration degree from ITESM
	Alternate director:	Juan Guichard Michel(8)
Ricardo E. Saldívar Escajadillo *Director*	Born:	November 1952
	First elected:	2006
	Term expires:	2018
	Principal Occupation:	President of the board of directors and Chief Executive Officer of The Home Depot Mexico
	Other directorships:	Member of the boards of directors of Asociación Nacional de Tiendas de Autoservicio y Departamentales, A.C., Cluster de Vivienda de Nuevo León, American Chamber of Commerce of Mexico Monterrey Chapter, Axtel, S.A.B. de C.V. and ITESM
	Education:	Holds a mechanical and industrial engineering degree from ITESM, a Master s degrees in systems engineering from Georgia Tech Institute and executive studies from IPADE
Alfonso de Angoitia Noriega *Director*	Born:	January 1962
	First elected:	2015
	Term expires:	2018
	Principal Occupation:	Executive vice-chairman and chairman of the finance committee of Televisa
	Other directorships:	Member of the boards of directors of Univision Communications, Inc., Banco Mercantil del Norte, S.A., Empresas Cablevisión, S.A. de C.V., Innova, S. de R.L. de C.V. (Sky), The Americas Society and The Paley Center for Media
	Education:	Holds a law degree from the Universidad Nacional Autónoma de México

Series D Directors

Armando Garza Sada *Director*	Born:	June 1957
	First elected:	2003
	Term expires:	2018
	Principal occupation:	Chairman of the board of directors of Alfa, Alpek, S.A.B. de C.V. and Nemak, S.A.B. de C.V.
	Other directorships:	Member of the boards of directors of Axtel, S.A.B. de C.V., Liverpool, Lamosa, Cemex, S.A.B. de C.V., Frisa Industrias, S.A. de C.V., Grupo PROEZA, S.A.P.I. de C.V. and ITESM

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	Business experience:	He has a long professional career in Alfa, including as Executive Vice President of Corporate Development
	Education:	Holds a BS in management from the Massachusetts Institute of Technology and an MBA from Stanford University Graduate School of Business
	Alternate director:	Enrique F. Senior Hernández
Moisés Naim	Born:	July 1952
	First elected:	2011
Director	Term expires:	2018
	Principal occupation:	Distinguished Fellow Carnegie Endowment for International Peace; producer and host of Efecto Naim; author and journalist
	Business experience:	Former Editor in Chief of Foreign Policy Magazine
	Other directorships:	Member of the board of directors of AES Corporation
	Education:	Holds a degree from the Universidad Metropolitana de Venezuela and a Master of Science and PhD from the Massachusetts Institute of Technology
	Alternate director:	Francisco Zambrano Rodríguez
José Manuel	Born:	February 1940
	First elected:	2003
Canal Hernando	Term expires:	2018
	Principal occupation:	Independent consultant
Director	Business experience:	Former managing partner at Arthur Andersen (Ruiz, Urquiza y Cía, S.C.) from 1981 to 1999, acted as statutory examiner of FEMSA from 1984 to 2002, founder and chairman of the Mexican Accounting Standards Board and has extensive experience in financial auditing for holding companies, banks and financial brokers
	Other directorships:	Member of the board of directors of Coca-Cola FEMSA, Grupo Kuo, S.A.B. de C.V., Grupo Industrial Saltillo, S.A.B. de C.V. and Estafeta Mexicana, S.A. de C.V., member of the risk committee of Gentera Banco, and statutory examiner of Grupo Financiero BBVA Bancomer, BBVA and Bank of America
	Education:	Holds a CPA degree from Universidad Nacional Autónoma de México
Michael Larson	Born:	October 1959
	First elected:	2011
Director	Term expires:	2018
	Principal occupation:	Chief Investment Officer of William H. Gates III

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	Other directorships:	Member of the boards of directors of AutoNation, Inc, Republic Services, Inc, Ecolab, Inc., and chairman of the board of trustees of Western Asset/Claymore Inflation-Linked Securities & Income Fund and Western Asset/Claymore Inflation-Linked Opportunities & Income Fund
	Education:	Holds an MBA from the University of Chicago and a BA from Claremont McKenna College
Robert E. Denham	Born:	August 1945
	First elected:	2001
Director	Term expires:	2018
	Principal occupation:	Partner of Munger, Tolles & Olson LLP
	Other directorships:	Member of the boards of directors of New York Times Co., Oaktree Capital Group, LLC and Chevron Corp
	Education:	Magna cum laude graduate from the University of Texas, holds a JD from Harvard Law School and an MA in Government from Harvard University
	Alternate Director:	Ernesto Cruz Velázquez de León

(1) José Antonio Fernández Carbajal and Eva María Garza Lagüera Gonda are spouses.
(2) José Antonio Fernández Carbajal and Francisco Javier Fernández Carbajal are siblings.
(3) Mariana Garza Lagüera Gonda, Eva María Garza Lagüera Gonda, Paulina Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda are siblings.
(4) Francisco José Calderón Rojas and José Fernando Calderón Rojas are siblings.
(5) Alfonso Garza Garza and Juan Carlos Garza Garza are siblings.
(6) Juan Carlos Garza Garza and Alfonso Garza Garza are cousins of Eva María Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Paulina Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda.
(7) Bertha Michel González and Max Michel González are siblings.
(8) Juan Guichard Michel, Max Michel González and Bertha Michel González are cousins.

Senior Management

The names and positions of the members of our current senior management and that of our principal sub-holding companies, their dates of birth and information on their principal business activities both within and outside of FEMSA are as follows:

FEMSA

José Antonio Fernández Carbajal *Executive Chairman of the Board*	Born:	February 1954
	Joined FEMSA:	1987
	Appointed to current position:	2001
	Principal occupation:	Executive Chairman of the board of directors of FEMSA
	Directorships:	Chairman of the boards of directors of Coca-Cola FEMSA, Fundación FEMSA A.C., and ITESM; Chairman Emeritus of the US Mexico Foundation; member of the board of directors of Heineken Holding, N.V., and vice-chairman of the supervisory board; chairman of the America s committee and member of the preparatory committee and selection appointment committee of Heineken, N.V.; member of the board of directors of Peñoles, Televisa and Co-chairman of the advisory board of Woodrow Wilson Center, Mexico Institute

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	Business experience within FEMSA:	Joined FEMSA s strategic planning department in 1988, after which he held managerial positions at FEMSA Cerveza s commercial division and OXXO. He was appointed Deputy Chief Executive Officer of FEMSA in 1991, and Chief Executive Officer in 1995, a position he held until December 31, 2013. On January 1, 2014, he was appointed Executive Chairman of our board of directors
	Education:	Holds an industrial engineering degree and an MBA from ITESM
Carlos Salazar Lomelín *Chief Executive Officer*	Born:	April 1951
	Joined FEMSA:	1973
	Appointed to current position:	2014
	Principal occupation:	Chief Executive Officer of FEMSA
	Directorships:	Member of the boards of directors of Coca-Cola FEMSA, Grupo Financiero BBVA Bancomer, BBVA and Fundación FEMSA; member of the advisory board of Premio Eugenio Garza Sada, Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), Asociación Promotora de Exposiciones, A.C. and the ITESM s EGADE Business School; Executive Chairman of the Strategic Planning Board of the State of Nuevo León, Mexico
	Business experience within FEMSA:	Has held managerial positions in several subsidiaries of FEMSA, including Grafo Regia, S.A. de C.V. and Plásticos Técnicos Mexicanos, S.A. de C.V., served as Chief Executive Officer of FEMSA Cerveza, where he also held various management positions in the Commercial Planning and Export divisions; in 2000, was appointed as Chief Executive Officer of Coca-Cola FEMSA, a position he held until December 31, 2013; on January 1, 2014, was appointed Chief Executive Officer of FEMSA
	Education:	Holds an economics degree from ITESM and performed postgraduate studies in business administration at ITESM and economic development in Italy
Miguel Eduardo	Born:	January 1955
Padilla Silva	Joined FEMSA:	1997
Chief Financial and Corporate Officer	Appointed to current position:	2016
	Business experience within FEMSA:	Held the positions of Planning and Control Officer of FEMSA from 1997 to 1999 and Chief Executive Officer of the Strategic Procurement Business Division of FEMSA from 2000 to 2003. Prior to his current position, held the position of Chief Executive Officer of FEMSA Comercio from 2004 to 2016
	Other business experience:	Had a 20-year career in Alfa, culminating with a ten-year tenure as Chief Executive Officer of Terza, S.A. de C.V., major areas of expertise include operational control, strategic planning and financial restructuring
	Directorships:	Alternate member of the board of directors of FEMSA, member of the boards of directors of Coca-Cola FEMSA, Lamosa, Club Industrial, A.C., Universidad Tec Milenio and Coppel

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	Education:	Holds a mechanical engineering degree from ITESM, an MBA from Cornell University and executive management studies at IPADE
Javier Gerardo Astaburuaga Sanjines	Born:	July 1959
Vice President of Corporate Development	Joined FEMSA:	1982
	Appointed to current position:	2015
	Business experience within FEMSA:	Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance. Held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer, and for two years prior to his current position, served as FEMSA Cerveza s Director of Sales for the north region of México, until 2003, when he was appointed FEMSA Cerveza´s Co-Chief Executive Officer. Held the position of Chief Financial and Corporate Officer of FEMSA from 2006 to 2015
	Directorships:	Member of the board of directors of FEMSA, Coca-Cola FEMSA and Heineken N.V. Member of the audit committee of Heineken N.V., finances and investments committee of ITESM and of the investments committee of Grupo Acosta Verde
	Education:	Holds a degree in accounting from ITESM and is licensed as a Certified Public Accountant, or CPA
José González Ornelas	Born:	April 1951
Vice President of Administration and Corporate Control	Joined FEMSA:	1973
	Appointed to current position:	2001
	Business experience within FEMSA:	Has held several managerial positions in FEMSA including Chief Financial Officer of FEMSA Cerveza, Director of Planning and Corporate Development of FEMSA and Chief Executive Officer of FEMSA Logística
	Directorships:	Member of the board of directors of Productora de Papel, S.A.
	Education:	Holds a CPA degree from UANL and has post-graduate studies in business administration from IPADE
Alfonso Garza Garza	Born:	July 1962
Vice President of Strategic Businesses	Joined FEMSA:	1985
	Appointed to current position:	2009
	Directorships:	Member of the board of directors of FEMSA, alternate member of the board of directors of Coca-Cola FEMSA, member of the board of directors of ITESM, Grupo Nutec, S.A. de C.V., American School Foundation of Monterrey, A.C. and Club Campestre de Monterrey, A.C.; vice-chairman of the executive commission of Confederación Patronal de la República Mexicana, S.P. (COPARMEX Nacional)
	Business experience:	Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Cerveza and as Chief Executive Officer of FEMSA Empaques
	Education:	Holds an industrial engineering degree from ITESM and an MBA from IPADE

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Genaro Borrego Estrada	Born:	February 1949
Vice President of	Joined FEMSA:	2008
Corporate Affairs	Appointed to current position:	2008
	Professional experience:	Constitutional Governor of the Mexican State of Zacatecas from 1986 to 1992, General Director of the Mexican Social Security Institute from 1993 to 2000, and Senator in Mexico for the State of Zacatecas from 2000 to 2006
	Directorships:	Chairman of the board of directors of GB y Asociados and member of the boards of directors of Fundación Mexicanos Primero, Fundación IMSS and CEMEFI
	Education:	Holds an industrial relations degree from the Universidad Iberoamericana
Carlos Eduardo Aldrete	Born:	August 1956
Ancira	Joined FEMSA:	1979
General Counsel and Secretary of the Board of Directors	Appointed to current position:	1996
	Directorships:	Secretary of the board of directors of FEMSA, Coca-Cola FEMSA and all other sub-holding companies of FEMSA
	Business experience within FEMSA:	Extensive experience in international business and financial transactions, debt issuances and corporate restructurings and expertise in securities and private mergers and acquisitions
	Education:	Holds a law degree from UANL and a master s degree in Corporate Law from the College of Law of the University of Illinois

Coca-Cola FEMSA

John Anthony	Born:	August 1957
Santa Maria Otazua	Joined FEMSA:	1995
Chief Executive Officer of Coca-Cola FEMSA	Appointed to current position:	2014
	Business experience within FEMSA:	Has served as Strategic Planning and Business Development Officer and Chief Operating Officer of the Mexican operations of Coca-Cola FEMSA. Has served as Strategic Planning and Commercial Development Officer and Chief Operating Officer of South America division of Coca-Cola FEMSA. He also has experience in several areas of Coca-Cola FEMSA, namely development of new products and mergers and acquisitions. Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management

Other business experience:	Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management
Directorships:	Member of the board of directors of Coca-Cola FEMSA, Gentera, S.A.B. de C.V. and member of the board of directors and commercial committee of Banco Compartamos, S.A., Institución de Banca Múltiple
Education:	Holds a degree in Business Administration and an MBA with a major in Finance from Southern Methodist University

Héctor Treviño Gutiérrez *Chief Financial Officer of Coca-Cola FEMSA*	Born:	August 1956
	Joined FEMSA:	1981
	Appointed to current position:	1993
	Business experience within FEMSA:	At FEMSA, was in charge of the International Financing department, served as Manager of Financial Planning and Manager of International Financing, Chief Officer of Strategic Planning and Chief Officer of Business Development and headed the Corporate Development department
	Directorships:	Alternate member of the board of directors of Coca-Cola FEMSA, member of the board of directors and audit committee of Vinte Viviendas Integrales, S.A.P.I. de C.V., member of the board of directors, audit committee, and investments and risks committee of Seguros y Pensiones BBVA Bancomer, and member of the technical committee of Capital i-3
	Education:	Holds a degree in chemical engineering from ITESM and an MBA from the Wharton School of Business

FEMSA Comercio

Daniel Alberto Rodríguez Cofré *Chief Executive Officer of FEMSA Comercio*	Born:	June 1965
	Joined FEMSA:	2015
	Appointed to current position:	2016
	Business experience:	Has broad experience in international finance in Latin America, Europe and Africa, held several financial roles at Shell International Group in Latin America and Europe; in 2008 he was appointed as Chief Financial Officer of CENCOSUD (Centros Comerciales Sudamericanos S.A.), and from 2009 to 2014 he held the position of Chief Executive Officer at the same company. He was Chief Financial and Corporate Officer of FEMSA during 2015
	Directorships:	Alternate member of the boards of directors of Coca-Cola FEMSA and FEMSA
	Education:	Holds a forest engineering degree from Austral University of Chile and an MBA from Adolfo Ibañez University

Compensation of Directors and Senior Management

The compensation of Directors is approved at the AGM. For the year ended December 31, 2016, the aggregate compensation paid to our directors by the Company was approximately Ps. 36 million. In addition, in the year ended December 31, 2016, Coca-Cola FEMSA paid approximately Ps. 12 million in aggregate compensation to the Directors and executive officers of FEMSA who also serve as directors on the board of Coca-Cola FEMSA.

