

MEXICAN ECONOMIC DEVELOPMENT INC

Form 20-F

April 16, 2014

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

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

For the fiscal year ended December 31, 2013

Commission file number 001-35934

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

(Exact name of registrant as specified in its charter)

**Mexican Economic Development, Inc.**

(Translation of registrant's name into English)

**United Mexican States**

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(Jurisdiction of incorporation or organization)

**General Anaya No. 601 Pte.**

**Colonia Bella Vista**

**Monterrey, NL 64410 Mexico**

(Address of principal executive offices)

**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:**

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

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

None

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

None

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

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

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

Yes

No

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

Yes

No

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

Yes

No

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

Yes

No

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

IFRS

Other

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

Item 17

Item 18

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

Yes

No

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### **INTRODUCTION**

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

### **References**

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

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

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

### **Currency Translations and Estimates**

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

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

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

### **Forward-Looking Information**

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

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**ITEMS 1-2. NOT APPLICABLE**

**ITEM 3. KEY INFORMATION**

**Selected Consolidated Financial Data**

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

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

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

Except when specifically indicated, information in this annual report on Form 20-F is presented as of December 31, 2013 and does not give effect to any transaction, financial or otherwise, subsequent to that date.

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

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

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



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

**Dividends**

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

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

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

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

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

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

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

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

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

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

**Exchange Rate Information**

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

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

(1) Average month-end rates.





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|                | Exchange Rate |          |            |
|----------------|---------------|----------|------------|
|                | High          | Low      | Period End |
| <b>2012:</b>   |               |          |            |
| 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      |
| <b>2013:</b>   |               |          |            |
| First Quarter  | Ps.12.88      | Ps.12.32 | Ps.12.32   |
| Second Quarter | 13.41         | 11.98    | 12.99      |
| Third Quarter  | 13.43         | 12.50    | 13.16      |
| Fourth Quarter | 13.25         | 12.77    | 13.10      |
| October        | 13.25         | 12.77    | 13.00      |
| November       | 13.24         | 12.87    | 13.11      |
| December       | 13.22         | 12.85    | 13.10      |
| <b>2014:</b>   |               |          |            |
| January        | Ps.13.46      | Ps.13.00 | Ps.13.36   |
| February       | 13.51         | 13.20    | 13.23      |
| March          | 13.33         | 13.06    | 13.06      |
| First Quarter  | 13.51         | 13.00    | 13.06      |

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**RISK FACTORS**

**Risks Related to Our Company**

**Coca-Cola FEMSA**

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

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

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

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

Coca-Cola FEMSA depends on The Coca-Cola Company to continue with its bottler agreements. As of December 31, 2013, Coca-Cola FEMSA had nine bottler agreements in Mexico: (i) the agreements for Mexico's Valley territory, which expire in April 2016 and June 2023, (ii) the agreements for the Central territory, which expire in August 2014 (two agreements) May 2015 and July 2016, (iii) the agreement for the Northeast territory, which expires in September 2014, (iv) the agreement for the Bajío territory, which expires in May 2015, and (v) the agreement for the Southeast territory, which expires in June 2023. As of December 31, 2013, we had four bottler agreements in Brazil, two expiring in October 2017 and the other two expiring in April 2024. Coca-Cola FEMSA's bottler agreements with The Coca-Cola Company will expire for its territories in other countries as follows: Argentina in September 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016 and Panama in November 2014. All of Coca-Cola FEMSA's bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew the applicable agreement. In addition, these agreements generally may be terminated in the case of material breach. See **Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Bottler Agreements.** Termination would prevent Coca-Cola FEMSA from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on its business, financial condition, results and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In May 2012, the Venezuelan government adopted significant changes to labor regulations, which had a negative impact on Coca-Cola FEMSA's business and operations. The principal changes that impacted Coca-Cola FEMSA's operations are: (i) the requirement that employee terminations are now subject to governmental authorization; (ii) retroactive assessments for any modifications to Coca-Cola FEMSA's severance payment system; (iii) a reduction in the maximum daily and weekly working hours (from 44 to 40 weekly); (iv) an increase in mandatory weekly breaks, prohibiting a reduction in salaries as a result of such increase; and (v) the requirement that all third party contractors participating in the manufacturing and sales processes of its products be included in Coca-Cola FEMSA's payroll by no later than May 2015. Coca-Cola FEMSA is currently in compliance with these labor regulations and expects to include all third party contractors to its payroll by the imposed deadline.

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

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

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

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

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

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

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

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

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

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

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

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

**FEMSA Comercio**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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### ***Heineken is present in a large number of countries.***

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

### ***Strengthening of the Mexican peso compared to the Euro.***

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

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

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

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

## **Risks Related to Our Principal Shareholders and Capital Structure**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Political events in Mexico could adversely affect our operations.***

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

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

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

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

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

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

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

## **ITEM 4. INFORMATION ON THE COMPANY**

### **The Company**

#### **Overview**

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

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

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

FEMSA Comercio, which operates small-format stores; and

CB Equity, which holds our investment in Heineken.

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### Corporate Background

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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**Ownership Structure**

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

**Principal Sub-holding Companies Ownership Structure**

**As of March 31, 2014**

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

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

**Operations by Segment Overview**

**Year Ended December 31, 2013 and % of growth (decrease) vs. last year<sup>(1)</sup>**

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

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

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

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

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

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

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

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

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

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

**Significant Subsidiaries**

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

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

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

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

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### **Business Strategy**

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

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

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

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

### **Coca-Cola FEMSA**

#### **Overview**

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

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

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

Colombia most of the country.

Venezuela nationwide.

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

Argentina Buenos Aires and surrounding areas.

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

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

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

**Operations by Consolidated Reporting Segment Overview**

**Year Ended December 31, 2013**

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

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

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

**Corporate History**

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

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

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

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

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

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

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into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle. Taking into account the participation held by Grupo Yoli, as of April 4, 2014, Coca-Cola FEMSA held an interest of 26.2% in the Mexican joint business. In August 2010, Coca-Cola FEMSA acquired from The Coca-Cola Company along with other Brazilian Coca-Cola bottlers, Leão Alimentos e Bebidas, Ltda. or Leão Alimentos,, manufacturer and distributor of the *Matte Leão* tea brand. In January 2013, Coca-Cola FEMSA's Brazilian joint business of Jugos del Valle merged with Leão Alimentos. Taking into account Coca-Cola FEMSA's participation and the participations held by Companhia Fluminense and Spaipa, as of April 4, 2014, Coca-Cola FEMSA had a 26.1% indirect interest in Leão Alimentos in Brazil.

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

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

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

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

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

In March 2011, Coca-Cola FEMSA together with The Coca-Cola Company, through Compañía Panameña de Bebidas, S.A.P.I. de C.V., acquired 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 October 2011, Coca-Cola FEMSA closed its merger with 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. The aggregate enterprise value of this transaction was Ps. 9,300 million and Coca-Cola FEMSA issued a total of 63.5 million new Series L shares in connection with this transaction. Coca-Cola FEMSA began to consolidate Grupo Tampico in its financial statements in October 2011.

In December 2011, Coca-Cola FEMSA closed its merger with Grupo CIMSA, and its shareholders, 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. The aggregate enterprise value of this transaction was Ps. 11,000 million and Coca-Cola FEMSA issued a total of 75.4 million new Series L shares in connection with this transaction. Coca-Cola FEMSA began to consolidate Grupo CIMSA in its financial statements in December 2011. As part of its 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 closed its merger with Grupo Fomento Queretano, one of the oldest family-owned beverage players in the *Coca-Cola* system in Mexico, with operations mainly in the state of Querétaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. The aggregate enterprise value of this transaction was Ps. 6,600 million and Coca-Cola FEMSA issued a total of 45.1 million new Series L shares in connection with this transaction. Coca-Cola FEMSA began to consolidate Grupo Fomento Queretano in its financial statements in May 2012. As part of its merger with Grupo Fomento Queretano Coca-Cola FEMSA also acquired an additional 12.9% equity interest in Piasa.



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

In May 2013, Coca-Cola FEMSA closed its merger with Grupo Yoli, one of the oldest family-owned Coca-Cola bottlers in Mexico, operating mainly in the state of Guerrero as well as in parts of the state of Oaxaca. Grupo Yoli sold approximately 99 million unit cases in 2012. The aggregate enterprise value of this transaction was Ps. 8,806 million and Coca-Cola FEMSA issued a total of 42.4 million new Series L shares in connection with this transaction. As part of Coca-Cola FEMSA's merger with Grupo Yoli, it also acquired an additional 10.1% equity interest in Piasa for a total ownership above 36.3%. Coca-Cola FEMSA began consolidating the results of Grupo Yoli in its financial statements in June 2013.

In August 2013, Coca-Cola FEMSA closed its acquisition of Companhia Fluminense, a family owned franchise that operates in parts of the states of São Paulo, Minas Gerais and Rio de Janeiro in Brazil. Companhia Fluminense sold approximately 56.6 million unit cases (including beer) in the twelve months ended March 31, 2013. The aggregate enterprise value of this transaction was US\$ 448 million and was an all-cash transaction. As part of its acquisition of Companhia Fluminense, Coca-Cola FEMSA also acquired an additional 1.20% equity interest in Leão Alimentos. Coca-Cola FEMSA began consolidating the results of Companhia Fluminense in its financial statements in September 2013.

In October 2013, Coca-Cola FEMSA closed its acquisition of Spaipa, the second largest family owned franchise in Brazil, with operations in the state of Paraná and in parts of the state of São Paulo. Spaipa sold approximately 233.3 million unit cases (including beer) in the twelve months ended June 30, 2013. The aggregate enterprise value of this transaction was US\$ 1,855 million and was an all-cash transaction. As part of Coca-Cola FEMSA's acquisition of Spaipa, it also acquired an additional 5.82% equity interest in Leão Alimentos, for a total ownership of 26.1%, and a 50% stake in Fountain Água Mineral Ltda., a joint venture to develop the water category together with The Coca-Cola Company. Coca-Cola FEMSA began consolidating the results of Spaipa in its financial statements in November 2013.

**Capital Stock**

As of April 4, 2014, we indirectly owned Series A shares equal to 47.9% of Coca-Cola FEMSA's capital stock (63.0% of the capital stock with full voting rights). As of April 4, 2014, The Coca-Cola Company indirectly owned Series D shares equal to 28.1% of the capital stock of Coca-Cola FEMSA (37.0% of the 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 24.0% of Coca-Cola FEMSA's capital stock.

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### **Business Strategy**

Coca-Cola FEMSA operates with a large geographic footprint in Latin America. In January 2014, Coca-Cola FEMSA restructured its operations under four new divisions: (1) Mexico and Central America (covering certain territories in Mexico and Guatemala, and all of Nicaragua, Costa Rica and Panama), (2) South America (covering certain territories in Argentina, most of Colombia and all of Venezuela), (3) Brazil (covering a major part of the states of São Paulo and Minas Gerais, the states of Paraná and Mato Grosso do Sul and part of the states of Rio de Janeiro and Goiás), and (4) Asia (covering all of the Philippines through a joint venture with The Coca-Cola Company). Through these divisions, Coca-Cola FEMSA expects to create a more flexible structure to execute its strategies and extend its track record of growth. Through December 31, 2013, Coca-Cola FEMSA managed its business under two divisions - Mexico and Central America and South America. With this new business structure, Coca-Cola FEMSA aligned its business strategies more efficiently, ensuring a faster introduction of new products and categories, and a more rapid and effective design and deployment of commercial models.

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

committing to 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.



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

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

Coca-Cola FEMSA focuses on management quality as a key element of its growth strategy and remains committed to fostering the development of quality management at all levels. Coca-Cola FEMSA's Strategic Talent Management Model is designed to enable it to reach its full potential by developing the capabilities of its employees and executives. This holistic model works to build the skills necessary for Coca-Cola FEMSA's 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 has allocated 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 Corporate Values and Ethics. Coca-Cola FEMSA focuses on three core areas, (i) its people, by encouraging the development of its employees and their families; (ii) its communities, by promoting development in the communities it serves, an attitude of health, self-care, adequate nutrition and physical activity, and evaluating the impact of its value chain; and (iii) the planet, by establishing guidelines that it believes will result in efficient use of natural resources to minimize the impact that its operations might have on the environment and create a broader awareness of caring for the environment.

### **Equity Method Investment in CCBPI**

On January 25, 2013, as part of Coca-Cola FEMSA's efforts to expand its geographic reach, it acquired a 51% non-controlling majority stake in CCBPI. Coca-Cola FEMSA currently manages the day-to-day operations of the business; however, The Coca-Cola Company has certain rights with respect to the operational business plan. As of December 31, 2013, Coca-Cola FEMSA's investment under the equity method in CCBPI was Ps. 9,398 million. See Notes 10 and 26 to our consolidated financial statements. Coca-Cola FEMSA's product portfolio in the Philippines consists of *Coca-Cola* trademark beverages and Coca-Cola FEMSA's total sales volume in 2013 reached 515 million unit cases. The operations of CCBPI are comprised of 20 production plants and serve close to 925,000 customers.

The Philippines has one of the highest per capita consumption rates of Coca-Cola products in the region and 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. Our 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, giving estimates in each case of the population to which it offer products, the number of retailers of its beverages and the per capita consumption of its beverages as of December 31, 2013:

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

**Table of Contents****Coca-Cola FEMSA's Products**

Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters and still beverages (including juice drinks, coffee, teas, milk, value-added dairy and isotonic drinks). The following table sets forth Coca-Cola FEMSA's main brands as of December 31, 2013:

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

|                                      | Mexico and<br>Central<br>America <sup>(1)</sup> | South<br>America <sup>(2)</sup> | Venezuela |
|--------------------------------------|---|---------------------------------|-----------|
| <b>Flavored sparkling beverages:</b> |   |                                 |           |
| <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<br>Central<br>America <sup>(1)</sup> | South<br>America <sup>(2)</sup> | Venezuela |
|-------------------------------|---|---------------------------------|-----------|
| <b>Water:</b>                 |   |                                 |           |
| <i>Alpina</i>                 | ü   |                                 |           |
| <i>Aquarius<sup>(3)</sup></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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| <i>Other Categories:</i>                | Mexico and Central America <sup>(1)</sup> | South America <sup>(2)</sup> | Venezuela |
|---|---|------------------------------|-----------|
| <i>Cepita</i> <sup>(4)</sup>            |   | ü                            |           |
| <i>Del Prado</i> <sup>(5)</sup>         | ü   |                              |           |
| <i>Estrella Azul</i> <sup>(6)</sup>     | ü   |                              |           |
| <i>FUZE Tea</i>                         | ü   |                              | ü         |
| <i>Hi-C</i> <sup>(7)</sup>              | ü   | ü                            |           |
| <i>Leche Santa Clara</i> <sup>(8)</sup> | ü   |                              |           |
| <i>Jugos del Valle</i> <sup>(4)</sup>   | ü   | ü                            | ü         |
| <i>Matte Leao</i> <sup>(9)</sup>        |   | ü                            |           |
| <i>Powerade</i> <sup>(10)</sup>         | ü   | ü                            | ü         |
| <i>Valle Frut</i> <sup>(11)</sup>       | ü   | ü                            | ü         |

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

(2) Includes Colombia, Brazil 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 and value-added dairy.

(9) Ready to drink tea.

(10) Isotonic drinks.

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

**Sales Overview**

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

|                                     | Sales Volume             |                     |                     |
|-------------------------------------|--------------------------|---------------------|---------------------|
|                                     | Year Ended December 31,  |                     |                     |
|                                     | 2013 <sup>(1)</sup>      | 2012 <sup>(2)</sup> | 2011 <sup>(3)</sup> |
|                                     | (millions of unit cases) |                     |                     |
| Mexico and Central America          |                          |                     |                     |
| Mexico                              | 1,798.0                  | 1,720.3             | 1,366.5             |
| Central America <sup>(4)</sup>      | 155.6                    | 151.2               | 144.3               |
| South America (excluding Venezuela) |                          |                     |                     |
| Colombia                            | 275.7                    | 255.8               | 252.1               |
| Brazil <sup>(5)</sup>               | 525.2                    | 494.2               | 485.3               |
| Argentina                           | 227.1                    | 217.0               | 210.7               |
| Venezuela                           | 222.9                    | 207.7               | 189.8               |
| Consolidated Volume                 | 3,204.6                  | 3,046.2             | 2,648.7             |

- (1) Includes volume from the operations of Grupo Yoli from June 2013, Companhia Fluminense from September 2013 and Spaipa from November 2013.
- (2) Includes volume from the operations of Grupo Fomento Queretano from May 2012.
- (3) Includes volume from the operations of Grupo Tampico from October 2011 and Grupo CIMSA from December 2011.
- (4) Includes Guatemala, Nicaragua, Costa Rica and Panama.
- (5) Excludes beer sales volume.

#### Product and Packaging Mix

Out of the more than 116 brands and line extensions of beverages that Coca-Cola FEMSA sells and distributes, Coca-Cola FEMSA's most important brand, *Coca-Cola*, together with its line extensions, *Coca-Cola Light*, *Coca-Cola Zero* and *Coca-Cola Life*, accounted for 60.2% of total sales volume in 2013. Coca-Cola FEMSA's next largest brands, *Ciel* (a water brand from Mexico and its line extensions), *Fanta* (and its line extensions), *ValleFrut*



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(and its line extensions), and *Sprite* (and its line extensions) accounted for 12.6%, 4.7%, 2.8% and 2.6%, respectively, of total sales volume in 2013. Coca-Cola FEMSA uses the term line extensions to refer to the different flavors in which it offers its brands. Coca-Cola FEMSA produces, markets, sells and distributes *Coca-Cola* trademark beverages in each of its territories in containers authorized by The Coca-Cola Company, which consist of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles mainly made of polyethylene terephthalate, which we refer to as PET.

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

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 per capita consumption of beverage products as compared to Mexico. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower per capita consumption of beverages. In Venezuela, Coca-Cola FEMSA faces operational disruptions from time to time, which may have an effect on its volumes sold, and consequently, may result in lower per capita consumption.

The following discussion analyzes Coca-Cola FEMSA's product and packaging mix by consolidated reporting segment. The volume data presented is for the years 2013, 2012 and 2011.

**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. In 2012, Coca-Cola FEMSA launched *FUZE* tea in the division. Per capita consumption of Coca-Cola FEMSA's beverage products in Mexico and Central America was 654.0 and 180.6 eight-ounce servings, respectively, in 2013.

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

|   | Year Ended December 31, |                     |                     |
|---|-------------------------|---------------------|---------------------|
|   | 2013 <sup>(1)</sup>     | 2012 <sup>(2)</sup> | 2011 <sup>(3)</sup> |
| <b>Total Sales Volume</b>               |                         |                     |                     |
| Total (millions of unit cases)          | 1,953.6                 | 1,871.5             | 1,510.8             |
| Growth (%)                              | 4.4                     | 23.9                | 9.5                 |
| (in percentages)                        |                         |                     |                     |
| <b>Unit Case Volume Mix by Category</b> |                         |                     |                     |
| Sparkling beverages                     | 73.1                    | 73.0                | 74.9                |
| Water <sup>(4)</sup>                    | 21.2                    | 21.4                | 19.7                |
| Still beverages                         | 5.7                     | 5.6                 | 5.4                 |
| <b>Total</b>                            | <b>100.0</b>            | <b>100.0</b>        | <b>100.0</b>        |

(1) Includes volume from the operations of Grupo Yoli from June 2013.

(2) Includes volume from the operations of Grupo Fomento Queretano from May 2012.

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- (3) Includes volume from the operations of Grupo Tampico from October 2011 and Grupo CIMSA from December 2011.
  
- (4) Includes bulk water volumes.

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In 2013, multiple serving presentations represented 66.2% of total sparkling beverages sales volume in Mexico (including Grupo Fomento Queretano and Grupo Yoli), a 10 basis points decrease compared to 2012; and 56.3% of total sparkling beverages sales volume in Central America, a 50 basis points increase compared to 2012. Coca-Cola FEMSA's strategy is to foster consumption of single serve presentations while maintaining multiple serving volumes. In 2013, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 35.0% in Mexico (including Grupo Fomento Queretano and Grupo Yoli), a 160 basis points increase compared to 2012; and 23.2% in Central America, a 160 basis points decrease compared to 2012.

In 2013, Coca-Cola FEMSA's sparkling beverages volume as a percentage of its total sales volume in its Mexico and Central America division (including Grupo Fomento Queretano and Grupo Yoli) increased marginally to 73.1% as compared to 2012.

Total sales volume in Coca-Cola FEMSA's Mexico and Central America division (including Grupo Fomento Queretano and Grupo Yoli) reached 1,953.6 million unit cases in 2013, an increase of 4.4% compared to 1,871.5 million unit cases in 2012. The non-comparable effect of the integration of Grupo Fomento Queretano and Grupo Yoli in Mexico contributed 89.3 million unit cases in 2013 of which 72.2% were sparkling beverages, 9.9% was water, 13.4% were bulk water and 4.5% were still beverages. Excluding the integration of these territories, volume decreased 0.4% to 1,864.2 million unit cases. Organically, Coca-Cola FEMSA's bottled water portfolio grew 5.1%, mainly driven by the performance of the *Ciel* brand in Mexico. Coca-Cola FEMSA's still beverage category grew 3.7% mainly due to the performance of the *Jugos del Valle* portfolio in the division. These increases partially compensated for the flat volumes in sparkling beverages and a 3.5% decline in the bulk water business.

In 2012, multiple serving presentations represented 66.2% of total sparkling beverages sales volume in Mexico (including Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano), a 140 basis points decrease compared to 2011; and 56.1% of total sparkling beverages sales volume in Central America, a 30 basis points increase compared to 2011. In 2012, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 33.7% in Mexico (including Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano), a 200 basis points increase compared to 2011; and 33.6% in Central America, a 190 basis points increase compared to 2011.

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

Total sales volume in Coca-Cola FEMSA's Mexico and Central America division (including Grupo Tampico, Grupo CIMSA and Grupo Fomento Queretano) 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 Fomento Queretano, Grupo Tampico and Grupo CIMSA 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).*** Coca-Cola FEMSA's product portfolio in South America consists mainly of *Coca-Cola* trademark beverages, including the *Jugos del Valle* line of juice-based beverages in Colombia and Brazil and the *Kaiser* beer brands in Brazil, which we sell and distribute.

In 2010, Coca-Cola FEMSA incorporated ready to drink beverages under the *Matte Leao* brand in Brazil. During 2011, as part of Coca-Cola FEMSA's continuous effort to develop non-carbonated beverages, it launched *Cepita* in non-returnable PET bottles and *Hi-C*, an orangeade, both in Argentina. During 2013, as part of Coca-Cola FEMSA's efforts to foster sparkling beverage per capita consumption in Brazil, it reinforced the 2.0-liter returnable plastic bottle for the *Coca-Cola* brand and introduced two single-serve 0.2 and 0.3 liter presentations. Per capita consumption of Coca-Cola FEMSA's beverages in Colombia, Brazil and Argentina was 150.7, 253.0 and 457.3 eight-ounce servings, respectively, in 2013.

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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, |              |              |
|---|-------------------------|--------------|--------------|
|   | 2013 <sup>(1)</sup>     | 2012         | 2011         |
| <b>Total Sales Volume</b>               |                         |              |              |
| Total (millions of unit cases)          | 1,028.1                 | 967.0        | 948.1        |
| Growth (%)                              | 6.3                     | 2.0          | 4.3          |
| (in percentages)                        |                         |              |              |
| <b>Unit Case Volume Mix by Category</b> |                         |              |              |
| Sparkling beverages                     | 84.1                    | 84.9         | 85.9         |
| Water <sup>(2)</sup>                    | 10.1                    | 10.0         | 9.2          |
| Still beverages                         | 5.8                     | 5.1          | 4.9          |
| <b>Total</b>                            | <b>100.0</b>            | <b>100.0</b> | <b>100.0</b> |

(1) Includes volume from the operations of Companhia Fluminense from September 2013 and Spaipa from November 2013.

(2) Includes bulk water volume.

Total sales volume in Coca-Cola FEMSA's South America division, excluding Venezuela, increased 6.3% to 1,028.1 million unit cases in 2013 as compared to 2012, as a result of growth in Colombia and Argentina and the integration of Companhia Fluminense and Spaipa in its Brazilian territories. These effects compensated for an organic volume decline in Brazil. Excluding the non-comparable effect of Companhia Fluminense and Spaipa, volumes remained flat as compared with the previous year. On the same basis, the still beverage category grew 14.3%, mainly driven by the Jugos del Valle line of business in Colombia and Brazil and the performance of *FUZE tea* in the division. Coca-Cola FEMSA's bottled water portfolio, including bulk water, increased 3.8% mainly driven by the *Bonaqua* brand in Argentina and the *Brisa* brand in Colombia. These increases compensated for a 1.2% decline in the sparkling beverage portfolio.

In 2013, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 37.2% in Colombia, a decrease of 250 basis points as compared to 2012; 22.0% in Argentina, a decrease of 690 basis points and 16.0% in Brazil, excluding the non-comparable effect of Companhia Fluminense and Spaipa, a 170 basis points increase compared to 2012. In 2013, multiple serving presentations represented 66.7%, 85.2% and 72.9% of total sparkling beverages sales volume in Colombia, Argentina and Brazil on an organic basis, respectively.

Total sales volume in Coca-Cola FEMSA's South America division, excluding Venezuela, 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. Coca-Cola FEMSA's growth in still beverages was primarily driven by the Jugos del Valle line of products in Brazil and the *Cepita* juice brand in Argentina. The growth in sales volume of Coca-Cola FEMSA's water portfolio, including bulk water, was driven mainly by the *Crystal* brand in Brazil and the *Brisa* brand in Colombia.

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%, 85.2% and 72.5% of total sparkling beverages sales volume in Colombia, Argentina and Brazil, respectively.

Coca-Cola FEMSA continues to distribute and sell the *Kaiser* beer portfolio in its Brazilian territories through the 20-year term, consistent with the arrangements in place 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, Coca-Cola FEMSA ceased including beer that it distributes in Brazil in its reported sales volumes.

**Venezuela.** Coca-Cola FEMSA's product portfolio in Venezuela consists of *Coca-Cola* trademark beverages. Per capita consumption of Coca-Cola FEMSA's beverages in Venezuela during 2013 was 184.8 eight-ounce servings. At the end of 2011, Coca-Cola FEMSA launched *Del Valle Fresh*, an orangeade, in Venezuela, which contributed significantly to incremental volume growth in this country during 2012. During 2012, Coca-Cola FEMSA launched two new presentations for its 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, |              |              |
|---|-------------------------|--------------|--------------|
|   | 2013                    | 2012         | 2011         |
| <b>Total Sales Volume</b>               |                         |              |              |
| Total (millions of unit cases)          | 222.9                   | 207.7        | 189.8        |
| Growth (%)                              | 7.3                     | 9.4          | (10.0)       |
| (in percentages)                        |                         |              |              |
| <b>Unit Case Volume Mix by Category</b> |                         |              |              |
| Sparkling beverages                     | 85.6                    | 87.9         | 91.7         |
| Water <sup>(1)</sup>                    | 6.9                     | 5.6          | 5.4          |
| Still beverages                         | 7.5                     | 6.5          | 2.9          |
| <b>Total</b>                            | <b>100.0</b>            | <b>100.0</b> | <b>100.0</b> |

(1) Includes bulk water volume.

Coca-Cola FEMSA has implemented a product portfolio rationalization strategy that allows it to minimize the impact of certain operating disruptions that have been recurrent in Venezuela over the last several years related to difficulties in accessing raw materials due to the delay in obtaining the corresponding import authorizations. In addition, from time to time, Coca-Cola FEMSA experiences operating disruptions due to prolonged negotiations of collective bargaining agreements. Despite these difficulties, Coca-Cola FEMSA's beverage volume increased 7.3% in 2013 as compared to 2012.

Total sales volume increased 7.3% to 222.9 million unit cases in 2013, as compared to 207.7 million unit cases in 2012. The sales volume in the sparkling beverage category grew 4.5%, driven by the strong performance of the *Coca-Cola* brand, which grew 10.0%. The bottled water business, including bulk water, grew 33.2% mainly driven by the *Nevada* brand. The still beverage category increased 23.5%, due to the performance of the *Del Valle Fresh* orangeade and *Kapo*.

In 2013, multiple serving presentations represented 80.9% of total sparkling beverages sales volume in Venezuela, a 100 basis points increase compared to 2012. In 2013, returnable presentations represented 6.8% of total sparkling beverages sales volume in Venezuela, a an 80 basis points decrease compared to 2012.

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

**Seasonality**

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

**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 2013, net of contributions by The Coca-Cola Company, were Ps. 5,391 million. The Coca-Cola Company contributed an additional Ps.4,206 million in 2013, 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.

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**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 its retailers is important to ensure that Coca-Cola FEMSA's wide variety of products are properly displayed, while strengthening its 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 in which 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 its 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 consumption such as restaurants and bars, supermarkets and third party distributors. Presence in these channels entails a comprehensive and detailed analysis of the purchasing patterns and preferences of various groups of beverage consumers in each of the different types of locations or distribution channels. In response to this analysis, Coca-Cola FEMSA tailors its product, price, packaging and distribution strategies to meet the particular needs of and exploit the potential of each channel.

**Multi-Segmentation.** Coca-Cola FEMSA has 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 intensity and socio-economic levels, rather than solely on the types of distribution channels.

**Client Value Management.** Coca-Cola FEMSA has been transforming its commercial models to focus on its customers' value potential using a value-based segmentation approach to capture the industry's potential. Coca-Cola FEMSA started the rollout of this new model in its Mexico, Central America, Colombia and Brazil operations in 2009. As of the end of 2013, Coca-Cola FEMSA has covered the totality of the volumes in every operation except for Venezuela and the recently integrated franchises of Grupo Yoli in Mexico and Companhia Fluminense and Spaipa in Brazil.

