

COCA COLA FEMSA SAB DE CV

Form 20-F

March 15, 2013

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As filed with the Securities and Exchange Commission on March 14, 2013.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

For the fiscal year ended December 31, 2012

Commission file number 1-12260

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

(Exact name of registrant as specified in its charter)

Not Applicable

(Translation of registrant's name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

Calle Mario Pani No. 100,

Santa Fe Cuajimalpa,

05348, México, D.F., México

(Address of principal executive offices)

José Castro

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

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

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary shares, each representing 10 Series L shares, without par value	New York Stock Exchange, Inc.
Series L shares, without par value	New York Stock Exchange, Inc. (not for trading, for listing purposes only)

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

None

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

None

The number of outstanding shares of each class of capital or common stock as of December 31, 2012 was:

992,078,519 Series A shares, without par value

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583,545,678 Series D shares, without par value

454,920,107 Series L shares, without par value

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

Yes

No

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

Yes

No

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

Yes

No

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

Yes

No

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

IFRS

Other

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

Item 17

Item 18

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

Yes

No

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INTRODUCTION

References

Unless the context otherwise requires, the terms Coca-Cola FEMSA, our company, we, us and our are used in this annual report to refer to Coca-Cola FEMSA, S.A.B. de C.V. and its subsidiaries on a consolidated basis.

References herein to U.S. dollars, US\$, dollars or \$ are to the lawful currency of the United States of America. References herein to Mexican pesos or Ps. are to the lawful currency of Mexico.

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

References to *Coca-Cola* trademark beverages in this annual report refer to products described in **Item 4. Information on the Company The Company Our Products.**

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps.12.96 to US\$ 1.00, the exchange rate for Mexican pesos on December 31, 2012, the last day in 2012 for which information is available, according to the U.S. Federal Reserve Board. On March 8, 2013, this exchange rate was Ps. 12.65 to US\$ 1.00. See **Item 3. Key Information Exchange Rate Information** for information regarding exchange rates since January 1, 2008.

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

Sources

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

Forward-Looking Information

This annual report contains words such as believe, expect, anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views 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 The Coca-Cola Company, movements in the prices of raw materials, competition, significant developments in economic or political conditions in Latin America or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

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Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

SELECTED CONSOLIDATED FINANCIAL DATA

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

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

Pursuant to IFRS, the information presented in this annual report presents financial information for 2012 and 2011 in nominal terms that has been presented in Mexican pesos, taking into account local inflation of each 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 an hyperinflationary economic environment. For each non-hyperinflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for equity and the average exchange rate for the income statement.

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

Except when specifically indicated, information in the annual report on Form 20-F is presented as of December 31, 2012 and does not give effect to acquisitions subsequent to that date.

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 consolidated financial statements for our significant accounting policies.

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	Year Ended December 31,		
	2012 ^{(1) (2)}	2012 ⁽²⁾	2011 ⁽³⁾
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)		
Income Statement Data:			
IFRS			
Total revenues	US\$ 11,396	Ps. 147,739	Ps. 123,224
Cost of goods sold	6,102	79,109	66,693
Gross profit	5,294	68,630	56,531
Administrative expenses	480	6,217	5,140
Selling expenses	3,103	40,223	32,093
Other income	42	545	685
Other expenses	115	1,497	2,060
Interest expenses	151	1,955	1,729
Interest income	33	424	616
Foreign exchange gain, net	21	272	61
Gain on monetary position for subsidiaries in hyperinflationary economies			61
Market value (gain) loss on financial instruments	(1)	(13)	138
Income before income taxes and share of the profit of associated companies and joint ventures accounted for using the equity method	1,542	19,992	16,794
Income taxes	484	6,274	5,667
Share of the profit of associated companies and joint ventures accounted for using the equity method, net of taxes	14	180	86
Consolidated net income	1,072	13,898	11,213
Equity holders of the parent	1,028	13,333	10,662
Non-controlling interest	44	565	551
Consolidated net income	1,072	13,898	11,213
Ratio to Revenues (%)			
Gross margin		46.5	45.9
Net income margin		9.4	9.1
Balance Sheet Data:			
IFRS			
Cash and cash equivalents	US\$ 1,791	Ps. 23,222	Ps. 11,843
Marketable securities	1	12	330
Accounts receivable, net, Inventories, Recoverable taxes, Other current financial assets and Other current assets	1,749	22,663	20,551
Total current assets	3,541	45,897	32,724
Investment in associated companies and joint ventures	413	5,352	3,656
Property, plant and equipment, net	3,280	42,517	38,102