For the year ended December 31, 2016, the aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries was approximately Ps. 1,978 million. Aggregate compensation includes bonuses we paid to certain members of senior management and payments in connection with the EVA stock incentive plan described in Note 17 to our audited consolidated financial statements. Our senior management and executive officers participate in our benefit plan and post-retirement medical services plan on the same basis as our other employees. Members of our board of directors do not participate in our benefit plan and post-retirement medical services plan, unless they are retired employees of our company. As of December 31, 2016, amounts set aside or accrued for all employees under these retirement plans were Ps. 6,825 million, of which Ps. 2,378 million is already funded.

EVA Stock Incentive Plan

In 2004, we, along with our subsidiaries, commenced a new stock incentive plan for the benefit of our senior executives, which we refer to as the EVA stock incentive plan. This plan uses as its main evaluation metric the Economic Value Added (EVA) framework developed by Stern Stewart & Co., a compensation consulting firm. Under the EVA stock incentive plan, eligible employees are entitled to receive a special cash bonus, which will be used to purchase shares of FEMSA (in the case of employees of FEMSA) or of both FEMSA and Coca-Cola FEMSA (in the case of employees of Coca-Cola FEMSA). Under the plan it is also possible to provide stock options of FEMSA or Coca-Cola FEMSA to employees, however since the plan s inception only shares have been granted.

Under this plan, each year, our Chief Executive Officer together with the Corporate Governance Committee of our board of directors, together with the chief executive officer of the respective sub-holding company, determines the employees eligible to participate in the plan. A bonus formula is then created for each eligible employee, using the EVA framework, which determines the number of shares to be received by such employee. The terms and conditions of the share-based payment arrangement are then agreed upon with the eligible employee, such that the employee can begin to accrue shares under the plan. Until 2015, the shares vested ratably over a six-year period; from January 1, 2016, they will ratably vest over a four-year period, with retrospective effects. We account for the EVA stock incentive plan as an equity-settled share based payment transaction, as we will ultimately settle our obligations with our employees by issuing our own shares or those of our subsidiary Coca-Cola FEMSA.

The bonus amount is determined based on each eligible participant s level of responsibility and based on the EVA generated by the applicable business unit the employee works for. The formula considers the employees level of responsibility within the organization, the employees evaluation and competitive compensation in the market. The bonus is granted to the eligible employee on an annual basis and after withholding applicable taxes.

The shares are administrated by a trust for the benefit of the eligible executives (the Administrative Trust). We created the Administrative Trust with the objective of administering the purchase of FEMSA and Coca-Cola FEMSA shares, so that the shares can then be assigned to the eligible executives participating in the EVA stock incentive plan. The Administrative Trust s objectives are to acquire shares of FEMSA or of Coca-Cola FEMSA and to manage the shares granted to the individual employees based on instructions set forth by the Technical Committee of the Administrative Trust. Once the shares are acquired following the Technical Committee s instructions, the Administrative Trust assigns to each participant their respective rights. As the trust is controlled and therefore consolidated by FEMSA, shares purchased in the market and held within the Administrative Trust are presented as treasury stock (as it relates to FEMSA s shares) or as a reduction of the non-controlling interest (as it relates to Coca-Cola FEMSA s shares). Should an employee leave prior to their shares vesting, they would lose the rights to such shares, which would then remain within the Administrative Trust and be able to be reallocated to other eligible employees as determined by us. The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year.

All shares held in the Administrative Trust are considered outstanding for diluted earnings per share purposes and dividends on shares held by the trusts are charged to retained earnings.

As of April 12, 2017, the trust that manages the EVA stock incentive plan held a total of 3,447,230 BD Units of FEMSA and 1,014,283 Series L Shares of Coca-Cola FEMSA, each representing 0.10% and 0.05% of the total number of shares outstanding of FEMSA and of Coca-Cola FEMSA, respectively.

Insurance Policies

We maintain life insurance policies for all of our employees. These policies mitigate the risk of having to pay benefits in the event of an industrial accident, natural or accidental death within or outside working hours, and total and permanent disability. We maintain a directors and officers insurance policy covering all directors and certain key executive officers for liabilities incurred in their capacities as directors and officers.

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Ownership by Management

Several of our directors are participants of a voting trust. Each of the trust participants of the voting trust is deemed to have beneficial ownership with shared voting power over the shares deposited in the voting trust. As of March 31, 2017, 6,922,159,485 Series B Shares representing 74.86% of the outstanding Series B Shares were deposited in the voting trust. **See Item 7. Major Shareholders and Related-Party Transactions.**

The following table shows the Series B Shares, Series D-B Shares and Series D-L Shares as of March 16, 2017 beneficially owned by our directors and alternate directors who are participants in the voting trust, other than shares deposited in the voting trust:

	Series B		Series D-B		Series D-L	
Beneficial Owner	**Shares**	**Percent of Class**	**Shares**	**Percent of Class**	**Shares**	**Percent of Class**
Eva María Garza Lagüera Gonda	2,769,980	0.03%	5,539,960	0.13%	5,539,960	0.13%
Mariana Garza Lagüera Gonda	2,815,480	0.03%	5,630,960	0.13%	5,630,960	0.13%
Bárbara Garza Lagüera Gonda	2,665,480	0.03%	5,330,960	0.12%	5,330,960	0.12%
Paulina Garza Lagüera Gonda	2,665,480	0.03%	5,330,960	0.12%	5,330,960	0.12%
Alberto Bailleres González	9,610,577	0.10%	19,221,154	0.44%	19,221,154	0.44%
Alfonso Garza Garza	877,633	0.01%	1,755,266	0.04%	1,755,266	0.04%
Juan Carlos Garza Garza	18,200	0%	36,400	0%	36,400	0%
Max Michel González	5,675	0%	11,350	0%	11,350	0%
Francisco José Calderón Rojas and José Fernando Calderón Rojas(1)	8,317,629	0.09%	16,635,258	0.38%	16,635,258	0.38%
Juan Guichard Michel	9,117,131	0.10%	18,234,262	0.42%	18,234,262	0.42%

(1) Shares beneficially owned through various family-controlled entities.

To our knowledge, no other director or officer is the beneficial owner of more than 1% of any class of our capital stock.

Board Practices

Our bylaws state that the board of directors will meet at least once every three months following the end of each quarter to discuss our operating results and the advancement in the achievement of strategic objectives. Our board of directors can also hold extraordinary meetings. **See Item 10. Additional Information Bylaws.**

Under our bylaws, directors serve one-year terms although they continue in office even after the term for which they were appointed ends for up to 30 calendar days, as set forth in article 24 of Mexican Securities Law. None of our directors or senior managers of our subsidiaries has service contracts providing for benefits upon termination of employment, other than post-retirement medical services plans and post-retirement pension plans for our senior managers on the same basis as our other employees.

Our board of directors is supported by committees, which are working groups that analyze issues and provide recommendations to the board of directors regarding their respective areas of focus. The executive officers interact periodically with these committees to address management issues. Each committee has a secretary who attends meetings but is not a member of the committee. The following are the three committees of the board of directors, the members of which were elected at our AGM on March 16, 2017:

Audit Committee. The Audit Committee is responsible for (1) reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements, (2) the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee and (3) identifying and following-up on contingencies and legal proceedings. The Audit Committee has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters. Pursuant to the Mexican Securities Law, the chairman of the audit committee is elected by the shareholders at the AGM. The chairman of the Audit Committee submits a quarterly and an annual report to the board of directors of the Audit Committee s activities performed during the corresponding fiscal year, and the annual report is submitted at the AGM for approval. To carry out its duties, the Audit Committee may hire independent counsel and other advisors. As necessary, the company compensates the independent auditor and any outside advisor hired by the Audit Committee and provides funding for ordinary administrative expenses incurred by the Audit Committee in the course of its duties. The current Audit Committee members are: José Manuel Canal Hernando (chairman and financial expert), Alfonso González Migoya, Francisco Zambrano Rodríguez and Ernesto Cruz Velázquez de León. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Law and applicable U.S. Securities Laws and applicable NYSE listing standards. The secretary (non-member) of the Audit Committee is José González Ornelas, FEMSA s Vice President of Administration and Corporate Control.

Strategy and Finance Committee. The Strategy and Finance Committee s responsibilities include (1) evaluating the investment and financing policies of our company; (2) evaluating the risk factors to which the company is exposed, as well as evaluating its management policies; (3) making recommendations on our dividend policy; (4) strategic analysis and assessment of our business units and strategic alternatives for their growth; and (5) making recommendations to our board of directors on annual operation plans and strategic projects for our business units. The current Strategy and Finance Committee members are: Ricardo Guajardo Touché (chairman), Federico Reyes García, Robert E. Denham, Francisco Javier Fernández Carbajal, Enrique F. Senior Hernández, José Antonio Fernández Carbajal, Ricardo Saldívar Escajadillo and Javier Gerardo Astaburuaga Sanjines. The secretary (non-member) of the Strategy and Finance Committee is Miguel Eduardo Padilla Silva.

Corporate Practices Committee. The Corporate Practices Committee is responsible for preventing or reducing the risk of performing operations that could damage the value of our company or that benefit a particular group of shareholders. The committee may call a shareholders meeting and include matters on the agenda for that meeting that it may deem appropriate, approve policies on the use of our company s assets or related-party transactions, approve the compensation of the Chief Executive Officer and relevant officers and support our board of directors in the elaboration of reports on accounting practices. Pursuant to the Mexican Securities Law, the chairman of the Corporate Practice Committee is elected by the shareholders at the AGM. The chairman of the Corporate Practices Committee submits a quarterly and an annual report to the board of directors of the Corporate Practices Committee s activities performed during the corresponding fiscal year, and the annual report is submitted at the AGM for approval. The members of the Corporate Practices Committee are: Ricardo Saldívar Escajadillo (chairman), Robert E. Denham, Moises Naim and Ricardo Guajardo Touché. Each member of the Corporate Practices Committee is an independent director. The secretary (non-member) of the Corporate Practices Committee is Miguel Eduardo Padilla Silva.

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Employees

As of December 31, 2016, our headcount by geographic region was as follows: 200,365 in Mexico, 6,715 in Central America, 9,203 in Colombia, 6,464 in Venezuela, 27,233 in Brazil, 2,874 in Argentina, 1,336 in the United States, 26 in Ecuador, 22 in Peru and 11,906 in Chile. We include in headcount employees of third-party distributors and non-management store employees. The table below sets forth headcount for the years ended December 31, 2016, 2015 and 2014:

Headcount for the Year Ended December 31,

	2016			2015			2014		
	Non-Union	Union	Total	Non-Union	Union	Total	Non-Union	Union	Total
Sub-holding company:									
Coca-Cola FEMSA[1]	34,010	51,135	85,145	33,857	49,855	83,712	34,221	49,150	83,371
FEMSA Comercio									
Retail Division [1] [2]	69,698	55,468	125,166	72,453	41,251	113,704	66,699	43,972	110,671
Fuel Division [1]	737	4,622	5,359	625	3,926	4,551			
Health Division [1]	3,464	17,782	21,246	4,619	15,425	20,044			
Other [1]	11,790	17,438	29,228	11,070	13,077	24,147	10,896	11,802	22,698
Total	119,699	146,445	266,144	122,624	123,534	246,158	111,816	104,924	216,740

(1) Includes employees of third-party distributors whom we do not consider to be our employees, amounting to 8,745, 9,859 and 8,681 in 2016, 2015 and 2014.
(2) Includes non-management store employees, whom we do not consider to be our employees, amounting to 58,116, 55,464 and 51,185 in 2016, 2015 and 2014.

As of December 31, 2016, our subsidiaries had entered 645 collective bargaining or similar agreements with personnel employed at our operations. Each of the labor unions in Mexico is associated with one of eight different national Mexican labor organizations. In general, we have a good relationship with the labor unions throughout our operations, but we also operate in complex labor environments, such as Venezuela and Argentina. The agreements applicable to our Mexican operations generally have an indefinite term and provide for an annual salary review and for review of other terms and conditions, such as fringe benefits, every two years.