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

### **Product Sales and Distribution**

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

#### **Product Distribution Summary**

**as of December 31, 2013**

|                          | Mexico and Central America <sup>(1)</sup> | South America <sup>(2)</sup> | Venezuela |
|--------------------------|---|------------------------------|-----------|
| Distribution centers     | 176                                       | 70                           | 34        |
| Retailers <sup>(3)</sup> | 993,522                                   | 769,955                      | 183,879   |

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



(2) Includes Colombia, Brazil and Argentina.

(3) Estimated.

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

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

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

Coca-Cola FEMSA's distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to Coca-Cola FEMSA's 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 Coca-Cola FEMSA's territories, it retains third parties to transport its finished products from the bottling plants to the distribution centers.

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

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

**Brazil.** In Brazil, Coca-Cola FEMSA sold 31.9% of its total sales volume through supermarkets in 2013. Also 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.

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

## **Competition**

Although Coca-Cola FEMSA believes that its products enjoy wider recognition and greater consumer loyalty than those of its principal competitors, the markets in the territories in which Coca-Cola FEMSA operates are highly competitive. Coca-Cola FEMSA's principal competitors are local *Pepsi* bottlers and other bottlers and distributors of national and regional beverage brands. Coca-Cola FEMSA faces increased competition in many of its territories from 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.

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

**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 its 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 national and regional brands in its Mexican territories, as well as B brand producers, such as Ajemex, S.A. de C.V. and Consorcio AGA, S.A. de C.V., that offer various presentations of sparkling and still beverages.

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

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

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

In Argentina, Coca-Cola FEMSA's main competitor is Buenos Aires Embotellador S.A., or 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 in all of its territories for all *Coca-Cola* trademark beverages concentrate from companies designated by The Coca-Cola Company and sweeteners from companies authorized by The Coca-Cola Company. Concentrate prices for sparkling beverages are determined as a percentage of the weighted average retail price in local currency net of applicable taxes. Although The Coca-Cola Company has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with The Coca-Cola Company.

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In the past, The Coca-Cola Company has increased concentrate prices for sparkling beverages in some of the countries in which Coca-Cola FEMSA operates. Most recently, The Coca-Cola Company informed Coca-Cola FEMSA that it will gradually increase concentrate prices for sparkling beverages over a five-year period in Panama and Costa Rica beginning in 2014. Based on Coca-Cola FEMSA's estimates, it does not expect this increase to have a material effect on its results. 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. **See Item 10. Additional Information Material Contracts Material Contracts Relating to Coca-Cola FEMSA Cooperation Framework with The Coca-Cola Company.**

In addition to concentrate, Coca-Cola FEMSA purchases sweeteners, carbon dioxide, resin and preforms to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for most of Coca-Cola FEMSA's beverages. Coca-Cola FEMSA's bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company, including certain of our affiliates. Prices for packaging materials and HFCS historically have been determined with reference to the U.S. dollar, although the local currency equivalent in a particular country is subject to price volatility in accordance with changes in exchange rates. Coca-Cola FEMSA's most significant packaging raw material costs arise from the purchase of resin, plastic preforms to make plastic bottles and finished plastic bottles, which Coca-Cola FEMSA obtains from international and local producers. The prices of these materials are related to crude oil prices and global resin supply. In recent years Coca-Cola FEMSA has experienced volatility in the prices we pay for these materials. Across its territories, Coca-Cola FEMSA's average price for resin in U.S. dollars remained flat in 2013 as compared to 2012.

Under Coca-Cola FEMSA's agreements with The Coca-Cola Company, it may use raw or refined sugar or HFCS as sweeteners in its products. Sugar prices in all of the countries in which Coca-Cola FEMSA operates, other than Brazil, are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay in excess of international market prices for sugar in certain countries. In recent years, international sugar prices experienced significant volatility. Across Coca-Cola FEMSA's territories, its average price for sugar in U.S. dollars decreased approximately 15% in 2013 as compared to 2012.

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* and *Crystal*, from spring water pursuant to concessions granted. **See Item 4. Information on the Company Regulatory Matters Water Supply.**

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

Coca-Cola FEMSA purchases all of its cans from Fábricas de Monterrey, S.A. de C.V., known as FAMOSA, and Envases Universales de México, S.A.P.I. de C.V., through Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a company owned by various *Coca-Cola* bottlers, in which, as of April 4, 2014, Coca-Cola FEMSA held a 35.0% equity interest. Coca-Cola FEMSA mainly purchases its glass bottles from EXCO Integral Services, S.A. de C.V. (formerly Compañía Vidriera, S.A. de C.V., or VITRO), FEVISA Industrial, S.A. de C.V., known as FEVISA, and Glass & Silice, S.A. de C.V.

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 4, 2014, Coca-Cola FEMSA held a 36.3% and 2.7% equity interest, respectively. Coca-Cola FEMSA purchases HFCS from CP Ingredientes, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

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Sugar prices in Mexico are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay higher prices than those paid in the international market for sugar. As a result, sugar prices in Mexico have no correlation to international market prices for sugar. In 2013, sugar prices in Mexico decreased approximately 17% as compared to 2012.

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. Local sugar prices, in the countries that comprise the region, have increased mainly due to volatility in international prices. In Costa Rica, Coca-Cola FEMSA acquires plastic non-returnable bottles from ALPLA C.R. S.A., and in Nicaragua Coca-Cola FEMSA acquires such plastic bottles from ALPLA Nicaragua, S.A.

**South America (excluding Venezuela).** In Colombia, Coca-Cola FEMSA uses sugar as a sweetener in most of its products, which it buy from several domestic sources. Coca-Cola FEMSA purchases plastic bottles from Amcor and Tapón Corona de Colombia S.A. Coca-Cola FEMSA purchases all its glass bottles from Peldar O-I and cans from Crown, both suppliers in which Grupo Ardila Lulle, owners of Coca-Cola FEMSA's competitor Postobón, own a minority equity interest. Glass bottles and cans are available only from these local sources; however, Coca-Cola FEMSA is currently exploring alternative sources.

Sugar is available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil in recent periods have been volatile, mainly due to the increased demand for sugar cane for production of alternative fuels, and Coca-Cola FEMSA's average acquisition cost for sugar in 2013 decreased approximately 5.0% as compared to 2012. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk.** Coca-Cola FEMSA purchases glass bottles, plastic bottles and cans from several domestic and international suppliers.

In Argentina, Coca-Cola FEMSA mainly uses HFCS that it purchase 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 Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina S.A., a *Coca-Cola* bottler with operations in Argentina, Chile and Brazil, and other local suppliers. Coca-Cola FEMSA also acquires plastic preforms from ALPLA Avellaneda S.A. and other suppliers.

**Venezuela.** In Venezuela, Coca-Cola FEMSA uses sugar as a sweetener in most of its products, which it purchase mainly from the local market. Since 2003, from time to time, Coca-Cola FEMSA has experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permission to import in a timely manner. While sugar distribution to the food and beverages industry and to retailers is controlled by the government, Coca-Cola FEMSA did not experience any disruptions during 2013 with respect to access to sufficient sugar supply. However, we cannot assure you that Coca-Cola FEMSA will not experience disruptions in its ability to meet its sugar requirements in the future should the Venezuelan government impose restrictive measures. Coca-Cola FEMSA buys glass bottles from one local supplier, Productos de Vidrio, S.A., but there are alternative suppliers authorized by The Coca-Cola Company. Coca-Cola FEMSA acquires most of its plastic non-returnable bottles from ALPLA de Venezuela, S.A. and 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 and Background**

FEMSA Comercio operates the largest chain of small-format stores in Mexico, measured in terms of number of stores as of December 31, 2013, mainly under the trade name OXXO. As of December 31, 2013, FEMSA Comercio operated 11,721 OXXO stores, of which 11,683 are located throughout the country, with a particularly strong presence in the northern part of Mexico, and the remaining 38 stores are located in Bogotá, Colombia.

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FEMSA Comercio was established by FEMSA in 1978 when two OXXO stores were opened in Monterrey, one store in Mexico City and another store in Guadalajara. The motivating factor behind FEMSA's entrance into the retail industry was to enhance beer sales through company-owned retail outlets as well as to gather information on customer preferences. In 2013, a typical OXXO store carried 3,091 different store keeping units (SKUs) in 31 main product categories.

In recent years, FEMSA Comercio has represented an effective distribution channel for our beverage products, as well as a rapidly growing point of contact with our consumers. Based on the belief that location plays a major role in the long-term success of a retail operation such as a small-format store, as well as a role in our continually improving ability to accelerate and streamline the new-store development process, FEMSA Comercio has focused on a strategy of rapid, profitable growth. FEMSA Comercio opened 1,135, 1,040 and 1,120 net new OXXO stores in 2011, 2012 and 2013, respectively. The accelerated expansion in the number of OXXO stores yielded total revenue growth of 12.9% to reach Ps. 97,572 million in 2013. OXXO same store sales increased an average of 2.4%, driven by an increased average customer ticket net of a decrease in store traffic. FEMSA Comercio performed approximately 3.2 billion transactions in 2013 compared to 3.0 billion transactions in 2012.

### **Business Strategy**

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

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

FEMSA Comercio has made and will continue to make significant investments in IT to improve its ability to capture customer information from its existing OXXO stores and to improve its overall operating performance. The majority of products carried through OXXO stores are bar-coded, and all OXXO stores are equipped with point-of-sale systems that are integrated into a company-wide computer network. To implement revenue management strategies, FEMSA Comercio created a division in charge of product category management for products, such as beverages, fast food and perishables, to enhance and better utilize its consumer information base and market intelligence capabilities. FEMSA Comercio utilizes a technology platform supported by an enterprise resource planning (ERP) system, as well as other technological solutions such as merchandising and point-of-sale systems, which will allow FEMSA Comercio to continue redesigning its key operating processes and enhance the usefulness of its market information going forward. In addition, FEMSA Comercio has expanded its operations by opening 4 new OXXO stores in Bogotá, Colombia in 2013.

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

**Table of Contents****Store Locations**

With 11,683 OXXO stores in Mexico and 38 OXXO stores in Colombia as of December 31, 2013, FEMSA Comercio operates the largest small-format store chain in Latin America measured by number of stores. OXXO stores are concentrated in the northern part of Mexico, but also have a growing presence in the rest of the country.

**FEMSA Comercio****Regional Allocation of OXXO Stores in Mexico and Latin America<sup>(\*)</sup>**

**as of December 31, 2013**

FEMSA Comercio 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. FEMSA Comercio is generally able to use supplier credit to fund the initial inventory of new OXXO stores.

**Growth in Total OXXO Stores**

|  | <b>Year Ended December 31,</b> |             |             |             |             |
|--|--------------------------------|-------------|-------------|-------------|-------------|
|  | <b>2013</b>                    | <b>2012</b> | <b>2011</b> | <b>2010</b> | <b>2009</b> |
| Total OXXO stores                          | 11,721                         | 10,601      | 9,561       | 8,426       | 7,334       |
| Store growth (% change over previous year) | 10.6%                          | 10.9%       | 13.5%       | 14.9%       | 15.1%       |

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

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The identification of locations and pre-opening planning in order to optimize the results of new stores are important elements in FEMSA Comercio's growth plan. FEMSA Comercio continuously reviews store performance against certain operating and financial benchmarks to optimize the overall performance of the chain. Stores unable to maintain benchmark standards are generally closed. Between December 31, 2009 and 2013, the total number of OXXO stores increased by 4,387, which resulted from the opening of 4,507 new stores and the closing of 120 existing stores.

### **Competition**

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

### **Market and Store Characteristics**

#### *Market Characteristics*

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

Approximately 66% of OXXO's customers are between the ages of 15 and 35. FEMSA Comercio also segments the market according to demographic criteria, including income level.

#### *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 187 square meters and, when parking areas are included, the average store size is approximately 424 square meters.

### **FEMSA Comercio Operating Indicators**

|                                      | 2013  | Year Ended December 31,                            |       |       | 2009  |
|--------------------------------------|-------|--|-------|-------|-------|
|                                      |       | 2012   | 2011  | 2010  |       |
|                                      |       | (percentage increase compared to<br>previous year) |       |       |       |
| Total FEMSA Comercio revenues        | 12.9% | 16.6%  | 19.0% | 16.3% | 13.6% |
| OXXO same-store sales <sup>(1)</sup> | 2.4%  | 7.7%   | 9.2%  | 5.2%  | 1.3%  |

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

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

Approximately 61% of OXXO stores are operated by independent managers responsible for all aspects of store operations. The managers are commission agents and are not employees of FEMSA Comercio. Each store manager is the legal employer of the store's staff, which typically numbers six people per store. FEMSA Comercio continually invests in on-site operating personnel, with the objective of promoting loyalty, customer service and low personnel turnover in the stores.





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### *Advertising and Promotion*

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

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

### **Inventory and Purchasing**

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

Management believes that the OXXO chain's scale of operations provides FEMSA Comercio with a competitive advantage in its ability to realize strategic alliances with suppliers. General category offerings are determined on a national level, although purchasing decisions are implemented on a local, regional or national level, depending on the nature of the product category. Given the fragmented nature of the retail industry in Mexico in general, Mexican producers of beer, soft drinks, bread, dairy products, snacks, cigarettes and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 58% of the OXXO chain's total sales consist of products that are delivered directly to the stores by suppliers. Other products with longer shelf lives are distributed to stores by FEMSA Comercio's distribution system, which includes 16 regional warehouses located in Monterrey, Guadalajara, Mexicali, Mérida, León, Obregón, Puebla, Queretaro, Chihuahua, Reynosa, Saltillo, Tijuana, Toluca, Villahermosa and two in Mexico City. The distribution centers operate a fleet of approximately 783 trucks that make deliveries to each store approximately twice per week.

### **Seasonality**

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

### **Entry into Drugstore Market**

During 2013, FEMSA Comercio entered the drugstore market in Mexico through two transactions. FEMSA Comercio through 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. Following this transaction, on May 13, 2013, CCF acquired Farmacias Moderna, a leading drugstore operator in the western state of Sinaloa.

The rationale for entering this new market is anchored on our belief that FEMSA Comercio has developed certain capabilities and skills that should be applicable and useful in the operation of other small retail formats. These capabilities include site selection, logistics, business processes, human resources, inventory and supplier management. The drugstore market in Mexico is very fragmented and FEMSA Comercio believes it is well equipped to create value by entering this market and pursuing a growth strategy that maximizes the opportunity.

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### **Entry into Quick Service Restaurant Market**

Following the same rationale that its capabilities and skills are well suited to different types of small-format retail, during 2013 FEMSA Comercio also entered the quick service restaurant market in Mexico through the 80% acquisition of Doña Tota. This is a leading regional chain specializing in Mexican food with a particularly strong presence in the northeast of the country. This acquisition presents FEMSA Comercio with the opportunity to grow Doña Tota's stand-alone store base across the country, while also offering the benefit of advancing FEMSA Comercio's prepared food capabilities and expertise.

### **Other Stores**

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

### **Equity Method Investment in the Heineken Group**

As of December 31, 2013, FEMSA owned a non-controlling interest in the Heineken Group, one of the world's leading brewers. As of December 31, 2013, our 20% economic interest in the Heineken Group was comprised of 43,018,320 shares of Heineken Holding N.V. and 72,182,203 shares of Heineken N.V. For 2013, FEMSA recognized equity income of Ps. 4,587 million regarding its 20% economic interest in the Heineken Group; see note 10 to our audited consolidated financial statements.

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

### **Other Business**

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

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

Our refrigeration business produces vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 510,840 units at December 31, 2013. In 2013, this business sold 412,202 refrigeration units, 35.4% of which were sold to Coca-Cola FEMSA, and the remainder of which were sold to third parties.

Our corporate services subsidiary employs all of our corporate staff, including the personnel managing the areas of finance, corporate accounting, taxation, legal, financial and strategic planning, human resources, corporate affairs and internal audit. Through this subsidiary, we direct, control, supervise and review the operations of our sub-holding companies. As of December 31, 2013, FEMSA Comercio and our other business subsidiaries pay management fees for the services provided to them. In addition, Coca-Cola FEMSA has entered into a services agreement pursuant to which it pays for specific services. As part of the Heineken transaction, the corporate and shared services subsidiaries continue to provide some limited corporate services and shared services to subsidiaries of Cuauhtémoc Moctezuma (now part of the Heineken Group), for which such companies continue to pay.

**Table of Contents****Description of Property, Plant and Equipment**

As of December 31, 2013, we owned all of our manufacturing facilities and substantially all of our warehouses and distribution centers. Our properties primarily consisted of production and distribution facilities for our soft drink operations and office space. In addition, FEMSA Comercio owns approximately 11.8% of the OXXO store locations, while the other stores are located in properties that are rented under long-term 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, 2013**

| <b>Country</b> | <b>Installed Capacity<br/>(thousands of unit cases)</b> | <b>Utilization<sup>(1)</sup><br/>(%)</b> |
|----------------|---|--|
| Mexico         | 2,857,805   | 61%                                      |
| Guatemala      | 36,770  | 77%                                      |
| Nicaragua      | 68,961  | 59%                                      |
| Costa Rica     | 78,740  | 57%                                      |
| Panama         | 54,755  | 57%                                      |
| Colombia       | 542,058   | 50%                                      |
| Venezuela      | 249,373   | 88%                                      |
| Brazil         | 794,214   | 61%                                      |
| Argentina      | 364,612   | 61%                                      |

(1) Annualized rate.

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

**Bottling Facilities by Location as of December 31, 2013**

| <b>Country</b>       | <b>Location</b>                     | <b>Production Area<br/>(thousands<br/>of sq. meters)</b> |
|----------------------|-------------------------------------|--|
| <i>Mexico</i>        | San Cristóbal de las Casas, Chiapas | 45   |
|                      | Cuautitlán, Estado de México        | 35   |
|                      | Los Reyes la Paz, Estado de México  | 50   |
|                      | Toluca, Estado de México            | 242  |
|                      | León, Guanajuato                    | 124  |
|                      | Morelia, Michoacán                  | 50   |
|                      | Ixtacomitán, Tabasco                | 117  |
|                      | Apizaco, Tlaxcala                   | 80   |
|                      | Coatepec, Veracruz                  | 142  |
|                      | La Pureza Altamira, Tamaulipas      | 300  |
|                      | Poza Rica, Veracruz                 | 42   |
|                      | Pacífico, Estado de México          | 89   |
|                      | Cuernavaca, Morelos                 | 37   |
|                      | Toluca, Estado de México (Ojuelos)  | 41   |
|                      | San Juan del Río, Querétaro         | 84   |
| Querétaro, Querétaro | 80                                  |  |

Iguala, Guerrero  
Cayaco, Acapulco

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| <b>Country</b>    | <b>Location</b>            | <b>Production Area<br/>(thousands<br/>of sq. meters)</b> |
|-------------------|----------------------------|--|
| <i>Guatemala</i>  | Guatemala City             | 46   |
| <i>Nicaragua</i>  | Managua                    | 54   |
| <i>Costa Rica</i> | Calle Blancos, San José    | 52   |
|                   | Coronado, San José         | 14   |
| <i>Panama</i>     | Panama City                | 29   |
| <i>Colombia</i>   | Barranquilla               | 37   |
|                   | Bogotá, DC                 | 105  |
|                   | Bucaramanga                | 26   |
|                   | Cali                       | 76   |
|                   | Manantial, Cundenamarca    | 67   |
| <i>Venezuela</i>  | Medellín                   | 47   |
|                   | Antímano                   | 15   |
|                   | Barcelona                  | 141  |
|                   | Maracaibo                  | 68   |
| <i>Brazil</i>     | Valencia                   | 100  |
|                   | Campo Grande               | 36   |
|                   | Jundiaí                    | 191  |
|                   | Mogi das Cruzes            | 119  |
|                   | Belo Horizonte             | 73   |
|                   | Porto Real                 | 108  |
|                   | Maringá                    | 160  |
|                   | Marilia                    | 159  |
| Curitiba          | 65                         |  |
| <i>Argentina</i>  | Baurú                      | 111  |
|                   | Alcorta, Buenos Aires      | 73   |
|                   | Monte Grande, Buenos Aires | 32   |

**Insurance**

We maintain an all risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disaster, including hurricane, hail, earthquake and damages caused by human acts, including explosion, fire, vandalism 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 2013, the policies for all risk property insurance and freight transport insurance were issued by ACE Seguros, S.A. and the policy for liability insurance was issued by XL Insurance Mexico, S.A. de C.V. 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.

**Table of Contents****Capital Expenditures and Divestitures**

Our consolidated capital expenditures, net of disposals, for the years ended December 31, 2013, 2012 and 2011 were Ps. 17,882 million, Ps. 15,560 million and Ps. 12,666 million respectively, and were for the most part financed from cash from operations generated by our subsidiaries. These amounts were invested in the following manner:

|                 | Year Ended December 31,        |            |            |
|-----------------|--------------------------------|------------|------------|
|                 | 2013                           | 2012       | 2011       |
|                 | (In millions of Mexican pesos) |            |            |
| Coca-Cola FEMSA | Ps. 11,703                     | Ps. 10,259 | Ps. 7,862  |
| FEMSA Comercio  | 5,683                          | 4,707      | 4,186      |
| Other           | 496                            | 594        | 618        |
| Total           | Ps. 17,882                     | Ps. 15,560 | Ps. 12,666 |

**Coca-Cola FEMSA**

In 2013, Coca-Cola FEMSA focused its capital expenditures on investments in (1) increasing production capacity, (2) placing coolers with retailers, (3) returnable bottles and cases, (4) improving the efficiency of its distribution infrastructure and (5) information technology. Through these measures, Coca-Cola FEMSA strives to improve its profit margins and overall profitability.

**FEMSA Comercio**

FEMSA Comercio's principal investment activity is the construction and opening of new stores. During 2013, FEMSA Comercio opened 1,120 net new OXXO stores. FEMSA Comercio invested Ps. 5,651 million in 2013 in the addition of new stores, warehouses and improvements to leased properties.

**Regulatory Matters****Competition Legislation**

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

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

**Price Controls**

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which Coca-Cola FEMSA operates. Currently, there are no price controls on Coca-Cola FEMSA's products in any of its territories, except for Argentina, where authorities directly supervise two products sold through supermarkets as a measure to control inflation, and Venezuela, where the government has recently imposed price controls on certain products including bottled water. In addition, in January 2014, the Venezuelan government

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passed the *Ley Orgánica de Precios Justos* (Fair Prices Law). This law substitutes both the *Ley para la Defensa y Acceso a las Personas a los Bienes y Servicios* (Access to Goods and Services Defense Law) and the *Ley de Costos y Precios Justos* (Fair Costs and Prices Law), which have both been repealed. The purpose of this new law is to establish regulations and administrative processes 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. The law also creates the National Office of Costs and Prices which main role is to oversee price controls and set maximum retail prices on certain consumer goods and services. Although Coca-Cola FEMSA believes it is in compliance with this law, consumer protection and price control laws in Venezuela are subject to continuing review and changes, and any such changes may have an adverse impact on Coca-Cola FEMSA. See **Item 3. Key Information Risk Factors Regulatory developments may adversely affect Coca-Cola FEMSA's business.**

### **Mexican Tax Reform**

In December of 2013, the Mexican government enacted a package of tax reforms (the 2014 Tax Reform) which includes several significant changes to tax laws, discussed in further detail below, that entered into effect on January 1, 2014. The most significant changes are as follows:

The introduction of a new withholding tax at the rate of 10% for dividends and/or distributions of earnings generated in 2014 and beyond;

The elimination of the exemption on gains from the sale of shares through a stock exchange recognized under applicable Mexican tax law. The gain will be taxable at the rate of 10% and will be withheld by the financial intermediary. Transferors that are residents of a country with which Mexico has entered into a tax treaty for the avoidance of double taxation will be exempt. See **Item 10. Additional Information Taxation Mexican Taxation.**

A fee of one Mexican peso per liter on the sale and import of flavored beverages with added sugar, and an excise tax of 8% on food with caloric content equal to, or greater than 275 kilocalories per 100 grams of product;

The prior 11% value added tax (VAT) rate that applied to transaction in the border region was raised to 16%, matching the general VAT rate applicable in the rest of Mexico;

The elimination of the tax on cash deposits (IDE) and the business flat tax (IETU);

Deductions on exempt payroll items for workers are limited to 53%;

The income tax rate in 2013 and 2012 was 30%. Scheduled decreases to the income tax rate that would have reduced the rate to 29% in 2014 and 28% in 2015 and thereafter, were canceled in connection with the 2014 Tax Reform;

The repeal of the existing tax consolidation regime, which is effective as of January 1, 2014, modified the payment term of a tax on assets payable of Ps. 180, which will be paid over the following 5 years instead of an indefinite term. Additionally, deferred tax assets and liabilities associated with our subsidiaries in Mexico are no longer offset as of December 31, 2013, as the future income tax balances are expected to reverse in periods where we are no longer consolidating these entities for tax purposes and the right of offset does not exist; and

The introduction of an new optional tax integration regime (a modified form of tax consolidation), which replaces the previous tax consolidation regime. The new optional tax integration regime requires an equity ownership of at least 80% for qualifying subsidiaries and would allow us to defer the annual tax payment of our profitable participating subsidiaries for a period equivalent to



3 years to the extent their individual tax expense exceeds the integrated tax expense of the Company.

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### **Taxation of Beverages**

Beverages are subject to a value added tax in all the countries in which Coca-Cola FEMSA operates except for Panama, with a rate of 16% in Mexico, 12% in Guatemala, 15% in Nicaragua, 13% in Costa Rica, 16% in Colombia (applied only to the first sale in the supply chain), 12% in Venezuela, 21% in Argentina, and in Brazil 17% in the states of Mato Grosso do Sul and Goiás and 18% in the states of São Paulo, Minas Gerais, Paraná and Rio de Janeiro. In Brazil the value-added tax is grossed-up and added, along with federal sales tax, at the taxable basis. Also, in Brazil Coca-Cola FEMSA is responsible for charging and collecting the value-added tax from each of its retailers, based on average retail prices for each state where Coca-Cola FEMSA operates, defined primarily through a survey conducted by the government of each state and generally updated every six months, which in 2013 represented an average taxation of approximately 15.3% over net sales.

In addition, several of the countries in which Coca-Cola FEMSA operates impose the following excise or other taxes:

The state of Rio de Janeiro charges an additional 1% as a contribution to a poverty eradication fund.

Mexico imposes an excise tax of Ps. 1.00 per liter on the production, sale and importation of beverages with added sugar as of January 1, 2014. This tax is applied only to the first sale and Coca-Cola FEMSA is responsible for charging and collecting this excise tax.

Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.3002 as of December 31, 2013) 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 17.32 colones (Ps. 0.4460 as of December 31, 2013) per 250 ml, and an excise tax currently assessed at 6.02 colones (approximately Ps. 0.1553 as of December 31, 2013) per 250 ml.

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

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

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

Brazil assesses an average production tax of approximately 9.1% and an average sales tax of approximately 13.5% over net sales. These taxes are fixed by the federal government based on national average retail prices obtained through surveys conducted on a yearly basis. The national average retail price of each product and presentation is multiplied by a fixed rate combined with specific multipliers for each presentation, to obtain a fixed tax per liter, per product and presentation. These taxes are applied only to the first sale and Coca-Cola FEMSA is responsible for charging and collecting these taxes from each of its 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.

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### **Environmental Matters**

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

#### *Mexico*

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

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

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

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

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As part of Coca-Cola FEMSA's environmental protection and sustainability strategies, in December 2009, Coca-Cola FEMSA, jointly with strategic partners, entered into a wind energy supply agreement with a Mexican subsidiary of the Spanish wind farm developer, GAMESA Energía, S.A., or GAMESA, to supply clean energy to Coca-Cola FEMSA's bottling facility in Toluca, Mexico, owned by its subsidiary, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), or Propimex, and to some of its suppliers of PET bottles. In 2010, GAMESA sold its interest in the Mexican subsidiary that owned the wind farm to Iberdrola Renovables México, S.A. de C.V. The wind farm generating such energy, which is located in La Ventosa, Oaxaca, is expected to generate approximately 100 thousand megawatt hours of energy annually. The energy supply services began in April 2010. During 2012 and 2013, this wind farm provided Coca-Cola FEMSA with approximately 88 thousand and 81 thousand megawatt hours, respectively.

Additionally, several of our subsidiaries have entered into 20-year wind power purchase agreements with the Mareña Renovables Wind Farm to receive electrical energy for use at production and distribution facilities of FEMSA and Coca-Cola FEMSA throughout Mexico, as well as for a significant number of OXXO stores. The Mareña Renovables Wind Farm will be located in the state of Oaxaca and is expected to have a capacity of 396 megawatts. We anticipate the Mareña Renovables Wind Farm will begin operations in 2015.

### *Central America*

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

### *Colombia*

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

### *Venezuela*

Coca-Cola FEMSA's Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the *Ley Orgánica del Ambiente* (Organic Environmental Law), the *Ley Sobre Sustancias, Materiales y Desechos Peligrosos* (Substance, Material and Dangerous Waste Law), the *Ley Penal del Ambiente* (Criminal Environmental Law) and the *Ley de Aguas* (Water Law). Since the enactment of the Organic Environmental Law in 1995, Coca-Cola FEMSA's Venezuelan subsidiary has presented the proper authorities with plans to bring their production facilities and distribution centers into compliance with applicable laws, which mainly consist of building or expanding the capacity of water treatment plants in Coca-Cola FEMSA's bottling facilities. Even though Coca-Cola FEMSA has had to adjust some of the originally proposed timelines due to construction delays, in 2009, Coca-Cola FEMSA completed the construction and received all the required permits to operate a new water treatment plant in its bottling facility located in the city of Barcelona. At the end of 2011, Coca-Cola FEMSA concluded the construction of a new water treatment plant in its bottling plant in the city of Valencia, which began operations in February 2012. During 2011, Coca-Cola FEMSA also commenced construction of a new water treatment plant in its Antimano bottling plant in Caracas, which construction was concluded during the second quarter of 2012. Coca-Cola FEMSA is also concluding the construction and expansion of its current water treatment plant in its bottling facility in Maracaibo, which it expects will commence operations during the first half of 2014. In December 2011, Coca-Cola FEMSA obtained the ISO 14000 certification for all of its plants in Venezuela.