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Intangible assets, net	5,169	67,013	62,163
Deferred tax, other non-current financial assets and other non-current assets, net	411	5,324	5,093
Total assets	12,814	166,103	141,738
Bank loans and notes payable	324	4,194	638
Current portion of non-current debt	73	945	4,902
Interest payable	15	194	206
Other current liabilities	1,867	24,217	20,029
Total current liabilities	2,279	29,550	25,775
Bank loans and notes payable	1,911	24,775	16,821
Other non-current liabilities	537	6,950	6,061
Total non-current liabilities	2,448	31,725	22,882
Total liabilities	4,727	61,275	48,657
Total equity	8,087	104,828	93,081
Non-controlling interest in consolidated subsidiaries	245	3,179	3,053
Equity attributable to equity holders of the parent	7,842	101,649	90,028
Financial Ratios (%)			
Current ⁽⁵⁾		1.55	1.27
Leverage ⁽⁶⁾		0.58	0.52
Capitalization ⁽⁷⁾		0.23	0.20
Coverage ⁽⁸⁾		15.45	12.48
Share Data			
A Shares		992,078,519	992,078,519
D Shares		583,545,678	583,545,678
L Shares		454,920,107	334,406,004
Number of outstanding shares		2,030,544,304	1,910,030,201
Data per share (U.S. dollars and Mexican pesos)			
Book Value ⁽⁹⁾	3.86	50.06	45.34
Earnings per share ⁽¹⁰⁾	0.51	6.62	5.72
Ratio of Earnings to Fixed Charges		9.81	8.09

- (1) Translation to U.S. dollar amounts at an exchange rate of Ps. 12.96 to US\$ 1.00 solely for the convenience of the reader.
- (2) Includes results of Grupo Fomento Queretano from May 2012. See **Item 4 Information on the Company The Company Corporate History**.
- (3) Includes results of Grupo Tampico from October 2011 and from Grupo CIMSA from December 2011. See **Item 4 Information on the Company The Company Corporate History**.
- (4) Includes investments in property, plant and equipment, refrigeration equipment and returnable bottles and cases, net of property, plant and equipment retirement.
- (5) Computed by dividing Total current assets by Total current liabilities.
- (6) Computed by dividing Total liabilities by Total equity.
- (7) Computed by adding Current bank loans and notes payable, Current portion of non-current debt and Non-current bank loans and notes payable, and dividing such sum by the sum of Total equity and Non-current bank loans and notes payable.
- (8) Computed by dividing Net cash flows from operating activities by the difference between Interest expense and Interest income.
- (9) Based on 2,030.54 million and 1,985.45 million ordinary shares as of December 31, 2012 and 2011, respectively.
- (10) Computed of the basis of the weighted average number of shares outstanding during the period: 2,015.14 and 1,865.55 million in 2012 and 2011, respectively.

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The following table sets forth the nominal amount in Mexican pesos of dividends declared and paid per share each year and the U.S. dollar amounts on a per share basis actually paid to holders of American Depositary Shares, which we refer to as ADSs, on each of the respective payment dates.

Fiscal Year with Respect to which Dividend was Declared	Date Dividend Paid	Mexican Pesos per Share (Nominal)	U.S. Dollars per Share⁽¹⁾
2009	April 26, 2010	1.410	0.116
2010	April 27, 2011	2.360	0.204
2011	May 30, 2012	2.770	0.121
2012 ⁽²⁾	May 2, 2013 and November 5, 2013 ⁽³⁾	1.45	⁽⁴⁾

- (1) Expressed in U.S. dollars using the exchange rate applicable when the dividend was paid.
- (2) The dividend payment declared for the fiscal year 2012 was divided into two equal payments. The first payment is estimated to be payable after May 2, 2013, and the second payment is estimated to be payable after November 5, 2013.
- (3) Estimated payment date since dividends for 2012 have not been paid at the time of this annual report.
- (4) Since dividends for 2012 have not been paid at the time of this annual report, the U.S. dollar per share amount has not been determined. The declaration, amount and payment of dividends are subject to approval by a simple majority of the shareholders up to an amount equivalent to 20% of the preceding years' retained earnings and by a majority of the shareholders of each of the Series A and Series D shares voting together as a single class above 20% of the preceding years' retained earnings, generally upon the recommendation of our board of directors, and will depend upon our results, financial condition, capital requirements, general business conditions and the requirements of Mexican law. Accordingly, our historical dividend payments are not necessarily indicative of future dividends.