The table below sets forth the number of collective bargaining agreements and unions for our employees:

Collective Bargaining Labor Agreements between

Sub-holding Companies and Unions

As of December 31, 2016

	2016	
Sub-holding Company	**Collective Bargaining Agreements**	**Labor Unions**
Coca-Cola FEMSA	245	105
FEMSA Comercio[1]	156	12
Others	244	103
Total	645	220

(1) Does not include non-management store employees, who are employed directly by each individual store.

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table identifies each owner of more than 5% of any class of our shares known to the company as of March 16, 2017. Except as described below, we are not aware of any holder of more than 5% of any class of our shares. Only the Series B Shares have full voting rights under our bylaws.

Ownership of Capital Stock as of March 16, 2017

	Series B Shares(1)		Series D-B Shares(2)		Series D-L Shares(3)		Total Shares
	Shares Owned	Percent of Class	Shares Owned	Percent of Class	Shares Owned	Percent of Class	of FEMSA Capital Stock
Shareholder							
Technical Committee and Trust Participants under the Voting Trust(4)	6,922,159,485	74.86%					38.69%
William H. Gates III (5)	278,873,490	3.02%	557,746,980	12.9%	557,746,980	12.9%	7.79%
Aberdeen Asset Management PLC (6)	181,021,410	1.96%	355,213,820	8.38%	355,213,820	8.38%	5.06%

(1) As of March 16, 2017, there were 2,161,177,770 Series B Shares outstanding.
(2) As of March 16, 2017, there were 4,322,355,540 Series D-B Shares outstanding.
(3) As of March 16, 2017, there were 4,322,355,540 Series D-L Shares outstanding.
(4) As a consequence of the voting trust s internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power over those same deposited shares: BBVA Bancomer, S.A., as Trustee under Trust No. F/25078-7 (controlled by the estate of Max Michel Suberville), J.P. Morgan Trust Company (New Zealand) Limited as Trustee under a trust controlled by Paulina Garza Lagüera Gonda, Max Brittingham, Maia Brittingham, Bárbara Garza Lagüera Gonda, Bárbara Braniff Garza Lagüera, Eugenia Braniff Garza Lagüera, Lorenza Braniff Garza Lagüera, Mariana Garza Lagüera Gonda, Paula Treviño Garza Lagüera, Inés Treviño Garza Lagüera, Eva Maria Garza Lagüera Gonda, Eugenio Fernández Garza Lagüera, Daniela Fernández Garza Lagüera, Eva María Fernández Garza Lagüera, José Antonio Fernández Garza Lagüera, Eva Gonda Rivera, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by the Garza Lagüera family), Consuelo Garza Lagüera de Garza, Alfonso Garza Garza, Juan Pablo Garza García, Alfonso Garza García, María José Garza García, Eugenia Maria Garza García, Patricio Garza Garza, Viviana Garza Zambrano, Patricio Garza Zambrano, Marigel Garza Zambrano, Ana Isabel Garza Zambrano, Juan Carlos Garza Garza, José Miguel Garza Celada, Gabriel Eugenio Garza Celada, Ana Cristina Garza Celada, Juan Carlos Garza Celada, Eduardo Garza Garza, Eduardo Garza Páez, Balbina Consuelo Garza Páez, Eugenio Andrés Garza Páez, Eugenio Garza Garza, Camila Garza Garza, Ana Sofía Garza Garza, Celina Garza Garza, Marcela Garza Garza, Alepage, S.A. (controlled by Consuelo Garza Lagüera de Garza), Alberto Bailleres González, Maria Teresa Gual Aspe de Bailleres, Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), BBVA Bancomer, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres), Magdalena Michel de David, the estate of Max Michel Suberville, Max David Michel, Juan David Michel, Monique David de VanLathem, Renee Michel de Guichard, Magdalena Guichard Michel, Rene Guichard Michel, Miguel Guichard Michel, Graciano Guichard Michel, Juan Guichard Michel, BBVA Bancomer, S.A., as Trustee under Trust No. F/710004 (controlled by Magdalena Michel de David), BBVA Bancomer, S.A., as Trustee under Trust No. F/700005 (controlled by Renee Michel de Guichard), Franca Servicios, S.A. de C.V. (controlled by the Calderón Rojas family), and BBVA Bancomer, S.A. as Trustee under Trust No. F/29013-0 (controlled by the Calderón Rojas family).
(5) Includes aggregate shares beneficially owned by Cascade Investments, LLC, over which William H. Gates III has sole voting and dispositive power.
(6) As reported on Schedule 13G filed on February 6, 2017 by Aberdeen Asset Management PLC/UK.

As of March 31, 2017, there were 42 holders of record of ADSs in the United States, which represented approximately 51.2% of our outstanding BD Units. Since a substantial number of ADSs are held in the name of nominees of the beneficial owners, including the nominee of The Depository Trust Company, the number of beneficial owners of ADSs is substantially greater than the number of record holders of these securities.

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Related-Party Transactions

Voting Trust

The trust participants, who are our principal shareholders, agreed on May 6, 1998 to deposit a majority of their shares, which we refer to as the trust assets, of FEMSA into the voting trust, and later entered into an amended agreement on August 8, 2005, following the substitution by Banco Invex, S.A. as trustee to the voting trust, which agreement was subsequently renewed on March 15, 2013. The primary purpose of the voting trust is to permit the trust assets to be voted as a block, in accordance with the instructions of the technical committee of the voting trust. The trust participants are separated into seven trust groups and the technical committee comprises one representative appointed by each trust group. The number of B Units corresponding with each trust group (the proportional share of the shares deposited in the trust of such group) determines the number of votes that each trust representative has on the technical committee. Most matters are decided by a simple majority of the trust assets.

The trust participants agreed to certain transfer restrictions with respect to the trust assets. The trust is irrevocable, for a term that will conclude on January 17, 2020 (subject to additional five-year renewal terms), during which time, trust assets may be transferred by trust participants to spouses and immediate family members and, subject to certain conditions, to companies that are 100% owned by trust participants, which we refer to as the permitted transferees, provided in all cases that the transferee agrees to be bound by the terms of the voting trust. In the event that a trust participant wishes to sell part of its trust assets to someone other than a permitted transferee, the other trust participants have a right of first refusal to purchase the trust assets that the trust participant wishes to sell. If none of the trust participants elects to acquire the trust assets from the selling trust participant, the technical committee will have a right to nominate (subject to the approval of technical committee members representing 75% of the trust assets, excluding trust assets that are the subject of the sale) a purchaser for such trust assets. In the event that none of the trust participants or a nominated purchaser elects to acquire trust assets, the selling trust participant will have the right to sell the trust assets to a third-party on the same terms and conditions that were offered to the trust participants. Acquirors of trust assets will only be permitted to become parties to the voting trust upon the affirmative vote by the technical committee of at least 75% of the trust shares, which must include trust shares represented by at least three trust group representatives. In the event that a trust participant holding a majority of the trust assets elects to sell its trust assets, the other trust participants have tag along rights that will enable them to sell their trust assets to the acquiror of the selling trust participant s trust assets.

Because of their ownership of a majority of the Series B Shares, the trust participants may be deemed to control our company. Other than as a result of their ownership of the Series B Shares, the trust participants do not have any voting rights that are different from those of other shareholders.

Interest of Management in Certain Transactions

The following is a summary of: (i) the main transactions we have entered into with entities for which members of our board of directors or management serve as a member of the board of directors or management, (ii) the main transactions our subsidiaries have entered into with entities for which members of their board of directors or management serve as a members of the board of directors or management, and (iii) the main transactions our subsidiaries have entered into with related entities. Each of these transactions was entered into in the ordinary course of business, and we believe each is on terms comparable to those that could be obtained in arm s length negotiations with unaffiliated third parties. Under our bylaws, transactions entered with related parties not in the ordinary course of business are subject to the approval of our board of directors, subject to the prior opinion of the corporate practices committee.

José Antonio Fernández Carbajal, our Executive Chairman of the Board, serves as a member of the Heineken Holding Board and the Heineken Supervisory Board. Javier Astaburuaga Sanjines, our Vice President of Corporate Development, also serves on the Heineken Supervisory Board. We made purchases of beer and raw materials in the ordinary course of business from the Heineken Group in the amount of Ps. 15,133 million in 2014, Ps. 14,467 million in 2015 and Ps. 16,436 million in 2016. We also supplied logistics and administrative services to subsidiaries of Heineken for a total of Ps. 3,544 million in 2014, Ps. 3,396 million in 2015 and Ps. 3,153 in 2016. As of the end of December 31, 2016, 2015 and 2014, our net balance due to Heineken amounted to Ps. 1,836, Ps. 849 and Ps. 1,597 million, respectively.

We, along with certain of our subsidiaries, regularly engage in financing and insurance coverage transactions, including entering into loans and bond offerings in the local capital markets, with subsidiaries of Grupo Financiero BBVA Bancomer, a financial services holding company of which Alberto Bailleres González, Ricardo Guajardo Touché, Carlos Salazar Lomelín and Arturo Fernández Pérez who are also directors or alternate directors of FEMSA or Coca-Cola FEMSA, are directors, and for which José Manuel Canal Hernando, also a director of FEMSA and Coca-Cola FEMSA, serves as Statutory Auditor. We made interest expense payments and fees paid to Grupo Financiero BBVA Bancomer in respect of these transactions of Ps. 26 million, Ps. 68 million and Ps. 99 million as of December 31, 2016, 2015 and 2014, respectively. The total amount due to Grupo Financiero BBVA Bancomer as of the end of December 31, 2016, 2015 and 2014 was Ps. 395, Ps. 292 million and Ps. 149 million, respectively, and we also had a receivable balance with Grupo Financiero BBVA Bancomer of Ps. 2,535 million, Ps. 2,683 million and Ps. 4,083 million, respectively, as of December 31, 2016, 2015 and 2014.

Until 2014, we maintained an insurance policy covering medical expenses for executives issued by GNP, an insurance company of which Alberto Bailleres González, director of FEMSA, Arturo Fernández Pérez, alternate director of FEMSA, and Alejandro Bailleres Gual, alternate director of Coca-Cola FEMSA, are directors. Since 2015, we only maintain an insurance policy for our utility cars, the aggregate amount of premiums paid under these policies was approximately Ps. 63 million, Ps. 58 million and Ps. 140 million in 2016, 2015 and 2014, respectively.

We, along with certain of our subsidiaries, spent Ps. 193 million, Ps. 175 million and Ps. 158 million in the ordinary course of business in 2016, 2015 and 2014, respectively, in publicity and advertisement purchased from Televisa, a media corporation in which our Executive Chairman of the Board, José Antonio Fernández Carbajal, two of our directors, Alberto Bailleres González and Alfonso de Angoitia Noriega, our alternate director, Enrique F. Senior Hernández, and Herbert A. Allen III, alternate director of Coca-Cola FEMSA, serve as directors.

FEMSA Comercio, in its ordinary course of business, purchased Ps. 4,184 million, Ps. 3,740 million and Ps. 3,674 million in 2016, 2015 and 2014, respectively, in baked goods and snacks for its stores from subsidiaries of Bimbo, of which Ricardo Guajardo Touché, one of FEMSA s directors, Arturo Fernández Pérez, one of FEMSA s alternate directors and Daniel Servitje Montull, one of Coca-Cola FEMSA s directors, are directors. FEMSA Comercio also purchased Ps. 871 million, 947 million and Ps. 780 million in 2016, 2015 and 2014, respectively, in juices from subsidiaries of Jugos del Valle.

José Antonio Fernández Carbajal, Eva Maria Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Ricardo Guajardo Touché, Alfonso Garza, Alfonso González Migoya, Ricardo Saldívar Escajadillo and Armando Garza Sada, who are directors or alternate directors of FEMSA or Coca-Cola FEMSA, are also members of the board of directors of ITESM, which is a prestigious university system with headquarters in Monterrey, Mexico that routinely receives donations from FEMSA and its subsidiaries. For the years ended December 31, 2016 and 2015, donations to ITESM amounted to Ps. 1 million and Ps. 42 million, respectively.

José Antonio Fernández Carbajal, Carlos Salazar Lomelín, Alfonso Garza, Federico Reyes Garcia, Javier Astaburuaga Sanjines, Miguel Eduardo Padilla Silva, Genaro Borrego Estrada, José González Ornelas, John Anthony Santa Maria Otazua, Charles H. McTier and Daniel Alberto Rodríguez Cofré, who are directors, alternate directors or senior officers of FEMSA or Coca-Cola FEMSA, are also members of the board of directors of Fundación FEMSA, A.C., which is a social investment instrument for communities in Latin America. For the years ended December 31, 2016 and 2015, donations to Fundación FEMSA, A.C. amounted to Ps. 62 million and Ps. 30 million, respectively. Coca-Cola FEMSA, in its ordinary course of business, purchased Ps. 2,429 million, Ps. 2,135 million, Ps. 1,803 million in 2016, 2015 and 2014, respectively, in juices from subsidiaries of Jugos del Valle. In October 2011, Coca-Cola FEMSA executed certain agreements with affiliates of Grupo Tampico to acquire specific products and services, such as plastic cases, certain trucks and car brands, as well as auto parts, exclusively for the territories of Grupo Tampico. The agreements provide for certain preferences to be elected as suppliers in Coca-Cola FEMSA s suppliers bidding processes. Herman Harris Fleishman Kahn, chairman of the board of directors of Grupo Tampico, is a member of the board of directors of Coca-Cola FEMSA, and Robert A. Fleishman Cahn, chief executive officer of Grupo Tampico, is an alternate member of the board of directors of Coca-Cola FEMSA.