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

### *Brazil*

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

Coca-Cola FEMSA's production plant located in Jundiá has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by the law. The plant has been certified for: (i) ISO 9001 since 1993; (ii) ISO 14001 since March 1997; (iii) norm OHSAS 18001 since 2005; (iv) ISO 22000 since 2007; and (v) PAS: 220 since 2010. In 2012, Coca-Cola FEMSA's production plants in Jundiá, Campo Grande, Bauru, Marília, Curitiba, Maringá, Porto Real and Mogi das Cruzes were certified in standard FSSC22000.

In Brazil, a municipal regulation of the City of São Paulo, implemented pursuant to Law 13.316/2002, came into effect in May 2008. This regulation requires Coca-Cola FEMSA to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the City of São Paulo; such percentage increases each year. Beginning in May 2011, Coca-Cola FEMSA was required to collect 90% of the PET bottles sold in the city of São Paulo for recycling. Currently, Coca-Cola FEMSA is not able to collect the entire required volume of PET bottles it has sold in the City of São Paulo for recycling. Since Coca-Cola FEMSA does not meet the requirements of this regulation, which we believe to be more onerous than those imposed by the countries with the highest recycling standards, it could be fined and be subject to other sanctions, such as the suspension of operations in any of its plants and/or distribution centers located in the City of São Paulo. In May 2008, Coca-Cola FEMSA, together with other bottlers in the city of São Paulo, through the *Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas* (Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In addition, in November 2009, in response to a municipal authority request for Coca-Cola FEMSA to demonstrate the destination of the PET bottles sold by it in the City of São Paulo, Coca-Cola FEMSA filed a motion showing all of its recycling programs and requesting a more practical timeline to comply with the requirements of the law. In October 2010, the municipal authority of the City of São Paulo levied a fine on Coca-Cola FEMSA's Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps. 1.3 million as of December 31, 2013) on the grounds that the report submitted by Coca-Cola FEMSA's Brazilian operating subsidiary did not comply with the 75% proper disposal requirement for the period from May 2008 to May 2010. Coca-Cola FEMSA filed an appeal against this fine, which was denied by the municipal authority in May 2013, and the administrative stage is therefore closed. Coca-Cola FEMSA is currently evaluating next steps. In July 2012, the State Appellate Court of São Paulo rendered a decision admitting the interlocutory appeal filed on behalf of ABIR in order to suspend the fines and other sanctions to ABIR's associated companies, including Coca-Cola FEMSA's Brazilian subsidiary, for alleged noncompliance with the municipal regulation pending the final resolution of the lawsuit. Coca-Cola FEMSA is currently awaiting final resolution of the lawsuit filed on behalf of ABIR.

In August 2010, Law No. 12.305/2010 established the Brazilian National Solid Waste Policy. This policy is based on the principle of shared responsibility between the government, companies and the public, and provides for the post-consumption return of products to companies and requires public authorities to implement waste management programs. This law is regulated by Federal Decree No. 7.404/2010, and was published in December 2010. Coca-Cola FEMSA is currently discussing with the relevant authorities the impact this law may have on Brazilian companies in complying with the regulation in effect in the City of São Paulo. In response to the Brazilian National Solid Waste Policy, in December 2012, a proposal was provided to the Ministry of the Environment by

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almost 30 associations involved in the packaging sector, including ABIR in its capacity as representative for The Coca-Cola Company, Coca-Cola FEMSA's Brazilian subsidiary, and other bottlers. The proposal involved creating a coalition to implement systems for reverse logistics packaging non-dangerous waste that makes up the dry portion of municipal solid waste or its equivalent. The goal of the proposal is to create methodologies for sustainable development, and protect the environment, society, and the economy. Coca-Cola FEMSA is currently awaiting a final resolution from the Ministry of Environment, which it expects to receive during 2014.

### *Argentina*

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

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

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

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

### **Other regulations**

In December 2009, the Venezuelan government issued a decree requiring a reduction in energy consumption by at least 20% for industrial companies whose consumption is greater than two megawatts per hour and to submit an energy-usage reduction plan. Some of Coca-Cola FEMSA's bottling operations in Venezuela outside of Caracas met this threshold and it submitted a plan, which included the purchase of generators for its plants. In January 2010, the Venezuelan government subsequently implemented power cuts and other measures for all industries in Caracas whose consumption was above 35 kilowatts per hour. In 2011, Coca-Cola FEMSA installed electrical generators in its Antimano, Valencia and Maracaibo bottling facilities to mitigate any such risks and filed the respective energy usage reduction plans with the authorities. Coca-Cola FEMSA is also currently installing electrical generators in its Barcelona plant.

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

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In May 2012, the Venezuelan government adopted significant changes to labor regulations. This amendment to Venezuela's labor regulations had a negative impact on Coca-Cola FEMSA's business and operations. The principal changes that impacted Coca-Cola FEMSA's operations are: (i) the requirement that employee terminations are now subject to governmental authorization; (ii) retroactive assessments for any modifications to Coca-Cola FEMSA's severance payment system; (iii) a reduction in the maximum daily and weekly working hours (from 44 to 40 weekly); (iv) an increase in mandatory weekly breaks, prohibiting a reduction in salaries as a result of such increase; and (v) the requirement that all third party contractors participating in the manufacturing and sales processes of Coca-Cola FEMSA's products be included in its payroll by no later than May 2015. Coca-Cola FEMSA is currently in compliance with these labor regulations and expects to include all third party contractors to its payroll by the imposed deadline.

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. This law may result in increased labor costs.

In June 2013, following a comprehensive amendment to the Mexican Constitution, a new antitrust authority with autonomy was created: the *Comisión Federal de Competencia Económica* (Federal Antitrust Commission, or CFCE). It is expected that Congress will enact legislation to adjust current legislation based on the amended constitutional provisions. As a result of these amendments, new antitrust and telecommunications specialized courts were created and commenced hearing cases in August 2013. We cannot assure you that these new amendments and the creation of new governmental bodies and courts will not have an adverse effect on our business.

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

In January 2014, the 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% of a company's sales volume in the previous fiscal year. Although Coca-Cola FEMSA believes it is in compliance with this law, if it was found liable for any of these practices, this law would have an adverse effect on its business.

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

### **Water Supply**

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



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

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

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

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

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

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

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

### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

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### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

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

#### **Overview of Events, Trends and Uncertainties**

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

Coca-Cola FEMSA has continued to grow organic volumes at a steady but moderate pace, and is in the process of integrating Grupo Yoli in its Mexican operations and Companhia Fluminense and Spaipa in its Brazilian operations. However, in the short term there is some pressure from macroeconomic uncertainty in certain South American markets, including currency volatility. In Mexico, starting in 2014, Coca-Cola FEMSA faces incremental increases in taxation and is adjusting its price and package architecture to address the new tax environment. 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.

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

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

#### **Recent Developments**

In October 2013, the Board of Directors agreed to separate the roles of Chairman of the Board and CEO, ratifying José Antonio Fernández Carbajal as Executive Chairman of the Board and naming Carlos Salazar Lomelín as the new Chief Executive Officer of FEMSA. In addition, John Anthony Santa Maria Otazua was named Chief Executive Officer of Coca-Cola FEMSA.

In October 2013, Coca-Cola FEMSA closed its acquisition of Spaipa, the second largest family owned franchise in Brazil, with operations in the state of Paraná and in parts of the state of São Paulo. Spaipa sold approximately 233.3 million unit cases (including beer) in the twelve months ended June 30, 2013. The aggregate enterprise value of this transaction was US\$ 1,855 (Ps. 26,856) million and it was an all-cash transaction. As part of Coca-Cola FEMSA's acquisition of Spaipa, it also acquired an additional 5.82% equity interest in Leão Alimentos, for a total ownership of 26.1%, and a 50% stake in Fountain Água Mineral Ltda., a joint venture to develop the water category together with The Coca-Cola Company. Coca-Cola FEMSA began consolidating the results of Spaipa in its financial statements in November 2013.

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

In January 2014, a decree amending and supplementing certain tax provisions became effective in Mexico. See Note 24 to our audited consolidated financial statements, and **Item 4. Information on the Company Regulatory Matters Mexican Tax Reform**.

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### Effects of Changes in Economic Conditions

Our results are affected by changes in economic conditions in Mexico, Brazil and in the other countries in which we operate. For the years ended December 31, 2013, 2012, and 2011, 63%, 62%, and 61%, respectively, of our total sales were attributable to Mexico. As a result, we have significant exposure to the economic conditions of certain countries, particularly those in Central America, Colombia, Venezuela, Brazil and Argentina, although we continue to generate a substantial portion of our total sales from Mexico. The participation of these other countries as a percentage of our total sales has not changed significantly during the last five years. Total sales in countries other than Mexico are expected to increase in future periods due to acquisitions.

The Mexican economy is gradually recovering from a downturn as a result of the impact of the global financial crisis on many emerging economies in 2009. According to INEGI, Mexican GDP expanded by 1.1% in 2013 and by approximately 3.9% and 4.0% in 2012 and 2011, respectively. According to the *Banco Nacional de México* survey regarding the economic expectations of specialists, Mexican GDP is expected to increase by 3.09% in 2014, as of the latest estimate, published on April 3, 2014. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery in Mexico.

Our results are affected by the economic conditions in the countries where we conduct operations. Most 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 in which 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 2011 and through 2013, the exchange rate between the Mexican peso and the U.S. dollar fluctuated from a low of Ps. 11.98 per U.S. dollar, to a high of Ps. 14.37 per U.S. dollar. At December 31, 2013, the exchange rate (noon buying rate) was Ps. 13.0980 to US\$ 1.00. On April 4, 2014, the exchange rate was Ps. 13.0265 to US\$ 1.00. **See Item 3. Key Information Exchange Rate Information.** A depreciation of the Mexican peso or local currencies in the countries in which we operate relative to the U.S. dollar increases our cost of raw materials priced in U.S. dollars, including raw materials whose prices are set with reference to the U.S. dollar. In addition, a depreciation of the Mexican peso or local currencies in the countries in which we operate relative to the U.S. dollar will increase our U.S. dollar-denominated debt obligations, which could negatively affect our financial position and results. However, this effect could be offset by a corresponding appreciation of our U.S. dollar denominated cash position.

### Operating Leverage

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

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

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

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

### **Critical Accounting Judgments and Estimates**

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

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

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

Intangible assets with indefinite lives including goodwill are subject to annual impairment tests. An impairment exists when the carrying value of an asset or cash generating unit ( CGU ) exceeds its recoverable amount, which is the higher of its fair value less costs to sell 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. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. We review annually the carrying value of our intangible assets with indefinite lives and goodwill for impairment based on recognized valuation techniques. While we believe that our estimates are reasonable, different assumptions regarding such estimates could materially affect our evaluations. Impairment losses are recognized in current earnings in the period the related impairment is determined.

We assess at each reporting date whether there is an indication that a depreciable long lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, we estimate the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. The key assumptions used to determine the recoverable amount for our CGUs, including a sensitivity analysis, are further explained in Notes 3.16 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 on our experience in the industry for similar assets; see Notes 3.12, 3.14, 11 and 12 to our audited consolidated financial statements.

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### *Post-employment and other long-term 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. Management periodically assesses the probability of loss for such contingencies and accrues a provision and/or discloses the relevant circumstances, as appropriate. If the potential loss of any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a provision for the estimated loss. Management's judgment must be exercised to determine the likelihood of such a loss and an estimate of the amount, due to the subjective nature of the loss.

### *Valuation of financial instruments*

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

### *Business combinations*

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

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

Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes* (which we refer to as IAS 12) and IAS 19, *Employee Benefits* (which we refer to as IAS 19), respectively;

Liabilities or equity instruments related to share-based payment arrangements of the acquiree or to our share-based payment arrangements entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, *Share-based Payment* (which we refer to as IFRS 2) at the acquisition date, see Note 3.24 to our audited consolidated financial statements; and

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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* (which we refer to as IFRS 5) are measured in accordance with that Standard. Management's judgment must be exercised to determine the fair value of assets acquired and liabilities assumed.

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

For each business combination, with respect to the non-controlling present ownership interests in the acquiree that entitle their holders to a proportionate share of net assets in liquidation, we elect whether to measure such interests at fair value or at the proportionate share of the acquiree's identifiable net assets.

### *Investments in Associates*

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

Representation on the board of directors or equivalent governing body of the investee;

Participation in policy-making processes, including participation in decisions about dividends or other distributions;

Material transactions between us and the investee;

Interchange of managerial personnel; or

Provision of essential technical information.

Management also considers the existence and effect of potential voting rights that are 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.



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### *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 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. Management needs 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, management considers the following facts and circumstances:

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 elsewhere in this report and in Note 10 to our audited consolidated financial statements, on January 25, 2013, Coca-Cola FEMSA closed the acquisition of 51% of CCBPI. Coca-Cola FEMSA jointly controls CCBPI with The Coca-Cola Company. This is based on the following factors: (i) during the initial four-year period, some relevant activities require joint approval between Coca-Cola FEMSA and The Coca-Cola Company; and (ii) potential voting rights to acquire the remaining 49% of CCBPI are not likely to be exercised in the foreseeable future due to the fact that the call option is out of the money as of December 31, 2013. See **Item 4. Information on the Company Corporate Background.**

### **Future Impact of Recently Issued Accounting Standards not yet in Effect**

We have not applied the following new and revised IFRS and IAS, that have been issued but were not yet effective as of December 31, 2013:

*IFRS 9, Financial Instruments* (which we refer to as IFRS 9) as issued in November 2009, and amended in October 2010, introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. The standard requires all recognized financial assets that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at Fair Value Through Profit or Loss, or FVTPL) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was recognized in profit or loss.



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IFRS 9 was further amended in November 2013, and as such introduces a new chapter on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. In addition, IFRS 9 as amended in 2013 permits an entity to apply only those requirements introduced in IFRS 9 as amended in 2010 for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss, without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in other comprehensive income rather than within profit or loss.

IFRS 9 as amended in 2013 removes the mandatory effective date that had been established for IFRS 9 in 2009 and 2010, leaving the effective date open pending the finalization of the impairment and classification and measurement requirements. We have decided that the adoption of this standard will not take place until IFRS 9 is completed. It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the final version has been issued.

*Amendments to IAS 19 (2011) Employee Benefits* : With regards to employee contributions to defined benefit plans, these amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, they permit a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions can be, but are not required to be, recognized as a reduction in the service cost in the period in which the related service is rendered. The amendments to IAS 19 are effective for annual periods beginning on or after July 1, 2014. These amendments have not been early adopted by us and are not expected to have a material effect on our audited consolidated financial statements.

*Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities* : These amendments clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realization and settlement". The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, with retrospective application required. These amendments have not been early adopted by us and are not expected to have a material effect on our audited consolidated financial statements.

*Amendments to IAS 36 Impairment of Assets* : These amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. These amendments have not been early adopted by us and are not expected to have a material effect on our audited consolidated financial statements.

*Amendments to IAS 39 Financial Instruments: Recognition and Measurement* : These amendments clarify that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations. The amendments to IAS 39 have not been early adopted by us and are not expected to have a material effect on our audited consolidated financial statements.

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*Annual Improvements 2010-2012 Cycle:* These Annual Improvements make amendments to: IFRS 2 Share-based payment, by amending the definitions of vesting condition and market condition, and adding definitions for performance condition and service condition; IFRS 3 Business combinations, by requiring contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date; IFRS 8 Operating segments, by requiring disclosure of the judgments made by management in applying the aggregation criteria to operating segments and clarifying that reconciliations of segment assets are only required if segment assets are reported regularly; IFRS 13 Fair value measurement, by clarifying that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only); IAS 16 Property, plant and equipment and IAS 38 Intangible assets, by clarifying that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount; and IAS 24

Related party Disclosures, by clarifying how payments to entities providing management services are to be disclosed. These Annual Improvements are applicable to annual periods beginning on or after 1 July 2014. We have yet to complete our evaluation of whether these improvements will have a significant impact on our audited consolidated financial statements.

*Annual Improvements 2011-2013 Cycle:* These Annual Improvements make amendments to the following standards that are applicable to us: IFRS 3, by clarifying that the standard excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; IFRS 13, by clarifying the scope of the portfolio exception of paragraph 52, which permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received by selling a net long position for a particular risk exposure or by transferring a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. These Annual Improvements are applicable to annual periods beginning on or after July 1, 2014. We have yet to complete our evaluation of whether these improvements will have a significant impact on our audited consolidated financial statements.

*IFRIC 21, Levies :* This Interpretation provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides guidance on recognition of a liability to pay levies, where the liability is recognized progressively if the obligating event occurs over a period of time; and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This Interpretation is effective for accounting periods beginning on or after January 1, 2014, with early adoption permitted. We have not early adopted this IFRIC, and we have yet to complete our evaluation of whether it will have a material impact on our audited consolidated financial statements.

**Table of Contents****Operating Results**

The following table sets forth our consolidated income statement under IFRS for the years ended December 31, 2013, 2012, and 2011:

|   | 2013 <sup>(1)</sup> | Year Ended December 31, |                   | 2011              |
|---|---------------------|-------------------------|-------------------|-------------------|
|   |                     | 2013                    | 2012              |                   |
| (in millions of U.S. dollars and Mexican pesos)   |                     |                         |                   |                   |
| Net sales   | \$ 19,606           | Ps. 256,804             | Ps. 236,922       | Ps. 200,426       |
| Other operating revenues  | 99                  | 1,293                   | 1,387             | 1,114             |
| <b>Total revenues</b>   | <b>19,705</b>       | <b>258,097</b>          | <b>238,309</b>    | <b>201,540</b>    |
| Cost of goods sold  | 11,333              | 148,443                 | 137,009           | 117,244           |
| <b>Gross profit</b>   | <b>8,372</b>        | <b>109,654</b>          | <b>101,300</b>    | <b>84,296</b>     |
| Administrative expenses   | 761                 | 9,963                   | 9,552             | 8,172             |
| Selling expenses  | 5,312               | 69,574                  | 62,086            | 50,685            |
| Other income  | 50                  | 651                     | 1,745             | 381               |
| Other expenses  | (110)               | (1,439)                 | (1,973)           | (2,072)           |
| Interest expense  | (331)               | (4,331)                 | (2,506)           | (2,302)           |
| Interest income   | 94                  | 1,225                   | 783               | 1,014             |
| Foreign exchange (loss) gain, net   | (55)                | (724)                   | (176)             | 1,148             |
| Monetary position (loss) gain, net  | (33)                | (427)                   | (13)              | 53                |
| Market value gain (loss) on financial instruments   | 1                   | 8                       | 8                 | (109)             |
| Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method | 1,915               | 25,080                  | 27,530            | 23,552            |
| Income taxes  | 592                 | 7,756                   | 7,949             | 7,618             |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes                  | 369                 | 4,831                   | 8,470             | 4,967             |
| <b>Consolidated net income</b>  | <b>\$ 1,692</b>     | <b>Ps. 22,155</b>       | <b>Ps. 28,051</b> | <b>Ps. 20,901</b> |
| Controlling interest net income   | 1,216               | 15,922                  | 20,707            | 15,332            |
| Non-controlling interest net income   | 476                 | 6,233                   | 7,344             | 5,569             |
| <b>Consolidated net income</b>  | <b>\$ 1,692</b>     | <b>Ps. 22,155</b>       | <b>Ps. 28,051</b> | <b>Ps. 20,901</b> |

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 13.0980 to US\$ 1.00, provided solely for the convenience of the reader.

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The following table sets forth certain operating results by reportable segment under IFRS for each of our segments for the years ended December 31, 2013, 2012 and 2011.

|   | Year Ended December 31,<br>Percentage Growth (Decrease) |             |             |               |               |
|---|---|-------------|-------------|---------------|---------------|
|   | 2013  | 2012        | 2011        | 2013 vs. 2012 | 2012 vs. 2011 |
| <b>Net sales</b>  |   |             |             |               |               |
| Coca-Cola FEMSA   | Ps. 155,175   | Ps. 146,907 | Ps. 122,638 | 5.6%          | 19.8%         |
| FEMSA Comercio  | 97,572  | 86,433      | 74,112      | 12.9%         | 16.6%         |
| <b>Total revenues</b>   |   |             |             |               |               |
| Coca-Cola FEMSA   | 156,011   | 147,739     | 123,224     | 5.6%          | 19.9%         |
| FEMSA Comercio  | 97,572  | 86,433      | 74,112      | 12.9%         | 16.6%         |
| <b>Cost of goods sold</b>   |   |             |             |               |               |
| Coca-Cola FEMSA   | 83,076  | 79,109      | 66,693      | 5.0%          | 18.6%         |
| FEMSA Comercio  | 62,986  | 56,183      | 48,636      | 12.1%         | 15.5%         |
| <b>Gross profit</b>   |   |             |             |               |               |
| Coca-Cola FEMSA   | 72,935  | 68,630      | 56,531      | 6.3%          | 21.4%         |
| FEMSA Comercio  | 34,586  | 30,250      | 25,476      | 14.3%         | 18.7%         |
| <b>Administrative expenses</b>  |   |             |             |               |               |
| Coca-Cola FEMSA   | 6,487   | 6,217       | 5,140       | 4.3%          | 21.0%         |
| FEMSA Comercio  | 1,883   | 1,666       | 1,433       | 13.0%         | 16.3%         |
| <b>Selling expenses</b>   |   |             |             |               |               |
| Coca-Cola FEMSA   | 44,828  | 40,223      | 32,093      | 11.4%         | 25.3%         |
| FEMSA Comercio  | 24,707  | 21,686      | 18,353      | 13.9%         | 18.2%         |
| <b>Depreciation</b>   |   |             |             |               |               |
| Coca-Cola FEMSA   | 6,371   | 5,078       | 3,850       | 25.5%         | 31.9%         |
| FEMSA Comercio  | 2,328   | 1,940       | 1,685       | 20.0%         | 15.1%         |
| <b>Gross margin<sup>(1)(2)</sup></b>  |   |             |             |               |               |
| Coca-Cola FEMSA   | 46.7%   | 46.5%       | 45.9%       | 0.2p.p        | 0.6p.p.       |
| FEMSA Comercio  | 35.4%   | 35.0%       | 34.4%       | 0.4p.p        | 0.6p.p.       |
| <b>Share of the profit of associates and joint ventures<br/>accounted for using the equity method, net of taxes</b> |   |             |             |               |               |
| Coca-Cola FEMSA   | 289   | 180         | 86          | 60.6%         | 109.3%        |
| FEMSA Comercio  | 11  | (23)        |             | 147.8%        | N/a           |
| CB Equity <sup>(3)</sup>  | 4,587   | 8,311       | 4,880       | (44.8%)       | 70.3%         |

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

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

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

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**Results from our Operations for the Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012**

**FEMSA Consolidated**

FEMSA's consolidated total revenues increased 8.3% to Ps. 258,097 million in 2013 compared to Ps. 238,309 million in 2012. Both beverages and retail operations contributed positively to this revenue growth. Coca-Cola FEMSA's total revenues increased 5.6% to Ps. 156,011 million, driven by the integration of the beverage divisions of Grupo Fomento Queretano and Yoli in Mexico and Companhia Fluminense and Spaipa in Brazil. FEMSA Comercio's revenues increased 12.9% to Ps. 97,572 million, mainly driven by the opening of 1,120 net new stores combined with an average increase of 2.4% in same-store sales.

Consolidated gross profit increased 8.2% to Ps. 109,654 million in 2013 compared to Ps. 101,300 million in 2012. Gross margin remained stable compared to 2012 at 42.5% of consolidated total revenues.

Consolidated administrative expenses increased 4.3% to Ps. 9,963 million in 2013 compared to Ps. 9,552 million in 2012. As a percentage of total revenues, consolidated administrative expenses decreased from 4.0% in 2012 to 3.9% in 2013.

Consolidated selling expenses increased 12.1% to Ps. 69,574 million in 2013 as compared to Ps. 62,086 million in 2012. This increase was attributable to greater selling expenses at Coca-Cola FEMSA and FEMSA Comercio. As a percentage of total revenues, selling expenses increased 0.90 percentage points, from 26.0% in 2012 to 26.9% in 2013.

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 shares and long-lived assets and the write-off of certain contingencies. During 2013, other income decreased to Ps. 651 million from Ps. 1,745 million in 2012, due to a tough comparison primarily driven by the net effect of the sale of Quimiproducos in the fourth quarter of 2012.

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 2013, other expenses decreased to Ps. 1,439 million from Ps. 1,973 million in 2012.

Net financing expenses increased to Ps. 4,249 million from Ps. 1,904 million in 2012, driven by an interest expense of Ps. 4,331 million in 2013 compared to Ps. 2,506 million in 2012 resulting from higher financing expenses related to bonds issued by FEMSA and Coca-Cola FEMSA (Net financing expenses includes interest expense, interest income, net foreign exchange (loss) gain, net monetary position (loss) gain and market value gain (loss) on financial instruments).

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Our accounting provision for income taxes in 2013 was Ps. 7,756 million, as compared to Ps. 7,949 million in 2012, resulting in an effective tax rate of 30.9% in 2013, as compared to 28.9% in 2012.

Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, decreased 42.9% to Ps. 4,831 million in 2013 compared with Ps. 8,470 million in 2012, mainly driven by a tough comparable base caused by a non-cash exceptional gain related to the revaluation of certain equity interests held by Heineken in Asia in the fourth quarter of 2012.

Consolidated net income was Ps. 22,155 million in 2013 compared to Ps. 28,051 million in 2012, resulting from a tough comparable base caused by a non-cash exceptional gain related to the revaluation of certain equity interests held by Heineken in Asia in the fourth quarter of 2012, as well as by higher financing expenses, which were modestly offset by the growth in income from operations. Controlling interest net income amounted to Ps. 15,922 million in 2013 compared to Ps. 20,707 million in 2012, which difference was also due principally to a tough comparable base caused by a non-cash exceptional gain related to the revaluation of certain equity interests held by Heineken in Asia in the fourth quarter of 2012. Controlling interest net income per FEMSA Unit in 2013 was Ps. 4.45 (US\$ 3.40 per ADS) ( FEMSA Units consist of FEMSA BD Units and FEMSA B Units. Each FEMSA BD Unit is comprised of one Series B Share, two Series D-B Shares and two Series D-L Shares. Each FEMSA B Unit is comprised of five Series B Shares. The number of FEMSA Units outstanding as of December 31, 2013 was 3,578,226,270 which is equivalent to the total number of FEMSA Shares outstanding as of the same date, divided by five).

**Coca-Cola FEMSA**

Coca-Cola FEMSA consolidated total revenues increased 5.6% to Ps. 156,011 million in 2013, as compared to 2012. Revenue growth of 6.9% in Coca-Cola FEMSA's Mexico and Central America division (including Venezuela), including the integration of Grupo Fomento Queretano and Grupo Yoli in its Mexican operations, coupled with a 4.6% growth in its South America division, including the integration of Spaipa and Companhia Fluminense in Brazil, compensated for the negative translation effect generated by the devaluation of the currencies in Coca-Cola FEMSA's South America division. Excluding the recently integrated territories in Mexico and Brazil, total revenues reached Ps. 149,210 million, an increase of 1.0% with respect to 2012. On a currency neutral basis and excluding the non-comparable effect of Grupo Fomento Queretano, Grupo Yoli, Spaipa and Companhia Fluminense, total revenues increased 16.3% in 2013 as compared to 2012.

Total sales volume increased 5.2% to 3,204.6 million unit cases in 2013, as compared to 2012. Excluding the integration of Grupo Fomento Queretano and Grupo Yoli in Coca-Cola FEMSA's Mexican operations and Spaipa and Companhia Fluminense in its Brazilian operations, volumes remained flat at 3,055.2 million unit cases in 2013. On the same basis, the still beverage category grew 8.5%, mainly driven by the performance of the Jugos del Valle line of business, *Powerade* and *FUZE tea* across Coca-Cola FEMSA's territories. In addition and excluding the newly integrated territories, Coca-Cola FEMSA's bottled water portfolio grew 5.3%, driven by the performance of *Ciel*, *Bonaqua*, and *Brisa*. These increases compensated for flat volumes in Coca-Cola FEMSA's sparkling beverage category and a 2.2% decrease in its bulk water business.

Consolidated average price per unit case decreased 0.3%, reaching Ps. 47.15 in 2013, as compared to Ps. 47.27 in 2012, mainly due to the negative translation effect resulting from the depreciation of the currencies of our South America division, including Venezuela. In local currency, average price per unit case increased in most of Coca-Cola FEMSA's territories mainly driven by price increases implemented during the year.

Gross profit increased 6.3% to Ps. 72,935 million in 2013, as compared to 2012. Cost of goods sold increased 5.0%, mainly as a result of lower sugar prices in most of Coca-Cola FEMSA's territories in combination with the appreciation of the average exchange rate of the Mexican peso, which compensated for the depreciation of the average exchange rate of the Venezuelan bolivar, the Argentine peso, the Brazilian real and the Colombian peso as applied to Coca-Cola FEMSA's U.S. dollar-denominated raw material costs. Gross margin reached 46.7%, an increase of 20 basis points as compared to 2012.