Holders of Series L shares, including in the form of ADSs, are not entitled to vote on the declaration and payments of dividends.

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The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rate expressed in Mexican pesos per U.S. dollar.

Period	Exchange Rate			End of Period
	High	Low	Average ⁽¹⁾	
2008	Ps. 13.94	Ps. 9.92	Ps. 11.21	Ps. 13.83
2009	15.41	12.63	13.58	13.06
2010	13.19	12.16	12.64	12.38
2011	14.25	11.51	12.43	13.95
2012	14.37	12.63	13.14	12.96

Source: U.S. Federal Reserve Board.

(1) Average month-end rates.

	Exchange Rate		
	High	Low	End of Period
2011:			
First Quarter	Ps. 12.25	Ps. 11.92	Ps. 11.92
Second Quarter	11.97	11.51	11.72
Third Quarter	13.87	11.57	13.77
Fourth Quarter	14.25	13.10	13.95
2012:			
First Quarter	Ps. 13.75	Ps. 12.63	Ps. 12.81
Second Quarter	14.37	12.73	13.41
Third Quarter	13.72	12.74	12.86
Fourth Quarter	13.25	12.71	12.96
September	13.18	12.74	12.86
October	13.09	12.71	13.09
November	13.25	12.92	12.92
December	13.01	12.72	12.96
2013:			
January	Ps. 12.79	Ps. 12.59	Ps. 12.73
February	12.88	12.63	12.78

Source: U.S. Federal Reserve Board.

On March 8, 2013, the exchange rate was Ps. 12.65 to US\$ 1.00, according to the U.S. Federal Reserve Board.

We pay all cash dividends in Mexican pesos. As a result, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of our ADSs, which represent ten Series L shares, on conversion by the depositary for our ADSs of cash dividends on the shares represented by such ADSs. In addition, fluctuations in the exchange rate between the Mexican peso and the U.S. dollar would affect the market price of our ADSs.

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RISK FACTORS

Risks Related to Our Company

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

Substantially all of our sales are derived from sales of *Coca-Cola* trademark beverages. We produce, market, sell and distribute *Coca-Cola* trademark beverages through standard bottler agreements in certain territories in Mexico and Latin America, which we refer to as our territories. **See Item 4. Information on the Company The Company Our Territories.** Through its rights under our bottler agreements and as a large shareholder, The Coca-Cola Company has the right to participate in the process for making important decisions related to our business.

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

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

We depend on The Coca-Cola Company to renew our bottler agreements. As of December 31, 2012, we had eight bottler agreements in Mexico: (i) the agreements for Mexico's Valley territory, which expire in June 2013 and April 2016, (ii) the agreements for the Central territory, which expire in August 2013, May 2015 and July 2016, (iii) the agreement for the Northeast territory, which expires in September 2014, (iv) the agreement for the Bajío territory, which expires in May 2015, and (v) the agreement for the Southeast territory, which expires in June 2013. Our bottler agreements with The Coca-Cola Company will expire for our territories in other countries as follows: Argentina in September 2014; Brazil in April 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016 and Panama in November 2014. All of our bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew the applicable agreement. In addition, these agreements generally may be terminated in the case of material breach. **See Item 4. Information on the Company Bottler Agreements.** Termination would prevent us from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on our business, financial condition, results and prospects.

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

The Coca-Cola Company and Fomento Económico Mexicano, S.A.B. de C.V., which we refer to as FEMSA, have substantial influence on the conduct of our business. As of March 8, 2013, The Coca-Cola Company indirectly owned 28.7% of our outstanding capital stock, representing 37.0% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint five of our maximum of 21 directors and the vote of at least two of them is required to approve certain actions by our board of directors. As of March 8, 2013, FEMSA indirectly owned 48.9% of our outstanding capital stock, representing 63.0% of our capital stock with full voting rights. FEMSA is entitled to appoint 13 of our maximum of 21 directors and all of our executive officers. The Coca-Cola Company and FEMSA together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval by our board of directors, and FEMSA and The Coca-Cola Company together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval of our shareholders. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.** The interests of The Coca-Cola Company and FEMSA may be different from the interests of our remaining shareholders, which may result in us taking actions contrary to the interests of our remaining shareholders.

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Competition could adversely affect our financial performance.

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

Changes in consumer preference could reduce demand for some of our products.