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Business Transactions between Coca-Cola FEMSA, FEMSA and The Coca-Cola Company

Coca-Cola FEMSA regularly engages in transactions with The Coca-Cola Company and its affiliates. Coca-Cola FEMSA purchases all of its concentrate requirements for *Coca-Cola* trademark beverages from The Coca-Cola Company. Total expenses charged to Coca-Cola FEMSA by The Coca-Cola Company for concentrates were approximately Ps.38,146 million, Ps.27,330 million and Ps.28,084 million in 2016, 2015 and 2014, respectively. Coca-Cola FEMSA and The Coca-Cola Company pay and reimburse each other for marketing expenditures. The Coca-Cola Company also contributes to Coca-Cola FEMSA s coolers, bottles and case investment program. Coca-Cola FEMSA received contributions to its marketing expenses of Ps.4,518 million, Ps.3,749 million and Ps.4,118 million in 2016, 2015 and 2014, respectively.

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

In Argentina, Coca-Cola FEMSA purchases plastic preforms, as well as returnable plastic bottles, at competitive prices from Andina Empaques S.A., a local subsidiary of Embotelladora Andina S.A., a bottler of The Coca-Cola Company with operations in Argentina, Chile, Brazil and Paraguay in which The Coca-Cola Company has a substantial interest, and other local suppliers. Coca-Cola FEMSA also acquires plastic preforms from Alpla Avellaneda S.A. and other suppliers.

In November 2007, Coca-Cola FEMSA acquired together with The Coca-Cola Company 100.0% of the shares of capital stock of Jugos del Valle. Jugos del Valle sells fruit juice-based beverages and fruit derivatives. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In 2008, 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. As of April 7, 2017, Coca-Cola FEMSA held an interest of 26.3% in the Mexican joint business. In August 2010, Coca-Cola FEMSA acquired from The Coca-Cola Company, along with other Brazilian Coca-Cola bottlers, Leão Alimentos, manufacturer and distributor of the *Matte Leão* tea brand. In January 2013, our Brazilian joint business of Jugos del Valle merged with Leão Alimentos. As of April 7, 2017, Coca-Cola FEMSA held a 27.7% indirect interest in the *Matte Leão* business in Brazil.

In February 2009, Coca-Cola FEMSA acquired together 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 March 2011, Coca-Cola FEMSA acquired together with The Coca-Cola Company, through Compañía Panameña de Bebidas, S.A.P.I. de C.V., Estrella Azul, a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. Coca-Cola FEMSA continues to develop this business with The Coca-Cola Company.

In August 2012, Coca-Cola FEMSA acquired, through Jugos del Valle, an indirect participation in Santa Clara, a producer of milk and dairy products in Mexico. As of April 7, 2017, Coca-Cola FEMSA owned an indirect participation of 26.3% in Santa Clara.

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In January 2013, as part of Coca-Cola FEMSA s efforts to expand its geographic reach, Coca-Cola FEMSA acquired a 51.0% non-controlling majority stake in KOF Philippines from The Coca-Cola Company. Coca-Cola FEMSA has an option to acquire the remaining 49.0% stake in KOF Philippines at any time during the seven years following the closing date. Coca-Cola FEMSA also has a put option to sell its ownership in KOF Philippines to The Coca-Cola Company commencing on the fifth anniversary of the closing date and ending on the sixth anniversary of the closing date. Since January 25, 2017, Coca-Cola FEMSA controls KOF Philippines as all decisions relating to the day-to-day operation and management of KOF Philippines s business, including its annual normal operations plan, are approved by a majority of its board of directors without requiring the affirmative vote of any director appointed by The Coca-Cola Company. The Coca-Cola Company has the right to appoint (and may remove) KOF Philippines s chief financial officer. Coca-Cola FEMSA has the right to appoint (and may remove) the chief executive officer and all other officers of KOF Philippines.

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

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

See pages F-1 through F-117, incorporated herein by reference.

Dividend Policy

For a discussion of our dividend policy, **See Item 3. Key Information Dividends and Item 10. Additional Information.**

Legal Proceedings

We are party to various legal proceedings in the ordinary course of business. Other than as disclosed in this annual report, we are not currently involved in any litigation or arbitration proceeding, including any proceeding that is pending or threatened of which we are aware, which we believe will have, or has had, a material adverse effect on our company. Other legal proceedings that are pending against or involve us and our subsidiaries are incidental to the conduct of our and their business. We believe that the ultimate resolution of such other proceedings individually or on an aggregate basis will not have a material adverse effect on our consolidated financial condition or results.

Coca-Cola FEMSA

Mexico

Antitrust Matters. During 2000, the COFECE, motivated by complaints filed by PepsiCo and certain of its bottlers in Mexico, began an investigation of The Coca-Cola Company Export Corporation and the Mexican Coca-Cola bottlers for alleged monopolistic practices through exclusivity arrangements with certain retailers. Nine of Coca-Cola FEMSA s Mexican subsidiaries, including those acquired through its merger with Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano, were involved in this matter. After the corresponding legal proceedings in 2008, a Mexican Federal Court rendered an adverse judgment against three of Coca-Cola FEMSA s nine Mexican subsidiaries involved in the proceedings, upholding a fine of approximately Ps.10.5 million imposed by COFECE on each of the three subsidiaries and ordering the immediate suspension of such practices of alleged exclusivity arrangements and conditional dealings. On August 7, 2012, a Federal Court dismissed and denied an appeal that Coca-Cola FEMSA filed on behalf of one of its subsidiaries after the merger with Grupo Fomento Queretano, which had received an adverse judgment. Coca-Cola FEMSA filed a motion for reconsideration on September 12, 2012, which was resolved on March 22, 2013 confirming the Ps.10.5 million fine imposed by the COFECE. With respect to the complaints against the remaining six subsidiaries, a favorable resolution was issued in the Mexican Federal Courts and, consequently, the COFECE withdrew the fines and ruled in favor of six of our subsidiaries on the grounds of insufficient evidence to prove individual and specific liability in the alleged antitrust violations.

In addition, among the companies involved in the 2000 complaint filed by PepsiCo and other bottlers in Mexico, were some of Coca-Cola FEMSA s less significant subsidiaries acquired with the Grupo Yoli merger. On June 30, 2005, the COFECE imposed a fine on one of our subsidiaries for approximately Ps.10.5 million. A motion for reconsideration on this matter was filed on September 21, 2005, which was resolved by the COFECE confirming the original resolution on December 1, 2005. A constitutional challenge (*amparo)* was filed against said resolution and a Federal Court issued a favorable resolution in our benefit. Both the COFECE and PepsiCo filed appeals against said resolution and a Circuit Court in Acapulco, Guerrero resolved to request the COFECE to issue a new resolution regarding the Ps.10.5 million fine. COFECE then fined our subsidiary again, for the same amount. A new *amparo* claim was filed against said resolution.

On May 17, 2012, such new *amparo* claim was resolved, again in favor of one of Coca-Cola FEMSA s subsidiaries, requesting the COFECE to recalculate the amount of the fine. The COFECE maintained the amount of the fine in a new resolution which Coca-Cola FEMSA challenged through a new *amparo* claim filed on July 31, 2013 before a District Judge in Acapulco, Guerrero and is still awaiting final resolution.

In June and July 2010, Ajemex, S.A. de C.V., or Ajemex, filed two complaints with the COFECE against The Coca-Cola Export Corporation and certain *Coca-Cola* bottlers, including Coca-Cola FEMSA, alleging the continued performance of monopolistic practices in breach of COFECE s resolution dated June 30, 2005. On January 23, 2015, The Coca-Cola Export Corporation and the *Coca-Cola* bottlers provided evidence to COFECE against these allegations. The COFECE ruled upon these proceedings in favor of The Coca-Cola Export Corporation and the *Coca-Cola* bottlers. On April 6, 2015, Ajemex filed an *amparo* claim against said resolution, which was dismissed and denied by a Federal District Judge. No further action was pursued by Ajemex, and the resolution became final.

Significant Changes

Except as disclosed under Recent Developments in Item 5, no significant changes have occurred since the date of the annual financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

Description of Securities

We have three series of capital stock, each with no par value:

- Series B Shares (Series B Shares);
- Series D-B Shares (Series D-B Shares); and
- Series D-L Shares (Series D-L Shares).

Series B Shares have full voting rights, and Series D-B and D-L Shares have limited voting rights. The shares of our company are not separable and may be transferred only in the following forms:

- B Units, consisting of five Series B Shares; and
- BD Units, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares.

At our AGM held on March 29, 2007, our shareholders approved a three-for-one stock split in respect all of our outstanding capital stock, which became effective in May 2007. Following the stock split, our total capital stock consists of 2,161,177,770 BD Units and 1,417,048,500 B Units. Our stock split also resulted in a three-for-one stock split of our ADSs. The stock-split was conducted on a pro-rata basis in respect of all holders of our shares and all ADS holders of record as of May 25, 2007, and the ratio of voting and non-voting shares was maintained, thereby preserving our ownership structure as it was prior to the stock-split.

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On April 22, 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, absent further shareholder action.

Previously, our bylaws provided that on May 11, 2008, each Series D-B Share would automatically convert into one Series B Share with full voting rights, and each Series D-L Share would automatically convert into one Series L Share with limited voting rights. At that time:

- the BD Units and the B Units would cease to exist and the underlying Series B Shares and Series L Shares would be separate; and

- the Series B Shares and Series L Shares would be entitled to share equally in any dividend, and the dividend preferences of the Series D-B Shares and Series D-L Shares of 125% of any amount distributed in respect of each Series B Share existing prior to May 11, 2008, would be terminated.

However, following the April 22, 2008 shareholder approvals, these changes will no longer occur and instead our share and unit structure will remain unchanged, absent shareholder action, as follows:

- the BD Units and the B Units will continue to exist; and

- the dividend preferences of the Series D-B Shares and Series D-L Shares of 125% of any amount distributed in respect of each Series B Share will continue to exist.

The following table sets forth information regarding our capital stock as of March 16, 2017:

	Number	Percentage of Capital	Percentage of Full Voting Rights
Class			
Series B Shares (no par value)	9,246,420,270	51.68%	100.00%
Series D-B Shares (no par value)	4,322,355,540	24.16%	0.00%
Series D-L Shares (no par value)	4,322,355,540	24.16%	0.00%
Total Shares	17,891,131,350	100.00%	100.00%
Units			
BD Units	2,161,177,770	60.40%	23.47%
B Units	1,417,048,500	39.60%	76.63%
Total Units	3,578,226,270	100.00%	100.00%

Trading Markets

Since May 11, 1998, ADSs representing BD Units have been listed on the NYSE, and the BD Units and the B Units have been listed on the Mexican Stock Exchange. Each ADS represents 10 BD Units deposited under the deposit agreement with the ADS depositary. As of March 31, 2017, approximately 51.2% of BD Units traded in the form of ADSs.

The NYSE trading symbol for the ADSs is FMX and the Mexican Stock Exchange trading symbols are FEMSA UBD for the BD Units and FEMSA UB for the B Units.

Fluctuations in the exchange rate between the Mexican peso and the U.S. dollar have affected the U.S. dollar equivalent of the Mexican peso price of our shares on the Mexican Stock Exchange and, consequently, have also affected the market price of our ADSs. **See Item 3. Key Information Exchange Rate Information.**

Trading on the Mexican Stock Exchange

The Mexican Stock Exchange, located in Mexico City, is currently the only stock exchange in Mexico. Founded in 1907, it is organized as a *sociedad anónima bursátil de capital variable*. Trading on the Mexican Stock Exchange takes place principally through automated systems and is open between the hours of 9:30 a.m. and 4:00 p.m.

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Eastern Time, each business day. Trades in securities listed on the Mexican Stock Exchange can also be effected off the exchange. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the BD Units that are directly or indirectly (for example, in the form of ADSs) quoted on a stock exchange (including for these purposes the NYSE) outside Mexico.

Settlement is effected three business days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the *Comisión Nacional Bancaria y de Valores*, or CNBV. Most securities traded on the Mexican Stock Exchange, including ours, are on deposit with *S.D. Indeval Institución para el Depósito de Valores S.A. de C.V.*, which we refer to as Indeval, a privately owned securities depositary that acts as a clearinghouse for Mexican Stock Exchange transactions.

Price History

The following tables set forth, for the periods indicated, the reported high, low and closing sale prices and the average daily trading volumes for the B Units and BD Units on the Mexican Stock Exchange and the reported high, low and closing sale prices and the average daily trading volumes for the ADSs on the NYSE.

	B Units(1)				
	Nominal pesos				Average Daily
	High(2)	Low(2)	Close(3)	Close US$(4)	Trading Volume (Units)
2012	99.00	75.00	99.00	7.64	6,004
2013	126.00	99.00	106.00	8.09	47,136
2014	125.00	103.00	122.50	8.31	2,007
2015					
First Quarter	131.50	121.00	131.49	8.63	1,775
Second Quarter	142.66	133.00	139.41	8.89	10,134
Third Quarter	136.50	135.00	136.50	8.08	1,876
Fourth Quarter	154.00	137.91	145.80	8.48	2,759
2016					
First Quarter	150.00	139.50	147.00	8.54	3,020
Second Quarter	152.00	147.00	147.00	7.95	511
Third Quarter	150.00	141.00	147.00	7.60	1,654
Fourth Quarter	155.00	147.00	149.95	7.27	447
October	148.00	147.00	147.00	7.82	312
November	155.00	147.00	155.00	7.58	378
December	153.70	147.00	149.95	7.27	2,364
2017					
January	145.45	140.00	140.00	6.72	1,662
February	138.00	135.51	137.00	6.85	970
March	142.50	137.00	142.50	7.57	1,451
First Quarter	145.45	135.51	142.50	7.57	1,007

(1) The prices and average daily trading volume for the B Units were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.
(2) High and low closing prices for the periods presented.
(3) Closing price on the last day of the periods presented.
(4) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the B Units on the last day of the periods presented based on the noon buying rate for the purchase of U.S. dollars, as reported by the U.S. Federal Reserve Board using the period-end exchange rate.