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For Coca-Cola FEMSA, the components of cost of goods sold include raw materials (principally soft drink concentrate, sweeteners and packaging materials), depreciation costs attributable to Coca-Cola FEMSA's production facilities, wages and other employment costs associated with the labor force employed at its production facilities and certain overhead costs. Concentrate prices are determined as a percentage of the retail price of Coca-Cola FEMSA's 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 as a percentage of total revenues increased 150 basis points to 32.9% in 2013 as compared to 2012. Administrative and selling expenses in absolute terms increased 10.5%, mainly as a result of the integration of Grupo Fomento Queretano and Grupo Yoli in Coca-Cola FEMSA's Mexican operations and Spaipa and Companhia Fluminense in its Brazilian operations. In addition, administrative and selling expenses grew as a consequence of higher labor and freight costs in Coca-Cola FEMSA's South America division and continued marketing investments to support Coca-Cola FEMSA's marketplace execution and bolster its returnable packaging base across its territories.

As used by Coca-Cola FEMSA, the term "comprehensive financing result" refers to the combined financial effects of net interest expense, net financial foreign exchange gains or losses, and net gains or losses on monetary position from its Venezuelan operations, as the only hyperinflationary country in which Coca-Cola 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 comes first, and the date it is repaid or the end of the period, whichever comes 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 for Coca-Cola FEMSA in 2013 recorded an expense of Ps. 3,772 million as compared to an expense of Ps. 1,246 million in 2012. This increase was mainly driven by higher interest expense due to a larger debt position and a foreign exchange loss mainly as a result of the depreciation of the end-of-period exchange rate of the Mexican peso during the year as applied to a higher U.S. dollar-denominated net debt position.

Income taxes decreased to Ps. 5,731 million in 2013, from Ps. 6,274 million in 2012. In 2013, taxes as a percentage of income before taxes and share of profit of associates and joint ventures accounted for using the equity method were 33.3%, as compared to 31.4% in 2012. The difference was mainly driven by lower effective tax rates imposed in 2012 resulting from a tax benefit related to interest on capital derived from a dividend declared by Coca-Cola FEMSA's Brazilian subsidiary.

On January 25, 2013, as part of Coca-Cola FEMSA's efforts to expand its geographic reach, it acquired a 51% non-controlling majority stake in CCBPI. Coca-Cola FEMSA currently recognizes the results of CCBPI using the equity method and reflects such results in its Mexico and Central America division. In 2013, Coca-Cola FEMSA recognized equity income of Ps. 108 million regarding its economic interest in CCBPI. Coca-Cola FEMSA reports its equity method investment in CCBPI as a separate reporting segment. For further information see Note 10 to our consolidated financial statements.

Coca-Cola FEMSA's consolidated net controlling interest income decreased 13.4% to Ps. 11,543 million in 2013 as compared to 2012. Earnings per share in 2013 were Ps. 5.61 (Ps. 56.14 per Coca-Cola FEMSA ADS) computed on the basis of 2,056.0 million shares outstanding (each Coca-Cola FEMSA ADS represents 10 Coca-Cola FEMSA Series L shares) as of December 31, 2013.

**FEMSA Comercio**

FEMSA Comercio total revenues increased 12.9% to Ps. 97,572 million in 2013 compared to Ps. 86,433 million in 2012, primarily as a result of the opening of 1,120 net new stores during 2013, together with an average increase in same-store sales of 2.4%. As of December 31, 2013, there were a total of 11,721 stores in Mexico. FEMSA Comercio same-store sales increased an average of 2.4% compared to 2012, driven by a 2.8% increase in average customer ticket that more than offset a 0.5% decrease in store traffic.

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Cost of goods sold increased 12.1% to Ps. 62,986 million in 2013, below total revenue growth, compared with Ps. 56,183 million in 2012. As a result, gross profit reached Ps. 34,586 million in 2013, which represented a 14.3% increase from 2012. Gross margin expanded 0.40 percentage points to reach 35.4% of total revenues. This increase reflects (i) a positive mix shift due to the growth of higher margin categories, and (ii) a more effective collaboration and execution with our key supplier partners, including higher and more efficient joint use of promotion-related marketing resources, as well as objective-based incentives.

Administrative expenses increased 13.0% to Ps. 1,883 million in 2013, compared with Ps. 1,666 million in 2012; however, as a percentage of sales, they remained stable at 1.9%. Selling expenses increased 13.9% to Ps. 24,707 million in 2013 compared with Ps. 21,686 million in 2012, largely driven by the growing number of stores and distribution centers and specialized routes as well as incremental expenses related to new initiatives.

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

#### **FEMSA Consolidated**

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

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

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

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

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

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

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



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

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

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

### **Coca-Cola FEMSA**

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

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

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

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

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

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

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### **FEMSA Comercio**

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

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

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

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

### **Liquidity and Capital Resources**

#### **Liquidity**

Each of our sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2013, 79% 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 in aggregate principal amount of 2.875% Senior Notes due 2023 and US\$ 700 million in aggregate principal amount of 4.375% Senior Notes due 2043. In addition, in November 2013 and January 2014, Coca-Cola FEMSA issued US\$ 1,000 million in aggregate principal amount of 2.375% Senior Notes due 2018, US\$ 900 million in aggregate principal amount of 3.875% Senior Notes due 2023 and US\$ 600 million in aggregate principal amount of 5.250% Senior Notes due 2043. 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, and OXXO stores are able to finance a significant portion of their initial and ongoing inventories with supplier credit. Our principal use of cash has generally been for capital expenditure programs, debt repayment and dividend payments. In our opinion, our working capital is sufficient for our present requirements.

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The following is a summary of the principal sources and uses of cash for the years ended December 31, 2013, 2012 and 2011, from our consolidated statement of cash flows:

**Principal Sources and Uses of Cash****Years ended December 31, 2013, 2012 and 2011****(in millions of Mexican pesos)**

|  | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|-------------|
| Net cash flows provided by operating activities                          | Ps. 28,758  | Ps. 30,785  | Ps. 21,247  |
| Net cash flows used in investing activities <sup>(1)</sup>               | (55,231)    | (14,643)    | (18,089)    |
| Net cash flows provided by (used in) financing activities <sup>(2)</sup> | 20,584      | (3,418)     | (6,258)     |
| Dividends paid   | (16,493)    | (9,186)     | (6,625)     |

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

(2) Includes proceeds from borrowings, payments of loans and dividends declared and paid.

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

Our consolidated total indebtedness as of December 31, 2013 was Ps. 76,748 million compared to Ps. 37,342 million in 2012 and Ps. 29,392 million as of December 31, 2011. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 3,827 million and Ps. 72,921 million, respectively, as of December 31, 2013, as compared to Ps. 8,702 million and Ps. 28,640 million, respectively, as of December 31, 2012, and Ps. 5,573 million and Ps. 23,819 million, respectively, as of December 31, 2011. Cash and cash equivalents were Ps. 27,259 million as of December 31, 2013, as compared to Ps. 36,521 million as of December 31, 2012 and Ps. 25,841 million as of December 31, 2011.

**Off-Balance Sheet Arrangements**

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

**Table of Contents****Contractual Obligations**

The table below sets forth our contractual obligations as of December 31, 2013.

|  | Less than<br>1 year            | 1 - 3 years | Maturity<br>3 - 5 years | In excess of<br>5 years | Total      |
|--|--------------------------------|-------------|-------------------------|-------------------------|------------|
|  | (in millions of Mexican pesos) |             |                         |                         |            |
| <b>Long-Term Debt</b>  |                                |             |                         |                         |            |
| Mexican pesos  | Ps. 1,368                      | Ps. 5,281   | Ps. 3,630               | Ps. 9,987               | Ps. 20,266 |
| Brazilian reais  | 204                            | 166         | 92                      | 42                      | 504        |
| Colombian pesos  | 913                            | 582         |                         |                         | 1,495      |
| U.S. dollars   | 97                             | 1,592       | 17,299                  | 33,363                  | 52,351     |
| Argentine pesos  | 439                            | 99          |                         |                         | 538        |
| <b>Capital Leases</b>  |                                |             |                         |                         |            |
| Brazilian reais  | 277                            | 465         | 241                     | 82                      | 1,065      |
| <b>Interest payments<sup>(1)</sup></b>   |                                |             |                         |                         |            |
| Mexican pesos  | 1,147                          | 1,804       | 1,386                   | 2,284                   | 6,621      |
| Brazilian reais  | 77                             | 86          | 70                      | 21                      | 254        |
| Colombian pesos  | 68                             | 14          |                         |                         | 82         |
| U.S. dollars   | 1,456                          | 2,895       | 2,778                   | 9,268                   | 16,397     |
| Argentine pesos  | 134                            | 12          |                         |                         | 146        |
| <b>Interest rate swaps and cross currency swaps<sup>(2)</sup></b>  |                                |             |                         |                         |            |
| Mexican pesos  | 1,001                          | 2,274       | 1,326                   | 1,794                   | 6,395      |
| Brazilian reais  | 2,372                          | 4,671       | 4,422                   | 13,469                  | 24,934     |
| Colombian pesos  | 83                             | 19          |                         |                         | 102        |
| U.S. dollars   | 890                            | 3,112       | 1,385                   | 3,394                   | 8,781      |
| Argentine pesos  | 126                            | 10          |                         |                         | 136        |
| <b>Operating leases</b>  |                                |             |                         |                         |            |
| Mexican pesos  | 3,067                          | 5,726       | 5,193                   | 13,801                  | 27,787     |
| U.S. dollars   | 141                            | 264         | 245                     | 246                     | 896        |
| Others   | 76                             | 78          | 6                       | 6                       | 166        |
| <b>Commodity price contracts</b>   |                                |             |                         |                         |            |
| Sugar <sup>(3)</sup>   | 1,183                          | 833         |                         |                         | 2,016      |
| Aluminum <sup>(3)</sup>  | 205                            |             |                         |                         | 205        |
| <b>Expected benefits to be paid for pension and retirement plans, seniority premiums, post-retirement medical services and post-employment</b> |                                |             |                         |                         |            |
|  | 590                            | 653         | 809                     | 2,548                   | 4,600      |
| <b>Other long-term liabilities<sup>(4)</sup></b>   |                                |             |                         |                         |            |
|  |                                |             |                         | 7,785                   | Ps. 7,785  |

(1) Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2013 without considering interest rate swaps agreements. The debt and applicable interest rates in effect are shown in Note 18 to our audited consolidated financial statements. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 13.0765 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, 2013.

(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, 2013, and the market value of the unhedged cross currency swaps (the amount of the debt used in the calculation of the interest considers converting only the units of investments debt for the related cross currency swap, and it also includes the effect of related interest rate swaps).

(3) Reflects the notional amount of the futures and forward contracts used to hedge sugar and aluminum cost with a fair value liability of Ps. 302 million; see Note 20.6 to our audited consolidated financial statements.

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

As of December 31, 2013, Ps. 3,827 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

As of December 31, 2013, our consolidated average cost of borrowing, after giving effect to the cross currency and interest rate swaps, was approximately 4.7%, a decrease of 0.60 percentage points compared to 5.3% in 2012 (the total amount of the debt used in the calculation of this percentage considers converting only the units of investments debt for the related cross currency swap, and it also includes the effect of related interest rate swaps). As of December 31, 2013, after giving effect to cross currency swaps, approximately 46.1% of our total consolidated indebtedness was denominated and payable in Mexican pesos, 16.7% in U.S. dollars, 2.0% in Colombian pesos, 1.4% in Argentine pesos and the remaining 33.8% in Brazilian reais.

**Table of Contents****Overview of Debt Instruments**

The following table shows the allocations of total debt of our company as of December 31, 2013:

|                                     | Total Debt Profile of the Company |                    |                   | Total Debt |
|-------------------------------------|-----------------------------------|--------------------|-------------------|------------|
|                                     | FEMSA<br>and Others               | Coca-Cola<br>FEMSA | FEMSA<br>Comercio |            |
| <b>Short-term Debt</b>              |                                   |                    |                   |            |
| <i>Argentine pesos:</i>             |                                   |                    |                   |            |
| Bank loans                          |                                   | Ps. 495            |                   | Ps. 495    |
| <i>Brazilian reais</i>              |                                   |                    |                   |            |
| Bank loans                          | 34                                |                    |                   | 34         |
| <b>Long-term Debt<sup>(1)</sup></b> |                                   |                    |                   |            |
| <i>Mexican pesos:</i>               |                                   |                    |                   |            |
| Bank loans                          |                                   | 4,132              |                   | 4,132      |
| Units of Investment (UDIs)          | 3,630                             |                    |                   | 3,630      |
| Senior notes                        |                                   | 12,504             |                   | 12,504     |
| <i>U.S. dollars:</i>                |                                   |                    |                   |            |
| Bank loans                          |                                   | 5,966              |                   | 5,966      |
| Senior Notes                        | 12,113                            | 34,272             |                   | 46,385     |
| <i>Brazilian reais:</i>             |                                   |                    |                   |            |
| Bank loans                          | 365                               | 139                |                   | 504        |
| Capital leases                      | 106                               | 959                |                   | 1,065      |
| <i>Colombian pesos:</i>             |                                   |                    |                   |            |
| Bank loans                          |                                   | 1,456              | 39                | 1,495      |
| <i>Argentine pesos:</i>             |                                   |                    |                   |            |
| Bank loans                          |                                   | 538                |                   | 538        |
| <b>Total</b>                        | Ps. 16,248                        | Ps. 60,461         | Ps. 39            | Ps. 76,748 |
| <b>Average Cost <sup>(2)</sup></b>  |                                   |                    |                   |            |
| Mexican pesos                       | 4.9%                              | 5.8%               |                   | 5.4%       |
| U.S. dollars                        |                                   | 6.3%               |                   | 6.3%       |
| Brazilian reais                     | 7.3%                              | 9.3%               |                   | 9.3%       |
| Argentine pesos                     |                                   | 23.7%              |                   | 23.7%      |
| Colombian pesos                     |                                   | 5.6%               | 6.7%              | 5.7%       |
| <b>Total</b>                        | 4.9%                              | 7.7%               | 6.7%              | 7.1%       |

(1) Includes the Ps. 3,298 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, 2013.

**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.

As of December 31, 2013, Coca-Cola FEMSA was in compliance with all of its covenants. FEMSA was not subject to any financial covenants as of that date. 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.



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### Summary of Debt

The following is a summary of our indebtedness by sub-holding company and for FEMSA as of December 31, 2013:

#### *Coca-Cola FEMSA*

Coca-Cola FEMSA's total indebtedness was Ps. 60,461 million as of December 31, 2013. Short-term debt (including the current portion of long-term debt) and long-term debt were Ps. 3,586 million and 56,875 million, respectively. As of December 31, 2013, cash and cash equivalents were Ps. 15,306 million and were comprised of 24% U.S. dollars, 25% Mexican pesos, 10% Brazilian reais, 37% Venezuelan bolivars, 3% Colombian pesos and 1% of other currencies.

As part of Coca-Cola FEMSA's financing policy, it expects to continue to finance its liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which it operates, it may not be beneficial or, as 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 from operations to fund debt requirements in other countries. In addition, in the event that cash from operations 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, in the future Coca-Cola FEMSA may finance its working capital and capital expenditure needs with short-term or other borrowings.

#### *FEMSA Comercio*

As of December 31, 2013, FEMSA Comercio had total outstanding debt of Ps. 39 million.

#### *FEMSA and others*

As of December 31, 2013, FEMSA and others had total outstanding debt of Ps. 16,248 million, which is comprised of Ps. 3,630 million of *unidades de inversión* (inflation indexed units, or UDIs), which mature in November 2017, Ps. 399 million of Bank Debt (of which Ps. 357 million is held by our logistics services subsidiary and Ps. 42 million is held by our refrigeration business) in other currencies, Ps. 106 million of finance leases, held by our logistics services subsidiary, with maturity dates between 2014 and 2018, and Ps. 3,736 million of Senior Notes due 2023 and Ps. 8,377 million of Senior Notes due 2043 that we issued in May 2013. **See Liquidity.** FEMSA and others' average cost of debt, after giving effect to interest rate swaps and cross currency swaps, as of December 31, 2013, was 4.85% in Mexican pesos (the 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).

### 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.



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The following table presents the nature and amount of loss contingencies recorded as of December 31, 2013:

|                                 | <b>Loss Contingencies</b><br><b>As of December 31, 2013</b><br><b>(in millions of Mexican pesos)</b> |
|---------------------------------|--|
| Taxes, primarily indirect taxes | Ps. 3,300  |
| Legal                           | 311  |
| Labor                           | 1,063  |
| <br>Total                       | <br>Ps. 4,674  |

As is customary in Brazil, we have been asked by the tax authorities to collateralize tax contingencies currently in litigation amounting to Ps. 2,248, Ps. 2,164 million and Ps. 2,418 million as of December 31, 2013, 2012 and 2011, respectively, by pledging fixed assets or providing bank guarantees.

In connection with certain past business combinations, Coca-Cola FEMSA has been indemnified by the sellers for certain contingencies. See **Item 4. Information on the Company Coca-Cola FEMSA Corporate History.**

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 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, 2013, the aggregate amount of such contingencies for which we had not recorded a reserve was Ps. 20,671 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. 17,882 million in 2013 compared to Ps. 15,560 million in 2012, an increase of 14.9%. This was primarily due to investments at Coca-Cola FEMSA related to production capacity, coolers, returnable bottles and cases, infrastructure and IT, and incremental investments at FEMSA Comercio, mainly related to store expansion. The principal components of our capital expenditures have been for equipment, market-related investments and production capacity and distribution network expansion at Coca-Cola FEMSA and the opening of new stores at FEMSA Comercio. See **Item 4. Information on the Company Capital Expenditures and Divestitures.**

*Expected Capital Expenditures for 2014*

Our capital expenditure budget for 2014 is expected to be approximately US\$ 1,453 (Ps. 18,652) million. The following discussion is based on each of our sub-holding companies' internal 2014 budgets. The capital expenditure plan for 2014 is subject to change based on market and other conditions and the subsidiaries' results and financial resources.

Coca-Cola FEMSA's capital expenditures in 2014 are expected to be up to approximately US\$ 850 million. Coca-Cola FEMSA's capital expenditures in 2014 are primarily intended for:

investments in production capacity (primarily for a plant in Colombia and a plant in Brazil);

market investments (primarily for the placement of coolers);

returnable bottles and cases;

improvements throughout its distribution network; and

investments in IT.

Coca-Cola FEMSA estimates that of its projected capital expenditures for 2014, approximately 31% will be for its Mexican territories and the remainder will be for its non-Mexican territories. Coca-Cola FEMSA believes that internally generated funds will be sufficient to meet its budgeted capital expenditures for 2014. Coca-Cola FEMSA's capital expenditure plan for 2014 may change based on market and other conditions and on its results and financial resources.

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FEMSA Comercio's capital expenditure budget in 2014 is expected to total approximately US\$ 481 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.

**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, equity risk 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, 2013. 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, 2013 |                            |                            |                                     | Fair Value<br>Asset<br>(Liability) |
|---|---------------------------------|----------------------------|----------------------------|-------------------------------------|------------------------------------|
|   | Maturity<br>less than<br>1 year | Maturity 1 -<br>3<br>years | Maturity 3 -<br>5<br>years | Maturity in<br>excess of 5<br>years |                                    |
|   | (in millions of Mexican pesos)  |                            |                            |                                     |                                    |
| Derivative financial instruments position | Ps. (211)                       | Ps. (157)                  | Ps. 345                    | Ps. (350)                           | Ps. (373)                          |

**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.

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Our board of directors was elected at the AGM held on March 14, 2014, and is currently comprised of 17 directors and 16 alternate directors. The following table sets forth the current members of our board of directors:

**Series B Directors**

|   |   |   |
|---|---|---|
| José Antonio<br>Fernández Carbajal              | Born:<br>First elected  | February 1954   |
| <i>Executive Chairman of<br/>the Board</i>      | (Chairman):<br>First elected                                      | 2001  |
|   | (Director):<br>Term expires:                                      | 1984<br>2015  |
|   | Principal occupation:<br>Other directorships:                     | Executive Chairman of the Board of FEMSA<br>Chairman of the board of Coca-Cola FEMSA, Fundación FEMSA A.C., Instituto Tecnológico y de Estudios Superiores de Monterrey, (ITESM) and the US Mexico Foundation, Vice-Chairman of the supervisory board of Heineken N.V. and non-executive director of the board of Heineken Holding N.V., member of the boards of Industrias Peñoles, S.A.B. de C.V. (Peñoles), Grupo Televisa, S.A.B. (Televisa), Controladora Vuela Compañía de Aviación, S.A. de C.V. (Volaris), 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 named Executive Chairman of the Board.  |
|   | Education:<br>Alternate director:                                 | Holds a degree in industrial engineering and an MBA from ITESM<br>Federico Reyes García   |
| Eva María Garza<br>Lagüera Gonda <sup>(1)</sup> | Born:<br>First elected:<br>Term expires:<br>Principal occupation: | April 1958<br>1999<br>2015<br>Private investor  |
| <i>Director</i>                                 | Other directorships:  | Member of the boards of directors of ITESM and Premio Eugenio Garza Sada, and alternate member of the board of directors of Coca-Cola FEMSA   |
|   | Education:<br>Alternate director:                                 | Holds a degree in Communication Sciences from ITESM<br>Mariana Garza Lagüera Gonda <sup>(2)</sup>   |
| Paulina Garza Lagüera<br>Gonda <sup>(2)</sup>   | Born:<br>First elected:<br>Term expires:<br>Principal occupation: | March 1972<br>1999<br>2015<br>Private investor  |
| <i>Director</i>                                 | Other directorships:<br>Education:<br>Alternate director:         | Member of the board of directors of Coca-Cola FEMSA<br>Holds a business administration degree from ITESM<br>Othón Páez Garza  |

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|--|--|
| <p>José Fernando Calderón Rojas</p> <p><i>Director</i></p> | <p>Born: July 1954<br/>                     First elected: 1984<br/>                     Term expires: 2015<br/>                     Principal occupation: Chief Executive Officer and Chairman of the boards 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.<br/>                     Other directorships: Member of the board of Alfa, S.A.B. de C.V. (Alfa), ITESM, El Puerto de Liverpool, S.A.B. de C.V. (Liverpool) and member of the regional consulting board of BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer (Bancomer). 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 Universidad Autónoma de Nuevo León (UANL).<br/>                     Education: Holds a law degree from UANL and completed specialization studies in tax at UANL<br/>                     Alternate director: Francisco José Calderón Rojas<sup>(3)</sup></p> |
| <p>Consuelo Garza de Garza</p> <p><i>Director</i></p>      | <p>Born: October 1930<br/>                     First elected: 1995<br/>                     Term expires: 2015<br/>                     Business experience: Founder and former President of Asociación Nacional Pro-Superación Personal (a non-profit organization)<br/>                     Alternate director: Alfonso Garza Garza<sup>(4)</sup></p>  |
| <p>Max Michel Suberville</p> <p><i>Director</i></p>        | <p>Born: July 1932<br/>                     First elected: 1985<br/>                     Term expires: 2015<br/>                     Principal occupation: Private Investor<br/>                     Other directorships: Member of the boards of Grupo Nacional Provincial, S.A.B. (GNP), Afianzadora Sofimex, S.A., and Fianzas Dorama, S.A.; member of the boards and member of the Corporate Practices and Audit Committees of Peñoles, Grupo Profuturo, S.A.B. de C.V. (Profuturo), and Grupo GNP Pensiones, S.A. de C.V.<br/>                     Education: Holds a graduate degree from The Massachusetts Institute of Technology and completed post-graduate studies at Harvard University<br/>                     Alternate director: Max Michel González<sup>(5)</sup></p>   |

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|---|--|---|
| Alberto Bailleres<br>González                         | Born:<br>First elected:<br>Term expires: | August 1931<br>1989<br>2015   |
| <i>Director</i>                                       | Principal occupation:                    | Chairman of the boards of directors of Grupo BAL, S.A. de C.V. Peñoles, GNP, Fresnillo plc, Grupo Palacio de Hierro, S.A.B. de C.V., Profuturo GNP S.A. de C.V. Afore, Profuturo GNP Pensiones S.A. de C.V., Tane S.A. de C.V., Albacor S.A. de C.V., Bal Holdings, Inc., Minera Penmont, S. de R.L. de C.V. and Profuturo, and Chairman of the Governance Board of Instituto Tecnológico Autónomo de México and Founding Member of Fundación Alberto Bailleres, A.C. |
|   | Other directorships:                     | Member of the boards of directors of Valores Mexicanos Casa de Bolsa, S.A. de C.V., Valmex Soluciones Financieras, S.A. de C.V. S.O.F.O.M E.N.R., Grupo Financiero BBVA Bancomer, S.A. de C.V. (BBVA Bancomer), Bancomer, 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 Hombres de Negocios.  |
|   | Education:                               | Holds an economics degree and an Honorary Doctorate, both from Instituto Tecnológico Autónomo de México   |
|   | Alternate director:                      | Arturo Fernández Pérez  |
| Francisco Javier<br>Fernández Carbajal <sup>(6)</sup> | Born:<br>First elected:<br>Term expires: | April 1955<br>2004<br>2015  |
| <i>Director</i>                                       | Principal occupation:                    | Chief Executive Officer of Servicios Administrativos Contry, S.A. de C.V.   |
|   | Other directorships:                     | Member of the boards of directors of Primero Fianzas, S.A., Primero Seguros, S.A., 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 Fresnillo, plc.  |
|   | Education:                               | Holds degrees in mechanical and electrical engineering from ITESM and an MBA from Harvard Business School   |
|   | Alternate director:                      | Javier Astaburuaga Sanjines   |
| Ricardo Guajardo<br>Touché                            | Born:<br>First elected:<br>Term expires: | May 1948<br>1988<br>2015  |
| <i>Director</i>                                       | Principal occupation:                    | Chairman of the board of directors of Solfi, S.A.   |
|   | Other directorships:                     | Member of the boards of directors of Coca-Cola FEMSA, Grupo Valores Monterrey, Liverpool, Alfa, BBVA Bancomer, Bancomer, Grupo Aeroportuario del Sureste, S.A. de C.V. (ASUR), Grupo Bimbo, S.A.B. de C.V. (Bimbo), Grupo Coppel, S.A. de C.V., Solfi, ITESM and Vitro, S.A.B. de C.V.  |
|   | Education:                               | Holds degrees in electrical engineering from ITESM and the University of Wisconsin and a master's degree from the University of California at Berkeley  |
|   | Alternate director:                      | Alfonso González Migoya   |

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|--|--|
| <p>Alfredo Livas Cantú<br/><i>Director</i></p>                       | <p>Born: July 1951<br/>First elected: 1995<br/>Term expires: 2015<br/>Principal occupation: Private Investor<br/>Other directorships: Member of the boards of directors of Grupo Senda Autotransporte, S.A. de C.V., Grupo Acosta Verde, S.A. de C.V., Evox, Grupo Industrial Saltillo, S.A.B. de C.V., and Grupo Financiero Banorte S.A.B. de C.V., alternate member of the board of Gruma, S.A.B. de C.V., and member of the governance committee of Grupo Proeza, S.A.P.I. de C.V.<br/>Education: Holds an economics degree from UANL and an MBA and master's degree in economics from the University of Texas<br/>Alternate Director: Sergio Deschamps Ebergenyi</p>   |
| <p>Bárbara Garza Lagüera Gonda<sup>(2)</sup><br/><i>Director</i></p> | <p>Born: December 1959<br/>First elected: 2005<br/>Term expires: 2015<br/>Principal occupation: Private Investor<br/>Other directorships: Member of the boards of directors of Coca-Cola FEMSA, BBVA Bancomer, Bancomer, Solfi, ITESM Campus Mexico City, Fondo para la Paz, Museo Franz Mayer, and Fundación Bancomer<br/>Education: Holds a Business Administration degree from ITESM<br/>Alternate director: Juan Guichard Michel<sup>(7)</sup></p>   |
| <p>Carlos Salazar Lomelín<br/><i>Director</i></p>                    | <p>Born: April 1951<br/>First elected: 2014<br/>Term expires: 2015<br/>Principal occupation: Chief Executive Officer of FEMSA<br/>Other directorships: Member of the boards of Coca-Cola FEMSA, BBVA Bancomer, Bancomer, AFORE Bancomer, S.A. de C.V., Seguros Bancomer, S.A. de C.V., ITESM and Fundación FEMSA, member of the advisory board of Premio Eugenio Garza Sada, Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), Apex and the ITESM's EGADE Business School<br/>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.<br/>Education: Holds a bachelor's degree in economics from ITESM, and performed postgraduate studies in business administration at ITESM and economic development in Italy<br/>Alternate director: Eduardo Padilla Silva</p> |

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*Series D Directors*

|                            |                       |  |
|----------------------------|-----------------------|--|
| Armando Garza Sada         | Born:                 | June 1957  |
| <i>Director</i>            | First elected:        | 2003   |
|                            | Term expires:         | 2015   |
|                            | Principal occupation: | Chairman of the board of directors of Alfa and Alpek, S.A.B. de C.V.   |
|                            | Other directorships:  | Member of the boards of directors of Grupo Financiero Banorte, S.A.B. de C.V., Liverpool, Grupo Lamosa S.A.B. de C.V., Grupo Proeza, S.A.P.I. de C.V., ITESM, and Frisa Industrias, S.A. de C.V.         |
|                            | Business experience:  | He has a long professional career in Alfa, including Executive Vice-President of Corporate Development   |
|                            | Education:            | Holds a B.S. in Management from the Massachusetts Institute of Technology and an MBA from Stanford University  |
|                            | Alternate director:   | Enrique F. Senior Hernández  |
| Moisés Naim                | Born:                 | July 1952  |
| <i>Director</i>            | First elected:        | 2011   |
|                            | Term expires:         | 2015   |
|                            | Principal occupation: | Senior Associate of the Carnegie Endowment for International Peace   |
|                            | Business experience:  | Former Editor in Chief of Foreign Policy   |
|                            | Other directorships:  | Member of the board of directors of AES Corporation and Cementos Pacasmayo, S.A.A.   |
|                            | 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 Canal Hernando | Born:                 | February 1940  |
| <i>Director</i>            | First elected:        | 2003   |
|                            | Term expires:         | 2015   |
|                            | Principal occupation: | Private consultant   |
|                            | Other directorships:  | Member of the boards of directors of Coca-Cola FEMSA, Gentera, S.A.B. de C.V. (Gentera), Kuo, Grupo Industrial Saltillo, S.A.B. de C.V., Grupo Acir, S.A. de C.V. and Statutory Auditor of BBVA Bancomer |
|                            | Education:            | Holds a CPA degree from the Universidad Nacional Autónoma de México  |
|                            | Alternate director:   | Ricardo Saldívar Escajadillo   |



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|   |  |  |
|---|--|--|
| Michael Larson<br><br><i>Director</i>       | Born:<br>First elected:<br>Term expires:<br>Principal occupation:<br>Other directorships:<br><br>Education:                                | October 1959<br>2011<br>2015<br>Chief Investment Officer of William H. Gates III<br>Member of the boards of directors of AutoNation, Inc, Republic Services, Inc, Ecolab, Inc., and Televisa, 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<br>Holds an MBA from the University of Chicago and a BA from Claremont Men's College |
| <br>Robert E. Denham<br><br><i>Director</i> | <br>Born:<br>First elected:<br>Term expires:<br>Principal occupation:<br>Other directorships:<br><br>Education:<br><br>Alternate Director: | <br>August 1945<br>2001<br>2015<br>Partner of Munger, Tolles & Olson LLP law firm<br>Member of the boards of directors of New York Times Co., Oaktree Capital Group, LLC and Chevron Corp.<br>Magna cum laude graduate from the University of Texas, holds a JD from Harvard Law School and an M.A. in Government from Harvard University.<br>Ernesto Cruz Velázquez de León   |

- (1) Wife of José Antonio Fernández Carbajal.
- (2) Sister-in-law of José Antonio Fernández Carbajal.
- (3) Brother of José Calderón Rojas.
- (4) Son of Consuelo Garza de Garza.
- (5) Son of Max Michel Suberville.
- (6) Brother of José Antonio Fernández Carbajal.
- (7) Nephew of Max Michel Suberville.