The non-alcoholic beverage industry is rapidly evolving as a result of, among other things, changes in consumer preferences. Specifically, consumers are becoming increasingly more aware of and concerned about environmental and health issues. Concerns over the environmental impact of plastic may reduce the consumption of our products sold in plastic bottles or result in additional taxes that would adversely affect consumer demand. In addition, researchers, health advocates and dietary guidelines are encouraging consumers to reduce their consumption of certain types of beverages sweetened with sugar and High Fructose Corn Syrup (HFCS), which could reduce demand for certain of our products. A reduction in consumer demand would adversely affect our results.

Water shortages or any failure to maintain existing concessions could adversely affect our business.

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

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

We cannot assure you that water will be available in sufficient quantities to meet our future production needs or will prove sufficient to meet our water supply needs.

Increases in the prices of raw materials would increase our cost of goods sold and may adversely affect our results.

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

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

Taxes could adversely affect our business.

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

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

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

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

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

Regulatory developments may adversely affect our business.

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

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

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

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

In May 2012, the Venezuelan government adopted significant changes to labor regulations. This amendment to Venezuela's labor regulations could have a negative impact on our business and operations. The principal changes that impact our operations 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) the reduction of the maximum daily and weekly work hours (from 44 to 40 weekly); and (iv) the increase in obligatory weekly breaks, prohibiting any corresponding reduction in salaries.

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

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

Weather conditions may adversely affect our results.

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

We now conduct business in countries in which we have not previously operated and that present different or greater risks than certain countries in Latin America.

As a result of the acquisition of 51% of the outstanding shares of the Coca-Cola Bottlers Philippines, Inc. (CCBPI), we have expanded our geographic reach from Latin America to include the Philippines. The Philippines presents different risks than the risks we face in Latin America. We have not previously conducted business in CCBPI's territories. We now face competitive pressures that are different than those we have historically faced. In the Philippines, we are the only beverage company competing across categories, and we face significant competition in each category. In addition, the per capita income of the population in Philippines is lower than the average per capita income in the countries in which we currently operate, and the distribution and marketing practices in the Philippines differ from our historical practices. We may have to adapt our marketing and distribution strategies to compete effectively. Our inability to compete effectively may have an adverse effect on our

future operating results. See **Item 4. Information on the Company** **The Company** **Recent Acquisitions.**

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Risks Related to the Series L shares and the ADSs

Holders of our Series L shares have limited voting rights.

Holders of our Series L shares are entitled to vote only in certain circumstances. In general terms, they may elect up to three of our maximum of 21 directors and are only entitled to vote on specific matters, including certain changes in our corporate form, mergers involving our company when our company is the merged entity or when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of our shares on the Mexican Stock Exchange or any other foreign stock exchange, and those matters for which the *Ley de Mercado de Valores* (Mexican Securities Market Law) expressly allows them to vote. As a result, Series L shareholders will not be able to influence our business or operations. See **Item 7. Major Shareholders and Related Party Transactions Major Shareholders** and **Item 10. Additional Information Bylaws Voting Rights, Transfer Restrictions and Certain Minority Rights**.

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

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

The protections afforded to non-controlling interest shareholders in Mexico are different from those afforded to minority shareholders in the United States and investors may experience difficulties in enforcing civil liabilities against us or our directors, officers and controlling persons.

Under the Mexican Securities Market Law, the protections afforded to non-controlling interest shareholders are different from, and may be less than, those afforded to minority shareholders in the United States. Therefore, it may be more difficult for non-controlling interest shareholders to enforce their rights against us, our directors or our controlling interest shareholders than it would be for minority shareholders of a U.S. company.

In addition, we are organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States, and all or a substantial portion of our assets and the assets of our directors, officers and controlling persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws.

The enforceability against our directors, officers and controlling persons in Mexico in actions for enforcement of judgments of U.S. courts, and liabilities predicated solely upon the U.S. federal securities laws will be subject to certain requirements provided for in the Mexican Federal Civil Procedure Code and any applicable treaties. Some of the requirements may include personal service of process and that the judgments of U.S. courts are not against Mexican public policy. The Mexican Securities Market Law, which is considered Mexican public policy, provides that in the event of actions derived from any breach of the duty of care and the duty of loyalty against our directors and officers, any remedy would be exclusively for the benefit of our company. Therefore, investors would not be directly entitled to any remedies under such actions.

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

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

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Holders of Series L shares in the United States and holders of ADSs may not be able to participate in any capital offering and as a result may be subject to dilution of their equity interests.