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	BD Units(1)				
	Nominal pesos				Average Daily Trading Volume (Units)
	High(2)	Low(2)	Close(3)	Close US$(4)	
2012	130.64	88.64	129.31	9.97	2,280,878
2013	151.72	117.05	126.40	9.65	2,997,406
2014	134.71	109.62	130.88	8.87	2,626,599
2015					
First Quarter	143.54	123.68	143.11	9.39	2,560,379
Second Quarter	147.73	136.36	139.97	8.92	2,598,477
Third Quarter	154.36	140.26	151.27	8.95	2,297,879
Fourth Quarter	168.78	149.68	161.63	9.40	2,242,941
2016					
First Quarter	176.27	152.61	166.80	9.69	3,160,365
Second Quarter	175.27	158.54	169.18	9.15	2,616,829
Third Quarter	182.26	165.55	178.75	9.24	2,740,262
Fourth Quarter	183.34	154.07	157.67	7.65	3,287,989
October	183.34	178.55	181.30	9.65	2,325,085
November	177.93	160.27	160.91	7.87	4,591,266
December	161.95	154.07	157.67	7.65	3,009,676
2017					
January	165.60	156.86	156.86	7.53	2,695,523
February	164.47	158.54	161.82	8.09	2,452,659
March	173.99	164.42	166.04	8.82	2,624,651
First Quarter	173.99	156.86	166.04	8.82	2,557,817

(1) The prices and average daily trading volume for the BD Units were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.
(2) High and low closing prices for the periods presented.
(3) Closing price on the last day of the periods presented.
(4) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the BD Units on the last day of the periods presented based on the noon buying rate for the purchase of U.S. dollars, as reported by the U.S. Federal Reserve Board using the period-end exchange rate.

	ADSs(1)			
	U.S. dollars			Average Daily Trading Volume (ADSs)
	High(2)	Low(2)	Close(3)	
2012	101.70	67.47	100.70	535,718
2013	124.96	88.66	97.87	604,552
2014	100.26	81.94	88.03	417,239
2015				
First Quarter	95.74	82.97	93.50	426,634
Second Quarter	98.88	87.52	89.09	338,531
Third Quarter	93.83	81.90	89.25	373,119
Fourth Quarter	101.96	88.43	92.35	377,262
2016				
First Quarter	96.60	85.25	96.31	481,591
Second Quarter	97.38	87.28	92.49	467,101
Third Quarter	100.51	85.88	92.04	609,880
Fourth Quarter	98.65	75.49	76.21	673,218
October	98.65	93.23	95.67	585,366
November	96.26	78.05	78.05	903,911
December	79.32	75.49	76.21	530,377
2017				
January	78.64	74.19	75.23	581,632
February	83.35	76.87	80.54	459,028
March	91.51	82.15	88.52	419,261

First Quarter	91.51	74.19	88.52	483,825

(1) Each ADS comprises 10 BD Units. Prices and average daily trading volume were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.
(2) High and low closing prices for the periods presented.
(3) Closing price on the last day of the periods presented.

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ITEM 10. ADDITIONAL INFORMATION

Bylaws

The following is a summary of the material provisions of our bylaws and applicable Mexican law. Our bylaws were last amended on April 22, 2008. For a description of the provisions of our bylaws relating to our board of directors and executive officers, **see Item 6. Directors, Senior Management and Employees.**

Organization and Registry

We are a *sociedad anónima bursátil de capital variable* organized in Mexico under the *Ley General de Sociedades Mercantiles* (Mexican General Corporations Law) and the Mexican Securities Law. We were incorporated in 1936 under the name Valores Industriales, S.A., as a *sociedad anónima*, and are currently named Fomento Económico Mexicano, S.A.B. de C.V. We are registered in the *Registro Público de la Propiedad y del Comercio* (Public Registry of Property and Commerce) of Monterrey, Nuevo León.

Voting Rights and Certain Minority Rights

Each Series B Share entitles its holder to one vote at any of our ordinary or extraordinary general shareholders meetings. Our bylaws state that the board of directors must be composed of no more than 21 members, at least 25% of whom must be independent. Holders of Series B Shares are entitled to elect at least 11 members of our board of directors. Holders of Series D Shares are entitled to elect five members of our board of directors. Our bylaws also contemplate that, should a conversion of the Series D-L Shares to Series L Shares occur pursuant to the vote of our Series D-B and Series D-L shareholders at special and extraordinary shareholders meetings, the holders of Series D-L shares (who would become holders of newly-issued Series L Shares) will be entitled to elect two members of the board of directors. None of our shares has cumulative voting rights, which is a right not regulated under Mexican law.

Under our bylaws, the holders of Series D Shares are entitled to vote at extraordinary shareholders meetings called to consider any of the following limited matters: (1) the transformation from one form of corporate organization to another, other than from a company with variable capital stock to a company without variable capital stock or vice versa, (2) any merger in which we are not the surviving entity or with other entities whose principal corporate purposes are different from those of our company or our subsidiaries, (3) change of our jurisdiction of incorporation, (4) dissolution and liquidation and (5) the cancellation of the registration of the Series D Shares or Series L Shares in the Mexican Stock Exchange or in any other foreign stock market where listed, except in the case of the conversion of these shares as provided for in our bylaws.

Holders of Series D Shares are also entitled to vote on the matters that they are expressly authorized to vote on by the Mexican Securities Law and at any extraordinary shareholders meeting called to consider any of the following matters:

- To approve a conversion of all of the outstanding Series D-B Shares and Series D-L Shares into Series B shares with full voting rights and Series L Shares with limited voting rights, respectively.

- To agree to the unbundling of their share Units.

This conversion and/or unbundling of shares would become effective two years after the date on which the shareholders agreed to such conversion and/or unbundling.

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Under Mexican law, holders of shares of any series are entitled to vote as a class in a special meeting governed by the same rules that apply to extraordinary shareholders meetings on any action that would have an effect on the rights of holders of shares of such series. There are no procedures for determining whether a particular proposed shareholder action requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

The Mexican Securities Law, the Mexican General Corporations Law and our bylaws provide for certain minority shareholder protections. These minority protections include provisions that permit:

- holders of at least 10% of our outstanding capital stock entitled to vote, including in a limited or restricted manner, to require the chairman of the board of directors or of the Audit or Corporate Practices Committees to call a shareholders meeting;

- holders of at least 5% of our outstanding capital stock, including limited or restricted vote, may bring an action for liabilities against our directors, the secretary of the board of directors or certain key officers;

- holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, at any shareholders meeting to request that resolutions with respect to any matter on which they considered they were not sufficiently informed be postponed;

- holders of 20% of our outstanding capital stock to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote, including limited or restricted vote, and file a petition for a court order to suspend the resolution temporarily within 15 days following the adjournment of the meeting at which the action was taken, provided that (1) the challenged resolution violates Mexican law or our bylaws, (2) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution and (3) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder; and

- holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, to appoint one member of our board of directors and one alternate member of our board of directors.

Shareholders Meetings

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary meetings are those called to consider certain matters specified in Article 182 and 228 BIS of the Mexican General Corporations Law, Articles 53 and 108(II) of the Mexican Securities Law and in our bylaws. These matters include: amendments to our bylaws, liquidation, dissolution, merger, spin-off and transformation from one form of corporate organization to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. In addition, our bylaws require a general shareholders extraordinary meeting to consider the cancellation of the registration of shares with the Mexican Registry of Securities, or RNV or with other foreign stock exchanges on which our shares may be listed, the amortization of distributable earnings into capital stock, and an increase in our capital stock in terms of the Mexican Securities Law. General meetings called to consider all other matters, including increases or decreases affecting the variable portion of our capital stock, are ordinary meetings. An ordinary meeting must be held at least once each year within the first four months following the end of the preceding fiscal year. Holders of BD Units or B Units are entitled to attend all shareholders meetings of the Series B Shares and Series D Shares and to vote on matters that are subject to the vote of holders of the underlying shares.

The quorum for an ordinary shareholders meeting on first call is more than 50% of the Series B Shares, and action may be taken by a majority of the Series B Shares represented at the meeting. If a quorum is not available, a second or subsequent meeting may be called and held by whatever number of Series B Shares is represented at the meeting, at which meeting action may be taken by a majority of the Series B Shares that are represented at the meeting.

The quorum for an extraordinary shareholders meeting is at least 75% of the shares entitled to vote at the meeting, and action may be taken by a vote of the majority of all the outstanding shares that are entitled to vote. If a quorum is not available, a second meeting may be called, at which the quorum will be the majority of the outstanding capital stock entitled to vote, and actions will be taken by holders of the majority of all the outstanding capital stock entitled to vote.

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Shareholders meetings may be called by the board of directors, the audit committee or the corporate practices committee and, under certain circumstances, a Mexican court. Additionally, holders of 10% or more of our capital stock may require the chairman of the board of directors, or the chairman of the audit or corporate practices committees to call a shareholders meeting. A notice of meeting and an agenda must be published in the electronic system of the *Secretaría de Economía* (Secretary of Economy) and in the *Periódico Oficial del Estado de Nuevo León* (Official State Gazette of Nuevo León, or the Official State Gazette) or a newspaper of general distribution in Monterrey, Nuevo León, Mexico at least 15 days prior to the date set for the meeting. Notices must set forth the place, date and time of the meeting and the matters to be addressed and must be signed by whoever convened the meeting. Shareholders meetings will be deemed validly held and convened without a prior notice or publication only to the extent that all the shares representing our capital stock are fully represented. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice involving such shareholders meeting. To attend a meeting, shareholders must deposit their shares with the company or with Indeval or an institution for the deposit of securities prior to the meeting as indicated in the notice. If entitled to attend a meeting, a shareholder may be represented by an attorney-in-fact.

In addition to the provisions of the Mexican General Corporations Law, the ordinary shareholders meeting shall be convened to approve any transaction that, in a fiscal year, represents 20% or more of the consolidated assets of the company as of the immediately prior quarter, whether such transaction is executed in one or several operations, to the extent that, according to the nature of such transactions, they may be deemed the same. All shareholders shall be entitled to vote on in such ordinary shareholders meeting, including those with limited or restricted voting rights.

Dividend Rights

At the AGM, the board of directors submits the financial statements of the 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. 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 the 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 shares outstanding and fully paid 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.

Change in Capital

Our outstanding capital stock consists of both a fixed and a variable portion. The fixed portion of our capital stock may be increased or decreased only by an amendment of the bylaws adopted by an extraordinary shareholders meeting. The variable portion of our capital stock may be increased or decreased by resolution of an ordinary shareholders meeting. Capital increases and decreases must be recorded in our share registry and book of capital variations, if applicable.

A capital stock increase may be effected through the issuance of new shares for payment in cash or in kind, or by capitalization of indebtedness or of certain items of stockholders equity. Treasury stock may only be sold pursuant to a public offering.

Any increase or decrease in our capital stock or any redemption or repurchase will be subject to the following limitations: (1) Series B Shares will always represent at least 51% of our outstanding capital stock and the Series D-L Shares and Series L Shares will never represent more than 25% of our outstanding capital stock; and (2) the Series D-B, Series D-L and Series L Shares will not exceed, in the aggregate, 49% of our outstanding capital stock.

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Preemptive Rights

Under Mexican law, except in limited circumstances which are described below, in the event of an increase in our capital stock, a holder of record generally has the right to subscribe to shares of a series held by such holder sufficient to maintain such holder s existing proportionate holding of shares of that series. Preemptive rights must be exercised during a term fixed by the shareholders at the meeting declaring the capital increase, which term must last at least 15 days following the publication of notice of the capital increase in the Official State Gazette. As a result of applicable United States securities laws, holders of ADSs may be restricted in their ability to participate in the exercise of preemptive rights under the terms of the deposit agreement. Shares subject to a preemptive rights offering, with respect to which preemptive rights have not been exercised, may be sold by us to third parties on the same terms and conditions previously approved by the shareholders or the board of directors. Under Mexican law, preemptive rights cannot be waived in advance or be assigned, or be represented by an instrument that is negotiable separately from the corresponding shares.

Our bylaws provide that shareholders will not have preemptive rights to subscribe shares in the event of a capital stock increase or listing of treasury stock in any of the following events: (i) merger of the Company; (ii) conversion of obligations (*conversion de obligaciones*) in terms of the Mexican General Credit Instruments and Credit Operations Law (*Ley General de Títulos y Operaciones de Crédito*); (iii) public offering made according to the terms of articles 53, 56 and related provisions of the Mexican Securities Law; and (iv) capital increase made through the payment in kind of the issued shares or through the cancellation of debt of the Company.

Limitations on Share Ownership

Ownership of shares of Mexican companies by non-Mexican residents is regulated by the Foreign Investment Law and its regulations. The Foreign Investment Commission is responsible for the enforcement of the Foreign Investment Law and its regulations.

As a general rule, the Foreign Investment Law allows foreign holdings of up to 100% of the capital stock of Mexican companies, except for those companies engaged in certain specified restricted industries. The Foreign Investment Law and its regulations require that Mexican shareholders retain the power to determine the administrative control and the management of corporations in industries in which special restrictions on foreign holdings are applicable. Foreign investment in our shares is not limited under either the Foreign Investment Law or its regulations.