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**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  | See                               | Directors.  |                |
| Fernández Carbajal  | Joined FEMSA:                     |   | 1987           |
| <i>Executive Chairman of the Board</i>  | Appointed to current position:    |   | 2001           |
| Carlos Salazar Lomelín  | See                               | Directors.  |                |
| <i>Chief Executive Officer of FEMSA</i>   | Joined FEMSA:                     |   | 1973           |
|   | Appointed to current position:    |   | 2014           |
| Javier Gerardo Astaburuaga Sanjines   | Born:                             |   | July 1959      |
|   | Joined FEMSA:                     |   | 1982           |
| <i>Corporate Vice-President and Chief Financial and Strategic Development Officer</i> | Appointed to current position:    |   | 2006           |
|   | 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 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 |                |
|   | Directorships:                    | Member of the board of Coca-Cola FEMSA and member of the Supervisory Board of directors and the Audit Committee of Heineken N.V.  |                |
|   | Education:                        | Holds a CPA degree from ITESM   |                |
| Federico Reyes García   | Born:                             |   | September 1945 |
| <i>Vice-President of Corporate Development of FEMSA</i>                               | Joined FEMSA:                     |   | 1992           |
|   | Appointed to current position:    |   | 2006           |
|   | Business experience               |   |                |

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within FEMSA: Executive Vice-President of Corporate Development from 1992 to 1993, and Chief Financial Officer from 1999 until 2006  
 Directorships: Member of the boards of Coca-Cola FEMSA and Optima Energía CELSOL, S.A.P.I. de C.V.  
 Education: Holds a degree in business and finance from ITESM

José González Ornelas Born: April 1951

*Vice-President of Administration and Corporate Control of FEMSA* 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, S.A. de C.V.

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 the Instituto Panamericano de Alta Dirección de Empresa (IPADE)

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|  |                                   |  |
|--|-----------------------------------|--|
| Alfonso Garza Garza  | Born:                             | July 1962  |
| <i>Vice President of Strategic Businesses</i>                  | Joined FEMSA:                     | 1985   |
|  | Appointed to current position:    | 2012   |
|  | Business experience within FEMSA: | 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, S.A. de C.V.   |
|  | Directorships:                    | Member of the boards of directors of Coca-Cola FEMSA, ITESM, Grupo Nutec, S.A. de C.V., American School Foundation of Monterrey, A.C. and Club Campestre de Monterrey, A.C. and vice chairman of the executive commission of Confederación Patronal de la República Mexicana, S.P. (COPARMEX) and alternate member of the board of FEMSA |
|  | Education:                        | Holds a degree in Industrial Engineering from ITESM and an MBA from IPADE  |
| Genaro Borrego Estrada   | Born:                             | February 1949  |
| <i>Vice-President of Corporate Affairs</i>                     | Joined FEMSA:                     | 2007   |
|  | Appointed to current position:    | 2007   |
|  | 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:                    | Member of the boards of Fundación Mexicanos Primero, Human Staff, S.A., Crossmark LATAM, S.A, Fundación IMSS, and CEMEFI   |
|  | Education:                        | Holds a bachelor's degree in International Relations from the Universidad Iberoamericana   |
| Carlos Eduardo Aldrete   | Born:                             | August 1956  |
| Ancira   | Joined FEMSA:                     | 1979   |
| <i>General Counsel and Secretary of the Board of Directors</i> | 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 law  |
|  | Education:                        | Holds a law degree from the UANL and a master's degree in Comparative Law from the College of Law of the University of Illinois  |
| <b><i>Coca-Cola FEMSA</i></b>                                  |                                   |  |
| John Anthony Santa Maria Otazua                                | Born:                             | August 1957  |
| <i>Chief Executive Officer of Coca-Cola FEMSA</i>              | Joined FEMSA:                     | 1995   |
|  | Appointed to current position:    | 2014   |

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|                     |  |
|---------------------|--|
| Business experience | Served as Strategic Planning and Business Development Officer and Chief Operating Officer of Coca-Cola FEMSA's Mexican operations. He has experience in several areas of |
| within FEMSA:       | Coca-Cola FEMSA, namely development of new products and mergers and acquisitions.  |
| Directorships:      | Member of the board of directors of Genera   |
| Education:          | Holds a degree in Business Administration and an MBA with major in Finance from Southern Methodist University.   |

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|   |                                   |   |
|---|-----------------------------------|---|
| Héctor Treviño Gutiérrez                          | Born:                             | August 1956   |
| <i>Chief Financial Officer of Coca-Cola FEMSA</i> | Joined FEMSA:                     | 1981  |
|   | Appointed to current position:    | 1993  |
|   | Business experience within FEMSA: | Has held managerial positions in the international financing, financial planning, strategic planning and corporate development areas of FEMSA |
|   | Directorships:                    | Member of the boards of Vinte Viviendas Integrales, S.A.P.I. de C.V., 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 Business School   |

**FEMSA Comercio**

|  |                                   |   |
|--|-----------------------------------|---|
| Eduardo Padilla Silva                            | Born:                             | January 1955  |
| <i>Chief Executive Officer of FEMSA Comercio</i> | Joined FEMSA:                     | 1997  |
|  | Appointed to current position:    | 2004  |
|  | Business experience within FEMSA: | Director of Planning and Control of FEMSA from 1997 to 1999 and Chief Executive Officer of the Strategic Procurement Business Division of FEMSA from 2000 until 2003  |
|  | 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:                    | Member of the boards of Grupo Lamosa, S.A.B. de C.V., Club Industrial, A.C., Asociación Nacional de Tiendas de Autoservicios y Departamentales, A.C. and NACS, and alternate member of the board of FEMSA and Coca-Cola FEMSA |
|  | Education:                        | Holds a degree in mechanical engineering from ITESM, an MBA from Cornell University and a master's degree from IPADE  |

**Compensation of Directors and Senior Management**

The compensation of Directors is approved at the AGM. For the year ended December 31, 2013, the aggregate compensation paid to our directors by the Company was approximately Ps. 13 million. In addition, in the year ended December 31, 2013, Coca-Cola FEMSA paid Ps. 6 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, 2013, the aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries was approximately Ps. 1,574 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, 2013, amounts set aside or accrued for all employees under these retirement plans were Ps. 5,608 million, of which Ps. 2,371 million is already funded.

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### **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, which vest ratably over a six year period. 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 employee's level of responsibility within the organization, the employee's 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 administered 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 (granted) 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 noncontrolling 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 3, 2014, the trust that manages the EVA stock incentive plan held a total of 5,185,186 BD Units of FEMSA and 1,447,606 Series L Shares of Coca-Cola FEMSA, each representing 0.14% and 0.07% 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 14, 2014, 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 14, 2014 beneficially owned by our directors and alternate directors who are participants in the voting trust, other than shares deposited in the voting trust:

| Beneficial Owner  | Series B   |                  | Series D-B  |                  | Series D-L  |                  |
|---|------------|------------------|-------------|------------------|-------------|------------------|
|   | Shares     | Percent of Class | Shares      | Percent of Class | Shares      | Percent of Class |
| Eva Garza Lagüera Gonda   | 2,769,980  | 0.03%            | 5,539,960   | 0.13%            | 5,539,960   | 0.13%            |
| Mariana Garza Lagüera Gonda   | 2,944,090  | 0.03%            | 5,888,180   | 0.14%            | 5,888,180   | 0.14%            |
| Barbara 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%            |
| Consuelo Garza de Garza   | 69,908,559 | 0.76%            | 139,817,118 | 3.23%            | 139,817,118 | 3.23%            |
| Alberto Bailleres González  | 9,475,196  | 0.10%            | 18,950,392  | 0.44%            | 18,950,392  | 0.44%            |
| Alfonso Garza Garza   | 1,524,095  | 0.02%            | 3,048,190   | 0.07%            | 3,048,190   | 0.07%            |
| Max Michel Suberville   | 17,379,630 | 0.19%            | 34,759,260  | 0.80%            | 34,759,260  | 0.80%            |
| Francisco José Calderón Rojas and José Fernando Calderón Rojas <sup>(1)</sup> | 8,317,759  | 0.09%            | 16,635,518  | 0.38%            | 16,635,518  | 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 the committees to address management issues. Each committee has a non-member 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 14, 2014:

*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





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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), Francisco Zambrano Rodríguez, Ernesto Cruz Velázquez de León and Alfonso González Migoya. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Law and applicable U.S. Securities Laws and NYSE listing standards. The Secretary of the Audit Committee is José González Ornelas, head of FEMSA's internal audit department.

*Finance and Planning Committee.* The Finance and Planning Committee's responsibilities include (1) evaluating the investment and financing policies proposed by the Chief Executive Officer; and (2) evaluating risk factors to which the corporation is exposed, as well as evaluating its management policies. The current Finance and Planning Committee members are: Ricardo Guajardo Touché (Chairman), Federico Reyes García, Robert E. Denham, Francisco Javier Fernández Carbajal and Alfredo Livas Cantú. The Secretary of the Finance and Planning Committee is Javier Astaburuaga Sanjines.

*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 chairman of the Corporate Practices Committee is Alfredo Livas Cantú. The additional members are: Robert E. Denham, Ricardo Saldívar Escajadillo, and Moises Naim. Each member of the Corporate Practices Committee is an independent director. The Secretary of the Corporate Practices Committee is Javier Astaburuaga Sanjines.

**Employees**

As of December 31, 2013, our headcount by geographic region was as follows: 162,112 in Mexico, 6,220 in Central America, 6,071 in Colombia, 7,919 in Venezuela, 22,412 in Brazil, 2,910 in Argentina, 6 in the United States, 3 in Ecuador, 3 in Peru and 1 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, 2013, 2012 and 2011:

**Headcount for the Year Ended December 31,**

|                                | 2013           |                |                | 2012           |               |                | 2011          |               |                |
|--------------------------------|----------------|----------------|----------------|----------------|---------------|----------------|---------------|---------------|----------------|
|                                | Non-Union      | Union          | Total          | Non-Union      | Union         | Total          | Non-Union     | Union         | Total          |
| <b>Sub-holding company:</b>    |                |                |                |                |               |                |               |               |                |
| Coca-Cola FEMSA <sup>(1)</sup> | 33,846         | 51,076         | 84,922         | 32,272         | 41,123        | 73,395         | 32,362        | 37,517        | 69,879         |
| FEMSA Comercio <sup>(2)</sup>  | 64,186         | 38,803         | 102,989        | 59,358         | 32,585        | 91,943         | 56,914        | 26,906        | 83,820         |
| Other                          | 9,424          | 10,322         | 19,746         | 9,371          | 7,551         | 16,922         | 8,043         | 6,628         | 14,671         |
| <b>Total</b>                   | <b>107,456</b> | <b>100,201</b> | <b>207,657</b> | <b>101,001</b> | <b>81,259</b> | <b>182,260</b> | <b>97,319</b> | <b>71,051</b> | <b>168,370</b> |

(1) Includes employees of third-party distributors whom we do not consider to be our employees, amounting to 7,837, 9,309 and 9,043 in 2013, 2012 and 2011, respectively.

(2) Includes non-management store employees, whom we do not consider to be our employees, amounting to 50,862, 50,176 and 48,801 in 2013, 2012 and 2011 respectively.



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As of December 31, 2013, our subsidiaries had entered into 447 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, except for in Colombia, Venezuela and Guatemala which are or have been the subject of significant labor-related litigation. See **Item 8. Financial Information Legal Proceedings Coca-Cola FEMSA**. 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, 2013**

| <b>Sub-holding Company</b>    | <b>2013</b>                             |                     |
|-------------------------------|---|---------------------|
|                               | <b>Collective Bargaining Agreements</b> | <b>Labor Unions</b> |
| Coca-Cola FEMSA               | 205                                     | 95                  |
| FEMSA Comercio <sup>(1)</sup> | 112                                     | 5                   |
| Others                        | 130                                     | 40                  |
| Total                         | 447                                     | 140                 |

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

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The following table identifies each owner of more than 5% of any class of our shares known to the company as of March 14, 2014. 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 14, 2014**

| Shareholder  | Series B Shares <sup>(1)</sup> |                  | Series D-B Shares <sup>(2)</sup> |                  | Series D-L Shares <sup>(3)</sup> |                  | Total Shares of FEMSA Capital Stock |
|--|--------------------------------|------------------|----------------------------------|------------------|----------------------------------|------------------|-------------------------------------|
|  | Shares Owned                   | Percent of Class | Shares Owned                     | Percent of Class | Shares Owned                     | Percent of Class |                                     |
| Technical Committee and Trust Participants under the Voting Trust <sup>(4)</sup> | 6,922,159,485                  | 74.86%           |                                  |                  |                                  |                  | 38.69%                              |
| Aberdeen Asset Management PLC <sup>(5)</sup>                                     | 280,416,440                    | 3.03%            | 560,832,880                      | 12.98%           | 560,832,880                      | 12.98%           | 7.84%                               |
| William H. Gates III <sup>(6)</sup>  | 278,887,349                    | 3.02%            | 557,746,980                      | 12.90%           | 557,746,980                      | 12.90%           | 7.79%                               |

(1) As of March 14 2014, there were 2,161,177,770 Series B Shares outstanding.

(2) As of March 14, 2014, there were 4,322,355,540 Series D-B Shares outstanding.

(3) As of March 14, 2014, there were 4,322,355,540 Series D-L Shares outstanding.

(4) As a consequence of the voting trusts' 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 Max Michel Suberville), J.P. Morgan (Suisse), S.A., as Trustee under a trust (controlled by Paulina Garza Lagüera Gonda), Bárbara Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Eva Maria Garza Lagüera Gonda, Consuelo Garza Lagüera de Garza, Alfonso Garza Garza, Patricio Garza Garza, Juan Carlos Garza Garza, Eduardo Garza Garza, Eugenio Garza Garza, Alberto Bailleres González, Maria Teresa Gual Aspe de Bailleres, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by the Garza Lagüera family), Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), Magdalena Michel de David, Alepage, S.A. (controlled by Consuelo Garza Lagüera de Garza), BBVA Bancomer, S.A. as Trustee under Trust No. F/29013-0 (controlled by the estate of José Calderón Ayala, late father of José Calderón Rojas), 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, Franca Servicios, S.A. de C.V. (controlled by the estate of José Calderón Ayala, late father of José Calderón Rojas), BBVA Bancomer, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres), BBVA Bancomer, S.A., as Trustee under Trust No. F/710004 (controlled by Magdalena Michel de David) and BBVA Bancomer, S.A., as Trustee under Trust No. F/700005 (controlled by Renee Michel de Guichard).

(5) As reported on Schedule 13F filed on January 31, 2014 by Aberdeen Asset Management PLC/UK.

(6) Includes aggregate shares beneficially owned by Cascade Investments, LLC, over which William H. Gates III has sole voting and dispositive power.

As of March 31, 2014, there were 94 holders of record of ADSs in the United States, which represented approximately 51.5% 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.

**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 is comprised of 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.

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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.

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**Interest of Management in Certain Transactions**

The following is a summary of 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. 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.

On April 30, 2010, José Antonio Fernández Carbajal, our Executive Chairman of the Board, started to serve as a member of the Board of Directors of Heineken Holding, N.V. and the Supervisory Board of Heineken N.V. Javier Astaburuaga Sanjines, our Corporate Vice-President and Chief Financial and Strategic Development Officer, also serves on the supervisory Board of Heineken N.V. as of April 30, 2010. We made purchases of beer in the ordinary course of business from the Heineken Group in the amount of Ps. 9,397 million in 2011, Ps. 11,013 million in 2012 and Ps. 11,865 million in 2013. We also supplied logistics and administrative services to subsidiaries of Heineken for a total of Ps. 2,169 million in 2011, Ps. 2,979 million in 2012 and Ps. 2,412 million in 2013. As of the end of December 31, 2013, 2012 and 2011, our net balance due to Heineken amounted to Ps. 1,885, Ps. 1,477 million and Ps. 1,291 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 BBVA Bancomer, a financial services holding company of which Alberto Bailleres González, Ricardo Guajardo Touché, Carlos Salazar Lomelín, and Barbara Garza Lagüera Gonda, who are also directors of FEMSA, are directors, and for which José Manuel Canal Hernando, also a director of FEMSA, serves as Statutory Auditor. We made interest expense payments and fees paid to BBVA Bancomer in respect of these transactions of Ps. 77 million, Ps. 205 million and Ps. 128 million as of December 31, 2013, 2012 and 2011, respectively. The total amount due to BBVA Bancomer as of the end of December 31, 2013, 2012 and 2011 was Ps. 1,080 million, Ps. 1,136 million and Ps. 1,076 million, respectively, and we also had a receivable balance with BBVA Bancomer of Ps. 2,357 million, Ps. 2,299 million and Ps. 2,791 million, respectively, as of December 31, 2013, 2012 and 2011.

We regularly engage in the ordinary course of business in hedging transactions, and enter into loans and credit line facilities on an arm's length basis with subsidiaries of Grupo Financiero Banamex, S.A. de C.V., or Grupo Financiero Banamex, a financial services holding company. Herman Harris Fleishman, who is an alternate member of the board of directors of Coca-Cola FEMSA, is also a member of the regional board of directors of Grupo Financiero Banamex. The interest expense and fees paid to Grupo Financiero Banamex for the year ended December 31, 2013 was Ps. 19 million and Coca-Cola FEMSA has accounts payable to Grupo Financiero Banamex which amounted to Ps. 1,962 million on December 31, 2013.

We maintain an insurance policy covering medical expenses for executives issued by Grupo Nacional Provincial, S.A.B., an insurance company of which Alberto Bailleres González and Max Michel Suberville, who are also directors of FEMSA, and Juan Guichard Michel, who is an alternate director of FEMSA, are directors. The aggregate amount of premiums paid under these policies was approximately Ps. 67 million, Ps. 57 million and Ps. 59 million in 2013, 2012 and 2011, respectively.

We, along with certain of our subsidiaries, spent Ps. 92 million, Ps. 124 million and Ps. 86 million in the ordinary course of business in 2013, 2012 and 2011, respectively, in publicity and advertisement purchased from Grupo Televisa, S.A.B., a media corporation in which our Executive Chairman of the Board, José Antonio Fernández Carbajal, and two of our Directors, Alberto Bailleres González and Michael Larson, serve as directors.

Coca-Cola FEMSA, in its ordinary course of business, purchased Ps. 1,814 million, Ps. 1,577 million and Ps. 1,248 million in 2013, 2012 and 2011, 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 truck 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.



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FEMSA Comercio, in its ordinary course of business, purchased Ps. 2,860 million, Ps. 2,394 million and Ps. 2,270 million in 2013, 2012 and 2011, respectively, in baked goods and snacks for its stores from subsidiaries of Bimbo, of which Ricardo Guajardo Touché, one of FEMSA's directors, and Daniel Servitje Montull, one of Coca-Cola FEMSA's directors, are directors. FEMSA Comercio also purchased Ps. 808 million, Ps. 408 million and Ps. 316 million in 2013, 2012 and 2011, 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, Carlos Salazar Lomelín, Alfonso Garza Garza and Armando Garza Sada, who are directors or alternate directors of 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, 2013, 2012 and 2011, donations to ITESM amounted to Ps. 78 million, Ps. 109 million and Ps. 81 million, respectively.

José Antonio Fernández Carbajal, Carlos Salazar Lomelín, Alfonso Garza Garza, Federico Reyes Garcia, and Javier Astaburuaga Sanjines, who are directors, alternate directors and senior officers of 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, 2013, 2012 and 2011, donations to Fundación FEMSA, A.C. amounted to Ps. 27 million, Ps. 864 million and Ps. 46 million, respectively.

### **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. 22,988 million, Ps. 23,886 million and Ps. 20,882 million in 2013, 2012 and 2011, 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. 4,206 million, Ps. 3,018 million and Ps. 2,595 million in 2013, 2012 and 2011, respectively.

In December 2007 and in May 2008, Coca-Cola FEMSA sold most of its proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to Coca-Cola FEMSA by The Coca-Cola Company pursuant to Coca-Cola FEMSA's bottler agreements. The December 2007 transaction was valued at US\$ 48 million and the May 2008 transaction was valued at US\$ 16 million. Revenues from the sale of proprietary brands realized in prior years in which Coca-Cola FEMSA has a significant continuing involvement are deferred and amortized against the related costs of future sales over the estimated sales period. The balance to be amortized amounted to Ps. 37 million, Ps. 98 million and Ps. 302 million as of December 31, 2013, 2012 and 2011, respectively. The short-term portions to be amortized amounted to Ps. 37 million, Ps. 61 million and Ps. 197 million as of December 31, 2013, 2012 and 2011, respectively. The short-term portions are included in other current liabilities. The long-term portions are included in other liabilities.

In Argentina, Coca-Cola FEMSA purchases its pre-formed plastic ingots, as well as its returnable plastic bottles from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina, S.A., a Coca-Cola bottler with operations in Argentina, Chile and Brazil in which The Coca-Cola Company has a substantial interest.

In Argentina, Coca-Cola FEMSA mainly uses High Fructose Corn Syrup that Coca-Cola FEMSA 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 pre-formed plastic ingots, as well as returnable plastic bottles, at competitive prices from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina S.A., a bottler of The Coca-Cola Company with operations in Argentina, Chile and Brazil, and other local suppliers. Coca-Cola FEMSA also acquires pre-formed plastic ingots from ALPLA Avellaneda S.A. and other suppliers.

In November 2007, Administración S.A.P.I., a Mexican company owned directly or indirectly by Coca-Cola FEMSA and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In 2008,

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Coca-Cola FEMSA, The Coca-Cola Company and all Mexican and Brazilian Coca-Cola bottlers entered into a joint business for the Mexican and the Brazilian operations, respectively, of Jugos del Valle. Taking into account the participation held by Grupo Yoli, as of April 4, 2014 Coca-Cola FEMSA held an interest of 26.2% in the Mexican joint business. Jugos del Valle sells fruit juice-based beverages and fruit derivatives. 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 Leao tea brand. In January 2013, Coca-Cola FEMSA's Brazilian joint business of Jugos del Valle merged with Leão Alimentos. Taking into account Coca-Cola FEMSA's participation and the participations held by Companhia Fluminense and Spaipa, as of April 4, 2014, Coca-Cola FEMSA had a 26.1% indirect interest in Leao Alimentos in Brazil.

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

In May 2009, Coca-Cola FEMSA completed a transaction to develop the *Crystal* trademark water business in Brazil with The Coca-Cola Company.

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

In March 2011, Coca-Cola FEMSA, together with The Coca-Cola Company and through Compañía Panameña de Bebidas, S.A.P.I. de C.V., acquired 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 March 2011, Coca-Cola FEMSA entered along with The Coca-Cola Company, through Compañía Panameña de Bebidas, S.A.P.I. de C.V., into several credit agreements, or the Credit Facilities, the proceeds of which were used to lend an aggregate amount of US\$ 112.3 million to Estrella Azul. Subject to certain events which could have led to an acceleration of payments, the principal balance of the Credit Facilities was payable in one installment on March 24, 2021. In March 2014, these Credit Facilities were paid in full.

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. As of April 4, 2014, Coca-Cola FEMSA held an indirect participation of 26.2% in Santa Clara.

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

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### **ITEM 8. FINANCIAL INFORMATION**

#### **Consolidated Financial Statements**

See pages F-1 through F-188, 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 disposition 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 CFCE, pursuant to complaints filed by PepsiCo and certain of its bottlers in Mexico, began an investigation of The Coca-Cola Company Export Corporation (TCECC) 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 that it acquired as a result of its merger with Grupo CIMSA, Grupo Tampico's beverage division, and Grupo Fomento Queretano, are involved in this matter. After the corresponding legal proceedings in 2008, a Mexican Federal Court rendered an adverse judgment against three out of Coca-Cola FEMSA's nine Mexican subsidiaries involved in the proceedings, upholding a fine of approximately Ps. 10.5 million imposed by CFCE 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, the court dismissed and denied an appeal that Coca-Cola FEMSA filed on behalf of 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 CFCE. With respect to the complaints against the remaining six subsidiaries, a favorable resolution was rendered in Mexican Federal Court and, consequently, the CFCE withdrew the fines and ruled in favor of six of Coca-Cola FEMSA's 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 CFCE imposed a fine on one of Coca-Cola FEMSA's 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 CFCE confirming the original resolution on December 1, 2005. An *amparo* claim was filed against said resolution and a Federal Court issued a favorable resolution in Coca-Cola FEMSA's benefit. Both the CFCE and PepsiCo filed appeals against said resolution and a Circuit Court in Acapulco, Guerrero resolved to request the CFCE to issue a new resolution regarding the Ps.10.5 million fine. CFCE then fined Coca-Cola FEMSA's 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 CFCE to recalculate the amount of the fine. The CFCE 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 awaiting final resolution.

In February 2009, the CFCE began a new investigation of alleged monopolistic practices consisting of sparkling beverage sales subject to exclusivity agreements and the granting of discounts and/or benefits in exchange for exclusivity arrangements with certain retailers. In December 2011, the CFCE closed this investigation on the grounds of insufficient evidence of monopolistic practices by The Coca-Cola Company and its bottlers. However, on February 9, 2012 the plaintiff appealed the decision of the CFCE. The CFCE confirmed its initial ruling. In a related case, a Circuit Court has ruled that the CFCE must reexamine part of the evidence originally provided by a plaintiff. It is currently unclear how the CFCE will rule upon this appeal.



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### **Brazil**

#### *Antitrust Matters*

Several claims have been filed against Coca-Cola FEMSA by private parties that allege anticompetitive practices by its Brazilian subsidiaries. The plaintiffs are Ragi (Dolly), a Brazilian producer of B Brands, and PepsiCo, alleging anticompetitive practices by Spal Indústria Brasileira de Bebidas, S.A. and Recofarma Indústria do Amazonas Ltda. Of the four claims Dolly filed against Coca-Cola FEMSA, the only one that remained concerns a denial of access to common suppliers. The competent authorities established an administrative proceeding against Coca-Cola FEMSA's Brazilian subsidiary and Coca-Cola Indústrias Ltda. for alleged unfair competition practices. In September 2013, the Administrative Council of Economic Defense, or CADE, issued a final decision dismissing the claim for lack of evidence.

Of the two claims made by PepsiCo, the first concerns exclusivity arrangements at the point of sale, and the second is an alleged corporate espionage allegation against the Pepsi bottler, BAESA, which the Ministry of Economy recommended to be dismissed for lack of evidence. Under Brazilian law, each of these claims could result in substantial monetary fines and other penalties. Regarding the claims made by PepsiCo, in December 2012, the CADE issued a final decision dismissing the claim related to exclusivity arrangements at the point of sale. Also in December 2012, CADE issued a technical note advocating dismissal of the claim related to an alleged corporate espionage against the Pepsi bottler, BAESA, for lack of evidence. In December 2013, CADE rendered a final decision dismissing the claim.

### **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.

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**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 D-B Shares; and

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.

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.



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The following table sets forth information regarding our capital stock as of March 31, 2014:

| Class                            | Number         | Percentage of Capital | Percentage of Full Voting Rights |
|----------------------------------|----------------|-----------------------|----------------------------------|
| Series B Shares (no par value)   | 9,246,420,270  | 51.68%                | 100%                             |
| Series D-B Shares (no par value) | 4,322,355,540  | 24.16%                | 0%                               |
| Series D-L Shares (no par value) | 4,322,355,540  | 24.16%                | 0%                               |
| Total Shares                     | 17,891,131,350 | 100%                  | 100%                             |
| <b>Units</b>                     |                |                       |                                  |
| 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%                  | 100%                             |

**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 depository. As of March 31, 2014, approximately 51.5% 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 the only stock exchange in Mexico. Founded in 1907, it is organized as a *sociedad anónima bursátil*. 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. 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.