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

We may decide not to file a registration statement with the SEC that would allow holders of our shares or ADSs who are located in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, the sale by the ADS depository of preemptive rights and the distribution of the proceeds from such sales to the holders of our shares in the form of ADSs is not possible. As a result, the equity interest of holders of our shares in the form of ADSs would be diluted proportionately. See **Item 10. Additional Information Bylaws Preemptive Rights.**

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

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

We are a Mexican corporation, and our Mexican operations are our single most important geographic territory. For the year ended December 31, 2012, 39.2% and 40.7% of our total revenues and gross profit, respectively, were attributable to Mexico. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect the Mexican economy. Prolonged periods of weak economic conditions in Mexico 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 be significantly affected by the general condition of the Mexican economy, or by the rate of inflation and interest rates in Mexico and exchange rates for 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. See **Item 11. Quantitative and Qualitative Disclosures about Market Risk.** In addition, an increase in interest rates in Mexico would increase the cost to us of variable rate, Mexican peso-denominated funding, which constituted approximately 19.02% of our total debt as of December 31, 2012, and have an adverse effect on our financial position. See **Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.**

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

Depreciation of the Mexican peso relative to the U.S. dollar increases the cost to us of some 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 may therefore negatively affect our results, financial position and equity. Significant fluctuation of the Mexican peso relative to the U.S. dollar has occurred in the past, for example, at the end of 2008 and into 2009; and again at the end of 2011, negatively affecting our results. According to the U.S. Federal Reserve Board, the exchange rate in 2012 registered a low of Ps. 12.63 to US\$ 1.00 on February 6, 2012, and a high of Ps. 14.37 to US\$ 1.00 on June 1, 2012. As of December 31, 2012, the exchange rate was Ps. 12.96 to U.S.\$ 1.00. As of March 8, 2013, the exchange rate was Ps. 12.65 to US\$ 1.00. See **Item 3. Key Information Exchange Rate Information** and **Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.**

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

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Political events in Mexico could adversely affect our operations.

Mexican political events may significantly affect our operations. On July 2012, the presidential election in Mexico led to the election of a new president and political party, Enrique Peña Nieto of the Partido Revolucionario Institucional. Mexico's new president may implement significant changes in laws, public policy and/or regulations that could affect Mexico's political and economic situation. Any such changes may have an adverse effect on our business.

Political disagreements between the executive and the legislative branches could result in deadlock and prevent the timely implementation of political and economic reforms. 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 or results.

Economic and political conditions in the other countries in which we operate may increasingly adversely affect our business.

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

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

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

Venezuelan political events may affect our operations. Although Venezuela expects to hold elections, in light of the death of President Hugo Chavez, political uncertainty remains. We cannot provide any assurances that political developments in Venezuela, over which we have no control, will not have an adverse effect on our business, financial condition or results.

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

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

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

Table of Contents**Item 4. Information on the Company****THE COMPANY****Overview**

We are the largest franchise bottler of *Coca-Cola* trademark beverages in the world. We operate in territories in the following countries:

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

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

Colombia most of the country.

Venezuela nationwide.

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

Argentina Buenos Aires and surrounding areas.

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

The following is an overview of our operations by reporting segment in 2012.

Operations by Reporting Segment Overview**Year Ended December 31, 2012⁽¹⁾**

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

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- (1) Expressed in millions of Mexican pesos, except for percentages.
- (2) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama. Includes results of Grupo Fomento Queretano from May 2012.
- (3) Includes Colombia, Brazil and Argentina.

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Corporate History

We are a subsidiary of FEMSA, which also owns Oxxo, the largest Mexican convenience store chain, and which formerly owned FEMSA Cerveza, now Cuauhtémoc Moctezuma Holding, S.A. de C.V., a brewer with operations in Mexico and Brazil, currently a wholly owned subsidiary of the Heineken Group. On April 30, 2010, FEMSA exchanged 100% of its beer operations for a 20% economic interest in the Heineken Group.

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

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

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

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

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

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

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

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

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

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

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

In August 2010, we acquired from The Coca-Cola Company, along with other Brazilian *Coca-Cola* bottlers, the business operations of the *Matte Leao* tea brand. As of March 8, 2013, we had a 19.4% indirect interest in the Matte Leao business in Brazil.

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

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

In December 2011, we closed our merger with Corporación de los Angeles, S.A. de C.V. and its shareholders (Grupo CIMSA), a Mexican family-owned *Coca-Cola* bottler with operations mainly in the states of Morelos and Mexico, as well as in parts of the states of Guerrero and Michoacán. This franchise territory sold 154.8 million unit cases of beverages in 2011. The aggregate enterprise value of this transaction was Ps. 11,000 million and we issued a total of 75.4 million new Series L shares in connection with this transaction. We began to consolidate Grupo CIMSA in our financial statements as of December 2011. As part of our merger with Grupo CIMSA, we also acquired a 13.2% equity interest in Promotora Industria Azucarera, S.A de C.V. (Piasa).