Management of the Company

Management of the company is entrusted to the board of directors and also to the chief executive officer, who is required to follow the strategies, policies and guidelines approved by the board of directors and the authority, obligations and duties expressly authorized in the Mexican Securities Law.

At least 25% of the members of the board of directors shall be independent. Independence of the members of the board of directors is determined by the shareholders meeting, subject to the CNBV s challenge of such determination. In the performance of its responsibilities, the board of directors will be supported by a corporate practices committee and an audit committee. The corporate practices committee and the audit committee consist solely of independent directors. Each committee is formed by at least three board members appointed by the shareholders or by the board of directors. The chairmen of said committees are appointed (taking into consideration their experience, capacity and professional prestige) and removed exclusively by a vote in a shareholders meeting.

Surveillance

Surveillance of the company is entrusted to the board of directors, which shall be supported in the performance of these functions by the corporate practices committee, the audit committee and our external auditor. The external auditor may be invited to attend board of directors meetings as an observer, with a right to participate but without voting rights.

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Authority of the Board of Directors

The board of directors is our legal representative and is authorized to take any action in connection with our operations not expressly reserved to our shareholders. Pursuant to the Mexican Securities Law, the board of directors must approve, *observing at all moments their duty of care and duty of loyalty*, among other matters:

- any related-party transactions which are deemed to be outside the ordinary course of our business;
- significant asset transfers or acquisitions;
- material guarantees or collateral;
- internal policies; and
- other material transactions.

Meetings of the board of directors are validly convened and held if a majority of the members are present. Resolutions passed at these meetings will be valid if approved by a majority of members of the board of directors are present at the meeting. If required, the chairman of the board of directors may cast a tie-breaking vote.

Redemption

We may redeem part of our shares for cancellation with distributable earnings pursuant to a decision of an extraordinary shareholders meeting. Only shares subscribed and fully paid for may be redeemed. Any shares intended to be redeemed shall be purchased on the Mexican Stock Exchange in accordance with the Mexican General Corporations Law and the Mexican Securities Law. No shares will be redeemed, if as a consequence of such redemption, the Series D and Series L Shares in the aggregate exceed the percentages permitted by our bylaws or if any such redemption will reduce our fixed capital below its minimum.

Repurchase of Shares

According to our bylaws, subject to the provisions of the Mexican Securities Law and under rules promulgated by the CNBV, we may repurchase our shares at any time at the then prevailing market price. The maximum amount available for repurchase of our shares must be approved at the AGM. The economic and voting rights corresponding to such repurchased shares may not be exercised while our company owns the shares.

In accordance with the Mexican Securities Law, our subsidiaries may not purchase, directly or indirectly, shares of our capital stock or any security that represents such shares.

Forfeiture of Shares

As required by Mexican law, our bylaws provide that non-Mexican holders of BD Units, B Units or shares (1) are considered to be Mexican with respect to such shares that they acquire or hold and (2) may not invoke the protection of their own governments in respect of the investment represented by those shares. Failure to comply with our bylaws may result in a penalty of forfeiture of a shareholder s capital stock in favor of the Mexican state. In the opinion of Carlos Eduardo Aldrete Ancira, our general counsel, under this provision, a non-Mexican shareholder (including a non-Mexican holder of ADSs) is deemed to have agreed not to invoke the protection of its own government by asking such government to interpose a diplomatic claim against the Mexican state with respect to its rights as a shareholder, but is not deemed to have waived any other rights it may have, including any rights under the United States securities laws, with respect to its investment in our company. If a shareholder should invoke governmental protection in violation of this agreement, its shares could be forfeited to the Mexican state.

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Duration

The bylaws provide that the duration of our company is 99 years, commencing on May 30, 1936, unless extended by a resolution of an extraordinary shareholders meeting.

Appraisal Rights

Whenever the shareholders approve a change of corporate purpose, change of jurisdiction of incorporation or the transformation from one form of corporate organization to another, any shareholder entitled to vote on such change that has voted against it, may withdraw as a shareholder of our company and have its shares redeemed by FEMSA at a price per share calculated as specified under applicable Mexican law, provided that it exercises its right within 15 days following the adjournment of the meeting at which the change was approved. Under Mexican law, the amount which a withdrawing shareholder is entitled to receive is equal to its proportionate interest in our capital stock or according to our most recent balance sheet approved by an ordinary general shareholders meeting.

Delisting of Shares

In the event of a cancellation of the registration of any of our shares with the RNV, whether by order of the CNBV or at our request with the prior consent of 95% of the holders of our outstanding capital stock, our bylaws and the new Mexican Securities Law require us to make a public offer to acquire these shares prior to their cancellation.

Liquidation

Upon the dissolution of our company, one or more liquidators must be appointed by an extraordinary general meeting of the shareholders to wind up its affairs. All fully paid and outstanding shares of capital stock will be entitled to participate equally in any distribution upon liquidation.

Actions Against Directors

Shareholders (including holders of Series D-B and Series D-L Shares) representing, in the aggregate, not less than 5% of our capital stock may directly bring an action against directors.

In the event of actions derived from any breach of the duty of care and the duty of loyalty, liability is exclusively in favor of the company. The Mexican Securities Law establishes that liability may be imposed on the members and the secretary of the board of directors, as well as to the relevant officers.

Notwithstanding, the Mexican Securities Law provides that the members of the board of directors will not incur, individually or jointly, liability for damages and losses caused to the company, when their acts were made in good faith, in any of the following events (1) the directors complied with the requirements of the Mexican Securities Law and with the company s bylaws, (2) the decision making or voting was based on information provided by the relevant officers, the external auditor or the independent experts, whose capacity and credibility do not offer reasonable doubt; (3) the negative economic effects could not have been foreseen, based on the information available; and (4) they comply with the resolutions of the shareholders meeting when such resolutions comply with applicable law.

Fiduciary Duties Duty of Care

The Mexican Securities Law provides that the directors shall act in good faith and in our best interest and in the best interest of our subsidiaries. In order to fulfill its duty, the board of directors may:

- request information about us or our subsidiaries that is reasonably necessary to fulfill its duties;
- require our officers and certain other persons, including the external auditors, to appear at board of directors meetings to report to the board of directors;

postpone board of directors meetings for up to three days when a director has not been given sufficient notice of the meeting or in the event that a director has not been provided with the information provided to the other directors; and

require a matter be discussed and voted upon by the full board of directors in the presence of the secretary of the board of directors.

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Our directors may be liable for damages for failing to comply their duty of care if such failure causes economic damage to us or our subsidiaries and the director (1) failed to attend, board of directors or committee meetings and as a result of, such failure, the board of directors was unable to take action, unless such absence is approved by the shareholders meeting, (2) failed to disclose to the board of directors or the committees material information necessary for the board of directors to reach a decision, unless legally or contractually prohibited from doing so in order to maintain confidentiality, and (3) failed to comply with the duties imposed by the Mexican Securities Law or our bylaws.

Fiduciary Duties Duty of Loyalty

The Mexican Securities Law provides that the directors and secretary of the board of directors shall keep confidential any non-public information and matters about which they have knowledge as a result of their position. Also, directors should abstain from participating, attending or voting at meetings related to matters where they have a conflict of interest.

The directors and secretary of the board of directors will be deemed to have violated the duty of loyalty, and will be liable for damages, when they obtain an economic benefit by virtue of their position. Further, the directors will fail to comply with their duty of loyalty if they:

- vote at a board of directors meeting or take any action on a matter involving our assets where there is a conflict of interest;
- fail to disclose a conflict of interest during a board of directors meeting;
- enter into a voting arrangement to support a particular shareholder or group of shareholders against the other shareholders;
- approve of transactions without complying with the requirements of the Mexican Securities Law;
- use company property in violation of the policies approved by the board of directors;
- unlawfully use material non-public information; and
- usurp a corporate opportunity for their own benefit or the benefit of third parties, without the prior approval of the board of directors.

Limited Liability of Shareholders

The liability of shareholders for our company s losses is limited to their shareholdings in our company.

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Taxation

The following summary contains a description of certain U.S. federal income and Mexican federal tax consequences of the purchase, ownership and disposition of our ADSs, but it does not purport to be a description of all of the possible tax considerations that may be relevant to a decision to purchase, hold or dispose of ADSs. For purposes of this summary, the term U.S. holder means a holder that is a citizen or resident of the United States, a U.S. domestic corporation or a person or entity that otherwise will be subject to U.S. federal income tax on a net income basis in respect of our ADSs. In particular, this discussion does not address all Mexican or U.S. federal income tax considerations that may be relevant to a particular investor, nor does it address the special tax rules applicable to certain categories of investors, such as banks, dealers, traders who elect to mark to market, tax-exempt entities, insurance companies, certain short-term holders of ADSs or investors who hold our ADSs as part of a hedge, straddle, conversion or integrated transaction, partnerships that hold ADSs, or partners therein, nonresident aliens present in the United States for more than 182 days in a taxable year, or investors who have a functional currency other than the U.S. dollar. This summary deals only with U.S. holders that will hold our ADSs as capital assets and does not address the tax treatment of a U.S. holder that owns or is treated as owning 10% or more of the voting shares (including ADSs) of the company.

This summary is based upon the federal tax laws of the United States and Mexico as in effect on the date of this annual report, including the provisions of the income tax treaty between the United States and Mexico which we refer to as the Tax Treaty, which are subject to change. The summary does not address any tax consequences under the laws of any state or locality of Mexico or the United States or the laws of any taxing jurisdiction other than the federal laws of Mexico and the United States. Holders of our ADSs should consult their tax advisors as to the U.S., Mexican or other tax consequences of the purchase, ownership and disposition of ADSs, including, in particular, the effect of any foreign, state or local tax laws.

Mexican Taxation

For purposes of this summary, the term non-resident holder means a holder that is not a resident of Mexico for tax purposes and that does not hold our ADSs in connection with the conduct of a trade or business through a permanent establishment for tax purposes in Mexico. For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her home in Mexico, or if he or she has another home outside Mexico, but his or her *Centro de Intereses Vitales* (Center of Vital Interests) (as defined in the Mexican Tax Code) is located in Mexico and, among other circumstances, more than 50% of that person s total income during a calendar year comes from within Mexico. A legal entity is a resident of Mexico if it has either its principal place of business or its place of effective management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless he or she can demonstrate that the contrary is true. If a legal entity or an individual is deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to the permanent establishment will be subject to Mexican taxes, in accordance with applicable tax laws.

Taxation of Dividends. Under Mexican income tax law, dividends, either in cash or in kind, paid with respect to our shares represented by our ADSs are not subject to Mexican withholding tax if such dividends were distributed from the net taxable profits generated before 2014. Dividends distributed from the net taxable profits generated after or during 2014 will be subject to Mexican withholding tax at a rate of 10%.

Taxation of Dispositions of ADSs. Gains from the sale or disposition of ADSs by non-resident holders will not be subject to Mexican tax, if the disposition is carried out through a stock exchange recognized under applicable Mexican tax law and the transferor is resident of a country with which Mexico has entered into a tax treaty for the avoidance of double taxation; if the transferor is not a resident of such a country, the gain will be taxable at the rate of 10%, in which case the tax will be withheld by the financial intermediary.

In compliance with certain requirements, gains on the sale or other disposition of ADSs made in circumstances different from those set forth in the prior paragraph generally would be subject to Mexican tax, at the general rate of 25% of the gross income, regardless of the nationality or residence of the transferor. However, under the Tax Treaty, a holder that is eligible to claim the benefits of the Tax Treaty will be exempt from Mexican tax on gains realized on a sale or other disposition of our ADSs in a transaction that is not carried out through the Mexican Stock Exchange or other approved securities markets, so long as the holder did not own, directly or indirectly, 25% or more of our outstanding capital stock (including shares represented by our ADSs) within the 12-month period preceding such sale or other disposition. Deposits of shares in exchange for ADSs and withdrawals of shares in exchange for our ADSs will not give rise to Mexican tax.

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Other Mexican Taxes. There are no Mexican inheritance, gift, succession or value added taxes applicable to the ownership, transfer, exchange or disposition of our ADSs. There are no Mexican stamp, issue, registration or similar taxes or duties payable by holders of our ADSs.

United States Taxation

Tax Considerations Relating to the ADSs

In general, for U.S. federal income tax purposes, holders of ADSs will be treated as owners of the shares represented by those ADSs.

Taxation of Dividends. The gross amount of any distributions paid with respect to our shares represented by our ADSs, to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, generally will be included in the gross income of a U.S. holder as foreign source dividend income on the day on which the dividends are received by the ADS depositary and will not be eligible for the dividends received deduction allowed to corporations under the Internal Revenue Code of 1986, as amended. Because we do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, it is expected that distributions paid to U.S. holders generally will be reported as dividends.

Dividends, which will be paid in Mexican pesos, will be includible in the income of a U.S. holder in a U.S. dollar amount calculated, in general, by reference to the exchange rate in effect on the date that they are received by the ADS depositary (regardless of whether such Mexican pesos are in fact converted into U.S. dollars on such date). If such dividends are converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. U.S. holders should consult their tax advisors regarding the treatment of the foreign currency gain or loss, if any, on any Mexican pesos received that are converted into U.S. dollars on a date subsequent to the date of receipt.

The amount of Mexican tax withheld generally will give rise to a foreign tax credit or deduction for U.S. federal income tax purposes. Dividends generally will constitute passive category income for purposes of the foreign tax credit (or in the case of certain U.S. holders, general category income). The foreign tax credit rules are complex. U.S. holders should consult their own tax advisors with respect to the implications of those rules for their investments in our ADSs.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder in respect of the ADSs generally is subject to taxation at the reduced rate applicable to long-term capital gains if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules, or the dividends are paid with respect to ADSs that are readily tradable on an established U.S. securities market and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company. The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. The ADSs are listed on the NYSE, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2016 taxable year. In addition, based on our audited consolidated financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2017 taxable year.