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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 Instituto para el Depósito de Valores S.A. de C.V.*, which we refer to as Indeval, a privately owned securities depository 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 <sup>(1)</sup> |                    |                      | Close<br>US\$ <sup>(4)</sup> | Average Daily<br>Trading Volume<br>(Units) |
|----------------|------------------------|--------------------|----------------------|------------------------------|--|
|                | Nominal pesos          |                    | Close <sup>(3)</sup> |                              |  |
|                | High <sup>(2)</sup>    | Low <sup>(2)</sup> |                      |                              |  |
| <b>2009</b>    | 57.00                  | 30.50              | 55.00                | 4.21                         | 300  |
| <b>2010</b>    | 57.99                  | 44.00              | 57.98                | 4.68                         | 1,629                                      |
| <b>2011</b>    | 81.00                  | 50.00              | 78.05                | 5.59                         | 1,500                                      |
| <b>2012</b>    |                        |                    |                      |                              |  |
| First Quarter  | 82.00                  | 75.00              | 80.50                | 6.28                         | 872  |
| Second Quarter | 97.00                  | 83.00              | 97.00                | 7.17                         | 140  |
| Third Quarter  | 94.00                  | 89.70              | 91.49                | 6.95                         | 3,615                                      |
| Fourth Quarter | 99.00                  | 88.50              | 99.00                | 7.65                         | 2,033                                      |
| <b>2013</b>    |                        |                    |                      |                              |  |
| First Quarter  | 121.80                 | 99.00              | 117.00               | 9.50                         | 1,046                                      |
| Second Quarter | 126.00                 | 102.00             | 115.23               | 8.87                         | 5,266                                      |
| Third Quarter  | 120.00                 | 107.00             | 114.00               | 8.67                         | 4,260                                      |
| Fourth Quarter | 111.00                 | 102.00             | 106.00               | 8.09                         | 74,261                                     |
| October        | 111.00                 | 103.00             | 106.00               | 8.15                         | 8,373                                      |
| November       | 104.00                 | 102.00             | 104.00               | 7.93                         | 8,781                                      |
| December       | 106.30                 | 103.00             | 106.00               | 8.09                         | 260,463                                    |
| <b>2014</b>    |                        |                    |                      |                              |  |
| January        | 106.90                 | 103.00             | 103.00               | 7.71                         | 2,168                                      |
| February       | 106.48                 | 104.00             | 106.48               | 8.05                         | 101  |
| March          | 106.00                 | 106.00             | 106.00               | 8.12                         | 484  |
| First Quarter  | 106.90                 | 103.00             | 106.00               | 8.12                         | 271  |

(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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|                | Nominal pesos       |                    | BD Units <sup>(1)</sup> |                              | Average Daily<br>Trading Volume<br>(Units) |
|----------------|---------------------|--------------------|-------------------------|------------------------------|--|
|                | High <sup>(2)</sup> | Low <sup>(2)</sup> | Close <sup>(3)</sup>    | Close<br>US\$ <sup>(4)</sup> |  |
| <b>2009</b>    | 63.20               | 30.49              | 62.65                   | 4.80                         | 3,011,747                                  |
| <b>2010</b>    | 71.21               | 53.22              | 69.32                   | 5.60                         | 3,177,203                                  |
| <b>2011</b>    | 97.80               | 64.01              | 97.02                   | 6.95                         | 2,709,323                                  |
| <b>2012</b>    |                     |                    |                         |                              |  |
| First Quarter  | 105.33              | 88.64              | 105.33                  | 8.22                         | 2,865,624                                  |
| Second Quarter | 121.25              | 105.73             | 119.03                  | 8.80                         | 1,955,790                                  |
| Third Quarter  | 121.27              | 108.26             | 118.56                  | 9.01                         | 2,162,873                                  |
| Fourth Quarter | 130.64              | 116.41             | 129.31                  | 9.99                         | 2,135,503                                  |
| <b>2013</b>    |                     |                    |                         |                              |  |
| First Quarter  | 147.24              | 129.11             | 138.97                  | 11.28                        | 2,359,740                                  |
| Second Quarter | 151.72              | 121.59             | 131.31                  | 10.11                        | 3,025,003                                  |
| Third Quarter  | 135.12              | 123.61             | 127.00                  | 9.65                         | 3,417,003                                  |
| Fourth Quarter | 131.76              | 117.05             | 126.40                  | 9.65                         | 3,133,631                                  |
| October        | 131.76              | 118.33             | 122.05                  | 9.39                         | 2,704,219                                  |
| November       | 126.10              | 117.05             | 125.94                  | 9.61                         | 3,158,088                                  |
| December       | 128.16              | 120.92             | 126.40                  | 9.65                         | 3,602,998                                  |
| <b>2014</b>    |                     |                    |                         |                              |  |
| January        | 126.17              | 119.68             | 123.03                  | 9.21                         | 3,137,376                                  |
| February       | 121.13              | 112.88             | 113.49                  | 8.58                         | 2,500,455                                  |
| March          | 122.05              | 109.62             | 121.61                  | 9.31                         | 3,516,369                                  |
| First Quarter  | 126.17              | 109.62             | 121.61                  | 9.31                         | 3,063,251                                  |

- (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.

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|                | ADSs <sup>(1)</sup> |                    |                      | Average Daily<br>Trading Volume<br>(ADSs) |
|----------------|---------------------|--------------------|----------------------|---|
|                | U.S. dollars        |                    |                      |   |
|                | High <sup>(2)</sup> | Low <sup>(2)</sup> | Close <sup>(3)</sup> |   |
| <b>2009</b>    | 49.00               | 19.91              | 47.88                | 1,188,775                                 |
| <b>2010</b>    | 57.38               | 40.49              | 55.92                | 534,197                                   |
| <b>2011</b>    | 73.00               | 52.67              | 69.71                | 553,338                                   |
| <b>2012</b>    |                     |                    |                      |   |
| First Quarter  | 82.27               | 52.95              | 82.27                | 525,762                                   |
| Second Quarter | 89.25               | 77.19              | 89.25                | 567,603                                   |
| Third Quarter  | 92.26               | 82.31              | 91.98                | 554,361                                   |
| Fourth Quarter | 101.70              | 88.56              | 100.70               | 494,332                                   |
| <b>2013</b>    |                     |                    |                      |   |
| First Quarter  | 114.91              | 101.30             | 113.50               | 581,561                                   |
| Second Quarter | 124.96              | 91.41              | 103.19               | 698,259                                   |
| Third Quarter  | 106.11              | 92.57              | 97.09                | 565,178                                   |
| Fourth Quarter | 100.23              | 88.66              | 97.87                | 571,771                                   |
| October        | 100.23              | 91.65              | 93.30                | 580,349                                   |
| November       | 94.95               | 88.66              | 94.95                | 622,126                                   |
| December       | 97.99               | 92.24              | 97.87                | 514,419                                   |
| <b>2014</b>    |                     |                    |                      |   |
| January        | 96.94               | 89.89              | 90.24                | 613,353                                   |
| February       | 91.20               | 85.00              | 85.62                | 730,915                                   |
| March          | 93.24               | 82.59              | 93.24                | 637,430                                   |
| First Quarter  | 96.94               | 82.59              | 93.24                | 658,259                                   |

- (1) Each ADS is comprised of 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.

**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.

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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 (2) years after the date on which the shareholders agreed to such conversion and/or unbundling.

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.



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### **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.

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 *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.

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### ***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.

### ***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.



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### ***Limitations on Share Ownership***

Ownership by non-Mexican nationals of shares of Mexican companies is regulated by the Foreign Investment Law and its regulations. The Foreign Investment Commission is responsible for the administration 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 or by the board of directors.

### ***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.

### ***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 transactions to be entered into with related parties 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.



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### ***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.

### ***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.



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### ***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.

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;

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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.

**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 by 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, whom we refer to as a U.S. holder, 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. 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, 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%.

**See Item 4. Information on the Company Regulatory Matters Mexican Tax Reform.**





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*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.

*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***

*Taxation of Dividends.* The gross amount of any dividends paid with respect to our shares represented by our ADSs 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 depository and will not be eligible for the dividends received deduction allowed to corporations under the Internal Revenue Code of 1986, as amended. 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 depository (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. 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 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 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. 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 2013 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 2014 taxable year. Dividends generally will constitute foreign source passive income for U.S. foreign tax credit purposes.

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.

A holder of ADSs that is, with respect to the United States, a foreign corporation or non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on dividends received on ADSs unless such income is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States.

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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 a 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.

A non-U.S. holder of ADSs will not be subject to U.S. federal income or withholding tax on any gain realized on the sale of ADSs, unless (1) such gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States, or (2) in the case of a gain realized by an individual non-U.S. holder, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

*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. 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**.

### **Material Contracts Relating to Coca-Cola FEMSA**

#### ***Shareholders Agreement***

Coca-Cola FEMSA operates pursuant to a shareholders agreement among two subsidiaries of FEMSA, The Coca-Cola Company and certain of its subsidiaries. This agreement, together with Coca-Cola FEMSA's bylaws, sets forth the basic rules under 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.

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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 prudent 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.

***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 directly wholly-owned subsidiaries of our company and The Coca-Cola Company will continue in place. On February 1, 2010, FEMSA amended its shareholders agreement with The Coca-Cola Company. **See Shareholders Agreement.**

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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 were to 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 obtained 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.

FEMSA, 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.

Coca-Cola FEMSA may be entering some markets where significant infrastructure investment may be required. The Coca-Cola Company and FEMSA 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 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.

### ***Cooperation Framework with The Coca-Cola Company***

In September 2006, Coca-Cola FEMSA and The Coca-Cola Company reached a comprehensive cooperation framework for a new stage of collaboration going forward. This new framework includes the main aspects of Coca-Cola FEMSA's relationship with The Coca-Cola Company and defines the terms for the new collaborative business model. The framework is structured around three main objectives, which have been implemented as outlined below.

*Sustainable growth of sparkling beverages, still beverages and waters:* Together with The Coca-Cola Company, Coca-Cola FEMSA has defined a platform to jointly pursue incremental growth in the sparkling beverage category, as well as accelerated development of still beverages and waters across Latin America. To this end, The Coca-Cola Company will provide a relevant portion of the funds derived from the concentrate increase for marketing support of the entire portfolio. In addition, the framework contemplates a new, all-encompassing business model for the development, organically and through acquisitions, of still beverages and waters that further aligns Coca-Cola FEMSA's and The Coca-Cola Company's objectives and should contribute to incremental long-term value creation at both companies. With this objective in mind, Coca-Cola FEMSA has jointly acquired the Brisa bottled water business in Colombia, it has a joint venture with respect to the Jugos del Valle products in Mexico and Brazil, and has agreements to develop the Crystal water business and the Matte Leão business in Brazil jointly with other bottlers and the business of Estrella Azul in Panama. During 2011, Coca-Cola FEMSA and The Coca-Cola Company entered into a joint venture to develop certain coffee products in

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Coca-Cola FEMSA's territories. In addition, during 2012 Coca-Cola FEMSA acquired, through Jugos del Valle, an indirect participation in Santa Clara, producer of milk and dairy products in Mexico.

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*Horizontal growth:* The framework includes The Coca-Cola Company's endorsement of Coca-Cola FEMSA's aspiration to continue being a leading participant in the consolidation of the Coca-Cola system in Latin America, as well as the exploration of potential opportunities in other markets where Coca-Cola FEMSA's operating model and strong execution capabilities could be leveraged. For example, in 2008 Coca-Cola FEMSA entered into a transaction with The Coca-Cola Company to acquire from it REMIL, which was The Coca-Cola Company's wholly-owned bottling franchise in the majority of the State of Minas Gerais of Brazil. On January 25, 2013, Coca-Cola FEMSA closed the acquisition of a 51% non-controlling stake in the outstanding shares of CCBPI in the Philippines.

*Long-term vision in relationship economics:* Coca-Cola FEMSA and The Coca-Cola Company understand each other's business objectives and growth plans, and the new framework provides long-term perspective on the economics of their relationship. This will allow Coca-Cola FEMSA and The Coca-Cola Company to focus on continuing to drive the business forward and generating profitable growth.

***Bottler Agreements***

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers. Pursuant to its bottler agreements, Coca-Cola FEMSA is authorized to manufacture, sell, and distribute *Coca-Cola* trademark beverages within specific geographic areas, and is required to purchase concentrate in all of its territories from companies designated by The Coca-Cola Company, and sweeteners from companies authorized by The Coca-Cola Company, for all of its *Coca-Cola* trademark beverages.

These bottler agreements also provide that Coca-Cola FEMSA will purchase its entire requirement of concentrate for *Coca-Cola* trademark beverages from The Coca-Cola Company and other authorized suppliers 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 sparkling 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. Coca-Cola FEMSA has the exclusive right to distribute *Coca-Cola* trademark beverages for sale in its territories in authorized containers of the nature prescribed 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 secret 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 its territories. Coca-Cola FEMSA's bottler agreements do not contain restrictions on The Coca-Cola Company's ability to set the price of concentrates charged to its subsidiaries and do not impose minimum marketing obligations on The Coca-Cola Company. The prices at which Coca-Cola FEMSA purchases concentrates under the bottler agreements may vary materially from the prices it has historically paid. However, under Coca-Cola FEMSA's bylaws and the shareholders agreement among certain subsidiaries of The Coca-Cola Company and certain subsidiaries of our company, 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 Coca-Cola FEMSA pursuant to such shareholders agreement and the Coca-Cola FEMSA's bylaws. **See**

***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

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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 those of The Coca-Cola Company 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 prescribed 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 Coca-Cola FEMSA bottler agreements and in sufficient quantities to satisfy fully the demand in its territories;

undertake adequate quality control measures prescribed 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 Coca-Cola FEMSA and its affiliates of their obligations to The Coca-Cola Company; and

submit annually, to The Coca-Cola Company, Coca-Cola FEMSA's 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 its territories during 2013 and has reiterated its intention to continue providing such support as part of its new 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

**Shareholders Agreement.**

Coca-Cola FEMSA has separate bottler agreements with The Coca-Cola Company for each of the territories in which 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, 2013, Coca-Cola FEMSA had nine bottler agreements in Mexico: (i) the agreements for Mexico's Valley territory, which expire in April 2016 and June 2023, (ii) the agreements for the Central territory, which expire in August 2014 (two agreements), May 2015 and July 2016, (iii) the agreement for the Northeast territory, which expires in September 2014, (iv) the agreement for the Bajio territory, which expires in May 2015, and (v) the agreement for the Southeast territory, which expires in June 2023. As of December 31, 2013, we had four bottler agreements in Brazil, two expiring in October 2017 and the other two expiring in April 2024. Coca-Cola FEMSA's bottler agreements with The Coca-Cola Company will expire for its territories in other countries as follows: Argentina in September 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016 and Panama in November 2014.

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 **Shareholders Agreement.**





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Coca-Cola FEMSA has also entered into tradename license agreements with The Coca-Cola Company pursuant to which Coca-Cola FEMSA is authorized to use certain trademark names of The Coca-Cola Company with its 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.

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.

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***Corporate Governance Agreement***

On April 30, 2010, FEMSA, CB Equity (as transferee of the Heineken N.V. & 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 Vice Chairman of the board of Heineken N.V. and will also serve as a representative of FEMSA on the Heineken Holding N.V. Board of Directors. 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 Corporate

Vice-President and Chief Financial and Strategic Development Officer, who were both approved by Heineken N.V.'s general meeting of shareholders. Mr. José Antonio Fernández 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.

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**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](http://www.sec.gov).

**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, 2013, we had outstanding total debt of Ps. 76,748 million, of which 18.9% bore interest at variable interest rates and 81.1% bore interest at fixed interest rates. Swap contracts held by us effectively switch a portion of our variable rate indebtedness into fixed-rate indebtedness. After giving effect to these contracts, as of December 31, 2013, 58.6% of our total debt was fixed rate and 41.4% of our total debt was variable rate (the total amount of the debt and the amounts of the variable rate debt and fixed rate debt used in the calculation of this percentage considers converting only the units of investments debt for the related cross currency swap, and it also includes the effect of related interest rate swaps). 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, 2013, 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, 2013 exchange rate of Ps. 13.0765 per U.S. dollar.

The table below also includes the estimated fair value as of December 31, 2013 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, 2013.

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As of December 31, 2013, the fair value represents a decrease in total debt of Ps. 1,194 million less than book value due to a decrease in the interest rate in the United States.

**Principal by Year of Maturity**

|  | At December 31, 2013 |       |       |        |        |                           | At December 31, 2012 |               |                   |               |
|--|----------------------|-------|-------|--------|--------|---------------------------|----------------------|---------------|-------------------|---------------|
|  | 2014                 | 2015  | 2016  | 2017   | 2018   | 2019<br>and<br>thereafter | Carrying<br>Value    | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
| (in millions of Mexican pesos, except for percentages) |                      |       |       |        |        |                           |                      |               |                   |               |
| <b>Short-term debt:</b>                                |                      |       |       |        |        |                           |                      |               |                   |               |
| <b>Fixed rate debt:</b>                                |                      |       |       |        |        |                           |                      |               |                   |               |
| <b>Argentine pesos:</b>                                |                      |       |       |        |        |                           |                      |               |                   |               |
| Bank loans   | 495                  |       |       |        |        |                           | 495                  | 489           | 291               | 291           |
| Interest rate <sup>(1)</sup>                           | 25.4%                |       |       |        |        |                           | 25.4%                | 25.4%         | 19.2%             |               |
| <b>Variable rate debt:</b>                             |                      |       |       |        |        |                           |                      |               |                   |               |
| <b>Brazilian reais:</b>                                |                      |       |       |        |        |                           |                      |               |                   |               |
| Bank loans   | 34                   |       |       |        |        |                           | 34                   | 34            | 19                | 19            |
| Interest rate <sup>(1)</sup>                           | 9.7%                 |       |       |        |        |                           | 9.7%                 | 9.7%          | 8.1%              |               |
| U.S. dollars:  |                      |       |       |        |        |                           |                      |               |                   |               |
| Bank loans   |                      |       |       |        |        |                           |                      |               | 3,903             | 3,899         |
| Interest rate <sup>(1)</sup>                           |                      |       |       |        |        |                           |                      |               | 0.6%              |               |
| Subtotal   | 529                  |       |       |        |        |                           | 529                  | 523           | 4,213             | 4,209         |
| <b>Long-term debt:</b>                                 |                      |       |       |        |        |                           |                      |               |                   |               |
| <b>Fixed rate debt:</b>                                |                      |       |       |        |        |                           |                      |               |                   |               |
| U.S. dollars:  |                      |       |       |        |        |                           |                      |               |                   |               |
| Senior Notes (Coca-Cola FEMSA)                         |                      |       |       | 13,022 | 21,250 | 34,272                    | 35,327               | 6,458         | 7,351             |               |
| Interest rate <sup>(1)</sup>                           |                      |       |       | 2.4%   | 4.4%   | 3.7%                      | 3.7%                 | 4.6%          |                   |               |
| Senior Notes due 2023                                  |                      |       |       |        | 3,736  | 3,736                     | 3,486                |               |                   |               |
| Interest rate <sup>(1)</sup>                           |                      |       |       |        | 2.9%   | 2.9%                      | 2.9%                 |               |                   |               |
| Senior Notes due 2043                                  |                      |       |       |        | 8,377  | 8,377                     | 7,566                |               |                   |               |
| Interest rate <sup>(1)</sup>                           |                      |       |       |        | 4.4%   | 4.4%                      | 4.4%                 |               |                   |               |
| Bank Loans   | 97                   | 26    |       |        |        |                           | 123                  | 125           |                   |               |
| Interest rate <sup>(1)</sup>                           | 3.8%                 | 3.8%  |       |        |        |                           | 3.8%                 | 3.8%          |                   |               |
| <b>Mexican Pesos:</b>                                  |                      |       |       |        |        |                           |                      |               |                   |               |
| Units of Investment (UDIs)                             |                      |       |       | 3,630  |        |                           | 3,630                | 3,630         | 3,567             | 3,567         |
| Interest rate <sup>(1)</sup>                           |                      |       |       | 4.2%   |        |                           | 4.2%                 | 4.2%          | 4.2%              |               |
| Domestic Senior Notes                                  |                      |       |       |        | 9,987  | 9,987                     | 9,427                | 2,495         | 2,822             |               |
| Interest rate <sup>(1)</sup>                           |                      |       |       |        | 6.2%   | 6.2%                      | 6.2%                 | 8.3%          |                   |               |
| <b>Brazilian reais:</b>                                |                      |       |       |        |        |                           |                      |               |                   |               |
| Bank loans   | 66                   | 72    | 65    | 63     | 29     | 42                        | 337                  | 311           | 119               | 114           |
| Interest rate <sup>(1)</sup>                           | 3.2%                 | 2.9%  | 3.0%  | 3.0%   | 3.4%   | 3.1%                      | 3.1%                 | 3.1%          | 3.8%              |               |
| Finance leases   | 242                  | 216   | 184   | 157    | 84     | 82                        | 965                  | 817           | 11                | 11            |
| Interest rate <sup>(1)</sup>                           | 4.7%                 | 4.7%  | 4.6%  | 4.6%   | 4.6%   | 4.6%                      | 4.6%                 | 4.6%          | 4.5%              |               |
| <b>Argentine Pesos:</b>                                |                      |       |       |        |        |                           |                      |               |                   |               |
| Bank Loans   | 259                  | 71    | 28    |        |        |                           | 358                  | 327           | 529               | 514           |
| Interest rate <sup>(1)</sup>                           | 21.8%                | 16.8% | 15.3% |        |        |                           | 20.3%                | 20.3%         | 19.9%             |               |
| Subtotal   | 664                  | 385   | 277   | 3,850  | 13,135 | 43,474                    | 61,785               | 61,016        | 13,179            | 14,379        |
| <b>Variable rate debt:</b>                             |                      |       |       |        |        |                           |                      |               |                   |               |
| U.S. Dollars:  |                      |       |       |        |        |                           |                      |               |                   |               |
| Bank Loans   |                      |       | 1,566 |        | 4,277  |                           | 5,843                | 5,897         | 7,990             | 8,008         |
| Interest rate <sup>(1)</sup>                           |                      |       | 1.1%  |        | 0.8%   |                           | 0.9%                 | 0.9%          | 0.9%              |               |
| <b>Mexican pesos:</b>                                  |                      |       |       |        |        |                           |                      |               |                   |               |
| Domestic Senior Notes                                  |                      |       | 2,517 |        |        |                           | 2,517                | 2,500         | 6,011             | 5,999         |
| Interest rate <sup>(1)</sup>                           |                      |       | 3.9%  |        |        |                           | 3.9%                 | 3.9%          | 5.0%              |               |
| Bank Loans   | 1,368                | 2,764 |       |        |        |                           | 4,132                | 4,205         | 4,380             | 4,430         |
| Interest rate <sup>(1)</sup>                           | 4.0%                 | 4.0%  |       |        |        |                           | 4.0%                 | 4.0%          | 5.1%              |               |
| <b>Argentine pesos:</b>                                |                      |       |       |        |        |                           |                      |               |                   |               |

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|                              |       |       |       |       |        |        |        |        |        |        |
|------------------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
| Bank loans                   | 180   |       |       |       |        | 180    | 179    | 106    | 106    |        |
| Interest rate <sup>(1)</sup> | 25.7% |       |       |       |        | 25.7%  | 25.7%  | 22.9%  |        |        |
| <b>Brazilian reais:</b>      |       |       |       |       |        |        |        |        |        |        |
| Bank loans                   | 138   | 18    | 11    |       |        | 167    | 167    | 106    |        |        |
| Interest rate <sup>(1)</sup> | 11.3% | 11.3% | 11.3% |       |        | 11.3%  | 11.3%  | 8.9%   |        |        |
| Finance leases               | 35    | 39    | 26    |       |        | 100    | 100    | 149    | 149    |        |
| Interest rate <sup>(1)</sup> | 10.0% | 10.0% | 10.0% |       |        | 10.0%  | 10.0%  | 10.5%  |        |        |
| <b>Colombian pesos:</b>      |       |       |       |       |        |        |        |        |        |        |
| Bank loans                   | 913   | 582   |       |       |        | 1,495  | 1,490  | 1,023  | 990    |        |
| Interest rate <sup>(1)</sup> | 5.6%  | 5.7%  |       |       |        | 5.7%   | 5.7%   | 6.8%   |        |        |
| Finance leases               |       |       |       |       |        |        |        | 185    | 186    |        |
| Interest rate <sup>(1)</sup> |       |       |       |       |        |        |        | 6.8%   |        |        |
| Subtotal                     | 2,634 | 3,403 | 4,120 |       | 4,277  | 14,434 | 14,538 | 19,950 | 19,868 |        |
| Total long-term debt         | 3,298 | 3,788 | 4,397 | 3,850 | 17,412 | 43,474 | 76,219 | 75,554 | 33,129 | 34,247 |

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|   | At December 31, 2013 |       |      |       |        | At December 31, 2012 |                |            |                |            |
|---|----------------------|-------|------|-------|--------|----------------------|----------------|------------|----------------|------------|
|   | 2014                 | 2015  | 2016 | 2017  | 2018   | 2019 and thereafter  | Carrying Value | Fair Value | Carrying Value | Fair Value |
| (in millions of Mexican pesos, except for percentages)                          |                      |       |      |       |        |                      |                |            |                |            |
| <b>Derivative financial instruments:</b>  |                      |       |      |       |        |                      |                |            |                |            |
| <b>Interest rate swaps:</b>   |                      |       |      |       |        |                      |                |            |                |            |
| <b>Mexican pesos:</b>   |                      |       |      |       |        |                      |                |            |                |            |
| Variable to fixed   | 575                  | 1,963 |      |       |        |                      | 2,538          |            | 6,325          |            |
| Interest pay rate <sup>(1)</sup>  | 8.4%                 | 8.6%  |      |       |        |                      | 8.6%           |            | 8.4%           |            |
| Interest receive rate <sup>(1)</sup>  | 4.0%                 | 4.0%  |      |       |        |                      | 4.0%           |            | 5.0%           |            |
| <b>Cross currency swaps:</b>  |                      |       |      |       |        |                      |                |            |                |            |
| Units of Investment (UDIs) to Mexican pesos and variable rate Fixed to variable |                      |       |      | 2,500 |        |                      | 2,500          |            | 2,500          |            |
| Interest pay rate <sup>(1)</sup>  |                      |       |      | 4.1%  |        |                      | 4.1%           |            | 4.7%           |            |
| Interest receive rate <sup>(1)</sup>  |                      |       |      | 4.2%  |        |                      | 4.2%           |            | 4.2%           |            |
| U.S. dollars to Mexican pesos Variable to variable                              |                      |       |      |       |        |                      |                |            | 2,553          |            |
| Interest pay rate <sup>(1)</sup>  |                      |       |      |       |        |                      |                |            | 3.7%           |            |
| Interest receive rate <sup>(1)</sup>  |                      |       |      |       |        |                      |                |            | 1.4%           |            |
| Fixed to variable   |                      |       |      |       |        | 11,403               | 11,403         |            |                |            |
| Interest pay rate <sup>(1)</sup>  |                      |       |      |       |        | 5.1%                 | 5.1%           |            |                |            |
| Interest receive rate <sup>(1)</sup>  |                      |       |      |       |        | 4.0%                 | 4.0%           |            |                |            |
| Fixed to fixed  | 1,308                |       |      |       |        | 1,267                | 2,575          |            |                |            |
| Interest pay rate <sup>(1)</sup>  | 8.7%                 |       |      |       |        | 5.7%                 | 7.2%           |            |                |            |
| Interest receive rate <sup>(1)</sup>  | 4.6%                 |       |      |       |        | 2.9%                 | 3.8%           |            |                |            |
| U.S. dollars to Brazilian reais Fixed to variable                               | 50                   | 83    |      |       | 5,884  |                      | 6,017          |            |                |            |
| Interest pay rate <sup>(1)</sup>  | 12.1%                | 12.0% |      |       | 9.5%   |                      | 9.5%           |            |                |            |
| Interest receive rate <sup>(1)</sup>  | 3.6%                 | 3.9%  |      |       | 2.7    |                      | 2.7            |            |                |            |
| Variable to variable  |                      |       |      |       | 18,046 |                      | 18,046         |            |                |            |
| Interest pay rate <sup>(1)</sup>  |                      |       |      |       | 9.5%   |                      | 9.5%           |            |                |            |
| Interest receive rate <sup>(1)</sup>  |                      |       |      |       | 1.5%   |                      | 1.5%           |            |                |            |

(1) Weighted average interest rate.

A hypothetical, instantaneous and unfavorable change of 100 basis points in the average interest rate applicable to variable-rate liabilities held at FEMSA as of December 31, 2013 would increase our interest expense by approximately Ps. 332 million, or 7.6%, over the 12-month period of 2014, assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest and cross currency swap agreements.

**Table of Contents****Foreign Currency Exchange Rate Risk**

Our principal exchange rate risk involves changes in the value of the local currencies, of each country in which we operate, relative to the U.S. dollar. In 2013, the percentage of our consolidated total revenues was denominated as follows:

**Total Revenues by Currency At December 31, 2013**

| Region                                    | Currency                                       | % of Consolidated Total Revenues |
|---|--|----------------------------------|
| Mexico and Central America <sup>(1)</sup> | Mexican peso and others                        | 66.4%                            |
| Venezuela                                 | Bolívar fuerte                                 | 12.2%                            |
| South America                             | Brazilian real, Argentine peso, Colombian peso | 21.4%                            |

(1) Mexican peso, Quetzal, Balboa, Colón and U.S. dollar.

We estimate that a majority of our consolidated costs and expenses are denominated in Mexican pesos for Mexican subsidiaries and in the aforementioned currencies for the foreign subsidiaries, which are principally subsidiaries of Coca-Cola FEMSA. Substantially all of our costs and expenses denominated in a foreign currency, other than the functional currency of each country in which we operate, are denominated in U.S. dollars. As of December 31, 2013, after giving effect to all cross currency swaps, 46.5% of our long-term indebtedness was denominated in Mexican pesos, 16.8% was denominated in U.S. dollars, 2.0% was denominated in Colombian pesos, 0.7% was denominated in Argentine pesos and 34.0% was denominated in Brazilian reais. We also have short-term indebtedness, which consists of bank loans in Argentine pesos, Brazilian reais, and U.S. dollars. Decreases in the value of the different currencies relative to the U.S. dollar will increase the cost of our foreign currency denominated operating costs and expenses, and the debt service obligations with respect to our foreign currency-denominated indebtedness. A depreciation of the Mexican peso relative to the U.S. dollar will also result in foreign exchange losses, as the Mexican peso value of our foreign currency-denominated long-term indebtedness is increased.