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

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

Recent Acquisitions

In December 2012, we reached an agreement with The Coca-Cola Company to acquire a 51% non-controlling majority stake of CCBPI for US\$ 688.5 million in an all-cash transaction. We closed this transaction on January 25, 2013. The implied enterprise value of 100% of CCPBI is US\$ 1,350 million. We will have an option to acquire all of the remaining 49% of the capital stock of CCBPI at any time during the seven years following the closing, at the same enterprise value adjusted for a carrying cost and certain other adjustments. We will have a put option, exercisable six years after the initial closing, to sell our ownership in CCBPI back to The Coca-Cola Company at a price that will be calculated using the same EBITDA multiple used in the acquisition of the 51% stake

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of CCBPI, capped at the aggregate enterprise value for the amount acquired, adjusted for certain items. We will be managing the day-to-day operations of the business. The Coca-Cola Company will have certain rights on the operational business plan. Given the terms of both the options agreements and our shareholders agreement with The Coca-Cola Company, we will not consolidate the results of CCBPI. We will recognize the results of CCBPI using the equity method. CCBPI sold approximately 531 million unit cases of beverages during 2012 and generated revenues of approximately US\$ 1.1 billion.

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

Capital Stock

As of March 8, 2013, FEMSA indirectly owned Series A Shares equal to 48.9% of our capital stock (63.0% of our capital stock with full voting rights). As of March 8, 2013, The Coca-Cola Company indirectly owned Series D shares equal to 28.7% of the capital stock of our company (37.0% of our capital stock with full voting rights). Series L shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange, constitute the remaining 22.4% of our capital stock.

Business Strategy

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

Introduction Business Divisions.

We operate with a large geographic footprint in Latin America, in two divisions:

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

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

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

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

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

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

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

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

replicating our best practices throughout the value chain;

rationalizing and adapting our organizational and asset structure in order to be in a better position to respond to a changing competitive environment;

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

broadening our geographic footprint through organic growth and strategic joint ventures, mergers and acquisitions.

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

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

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

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

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Our Territories

The following map shows our territories, giving estimates in each case of the population to which we offer products, the number of retailers of our beverages and the per capita consumption of our beverages as of December 31, 2012:

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

Table of Contents**Our Products**

We produce, market, sell and distribute *Coca-Cola* trademark beverages. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters, and still beverages (including juice drinks, coffee, teas, milk, value-added dairy and isotonic). The following table sets forth our main brands as of December 31, 2012:

	Mexico and Central America ⁽¹⁾	South America ⁽²⁾	Venezuela
<i>Colas:</i>			
<i>Coca-Cola</i>	ü	ü	ü
<i>Coca-Cola Light</i>	ü	ü	ü
<i>Coca-Cola Zero</i>	ü	ü	

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

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

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

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

Sales Overview

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

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

- (1) Includes results of Grupo Fomento Queretano from May 2012, Grupo CIMSA from December 2011 and Grupo Tampico from October 2011.
(2) Includes Guatemala, Nicaragua, Costa Rica and Panama.
(3) Excludes beer sales volume. As of the first quarter of 2010, we began to distribute certain ready to drink products under the *Matte Leao* brand.

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Product and Packaging Mix

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

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

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

The following discussion analyzes our product and packaging mix by reporting segment. The volume data presented is for the years 2012, 2011 and 2010.

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

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The following table highlights historical sales volume and mix in Mexico and Central America for our products:

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

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

(2) Includes bulk water volumes.

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

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

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

Total sales volume reached 1,871.5 million unit cases in 2012, an increase of 23.9% compared to 1,510.8 million unit cases in 2011. The non-comparable effect of the integration of Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano in Mexico contributed 322.7 million unit cases in 2012 of which 62.5% were sparkling beverages, 5.1% bottled water, 27.9% bulk water and 4.5% still beverages. Excluding the integration of these territories, volume grew 1.9% to 1,538.8 million unit cases. Organically sparkling beverages sales volume increased 2.5% as compared to 2011. The bottled water category, including bulk water, decreased 2.6%. The still beverage category increased 8.9%.

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

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

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

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

(1) Includes bulk water volume.

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

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

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

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

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

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