Distributions to holders of additional shares with respect to our ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

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Taxation of Capital Gains. A gain or loss realized by a U.S. holder on the sale or other taxable disposition of ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the disposition and such U.S. holder s tax basis in the ADSs (each calculated in dollars). Any such gain or loss will be a long-term capital gain or loss if the ADSs were held for more than one year on the date of such sale. Any long-term capital gain recognized by a U.S. holder that is an individual is subject to a reduced rate of federal income taxation. The deduction of capital losses is subject to limitations for U.S. federal income tax purposes. Deposits and withdrawals of shares by U.S. holders in exchange for ADSs will not result in the realization of gains or losses for U.S. federal income tax purposes.

Any gain realized by a U.S. holder on the sale or other disposition of ADSs generally will be treated as U.S. source income for U.S. foreign tax credit purposes.

United States Backup Withholding and Information Reporting. A U.S. holder of ADSs may, under certain circumstances, be subject to information reporting and backup withholding with respect to certain payments to such U.S. holder, such as dividends, interest or the proceeds of a sale or disposition of ADSs, unless such holder (1) is a corporation or comes within certain exempt categories, and demonstrates this fact when so required, or (2) in the case of backup withholding, provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules does not constitute a separate tax and will be creditable against the holder s U.S. federal income tax liability.

Specified Foreign Financial Assets. Certain U.S. holders that own specified foreign financial assets with an aggregate value in excess of USD 50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the ADSs, including the application of the rules to their particular circumstances.

U.S. Tax Consequences for Non-U.S. Holders

Taxation of Dividends and Capital Gains. Subject to the discussion below under United States Backup Withholding and Information Reporting, a holder of ADSs that is not a U.S. holder (a non-U.S. holder) generally will not be subject to U.S. federal income or withholding tax on dividends received on ADSs or on any gain realized on the sale of ADSs.

United States Backup Withholding and Information Reporting. While non-U.S. holders generally are exempt from information reporting and backup withholding, a non-U.S. holder may, in certain circumstances, be required to comply with certain information and identification procedures in order to prove this exemption.

Material Contracts

We and our subsidiaries are parties to a variety of material agreements with third parties, including shareholders agreements, supply agreements and purchase and service agreements. Set forth below are summaries of the material terms of such agreements. The actual agreements have either been filed as exhibits to, or incorporated by reference in, this annual report. **See Item 19. Exhibits.**

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Material Contracts Relating to Coca-Cola FEMSA

Shareholders Agreement

Coca-Cola FEMSA operates pursuant to a shareholders agreement among our company and The Coca-Cola Company and certain of its subsidiaries. This agreement, together with Coca-Cola FEMSA s bylaws, sets forth the basic rules pursuant to which Coca-Cola FEMSA operates.

In February 2010, Coca-Cola FEMSA s main shareholders, FEMSA and The Coca-Cola Company, amended the shareholders agreement, and Coca-Cola FEMSA s bylaws were amended accordingly. The amendment mainly related to changes in the voting requirements for decisions on: (1) ordinary operations within an annual business plan and (2) appointment of the chief executive officer and all officers reporting to him, all of which now may be taken by the board of directors by simple majority voting. Also, the amendment provided that payment of dividends, up to an amount equivalent to 20% of the preceding years retained earnings, may be approved by a simple majority of the shareholders. Any decision on extraordinary matters, as they are defined in Coca-Cola FEMSA s bylaws and which include, among other things, any new business acquisition, business combinations, or any change in the existing line of business, shall require the approval of the majority of the members of the board of directors, with the vote of two of the members appointed by The Coca-Cola Company. Also, any decision related to such extraordinary matters or any payment of dividends above 20% of the preceding years retained earnings shall require the approval of a majority of the shareholders of Coca-Cola FEMSA s Series A and Series D Shares voting together as a single class.

Under Coca-Cola FEMSA s bylaws and shareholders agreement, its Series A Shares and Series D Shares are the only shares with full voting rights and, therefore, control actions by its shareholders. The shareholders agreement also sets forth the principal shareholders understanding as to the effect of adverse actions of The Coca-Cola Company under the bottler agreements. Coca-Cola FEMSA s bylaws and shareholders agreement provide that a majority of the directors appointed by the holders of its Series A Shares, upon making a reasonable, good faith determination that any action of The Coca-Cola Company under any bottler agreement between The Coca-Cola Company and Coca-Cola FEMSA or any of its subsidiaries is materially adverse to Coca-Cola FEMSA s business interests and that The Coca-Cola Company has failed to cure such action within 60 days of notice, may declare a simple majority period , as defined in Coca-Cola FEMSA s bylaws, at any time within 90 days after giving notice. During the simple majority period certain decisions, namely the approval of material changes in Coca-Cola FEMSA s business plans, the introduction of a new, or termination of an existing, line of business, and related-party transactions outside the ordinary course of business, to the extent the presence and approval of at least two Coca-Cola FEMSA Series D directors would otherwise be required, can be made by a simple majority vote of its entire board of directors, without requiring the presence or approval of any Coca-Cola FEMSA Series D director. A majority of the Coca-Cola FEMSA Series A directors may terminate a simple majority period but, once having done so, cannot declare another simple majority period for one year after the termination. If a simple majority period persists for one year or more, the provisions of the shareholders agreement for resolution of irreconcilable differences may be triggered, with the consequences outlined in the following paragraph.

In addition to the rights of first refusal provided for in Coca-Cola FEMSA s bylaws regarding proposed transfers of its Series A Shares or Series D Shares, the shareholders agreement contemplates three circumstances under which one principal shareholder may purchase the interest of the other in Coca-Cola FEMSA: (1) a change in control in a principal shareholder; (2) the existence of irreconcilable differences between the principal shareholders; or (3) the occurrence of certain specified events of default.

In the event that (1) one of the principal shareholders buys the other s interest in Coca-Cola FEMSA in any of the circumstances described above or (2) the ownership of Coca-Cola FEMSA s shares of capital stock other than the Series L Shares of the subsidiaries of The Coca-Cola Company or FEMSA is reduced below 20% and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement requires that Coca-Cola FEMSA s bylaws be amended to eliminate all share transfer restrictions and all special-majority voting and quorum requirements, after which the shareholders agreement would terminate.

The shareholders agreement also contains provisions relating to the principal shareholders understanding as to Coca-Cola FEMSA s growth. It states that it is The Coca-Cola Company s intention that Coca-Cola FEMSA will be viewed as one of a small number of its anchor bottlers in Latin America. In particular, the parties agree that it is desirable that Coca-Cola FEMSA expands by acquiring additional bottler territories in Mexico and other Latin American countries in the event any become available through horizontal growth. In addition, The Coca-Cola Company has agreed, subject to a number of conditions, that if it obtains ownership of a bottler territory that fits with Coca-Cola FEMSA s operations, it will give Coca-Cola FEMSA the option to acquire such territory. The Coca-Cola Company has also agreed to support reasonable and sound modifications to Coca-Cola FEMSA s capital structure to support horizontal growth. The Coca-Cola Company s agreement as to horizontal growth expires upon either the elimination of the super-majority voting requirements described above or The Coca-Cola Company s election to terminate the agreement as a result of a default.

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The Coca-Cola Memorandum

In connection with the acquisition of Panamco, in 2003, Coca-Cola FEMSA established certain understandings primarily relating to operational and business issues with both The Coca-Cola Company and our company that were memorialized in writing prior to completion of the acquisition. Although the memorandum has not been amended, Coca-Cola FEMSA continues to develop its relationship with The Coca-Cola Company (through, *inter alia*, acquisitions and taking on new product categories), and Coca-Cola FEMSA therefore believes that the memorandum should be interpreted in the context of subsequent events, some of which have been noted in the description below. The principal terms are as follows:

The shareholder arrangements between our company and The Coca-Cola Company and certain of its subsidiaries will continue in place. On February 1, 2010, FEMSA amended its shareholders agreement with The Coca-Cola Company. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Shareholders Agreement.**

We will continue to consolidate Coca-Cola FEMSA s financial results under IFRS.

The Coca-Cola Company and our company will continue to discuss in good faith the possibility of implementing changes to Coca-Cola FEMSA s capital structure in the future.

There will be no changes in concentrate pricing or marketing support by The Coca-Cola Company up to May 2004. After such time, The Coca-Cola Company has complete discretion to implement any changes with respect to these matters, but any decision in this regard will be discussed with Coca-Cola FEMSA and will take Coca-Cola FEMSA s operating condition into consideration.

The Coca-Cola Company may require the establishment of a different long-term strategy for Brazil. If, after taking into account our performance in Brazil, The Coca-Cola Company does not consider us to be part of this long-term strategic solution for Brazil, then we will sell our Brazilian franchise to The Coca-Cola Company or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures. Coca-Cola FEMSA currently believes the likelihood of this term applying is remote.

We, The Coca-Cola Company and Coca-Cola FEMSA will meet to discuss the optimal Latin American territorial configuration for the Coca-Cola bottler system. During these meetings, Coca-Cola FEMSA will consider all possible combinations and any asset swap transactions that may arise from these discussions. In addition, Coca-Cola FEMSA will entertain any potential combination as long as it is strategically sound and done at fair market value.

Coca-Cola FEMSA would like to keep open strategic alternatives that relate to the integration of sparkling beverages and beer. The Coca-Cola Company, our company and Coca-Cola FEMSA would explore these alternatives on a market-by-market basis at the appropriate time.

The Coca-Cola Company agreed to sell to us sufficient shares to permit us to beneficially own 51% of Coca-Cola FEMSA outstanding capital stock (assuming that we do not sell any shares and that there are no issuances of Coca-Cola FEMSA stock other than as contemplated by the acquisition). As a result of this understanding, in November 2006, we acquired, through a subsidiary, 148,000,000 of Coca-Cola FEMSA Series D shares from certain subsidiaries of The Coca-Cola Company, representing 9.4% of the total outstanding voting shares and 8% 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. Pursuant to our bylaws, the acquired shares were converted from Series D shares to Series A shares.

Coca-Cola FEMSA may be entering some markets where significant infrastructure investment may be required. The Coca-Cola Company and our company will conduct a joint study that will outline strategies for these markets, as well as the investment levels required to execute these strategies. Subsequently, it is intended that our company and The Coca-Cola Company will reach an agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome for either partner.

Coca-Cola FEMSA entered into a stand-by credit facility in December 2003 with The Coca-Cola Export Corporation, which expired in December 2006 and was never used.

Cooperation Framework with The Coca-Cola Company

In July 2016, Coca-Cola FEMSA announced a new, comprehensive framework with The Coca-Cola Company. This cooperation framework seeks to maintain a mutually beneficial business relationship over the long-term, which will allow both companies to focus on continuing to drive the business forward and generating profitable growth. The cooperation framework contemplates the following main objectives:

Long term guidelines to the relationship economics: Concentrate prices for sparkling beverages in Mexico will gradually increase over a three-year period beginning in July 2017 through July 2020. Based on our internal estimates for revenues and sales volume mix, we currently expect the incremental cost in Mexico to be the Mexican peso equivalent of approximately US$35 million per year for each year during such period.

Other Concentrate Price Adjustments. Potential future concentrate price adjustments for sparkling beverages and flavored water in Mexico will take into account investment and profitability levels that are beneficial both to us and The Coca-Cola Company.

Marketing and commercial strategies. We and The Coca-Cola Company are committed to implementing marketing and commercial strategies as well as productivity programs to maximize profitability. We believe that these initiatives will partially mitigate the effects of concentrate price adjustments.

The Coca-Cola Company also recognizes our strong operating model and execution capabilities. With respect to territories of The Coca-Cola Company s Bottling Investments Group that it may divest in the future, we have reached an understanding with The Coca-Cola Company to assess, on a preferred basis, the acquisition of available territories.

Bottler Agreements

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers. 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 Coca-Cola FEMSA is required to purchase concentrate for all *Coca-Cola* trademark beverages in all of its territories from companies designated by The Coca-Cola Company and sweeteners and other raw materials from companies authorized by The Coca-Cola Company.

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

The bottler agreements include an acknowledgment by Coca-Cola FEMSA that The Coca-Cola Company is the sole owner of the trademarks that identify the *Coca-Cola* trademark beverages and of the formulas with which The Coca-Cola Company s concentrates are made. Subject to Coca-Cola FEMSA s exclusive right to distribute *Coca-Cola* trademark beverages in its territories, The Coca-Cola Company reserves the right to import and export *Coca-Cola* trademark beverages to and from each of Coca-Cola FEMSA s territories. Coca-Cola FEMSA s bottler agreements do not contain restrictions on The Coca-Cola Company s ability to set the price of concentrates and do not impose minimum marketing obligations on The Coca-Cola Company. The prices at which Coca-Cola FEMSA purchases concentrate under the bottler agreements may vary materially from the prices Coca-Cola FEMSA has historically paid. However, under Coca-Cola FEMSA s bylaws and the shareholders agreement among The Coca-Cola Company and certain of its subsidiaries and us, an adverse action by The Coca-Cola Company under any of the bottler agreements may result in a suspension of certain voting rights of the directors appointed by The Coca-Cola Company. This provides Coca-Cola FEMSA with limited protection against The Coca-Cola Company s ability to raise concentrate prices to the extent that such increase is deemed detrimental to us pursuant to such shareholder agreement and our bylaws. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA The Shareholders Agreement.**

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

- maintain plant and equipment, staff and distribution facilities capable of manufacturing, packaging and distributing the *Coca-Cola* trademark beverages in authorized containers in accordance with its bottler agreements and in sufficient quantities to satisfy fully the demand in its territories;
- undertake adequate quality control measures established by The Coca-Cola Company;
- develop, stimulate and satisfy fully the demand for *Coca-Cola* trademark beverages using all approved means, which includes the investment in advertising and marketing plans;
- maintain a sound financial capacity as may be reasonably necessary to assure performance by it and its subsidiaries of its obligations to The Coca-Cola Company; and
- submit annually to The Coca-Cola Company its marketing, management, promotional and advertising plans for the ensuing year.