Our exposure to market risk associated with changes in foreign currency exchange rates relates primarily to U.S. dollar-denominated debt obligations as shown in the interest risk table above. We occasionally utilize financial derivative instruments to hedge our exposure to the U.S. dollar relative to the Mexican peso and other currencies.

As of December 31, 2013, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and Euros. The notional amount of these forward agreements was Ps. 3,616 million, for which we have recorded a fair value liability of Ps. 16 million. The maturity date of these forward agreements is in 2014 and 2015. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2013, a gain of Ps. 1,710 million was recorded in our consolidated results.

As of December 31, 2012, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars and Euros. The notional amount of these forward agreements was Ps. 2,803 million, for which we have recorded a fair value asset of Ps. 36 million. The maturity date of these forward agreements is in 2013. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2012, a gain of Ps. 126 million was recorded in our consolidated results.

As of December 31, 2011, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our transactions denominated in U.S. dollars. The notional amount of these forward agreements was Ps. 2,933 million, for which we have recorded a fair value asset of Ps. 183 million. The maturity date of these forward agreements is in 2012. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2011, a gain of Ps. 21 million was recorded in our consolidated results.

As of December 31, 2012, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations. The notional amount of these options was Ps. 982 million, for which we have recorded a net fair value asset of Ps. 47 million as part of cumulative other comprehensive income. The maturity date of these options is in 2013. At December 31, 2013, the Company had no outstanding options to purchase U.S. dollars.





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As of December 31, 2011, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations. The notional amount of these options was Ps. 1,901 million, for which we have recorded a net fair value asset of Ps. 300 million as part of cumulative other comprehensive income. The maturity date of these options was in 2012.

The following table illustrates the effects that hypothetical fluctuations in the exchange rates of the U.S. dollar and the Euro relative to the Mexican peso, and the U.S. dollar relative to the Brazilian real and Colombian peso, would have on our equity and profit or loss:

| Foreign Currency Risk <sup>(1)(2)</sup> | Change in Exchange<br>Rate | Effect on Equity | Effect on Profit<br>or Loss |
|---|----------------------------|------------------|-----------------------------|
| <b>2013</b>                             |                            |                  |                             |
| FEMSA                                   | +7%MXN/EUR                 | Ps. (157)        | Ps.                         |
|   | -7% MXN/EUR                | 157              |                             |
| Coca-Cola FEMSA                         | +11%MXN/USD                | 67               |                             |
|   | +13%BRL/USD                | 86               |                             |
|   | +6%COP/USD                 | 19               |                             |
|   | -11%MXN/USD                | (67)             |                             |
|   | -13%BRL/USD                | (86)             |                             |
|   | -6%COP/USD                 | (19)             |                             |
| <b>2012</b>                             |                            |                  |                             |
| FEMSA                                   | +9%MXN/EUR/                | Ps. (250)        | Ps.                         |
|   | +11%MXN/USD                |                  |                             |
|   | -9%MXN/EUR/                | 104              |                             |
|   | -11%MXN/USD                |                  |                             |
| Coca-Cola FEMSA                         | -11%MXN/USD                | (204)            |                             |
| <b>2011</b>                             |                            |                  |                             |
| FEMSA                                   | +13%MXN/EUR/               | Ps. (189)        | Ps.                         |
|   | +15%MXN/USD                |                  |                             |
|   | -13%MXN/EUR/               | 191              |                             |
|   | -15%MXN/USD                |                  |                             |
| Coca-Cola FEMSA                         | -15%MXN/USD                | (352)            | (127)                       |

(1) The sensitivity analysis effects include all subsidiaries of the Company.

(2) Includes the sensitivity analysis effects of all derivative financial instruments related to foreign exchange risk.

As of December 31, 2013, we had (i) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 50 million that expire in 2014, for which we have recorded a net fair value asset of Ps. 5 million; (ii) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 83 million that expire in 2015, for which we have recorded a net fair value asset of Ps. 11 million; (iii) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,500 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 1,142 million; (iv) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 5,884 million that expire in 2018, for which we have recorded a net fair value asset of Ps. 156 million; (v) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 11,403 million that expire in 2023, for which we have recorded a net fair value liability of Ps. 394 million. As of December 31, 2013, we had (i) cross currency swaps designated as cash flow hedges under contracts with an aggregate notional amount of Ps 1,308 million that expire in 2014, for which we have recorded a net fair value asset of Ps. 13 million; (ii) cross currency swaps designated as cash flow hedges under contracts with an aggregate notional amount of Ps 211 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 38 million; (iii) cross currency swaps designated as cash flow hedges under contracts with an aggregate notional amount of Ps 18,046 million that expire in 2018, for which we have recorded a net fair value liability of Ps. 981 million; (iv) cross currency swaps designated as cash flow hedges under contracts with an aggregate notional amount of Ps 1,267 million that expire in 2023, for which we have recorded a net fair value asset of Ps. 44 million.

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As of December 31, 2012, we had (i) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,553 million that expire in 2014, for which we have recorded a net fair value asset of Ps. 46 million; and (ii) cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,711 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 1,089 million. The net effect of our expired contracts for the year ended December 31, 2012, was recorded as interest expense of Ps. 44 million.

As of December 31, 2011, we had cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,500 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 860 million. The net effect of our expired contracts for the year ended December 31, 2011, was recorded as interest income of Ps. 8 million.

For the years ended December 31, 2013, 2012, and 2011, certain cross currency swap instruments did not meet the hedging criteria for accounting purposes; consequently, changes in the estimated fair value were recorded in the income statement. The changes in fair value of these contracts represented a loss of Ps. 33 million in 2013 and Ps. 2 million in 2012 and 2011, respectively.

A hypothetical, instantaneous and unfavorable 10% devaluation of the Mexican peso relative to the U.S. dollar occurring on December 31, 2013 would have resulted in a foreign exchange loss decreasing our consolidated net income by approximately Ps. 700 million over the 12-month period of 2014, reflecting greater foreign exchange loss related to our U.S. dollar denominated indebtedness, net of a gain in the cash balances held by us in U.S. dollars and Euros.

As of April 4, 2014, the exchange rates relative to the U.S. dollar of all the countries in which we operate, as well as their devaluation/revaluation effect compared to December 31, 2013, were as follows:

| Country    | Currency          | Exchange Rate<br>as of April 4,<br>2014 | (Devaluation) /<br>Revaluation |
|------------|-------------------|---|--------------------------------|
| Mexico     | Mexican peso      | 13.10                                   | (0.2)%                         |
| Brazil     | Brazilian real    | 2.24                                    | 4.3%                           |
| Venezuela  | Bolívar fuerte    | 10.70                                   | (69.8)%                        |
| Colombia   | Colombian peso    | 1,966.40                                | (2.1)%                         |
| Argentina  | Argentine<br>peso | 8.00                                    | (22.7)%                        |
| Costa Rica | Colón             | 559.39                                  | (10.2)%                        |
| Guatemala  | Quetzal           | 7.77                                    | 0.9%                           |
| Nicaragua  | Cordoba           | 25.65                                   | (1.3)%                         |
| Panama     | U.S. dollar       | 1.00                                    | 0.0%                           |
| Euro Zone  | Euro              | 0.72                                    | 0.4%                           |

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A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the currencies of all the countries in which we operate, relative to the U.S. dollar, occurring on December 31, 2013, would produce a reduction (or gain) in stockholders' equity as follows:

| Country    | Currency       | Reduction in<br>Stockholders' Equity<br>(in millions of Mexican pesos) |
|------------|----------------|--|
| Mexico     | Mexican peso   | 892  |
| Brazil     | Brazilian real | 1,689  |
| Venezuela  | Bolívar fuerte | 1,264  |
| Colombia   | Colombian peso | 1,011  |
| Costa Rica | Colón          | 221  |
| Argentina  | Argentine peso | 88   |
| Guatemala  | Quetzal        | 59   |
| Nicaragua  | Cordoba        | 91   |
| Panama     | U.S. dollar    | 200  |
| Euro Zone  | Euro           | 7,331  |

**Equity Risk**

As of December 31, 2013, 2012 and 2011, we did not have any equity derivative agreements.

**Commodity Price Risk**

We entered into various derivative contracts to hedge the cost of certain raw materials that are exposed to variations of commodity price exchange rates. As of December 31, 2013, we had various derivative instruments contracts with maturity dates in 2014, 2015 and 2016 notional amounts of Ps. 2,221 million and a fair value liability of Ps. 302 million. The results of our commodity price contracts for the years ended December 31, 2013, 2012, and 2011, were a loss of Ps. 362 million, and gains of Ps. 6 million and Ps. 257 million, respectively, which were recorded in the results of each year.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****ITEM 12A. DEBT SECURITIES**

Not applicable.

**ITEM 12B. WARRANTS AND RIGHTS**

Not applicable.

**ITEM 12C. OTHER SECURITIES**

Not applicable.

**ITEM 12D. AMERICAN DEPOSITARY SHARES**

The Bank of New York Mellon serves as the depository for our ADSs. Holders of our ADSs, evidenced by ADRs, are required to pay various fees to the depository, and the depository may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

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ADS holders are required to pay the depositary amounts in respect of expenses incurred by the depositary or its agents on behalf of ADS holders, including expenses arising from compliance with applicable law, taxes or other governmental charges, cable, telex and facsimile transmission, or the conversion of foreign currency into U.S. dollars. The depositary may decide in its sole discretion to seek payment by either billing holders or by deducting the fee from one or more cash dividends or other cash distributions.

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ADS holders are also required to pay additional fees for certain services provided by the depositary, as set forth in the table below.

| <b>Depositary service</b>   | <b>Fee payable by ADS holders</b>                |
|---|--|
| Issuance and delivery of ADSs, including in connection with share distributions, stock splits | Up to US\$5.00 per 100 ADSs (or portion thereof) |
| Distribution of dividends <sup>(1)</sup>  | Up to US\$0.02 per ADS                           |
| Withdrawal of shares underlying ADSs  | Up to US\$5.00 per 100 ADSs (or portion thereof) |

(1) As of the date of this annual report, holders of our ADSs were not required to pay additional fees with respect to this service.

**Direct and indirect payments by the depositary**

The depositary pays us an agreed amount, which includes reimbursements for certain expenses we incur in connection with the ADS program. These reimbursable expenses include legal and accounting fees, listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADS holders. For the year ended December 31, 2013, this amount was US\$ 650,000.

**ITEMS 13-14. NOT APPLICABLE****ITEM 15. CONTROLS AND PROCEDURES****(a) Disclosure Controls and Procedures**

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2013. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (or the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

**(b) Management's annual report on internal control over financial reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework, as issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with international financial reporting standards. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with international financial reporting standards, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.



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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the 1992 framework in Internal Controls Integrated Framework, as issued by the Committee of Sponsoring Organizations of the Treadway Commission, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

Our management's assessment and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2013 excludes, in accordance with applicable guidance provided by the SEC, an assessment of the internal control over financial reporting of Grupo Yoli, which Coca-Cola FEMSA acquired in May 2013, Companhia Fluminense, which Coca-Cola FEMSA acquired in August 2013, Spaipa, which Coca-Cola FEMSA acquired in October 2013 and other businesses acquired by us. Grupo Yoli, Companhia Fluminense, Spaipa and other business acquisitions collectively represented 3.1% and 1.1% of our total and net assets, respectively, as of December 31, 2013, and 3.2% and 1.9% of our revenues and net income, respectively, for the year ended December 31, 2013. No material changes in our internal control over financial reporting were identified as a result of these transactions.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by Mancera, S.C., a member practice of Ernst & Young Global, an independent registered public accounting firm, as stated in its report included herein.

**(c) Attestation Report of the Registered Public Accounting Firm**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL**

**CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Shareholders of

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

We have audited Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the 1992 Framework) (the COSO criteria). Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standard Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Grupo Yoli and its subsidiaries (collectively Grupo Yoli, a Mexican subsidiary), Companhia Fluminense de Refrigerantes (Compañía Fluminense, a Brazilian subsidiary) and Spaipa S.A. Industria Brasileira de Bebidas (Spaipa, a Brazilian subsidiary), acquired in May 2013, August 2013 and October 2013, respectively, and other businesses acquired in 2013, which are included in the 2013 consolidated financial statements of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries, and constituted 3.1% and 1.1% of total and net assets, respectively, as of December 31, 2013 and 3.2% and 1.9% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries, also did not include an evaluation of the internal control over financial reporting of Grupo Yoli, Companhia Fluminense, Spaipa and other businesses acquired in 2013.

In our opinion, Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2013 and our report dated April 16, 2014 expressed an unqualified opinion thereon.

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

Agustin Aguilar Laurents

Monterrey, N.L., Mexico

April 16, 2014

### **(d) Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our shareholders and our board of directors have designated José Manuel Canal Hernando, an independent director under the Mexican Securities Law and applicable U.S. Securities Laws and NYSE listing standards, as an audit committee financial expert within the meaning of this Item 16A. See **Item 6. Directors, Senior Management and Employees Directors.**

### **ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics, within the meaning of this Item 16B of Form 20-F. Our code of ethics applies to our chief executive officer, chief financial officer, chief accounting officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at [www.femsa.com](http://www.femsa.com). If we amend the provisions of our code of ethics that apply to our chief executive officer, chief financial officer, chief accounting officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.



**Table of Contents****ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Audit and Non-Audit Fees**

For the fiscal years ended December 31, 2013, 2012 and 2011, Mancera, S.C., a member practice of Ernst & Young Global, was our auditor.

The following table summarizes the aggregate fees billed to us in 2013, 2012 and 2011 by Mancera, S.C., which is an independent registered public accounting firm, during the fiscal years ended December 31, 2013, 2012 and 2011:

|                    | Year ended December 31,        |         |         |
|--------------------|--------------------------------|---------|---------|
|                    | 2013                           | 2012    | 2011    |
|                    | (in millions of Mexican pesos) |         |         |
| Audit fees         | Ps. 101                        | Ps. 88  | Ps. 83  |
| Audit-related fees | 10                             | 5       | 10      |
| Tax fees           | 12                             | 9       | 8       |
| Other fees         | 6                              | 5       |         |
| Total              | Ps. 129                        | Ps. 107 | Ps. 101 |

*Audit fees.* Audit fees in the above table represent the aggregate fees billed in connection with the audit of our annual financial statements, as well as to other limited procedures in connection with our quarterly financial information and other statutory and regulatory audit activities.

*Audit-related fees.* Audit-related fees in the above table are the aggregate fees billed for assurance and other services related to the performance of the audit, mainly in connection with bond issuance processes and other special audits and reviews.

*Tax fees.* Tax fees in the above table are fees billed for services based upon existing facts and prior transactions in order to document, compute, and obtain government approval for amounts included in tax filings such as value-added tax return assistance and transfer pricing documentation.

*Other fees.* Other fees in the above table for the years ended December 31, 2013 and 2012, include mainly fees billed for due diligence services. For the year ended December 31, 2011, there were no other fees.

**Audit Committee Pre-Approval Policies and Procedures**

We have adopted pre-approval policies and procedures under which all audit and non-audit services provided by our external auditors must be pre-approved by the audit committee as set forth in the Audit Committee's charter. Any service proposals submitted by external auditors need to be discussed and approved by the Audit Committee during its meetings, which take place at least four times a year. Once the proposed service is approved, we or our subsidiaries formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our Audit Committee. In addition, the members of our board of directors are briefed on matters discussed by the different committees of our board of directors.

**Table of Contents****ITEM 16D. NOT APPLICABLE****ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

We did not purchase any of our equity securities in 2013. The following table presents purchases by trusts that we administer in connection with our stock incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. See **Item 6. Directors, Senior Management and Employees EVA Stock Incentive Plan.**

**Purchases of Equity Securities**

| <b>Period</b>  | <b>Total<br/>Number of<br/>BD Units<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid per<br/>BD Units</b> | <b>Total Number of<br/>Shares (or Units)<br/>Purchased<br/>as<br/>Part of<br/>Publicly<br/>Announced Plans<br/>or<br/>Programs</b> | <b>Maximum Number (or<br/>Appropriate<br/>U.S.<br/>dollar Value) of Shares<br/>(or Units) that<br/>May Yet<br/>Be Purchased<br/>Under<br/>the Plans or<br/>Programs</b> |
|----------------|---|--|--|---|
| March, 2013    | 1,626,497   | Ps. 129.35   |  |   |
| April, 2013    | 62,798  | Ps. 138.55   |  |   |
| December, 2013 | 596,653   | Ps. 121.12   |  |   |

**ITEM 16F. NOT APPLICABLE****ITEM 16G. CORPORATE GOVERNANCE**

Pursuant to Rule 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Mexican corporation with shares listed on the Mexican Stock Exchange. Our corporate governance practices are governed by our bylaws, the Mexican Securities Law and the regulations issued by the CNBV. We also disclose the extent of compliance with the *Código de Mejores Prácticas Corporativas* (Mexican Code of Best Corporate Practices), which was created by a group of Mexican business leaders and was endorsed by the CNBV.

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The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

**NYSE Standards**

**Directors independence:** A majority of the board of directors must be independent.

**Executive sessions:** Non-management directors must meet at regularly scheduled executive sessions without management.

**Nominating/Corporate Governance Committee:** A nominating/corporate governance committee composed entirely of independent directors is required.

**Our Corporate Governance Practices**

**Directors independence:** Pursuant to the Mexican Securities Law, we are required to have a board of directors with a maximum of 21 members, 25% of whom must be independent.

The Mexican Securities Law sets forth, in article 26, the definition of independence, which differs from the one set forth in Section 303A.02 of the Listed Company Manual of the NYSE. Generally, under the Mexican Securities Law, a director is not independent if such director: (i) is an employee or a relevant officer of the company or its subsidiaries; (ii) is an individual with significant influence over the company or its subsidiaries; (iii) is a shareholder or participant of the controlling group of the company; (iv) is a client, supplier, debtor, creditor, partner or employee of an important client, supplier, debtor or creditor of the company; or (v) is a family member of any of the aforementioned persons.

In accordance with the Mexican Securities Law, our shareholders are required to make a determination as to the independence of our directors at an ordinary meeting of our shareholders, though the CNBV may challenge that determination. Our board of directors is not required to make a determination as to the independence of our directors.

**Executive sessions:** Under our bylaws and applicable Mexican law, our non-management and independent directors are not required to meet in executive sessions.

Our bylaws state that the board of directors will meet at least four times a year, following the end of each quarter, to discuss our operating results and progress in achieving strategic objectives. Our board of directors can also hold extraordinary meetings.

**Nominating/Corporate Governance Committee:** We are not required to have a nominating committee, and the Mexican Code of Best Corporate Practices does not provide for a nominating committee.

However, Mexican law requires us to have a Corporate Practices Committee. Our Corporate Practices Committee is composed of three members, and as required by the Mexican Securities Law and our bylaws, the three members are independent, and its chairman is elected at the shareholders meeting.

**Compensation Committee:** A compensation committee composed entirely independent directors is required.

**Compensation Committee:** We do not have a committee that exclusively oversees compensation issues. Our Corporate Practices Committee, composed entirely of independent directors, reviews and recommends management compensation programs in order to ensure that they are aligned with shareholders' interests and corporate performance.

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**NYSE Standards**

**Audit Committee:** Listed companies must have an audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the NYSE independence standards.

**Equity compensation plan:** Equity compensation plans require shareholder approval, subject to limited exemptions.

**Code of business conduct and ethics:** Corporate governance guidelines and a code of conduct and ethics are required, with disclosure of any waiver for directors or executive officers.

**Our Corporate Governance Practices**

**Audit Committee:** We have an Audit Committee of four members, as required by the Mexican Securities Law. Each member of the Audit Committee is an independent director, and its chairman shall be elected at the shareholders' meeting.

**Equity compensation plan:** Shareholder approval is not required under Mexican law or our bylaws for the adoption and amendment of an equity compensation plan. Such plans should provide for general application to all executives. Our current equity compensation plans have been approved by our board of directors.

**Code of business conduct and ethics:** We have adopted a code of ethics, within the meaning of Item 16B of SEC Form 20-F. Our code of ethics applies to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at [www.femsa.com](http://www.femsa.com). If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**ITEM 16H. NOT APPLICABLE**

**ITEM 17. NOT APPLICABLE**

**ITEM 18. FINANCIAL STATEMENTS**

See pages F-1 through F-188, incorporated herein by reference.

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**ITEM 19. EXHIBITS**

- 1.1 Bylaws (estatutos sociales) of Fomento Económico Mexicano, S.A.B. de C.V., approved on April 22, 2008, together with an English translation thereof (incorporated by reference to Exhibit 1.1 of FEMSA's Annual Report on Form 20-F filed on June 30, 2008 (File No. 333-08752)).
- 1.2 Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Grupo Industrial Emprex, S.A. de C.V., and FEMSA dated as of January 11, 2010 (incorporated by reference to Exhibit 1.2 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 (File No. 333-08752)).
- 1.3 First Amendment to Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Grupo Industrial Emprex, S.A. de C.V., and FEMSA dated as of April 26, 2010 (incorporated by reference to Exhibit 1.3 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 (File No. 333-08752)).
- 1.4 Corporate Governance Agreement, dated April 30, 2010, between Heineken Holding N.V., Heineken N.V., L Arche Green N.V., FEMSA and CB Equity. (incorporated by reference to Exhibit 1.4 of FEMSA's Annual Report on Form 20-F filed on April 27, 2012 (File No. 333-08752)).
- 2.1 Deposit Agreement, as further amended and restated as of May 11, 2007, among FEMSA, The Bank of New York, and all owners and holders from time to time of any American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to FEMSA's registration statement on Form F-6 filed on April 30, 2007 (File No. 333- 142469)).
- 2.2 Specimen certificate representing a BD Unit, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, together with an English translation (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- 2.3 Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon (incorporated by reference to Exhibit 2.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- 2.4 First Supplemental Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon and the Bank of New York Mellon (Luxembourg) S.A. (incorporated by reference to Exhibit 2.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- 2.5 Second Supplemental Indenture dated as of April 1, 2011 among Coca-Cola FEMSA, S.A.B. de C.V., Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), as Guarantor, and The Bank of New York Mellon (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 17, 2011 (File No. 001-12260)).
- 2.6 Indenture dated as of April 8, 2013 between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent, and Transfer Agent (incorporated by reference to Exhibit 4.1 of FEMSA's registration statement on Form F-3 filed on April 9, 2013 (File No. 333-187806)).
- 2.7 First Supplemental Indenture, dated as of May 10, 2013, between FEMSA, as Issuer, and The Bank of New York Mellon, as Trustee, Security Registrar, Paying Agent and Transfer Agent, and The Bank of New York Mellon SA/NV, Dublin Branch, as Irish Paying Agent, including the form of global note therein (incorporated by reference to Exhibit 1.4 of FEMSA's registration statement on Form 8-A filed on May 17, 2013 (File No. 001-35934)).
- 2.8 Third Supplemental Indenture dated as of September 6, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), as existing guarantor, Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S.A. de C.V., as additional guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 (File No.333-187275)).



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- 2.9 Fourth Supplemental Indenture dated as of October 18, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S.A. de C.V., as existing guarantors, Controladora Interamericana de Bebidas, S. de R.L. de C.V., as additional guarantor, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Registration Statement on Form F-3 filed on November 8, 2013 (File No. 333-187275)).
- 2.10 Fifth Supplemental Indenture dated as of November 26, 2013 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S.A. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on December 5, 2013 (File No.1-2260)).
- 2.11 Sixth Supplemental Indenture dated as of January 21, 2014 among Coca-Cola FEMSA, S.A.B. de C.V., as issuer, Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V., Yoli de Acapulco, S.A. de C.V. and Controladora Interamericana de Bebidas, S. de R.L. de C.V., as guarantors, and The Bank of New York Mellon, as trustee, security registrar, paying agent and transfer agent (incorporated by reference to Exhibit 4.1 to Coca-Cola FEMSA's Form 6-K filed on January 27, 2014 (File No.1-2260)).
- 3.1 Amended Voting Trust Agreement among certain principal shareholders of FEMSA together with an English translation (incorporated by reference to FEMSA's Schedule 13D as amended filed on August 11, 2005 (File No. 005-54705)).
- 4.1 Amended and Restated Shareholders' Agreement, dated as of July 6, 2002, by and among CIBSA, Emprex, The Coca-Cola Company and Inmex (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).
- 4.2 Amendment, dated May 6, 2003, to the Amended and Restated Shareholders' Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. (incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).
- 4.3 Second Amendment, dated February 1, 2010, to the Amended and Restated Shareholders' Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex and Dulux CBAI 2003 B.V. (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- 4.4 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- 4.5 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
- 4.6 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- 4.7 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).

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- 4.8 Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.9 Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.10 Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.11 Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.12 Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- 4.13 Supply Agreement, dated June 21, 1993, between Coca-Cola FEMSA and FEMSA Empaques (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- 4.14 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico (English translation) (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
- 4.15 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Baijo, S.A. de C.V., and The Coca-Cola Company with respect to operations in Baijo, Mexico (English translation). (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
- 4.16 Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to FEMSA's Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- 4.17 Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administración de Marcas S.A. de C.V., as proprietor, and The Coca-Cola Export Corporation Mexico branch, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).
- 4.18 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.19 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajio S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.20 Supply Agreement dated April 3, 1998, between ALPLA Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).
- 4.21 Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA and FEMSA Logística (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).

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- 4.22 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajio S.A. de C.V. (with English translation) (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.23 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo S.A. de C.V. (with English translation) (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.24 Memorandum of Understanding, dated as of March 11, 2003, by and among Panamco, as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.25 Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
- 4.26 Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
- 4.27 The Coca-Cola Company Memorandum to Steve Heyer from Jose Antonio Fernández, dated December 22, 2002 (incorporated by reference to Exhibit 10.1 to FEMSA's Registration Statement on Amendment No. 1 to the Form F-3 filed on September 20, 2004 (File No. 333-117795)).
- 4.28 Shareholders Agreement dated as of January 25, 2013, by and among CCBPI, Coca-Cola South Asia Holdings, Inc., Coca-Cola Holdings (Overseas) Limited and Controladora de Inversiones en Bebidas Refrescantes, S.L. (incorporated by reference to Exhibit 4.27 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on March 15, 2013 (File No. 1-12260)).
- 8.1 Significant Subsidiaries.
- 12.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 16, 2014.
- 12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 16, 2014.
- 13.1 Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 16, 2014.
- 23.1 Consent of Mancera, S.C.
- 23.2 Consent of KPMG Accountants N.V.

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**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 16, 2014

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

By: /s/ Javier Astaburuaga Sanjines  
Javier Astaburuaga Sanjines

Chief Financial and Strategic Development Officer

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**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES**

**MONTERREY, N.L., MÉXICO**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of

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

We have audited the accompanying consolidated statements of financial position of Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries as of December 31, 2013 and 2012, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Heineken N. V. (a corporation in which the Company has a 12.53% interest for each of the three years in the period ended December 31, 2013) which is majority owned by Heineken Holding N.V. (a corporation in which the Company has a 14.94% interest for each of the three years in the period ended December 31, 2013) (collectively Heineken ), have been audited by other auditors whose report dated February 11, 2014 has been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to the amounts included for Heineken, is based on the report of the other auditors. In the consolidated financial statements, the Company's investment in Heineken is stated at Ps. 80,351 and Ps.77,484 million at December 31, 2013 and 2012 respectively and the Company's equity in the net income of Heineken is stated at Ps. 4,587, Ps. 8,311 and Ps. 4,880 million for each of the three years in the period ended December 31, 2013.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries as of December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated April 16, 2014 expressed an unqualified opinion thereon.

Mancera, S.C.