The Coca-Cola Company contributed a significant portion of Coca-Cola FEMSA s total marketing expenses in Coca-Cola FEMSA s territories during 2016 and has reiterated its intention to continue providing such support as part of Coca-Cola FEMSA s cooperation framework. Although Coca-Cola FEMSA believes that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA The Shareholders Agreement.**

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

As of December 31, 2016, Coca-Cola FEMSA had:

- nine bottler agreements in Mexico: (i) two agreements for the Valley of Mexico territory, which are up for renewal in August 2017 and June 2023, (ii) the agreement for the southeast territory, which is up for renewal in June 2023, (iii) three agreements for the central territory, which are up for renewal in August 2017 (two agreements) and May 2025, (iv) the agreement for the northeast territory, which is up for renewal in August 2017, and (v) two agreements for the Bajio territory, which are up for renewal in August 2017 and May 2025;

- nine bottler agreements in Brazil, which are up for renewal in October 2017 (seven agreements) and April 2024 (two agreements); and

- one bottler agreement in each of Argentina, which is up for renewal in September 2024, Colombia, which is up for renewal in June 2024; Venezuela, which is up for renewal in August 2026; Guatemala, which is up for renewal in March 2025; Costa Rica, which is up for renewal in September 2017; Nicaragua, which is up for renewal in May 2026 and Panama, which is up for renewal in November 2024.

The bottler agreements are subject to termination by The Coca-Cola Company in the event of default by Coca-Cola FEMSA. The default provisions include limitations on the change in ownership or control of Coca-Cola FEMSA and the assignment or transfer of the bottler agreements and are designed to preclude any person not acceptable to The Coca-Cola Company from obtaining an assignment of a bottler agreement or from acquiring Coca-Cola FEMSA independently of other rights set forth in the shareholders agreement. These provisions may prevent changes in Coca-Cola FEMSA s principal shareholders, including mergers or acquisitions involving sales or dispositions of Coca-Cola FEMSA s capital stock, which will involve an effective change of control, without the consent of The Coca-Cola Company. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA The Shareholders Agreement.**

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

Material Contracts Relating to our Holding of Heineken Shares

Share Exchange Agreement

On January 11, 2010, FEMSA and certain of our subsidiaries entered into a share exchange agreement, which we refer to as the Share Exchange Agreement, with Heineken Holding N.V. and Heineken N.V. The Share Exchange Agreement required Heineken N.V., in consideration for 100% of the shares of EMPREX Cerveza, S.A. de C.V. (now Heineken Mexico Holding, S.A. de C.V.), which we refer to as EMPREX Cerveza, to deliver at the closing of the Heineken transaction 86,028,019 newly-issued Heineken N.V. shares to FEMSA with a commitment to deliver, pursuant to the ASDI, 29,172,504 Allotted Shares over a period of not more than five years from the date of the closing of the Heineken transaction. As of October 5, 2011, we had received the totality of the Allotted Shares.

The Share Exchange Agreement provided that, simultaneously with the closing of the transaction, Heineken Holding N.V. would swap 43,018,320 Heineken N.V. shares with FEMSA for an equal number of newly issued Heineken Holding N.V. shares. After the closing of the Heineken transaction, we owned 7.5% of Heineken N.V. s shares. This percentage increased to 12.53% upon full delivery of the Allotted Shares and, together with our ownership of 14.94% of Heineken Holding N.V. s shares, represents an aggregate 20% economic interest in the Heineken Group.

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Under the terms of the Share Exchange Agreement, in exchange for such economic interest in the Heineken Group, FEMSA delivered 100% of the shares representing the capital stock of EMPREX Cerveza, which owned 100% of the shares of FEMSA Cerveza. As a result of the transaction, EMPREX Cerveza and FEMSA Cerveza became wholly-owned subsidiaries of Heineken.

The principal provisions of the Share Exchange Agreement are as follows:

- delivery to Heineken N.V., by FEMSA, of 100% of the outstanding share capital of EMPREX Cerveza, which together with its subsidiaries, constitutes the entire beer business and operations of FEMSA in Mexico and Brazil (including the United States and other export business);

- delivery to FEMSA by Heineken N.V. of 86,028,019 new Heineken N.V. shares;

- simultaneously with the closing of the Heineken transaction, a swap between Heineken Holding N.V. and FEMSA of 43,018,320 Heineken N.V. shares for an equal number of newly issued shares in Heineken Holding N.V.;

- the commitment by Heineken N.V. to assume indebtedness of EMPREX Cerveza and subsidiaries amounting to approximately US$ 2.1 billion;

- the provision by FEMSA to the Heineken Group of indemnities customary in transactions of this nature concerning FEMSA and FEMSA Cerveza and its subsidiaries and their businesses;

- FEMSA s covenants to operate the EMPREX Cerveza business in the ordinary course consistent with past practice until the closing of the transaction, subject to customary exceptions, with the economic risks and benefits of the EMPREX Cerveza business transferring to Heineken as of January 1, 2010;

- the provision by Heineken N.V. and Heineken Holding N.V. to FEMSA of indemnities customary in transactions of this nature concerning the Heineken Group; and

- FEMSA s covenants, subject to certain limitations, to not engage in the production, manufacture, packaging, distribution, marketing or sale of beer and similar beverages in Latin America, the United States, Canada and the Caribbean.

Corporate Governance Agreement

On April 30, 2010, FEMSA, CB Equity (as transferee of the Heineken N.V. and Heineken Holding N.V. Exchange Shares and Allotted Shares), Heineken N.V., Heineken Holding N.V. and L Arche Green N.V. (as majority shareholder of Heineken Holding N.V.) entered into a corporate governance agreement, which we refer to as the Corporate Governance Agreement, which establishes the terms of the relationship between Heineken and FEMSA after the closing of the Heineken transaction.

The Corporate Governance Agreement covers, among other things, the following topics:

- FEMSA s representation on the Heineken Holding Board and the Heineken Supervisory Board and the creation of an Americas committee, also with FEMSA s representation;

FEMSA s representation on the selection and appointment committee and the audit committee of the Heineken Supervisory Board;

FEMSA s commitment to not increase its holding in Heineken Holding N.V. above 20% and to not increase its holding in the Heineken Group above a maximum 20% economic interest (subject to certain exceptions); and

FEMSA s agreement not to transfer any shares in Heineken N.V. or Heineken Holding N.V. for a five-year period, subject to certain exceptions, including among others, (i) beginning in the third anniversary, the right to sell up to 1% of all outstanding shares of each of Heineken N.V. and Heineken Holding N.V. in each calendar quarter, and (ii) beginning in the third anniversary, the right to dividend or distribute to its shareholders each of Heineken N.V. and Heineken Holding N.V. shares.

Under the Corporate Governance Agreement, FEMSA is entitled to nominate two representatives to the Heineken Supervisory Board, one of whom will be appointed as its vice-chairman and will also serve as a representative of FEMSA on the Heineken Supervisory Board. Our nominees for appointment to the Heineken Supervisory Board were José Antonio Fernández Carbajal, our Executive Chairman of the Board, and Javier Astaburuaga Sanjines, our Vice President of Corporate Development, who were both approved by Heineken N.V. s general meeting of shareholders. Mr. Fernández Carbajal was also approved to the Heineken Holding N.V. Board of Directors by the general meeting of shareholders of Heineken Holding N.V.

In addition, the Heineken Supervisory Board has created an Americas committee to oversee the strategic direction of the business in the American continent and assess new business opportunities in that region. The Americas committee consists of two existing members of the Heineken Supervisory Board and one FEMSA representative, who acts as the chairman. The chairman of the Americas committee is José Antonio Fernández Carbajal, our Executive Chairman of the Board.

The Corporate Governance Agreement has no fixed term, but certain provisions cease to apply if FEMSA ceases to have the right to nominate a representative to the Heineken Holding N.V. Board of Directors and the Heineken N.V. Supervisory Board. For example, in certain circumstances, FEMSA would be entitled to only one representative on the Heineken Supervisory Board, including in the event that FEMSA s economic interest in the Heineken Group were to fall below 14%, the current FEMSA control structure were to change or FEMSA were to be subject to a change of control. In the event that FEMSA s economic interest in Heineken falls below 7% or a beer producer acquires control of FEMSA, all of FEMSA s corporate governance rights would end pursuant to the Corporate Governance Agreement.

Documents on Display

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its public reference rooms in Washington, D.C., at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Filings we make electronically with the SEC are also available to the public over the Internet at the SEC s website at www.sec.gov.

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ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our business activities require the holding or issuing of derivative financial instruments that expose us to market risks related to changes in interest rates, foreign currency exchange rates, equity risk and commodity price risk.

Interest Rate Risk

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. At December 31, 2016, we had outstanding total debt of Ps. 139,248 million, of which 8.9% bore interest at variable interest rates and 91.1% bore interest at fixed interest rates. After giving effect to these contracts, as of December 31, 2016, 68.6% of our total debt was fixed rate and 31.4% of our total debt was variable rate (the total amount of debt and of variable rate debt and fixed rate debt used in the calculation of this percentage was obtained by converting only the units of investment debt for the related cross-currency swap, and it also includes the effect of related interest rate swaps). The interest rate on our variable rate debt is determined by reference to the London Interbank Offered Rate, or LIBOR, (a benchmark rate used for Eurodollar loans), the *Tasa de Interés Interbancaria de Equilibrio* (Equilibrium Interbank Interest Rate, or TIIE), and the *Certificados de la Tesorería* (Treasury Certificates, or CETES) rate. If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our derivative financial instruments that are sensitive to changes in interest rates and exchange rates. The table presents notional amounts and weighted average interest rates by expected contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on the reference rates on December 31, 2016, plus spreads contracted by us. Our derivative financial instruments current payments are denominated in U.S. dollars and Mexican pesos. All of the payments in the table are presented in Mexican pesos, our reporting currency, utilizing the December 31, 2016 exchange rate of Ps. 20.6640 per U.S. dollar.

The table below also includes the estimated fair value as of December 31, 2016 of:

- short and long-term debt, based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities;
- long-term notes payable and capital leases, based on quoted market prices; and
- cross-currency swaps and interest rate swaps, based on quoted market prices to terminate the contracts as of December 31, 2016.

As of December 31, 2016, the fair value represents an increase in total debt of Ps. 1,036 million more than book value.

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Principal by Year of Maturity

(in millions of Mexican pesos)	At December 31,(1) 2017	2018	2019	2020	2021	2022 and Thereafter	Carrying Value at December 31, 2016	Fair Value at December 31, 2016	Carrying Value at December 31, 2015(1)
Short-term debt:									
Fixed rate debt:									
Colombian pesos									
Bank loans	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	**Ps.**	**Ps.**	Ps. 219
Interest rate									6.5%
Argentine pesos									
Bank loans	644						**644**	669	165
Interest rate	32.0%						**32.0%**		26.2%
Chilean pesos									
Bank loans	338						**338**	338	1,442
Interest rate	4.3%						**4.3%**		4.2%
Finance leases									10
Interest rate									2.4%
U.S. dollars									
Bank loans	206						**206**	208	
Interest rate	3.4%						**3.4%**		
Variable rate debt:									
Colombian pesos									
Bank loans	723						**723**	720	235
Interest rate	9.1%						**9.1%**		8.2%
Brazilian reais									
Bank loans									168
Interest rate									14.8%
Chilean pesos									
Bank loans	1						**1**	1	
Interest rate	10.0%						**10.0%**		
Total short-term debt	Ps. 1,912	Ps.	Ps.	Ps.	Ps.	Ps.	**Ps. 1,912**	**Ps.** 1,936	Ps. 2,239
Long-term debt:									
Fixed rate debt:									
Euro									
Senior unsecured notes	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 21,627	**Ps. 21,627**	Ps. 22,178	
Interest rate						1.8%	**1.8%**		
U.S. dollars									
Senior notes		20,625		10,297		30,781	**61,703**	64,230	Ps. 51,333
Interest rate		2.4%		4.6%		4.4%	**3.8%**		3.8%
Senior notes due 2023						6,117	**6,117**	5,953	5,068
Interest rate						2.9%	**2.9%**		2.9%
Senior notes due 2043						14,128	**14,128**	13,749	11,675
Interest rate						4.4%	**4.4%**		4.4%
Finance leases	7	6	5	2			**20**	20	
Interest rate	4.0%	4.0%	3.8%	4.0%			**3.9%**		
Mexican pesos									
Units of investment (UDIs)	3,245						**3,245**	3,245	3,385
Interest rate	4.2%						**4.2%**		4.2%
Domestic senior notes					2,497	7,494	**9,991**	8,983	9,989
Interest rate					8.3%	5.5%	**6.2%**		6.2%
Brazilian reais									
Bank loans	282	227	106	50	41	36	**742**	714	819
Interest rate	4.7%	5.1%	7.4%	5.1%	5.1%	5.1%	**5.3%**		6.0%
Finance leases									460
Interest rate									