A member practice of

Ernst & Young Global Limited

Agustin Aguilar Laurents

Monterrey, N.L., Mexico

April 16, 2014

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MÉXICO***Consolidated Statements of Financial Position*

As of December 31, 2013 and 2012.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

|   | Note | December<br>2013 (*) | December<br>2013   | December 2012      |
|---|------|----------------------|--------------------|--------------------|
| <b>ASSETS</b>   |      |                      |                    |                    |
| <b>Current Assets:</b>                                |      |                      |                    |                    |
| Cash and cash equivalents                             | 5    | \$ 2,081             | Ps. 27,259         | Ps. 36,521         |
| Investments   | 6    | 10                   | 126                | 1,595              |
| Accounts receivable, net                              | 7    | 977                  | 12,798             | 10,837             |
| Inventories   | 8    | 1,396                | 18,289             | 16,345             |
| Recoverable taxes                                     |      | 698                  | 9,141              | 6,277              |
| Other current financial assets                        | 9    | 304                  | 3,977              | 2,546              |
| Other current assets                                  | 9    | 151                  | 1,979              | 1,334              |
| Total current assets                                  |      | 5,617                | 73,569             | 75,455             |
| Investments in associates and joint ventures          | 10   | 7,507                | 98,330             | 83,840             |
| Property, plant and equipment, net                    | 11   | 5,646                | 73,955             | 61,649             |
| Intangible assets, net                                | 12   | 7,886                | 103,293            | 67,893             |
| Deferred tax assets                                   | 24   | 290                  | 3,792              | 2,028              |
| Other financial assets                                | 13   | 210                  | 2,753              | 2,254              |
| Other assets, net                                     | 13   | 267                  | 3,500              | 2,823              |
| <b>TOTAL ASSETS</b>                                   |      | <b>\$ 27,423</b>     | <b>Ps. 359,192</b> | <b>Ps. 295,942</b> |
| <b>LIABILITIES AND EQUITY</b>                         |      |                      |                    |                    |
| <b>Current Liabilities:</b>                           |      |                      |                    |                    |
| Bank loans and notes payable                          | 18   | \$ 40                | Ps. 529            | Ps. 4,213          |
| Current portion of long-term debt                     | 18   | 252                  | 3,298              | 4,489              |
| Interest payable                                      |      | 31                   | 409                | 207                |
| Suppliers   |      | 2,033                | 26,632             | 24,629             |
| Accounts payable                                      |      | 528                  | 6,911              | 6,522              |
| Taxes payable   |      | 515                  | 6,745              | 5,048              |
| Other current financial liabilities                   | 25   | 332                  | 4,345              | 3,408              |
| Total current liabilities                             |      | 3,731                | 48,869             | 48,516             |
| <b>Long-Term Liabilities:</b>                         |      |                      |                    |                    |
| Bank loans and notes payable                          | 18   | 5,567                | 72,921             | 28,640             |
| Post-employment and other long-term employee benefits | 16   | 311                  | 4,074              | 3,675              |
| Deferred tax liabilities                              | 24   | 229                  | 2,993              | 700                |
| Other financial liabilities                           | 25   | 127                  | 1,668              | 480                |
| Provisions and other long-term liabilities            | 25   | 467                  | 6,117              | 3,770              |
| Total long-term liabilities                           |      | 6,701                | 87,773             | 37,265             |

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|   |    |                  |                    |             |
|---|----|------------------|--------------------|-------------|
| Total liabilities                                     |    | <b>10,432</b>    | <b>136,642</b>     | 85,781      |
| <b>Equity:</b>  |    |                  |                    |             |
| Controlling interest:                                 |    |                  |                    |             |
| Capital stock   |    | <b>255</b>       | <b>3,346</b>       | 3,346       |
| Additional paid-in capital                            |    | <b>1,942</b>     | <b>25,433</b>      | 22,740      |
| Retained earnings                                     |    | <b>9,989</b>     | <b>130,840</b>     | 128,508     |
| Cumulative other comprehensive (loss) income          |    | <b>(17)</b>      | <b>(227)</b>       | 665         |
| Total controlling interest                            |    | <b>12,169</b>    | <b>159,392</b>     | 155,259     |
| Non-controlling interest in consolidated subsidiaries | 21 | <b>4,822</b>     | <b>63,158</b>      | 54,902      |
| Total equity  |    | <b>16,991</b>    | <b>222,550</b>     | 210,161     |
| <b>TOTAL LIABILITIES AND EQUITY</b>                   |    | <b>\$ 27,423</b> | <b>Ps. 359,192</b> | Ps. 295,942 |

(\*) Convenience translation to U.S. dollars (\$) See Note 2.2.3

**The accompanying notes are an integral part of these consolidated statements of financial position.**



**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MÉXICO***Consolidated Income Statements*

For the years ended December 31, 2013, 2012 and 2011.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.), except per share amounts.

|  | Note | 2013 (*)         | 2013               | 2012        | 2011        |
|--|------|------------------|--------------------|-------------|-------------|
| Net sales  |      | <b>\$ 19,606</b> | <b>Ps. 256,804</b> | Ps. 236,922 | Ps. 200,426 |
| Other operating revenues   |      | <b>99</b>        | <b>1,293</b>       | 1,387       | 1,114       |
| <b>Total revenues</b>  |      | <b>19,705</b>    | <b>258,097</b>     | 238,309     | 201,540     |
| Cost of goods sold   |      | <b>11,333</b>    | <b>148,443</b>     | 137,009     | 117,244     |
| <b>Gross profit</b>  |      | <b>8,372</b>     | <b>109,654</b>     | 101,300     | 84,296      |
| Administrative expenses  |      | <b>761</b>       | <b>9,963</b>       | 9,552       | 8,172       |
| Selling expenses   |      | <b>5,312</b>     | <b>69,574</b>      | 62,086      | 50,685      |
| Other income   | 19   | <b>50</b>        | <b>651</b>         | 1,745       | 381         |
| Other expenses   | 19   | <b>(110)</b>     | <b>(1,439)</b>     | (1,973)     | (2,072)     |
| Interest expense   | 18   | <b>(331)</b>     | <b>(4,331)</b>     | (2,506)     | (2,302)     |
| Interest income  |      | <b>94</b>        | <b>1,225</b>       | 783         | 1,014       |
| Foreign exchange (loss) gain, net  |      | <b>(55)</b>      | <b>(724)</b>       | (176)       | 1,148       |
| Monetary position (loss) gain, net   |      | <b>(33)</b>      | <b>(427)</b>       | (13)        | 53          |
| Market value gain (loss) on financial instruments  |      | <b>1</b>         | <b>8</b>           | 8           | (109)       |
| <b>Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method</b> |      | <b>1,915</b>     | <b>25,080</b>      | 27,530      | 23,552      |
| Income taxes   | 24   | <b>592</b>       | <b>7,756</b>       | 7,949       | 7,618       |
| <b>Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes</b>                  | 10   | <b>369</b>       | <b>4,831</b>       | 8,470       | 4,967       |
| <b>Consolidated net income</b>   |      | <b>\$ 1,692</b>  | <b>Ps. 22,155</b>  | Ps. 28,051  | Ps. 20,901  |
| <b>Attributable to:</b>  |      |                  |                    |             |             |
| Controlling interest   |      | <b>1,216</b>     | <b>15,922</b>      | 20,707      | 15,332      |
| Non-controlling interest   |      | <b>476</b>       | <b>6,233</b>       | 7,344       | 5,569       |
| <b>Consolidated net income</b>   |      | <b>\$ 1,692</b>  | <b>Ps. 22,155</b>  | Ps. 28,051  | Ps. 20,901  |
| <b>Basic net controlling interest income:</b>  |      |                  |                    |             |             |
| Per series B share   | 23   | <b>\$ 0.06</b>   | <b>Ps. 0.79</b>    | Ps. 1.03    | Ps. 0.77    |
| Per series D share   | 23   | <b>0.08</b>      | <b>1.00</b>        | 1.30        | 0.96        |
| <b>Diluted net controlling interest income:</b>  |      |                  |                    |             |             |
| Per series B share   | 23   | <b>0.06</b>      | <b>0.79</b>        | 1.03        | 0.76        |
| Per series D share   | 23   | <b>0.08</b>      | <b>0.99</b>        | 1.29        | 0.96        |

(\*) Convenience translation to U.S. dollars (\$) See Note 2.2.3

**The accompanying notes are an integral part of these consolidated income statements.**

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**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MÉXICO***Consolidated Statements of Comprehensive Income*

For the years ended December 31, 2013, 2012 and 2011.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

|   | Note | 2013 (*) | 2013       | 2012       | 2011       |
|---|------|----------|------------|------------|------------|
| Consolidated net income   |      | \$ 1,692 | Ps. 22,155 | Ps. 28,051 | Ps. 20,901 |
| Other comprehensive income:   |      |          |            |            |            |
| Items that may be reclassified to consolidated net income, net of tax:                                  |      |          |            |            |            |
| Unrealized (loss) gain on available for sale securities   | 6    |          | (2)        | (2)        | 4          |
| Valuation of the effective portion of derivative financial instruments                                  |      | (19)     | (246)      | (243)      | 118        |
| Exchange differences on translating foreign operations  |      | 88       | 1,151      | (5,250)    | 9,008      |
| Share of other comprehensive income of associates and joint ventures                                    | 10   | (201)    | (2,629)    | (781)      | (1,395)    |
| Total items that may be reclassified  |      | (132)    | (1,726)    | (6,276)    | 7,735      |
| Items that will not be reclassified to consolidated net income in subsequent periods, net of tax:       |      |          |            |            |            |
| Remeasurements of the net defined benefit liability   | 16   | (9)      | (112)      | (279)      | (59)       |
| Total items that will not be reclassified   |      | (9)      | (112)      | (279)      | (59)       |
| Total other comprehensive (loss) income, net of tax   |      | (141)    | (1,838)    | (6,555)    | 7,676      |
| Consolidated comprehensive income, net of tax   |      | \$ 1,551 | Ps. 20,317 | Ps. 21,496 | Ps. 28,577 |
| Controlling interest comprehensive income   |      | 1,147    | 15,030     | 15,638     | 20,986     |
| Reattribution to non-controlling interest of other comprehensive income by acquisition of Grupo YOLI    |      | (3)      | (36)       |            |            |
| Reattribution to non-controlling interest of other comprehensive income by acquisition of FOQUE         |      |          |            | 29         |            |
| Reattribution to non-controlling interest of other comprehensive income by acquisition of Grupo Tampico |      |          |            |            | 37         |
| Reattribution to non-controlling interest of other comprehensive income by acquisition of Grupo CIMSA   |      |          |            |            | 50         |
| Controlling interest, net of reattribution  |      | \$ 1,144 | Ps. 14,994 | Ps. 15,667 | Ps. 21,073 |
| Non-controlling interest comprehensive income   |      | 404      | 5,287      | 5,858      | 7,591      |
| Reattribution from controlling interest of other comprehensive income by acquisition of Grupo YOLI      |      | 3        | 36         |            |            |
| Reattribution from controlling interest of other comprehensive income by acquisition of FOQUE           |      |          |            | (29)       |            |
| Reattribution from controlling interest of other comprehensive income by acquisition of Grupo Tampico   |      |          |            |            | (37)       |

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Reattribution from controlling interest of other comprehensive income by acquisition of Grupo CIMSA (50)

|  |          |            |            |            |
|--|----------|------------|------------|------------|
| Non-controlling interest, net of reattribution | \$ 407   | Ps. 5,323  | Ps. 5,829  | Ps. 7,504  |
| Consolidated comprehensive income, net of tax  | \$ 1,551 | Ps. 20,317 | Ps. 21,496 | Ps. 28,577 |

(\*) Convenience translation to U.S. dollars (\$) See Note 2.2.3

**The accompanying notes are an integral part of these consolidated statements of comprehensive income.**

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MÉXICO***Consolidated Statements of Changes in Equity*

For the years ended December 31, 2013, 2012 and 2011.

Amounts expressed in millions of Mexican pesos (Ps.)

|   | Capital<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Unrealized<br>Gain<br>(Loss)<br>on<br>Available<br>for<br>sale<br>Securities | Valuation<br>Adjustment<br>of<br>Financial<br>Instrument | Exchange<br>Differences<br>on<br>Translation<br>of<br>Foreign<br>Operations | Re-measurements<br>of the Net<br>Defined<br>Benefit<br>Liability | Total<br>Controlling<br>Interest | Non-Controlling<br>Interest | Total Equity       |
|---|------------------|----------------------------------|----------------------|--|--|---|--|----------------------------------|-----------------------------|--------------------|
| <b>Balances at<br/>January 1,<br/>2011</b>  | <b>Ps. 3,345</b> | <b>Ps. 14,757</b>                | <b>Ps. 103,695</b>   | <b>Ps.</b>   | <b>Ps. 139</b>   | <b>Ps.</b>  | <b>Ps. (59)</b>  | <b>Ps. 121,877</b>               | <b>Ps. 31,521</b>           | <b>Ps. 153,398</b> |
| Net income  |                  |                                  | 15,332               |  |  |   |  | 15,332                           | 5,569                       | 20,901             |
| Other<br>comprehensive<br>income, net of<br>tax   |                  |                                  |                      | 4  | 228  | 5,810   | (301)  | 5,741                            | 1,935                       | 7,676              |
| Comprehensive<br>income   |                  |                                  | 15,332               | 4  | 228  | 5,810   | (301)  | 21,073                           | 7,504                       | 28,577             |
| Dividends<br>declared   |                  |                                  | (4,600)              |  |  |   |  | (4,600)                          | (2,025)                     | (6,625)            |
| Issuance<br>(repurchase) of<br>shares<br>associated with<br>share-based<br>payment plans            |                  | 50                               |                      |  |  |   |  | 50                               | (19)                        | 31                 |
| Acquisition of<br>Grupo Tampico<br>through issuance<br>of Coca-Cola<br>FEMSA shares<br>(see Note 4) |                  | 2,854                            |                      |  | (1)  | (39)  | 3  | 2,817                            | 5,011                       | 7,828              |
| Acquisition of<br>Grupo CIMSA<br>through issuance<br>of Coca-Cola<br>FEMSA shares<br>(see Note 4)   |                  | 3,040                            |                      |  | (1)  | (54)  | 5  | 2,990                            | 6,027                       | 9,017              |
| Other<br>transactions of<br>non-controlling<br>interest   |                  | (45)                             |                      |  |  |   |  | (45)                             | (70)                        | (115)              |
| Other<br>movements of<br>equity method<br>of associates,<br>net of taxes                            |                  |                                  | 60                   |  |  |   |  | 60                               |                             | 60                 |

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|  |              |               |                |          |            |              |                |                |               |                |
|--|--------------|---------------|----------------|----------|------------|--------------|----------------|----------------|---------------|----------------|
| <b>Balances at December 31, 2011</b>   | <b>3,345</b> | <b>20,656</b> | <b>114,487</b> | <b>4</b> | <b>365</b> | <b>5,717</b> | <b>(352)</b>   | <b>144,222</b> | <b>47,949</b> | <b>192,171</b> |
| Net income   |              |               | 20,707         |          |            |              |                | 20,707         | 7,344         | 28,051         |
| Other comprehensive income, net of tax   |              |               |                | (2)      | (17)       | (3,725)      | (1,296)        | (5,040)        | (1,515)       | (6,555)        |
| Comprehensive income   |              |               | 20,707         | (2)      | (17)       | (3,725)      | (1,296)        | 15,667         | 5,829         | 21,496         |
| Dividends declared   |              |               | (6,200)        |          |            |              |                | (6,200)        | (2,986)       | (9,186)        |
| Issuance (repurchase) of shares associated with share-based payment plans                      | 1            | (50)          |                |          |            |              |                | (49)           | (12)          | (61)           |
| Acquisition of Grupo Fomento Queretano through issuance of Coca-Cola FEMSA shares (see Note 4) |              | 2,134         |                |          | 1          | (31)         | 1              | 2,105          | 4,172         | 6,277          |
| Other transactions of non-controlling interest   |              |               |                |          |            |              |                |                | (50)          | (50)           |
| Other movements of equity method of associates, net of taxes                                   |              |               | (486)          |          |            |              |                | (486)          |               | (486)          |
| <b>Balances at December 31, 2012</b>   | <b>3,346</b> | <b>22,740</b> | <b>128,508</b> | <b>2</b> | <b>349</b> | <b>1,961</b> | <b>(1,647)</b> | <b>155,259</b> | <b>54,902</b> | <b>210,161</b> |
| Net income   |              |               | Ps. 15,922     |          |            |              |                | Ps. 15,922     | Ps. 6,233     | Ps. 22,155     |
| Other comprehensive income, net of tax   |              |               |                | (2)      | (170)      | (1,214)      | 458            | (928)          | (910)         | (1,838)        |
| Comprehensive income   |              |               | 15,922         | (2)      | (170)      | (1,214)      | 458            | 14,994         | 5,323         | 20,317         |
| Dividends declared   |              |               | (13,368)       |          |            |              |                | (13,368)       | (3,125)       | (16,493)       |
| Issuance (repurchase) of shares associated with share-based payment plans                      |              | (172)         |                |          |            |              |                | (172)          | (7)           | (179)          |
| Acquisition of Grupo Yoli through issuance of Coca-Cola FEMSA shares (see Note 4)              |              | 2,865         |                |          | 2          | 32           | 2              | 2,901          | 5,120         | 8,021          |
| Other acquisitions (see Note 4)  |              |               |                |          |            |              |                |                | 430           | 430            |

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|  |  |  |  |  |  |  |  |  |  |  |  |       |       |
|--|--|--|--|--|--|--|--|--|--|--|--|-------|-------|
| Increase in share of non-controlling interest                |  |  |  |  |  |  |  |  |  |  |  | 515   | 515   |
| Other movements of equity method of associates, net of taxes |  |  |  |  |  |  |  |  |  |  |  | (222) | (222) |

**Balances at December 31, 2013**

|           |            |             |     |         |         |             |     |         |     |        |     |         |
|-----------|------------|-------------|-----|---------|---------|-------------|-----|---------|-----|--------|-----|---------|
| Ps. 3,346 | Ps. 25,433 | Ps. 130,840 | Ps. | Ps. 181 | Ps. 779 | Ps. (1,187) | Ps. | 159,392 | Ps. | 63,158 | Ps. | 222,550 |
|-----------|------------|-------------|-----|---------|---------|-------------|-----|---------|-----|--------|-----|---------|

The accompanying notes are an integral part of these consolidated statements of changes in equity.

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MÉXICO***Consolidated Statements of Cash Flows*

For the years ended December 31, 2013, 2012 and 2011.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

|  | 2013 (*)        | 2013              | 2012       | 2011        |
|--|-----------------|-------------------|------------|-------------|
| <b>Cash flows from operating activities:</b>   |                 |                   |            |             |
| <b>Income before income taxes</b>  | <b>\$ 2,284</b> | <b>Ps. 29,911</b> | Ps. 36,000 | Ps. 28,519  |
| <b>Adjustments for:</b>  |                 |                   |            |             |
| Non-cash operating expenses  | 58              | 752               | 1,683      | 474         |
| Employee profit sharing  | 147             | 1,936             | 1,650      | 1,237       |
| Depreciation   | 672             | 8,805             | 7,175      | 5,694       |
| Amortization   | 68              | 891               | 715        | 469         |
| Gain on sale of long-lived assets  | (3)             | (41)              | (132)      | (95)        |
| Gain on sale of shares   |                 |                   | (2,148)    |             |
| Disposal of long-lived assets  | 9               | 122               | 133        | 656         |
| Impairment of long-lived assets  |                 |                   | 384        | 146         |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes | (369)           | (4,831)           | (8,470)    | (4,967)     |
| Interest income  | (94)            | (1,225)           | (783)      | (1,014)     |
| Interest expense   | 331             | 4,331             | 2,506      | 2,302       |
| Foreign exchange loss (gain), net  | 55              | 724               | 176        | (1,148)     |
| Monetary position loss(gain), net  | 33              | 427               | 13         | (53)        |
| Market value (gain) loss on financial instruments  | (1)             | (8)               | (8)        | 109         |
| Cash flow from operating activities before changes in operating accounts and employee profit sharing     | 3,190           | 41,794            | 38,894     | 32,329      |
| Accounts receivable and other current assets   | (149)           | (1,948)           | (746)      | (2,990)     |
| Other current financial assets   | (115)           | (1,508)           | (977)      | (94)        |
| Inventories  | (118)           | (1,541)           | (2,289)    | (2,277)     |
| Derivative financial instruments   | 31              | 402               | (17)       | (43)        |
| Suppliers and other accounts payable   | 39              | 517               | 3,833      | 1,364       |
| Other long-term liabilities  | (8)             | (109)             | (18)       | (391)       |
| Other current financial liabilities  | 32              | 417               | 329        | 116         |
| Post-employment and other long-term employee benefits  | (24)            | (317)             | (209)      | (348)       |
| Cash generated from operations   | 2,878           | 37,707            | 38,800     | 27,666      |
| Income taxes paid  | (683)           | (8,949)           | (8,015)    | (6,419)     |
| <b>Net cash generated by operating activities</b>  | <b>2,195</b>    | <b>28,758</b>     | 30,785     | 21,247      |
| <b>Cash flows from investing activities:</b>   |                 |                   |            |             |
| Acquisition of Grupo Tampico, net of cash acquired (see Note 4)  | \$              | Ps.               | Ps.        | Ps. (2,414) |
| Acquisition of Grupo CIMSA, net of cash acquired (see Note 4)  |                 |                   |            | (1,912)     |
| Acquisition of Grupo Fomento Queretano, net of cash acquired (see Note 4)                                |                 |                   | (1,114)    |             |
| Acquisition of Grupo Yoli, net of cash acquired (see Note 4)   | (80)            | (1,046)           |            |             |
| Acquisition of Companhia Fluminense de Refrigerantes, net of cash acquired (see Note 4)                  | (355)           | (4,648)           |            |             |
|  | (1,760)         | (23,056)          |            |             |



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|  |                   |                     |                     |                     |
|--|-------------------|---------------------|---------------------|---------------------|
| Acquisition of Spaipa S.A. Industria Brasileira de Bebidas, net of cash acquired (see Note 4)                  |                   |                     |                     |                     |
| Other acquisitions, net of cash acquired (see Note 4)  | (231)             | (3,021)             |                     |                     |
| Investment in shares of Coca-Cola Bottlers Philippines, Inc. CCBPI (see Note 10)                               | (680)             | (8,904)             |                     |                     |
| Other investments in associates and joint ventures (see Note 10)   | (26)              | (335)               | (1,207)             | (955)               |
| Disposals of subsidiaries and associates, net of cash  |                   |                     | 1,055               |                     |
| Purchase of investments  | (9)               | (118)               | (2,808)             | (1,351)             |
| Proceeds from investments  | 114               | 1,488               | 2,534               | 68                  |
| Interest received  | 93                | 1,224               | 777                 | 1,029               |
| Derivative financial instruments   | 9                 | 119                 | 94                  | 6                   |
| Dividends received from associates and joint ventures  | 134               | 1,759               | 1,697               | 1,661               |
| Long-lived assets acquisitions   | (1,251)           | (16,380)            | (14,844)            | (12,046)            |
| Proceeds from the sale of long-lived assets  | 19                | 252                 | 362                 | 535                 |
| Acquisition of intangible assets   | (82)              | (1,077)             | (441)               | (639)               |
| Investment in other assets   | (109)             | (1,436)             | (1,264)             | (1,147)             |
| Investment in other financial assets   | (4)               | (52)                |                     | (924)               |
| Collection in other financial assets   |                   |                     | 516                 |                     |
| <b>Net cash used in investing activities</b>   | <b>\$ (4,218)</b> | <b>Ps. (55,231)</b> | <b>Ps. (14,643)</b> | <b>Ps. (18,089)</b> |
| <b>Cash flows from financing activities:</b>   |                   |                     |                     |                     |
| Proceeds from borrowings   | \$ 6,025          | Ps. 78,907          | Ps. 14,048          | Ps. 6,606           |
| Payments of bank loans   | (3,051)           | (39,962)            | (5,872)             | (3,732)             |
| Interest paid  | (234)             | (3,064)             | (2,172)             | (2,020)             |
| Derivative financial instruments   | 53                | 697                 | (209)               | (359)               |
| Dividends paid   | (1,259)           | (16,493)            | (9,186)             | (6,625)             |
| Acquisition of non-controlling interests   |                   |                     | (6)                 | (115)               |
| Increase in shares of non-controlling interest   | 39                | 515                 |                     |                     |
| Other financing activities   | (1)               | (16)                | (21)                | (13)                |
| Net cash generated by (used in) financing activities   | 1,572             | 20,584              | (3,418)             | (6,258)             |
| (Decrease) increase in cash and cash equivalents   | (451)             | (5,889)             | 12,724              | (3,100)             |
| Initial balance of cash and cash equivalents   | 2,788             | 36,521              | 25,841              | 26,705              |
| Effects of exchange rate changes and inflation effects on cash and cash equivalents held in foreign currencies | (256)             | (3,373)             | (2,044)             | 2,236               |
| Ending balance of cash and cash equivalents  | \$ 2,081          | Ps. 27,259          | Ps. 36,521          | Ps. 25,841          |

(\*) Convenience translation to U.S. dollars (\$) see Note 2.2.3

The accompanying notes are an integral part of these consolidated statements of cash flow.

**Table of Contents****FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES****MONTERREY, N.L., MÉXICO***Notes to the Consolidated Financial Statements*

As of December 31, 2013, 2012 and 2011.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.)

**Note 1. Activities of the Company**

Fomento Económico Mexicano, S.A.B. de C.V. ( FEMSA ) is a Mexican holding company. The principal activities of FEMSA and its subsidiaries (the Company ), as an economic unit, are carried out by operating subsidiaries and companies under direct and indirect holding company subsidiaries (the Subholding Companies ) of FEMSA.

The following is a description of the activities of the Company as of the date of the issuance of these consolidated financial statements, together with the ownership interest in each Subholding Company:

| Subholding Company   | % Ownership   |  | Activities  |
|--|---|--|---|
|  | December 31, 2013   | December 31, 2012                                    |   |
| Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries ( Coca-Cola FEMSA ) | 47.9% <sup>(1)(2)</sup><br><br>(63.0% of the voting shares) | 48.9% <sup>(1)</sup><br>(63.0% of the voting shares) | Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil, Argentina and Philippines (see Note 10). At December 31, 2013, The Coca-Cola Company (TCCC) indirectly owns 28.1% of Coca-Cola FEMSA's capital stock. In addition, shares representing 24.0% of Coca-Cola FEMSA's capital stock are traded on the Bolsa Mexicana de Valores (Mexican Stock Exchange - BMV ). Its American Depositary Shares ( ADS ) trade on the New York Stock Exchange, Inc (NYSE). |
| FEMSA Comercio, S.A. de C.V. and subsidiaries ( FEMSA Comercio )     | 100%  | 100%   | Operation of chains of small-box retail formats in Mexico, Colombia and the United States, mainly under the trade name OXXO.  |
| CB Equity, LLP ( CB Equity )   | 100%  | 100%   | This Company holds Heineken N.V. and Heineken Holding N.V. shares, which represents in the aggregate a 20% economic interest in both entities ( Heineken Company ).   |
| Other companies  | 100%  | 100%   | Companies engaged in the production and distribution of coolers, commercial refrigeration equipment and plastic cases; as well as transportation logistics and maintenance services to FEMSA's subsidiaries and to third parties.   |

(1) The Company controls Coca-Cola FEMSA's relevant activities.

(2) The ownership decreased from 48.9% as of December 31, 2012 to 47.9% as of December 31, 2013 as a result of merger with Grupo Yoli (see Note 4).



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### **Note 2. Basis of Preparation**

#### *2.1 Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board ( IASB ).

The Company s consolidated financial statements and notes were authorized for issuance by the Company s Chief Executive Officer Carlos Salazar Lomelín and Chief Financial and Administrative Officer Javier Astaburuaga Sanjines on February 21, 2014. Those consolidated financial statements and notes were then approved by the Company s Board of Directors on February 26, 2014 and by the Shareholders on March 14, 2014. The accompanying consolidated financial statements were approved for issuance in the Company s annual report on Form 20-F by the Company s Chief Executive Officer and Chief Financial and Administrative Officer on April 16, 2014, and subsequent events have been considered through that date (See Note 28).

#### *2.2 Basis of measurement and presentation*

The consolidated financial statements have been prepared on the historical cost basis except for the following:

Available-for-sale investments.

Derivative financial instruments.

Long-term notes payable on which fair value hedge accounting is applied.

Trust assets of post-employment and other long-term employee benefit plans.

The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period.

##### *2.2.1 Presentation of consolidated income statement*

The Company classifies its costs and expenses by function in the consolidated income statement, in order to conform to the industry practices where the Company operates. Information about expenses by their nature is disclosed in notes of these financial statements.

##### *2.2.2 Presentation of consolidated statements of cash flows*

The Company s consolidated statement of cash flows is presented using the indirect method.

##### *2.2.3 Convenience translation to U.S. dollars (\$)*

The consolidated financial statements are stated in millions of Mexican pesos ( Ps. ) and rounded to the nearest million unless stated otherwise. However, solely for the convenience of the readers, the consolidated statement of financial position as of December 31, 2013, the consolidated income statement, the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended December 31, 2013 were converted into U.S. dollars at the exchange rate of 13.0980 Mexican pesos per U.S. dollar as published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates as of that date. This arithmetic conversion should not be construed as representation that the amounts expressed in Mexican pesos may be converted into U.S. dollars at that or any other exchange rate.

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### *2.3 Critical accounting judgments and estimates*

In the application of the Company's accounting policies, which are described in Note 3, 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.

#### *2.3.1 Key sources of estimation uncertainty*

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 the control of the Company. Such changes are reflected in the assumptions when they occur.

##### *2.3.1.1 Impairment of indefinite lived intangible assets, goodwill and other depreciable long-lived assets*

Intangible assets with indefinite lives including goodwill are subject to annual impairment tests. An impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell 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, the Company initially calculates an estimation of the value in use of the cash-generating units to which such assets have been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The Company reviews annually the carrying value of its intangible assets with indefinite lives and goodwill for impairment based on recognized valuation techniques. While the Company believes that its estimates are reasonable, different assumptions regarding such estimates could materially affect its evaluations. Impairment losses are recognized in current earnings in the period the related impairment is determined.

The Company assesses at each reporting date whether there is an indication that a depreciable long lived asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates 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 the Company's CGUs, including a sensitivity analysis, are further explained in Notes 3.16 and 12.

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### *2.3.1.2 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. The Company bases its estimates on the experience of its technical personnel as well as based on its experience in the industry for similar assets, see Notes 3.12, 3.14, 11 and 12.

### *2.3.1.3 Post-employment and other long-term employee benefits*

The Company regularly evaluates the reasonableness of the assumptions used in its post-employment and other long-term employee benefit computations. Information about such assumptions is described in Note 16.

### *2.3.1.4 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. The Company regularly reviews its deferred tax assets for recoverability, and records a deferred tax asset based on its 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.

### *2.3.1.5 Tax, labor and legal contingencies and provisions*

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

### *2.3.1.6 Valuation of financial instruments*

The Company is 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. The Company bases its forward price curves upon market price quotations. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments, see Note 20.

### *2.3.1.7 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 the Company, liabilities assumed by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree.

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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 share-based payment arrangements of the Company 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; and

Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

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

For each business combination, with respect to the non-controlling present ownership interests in the acquiree that entitle their holders to a proportionate share of net assets in liquidation, the Company elects whether to measure such interest at fair value or at the proportionate share of the acquiree's identifiable net assets.

### *2.3.1.8 Investments in associates*

If the Company holds, directly or indirectly, 20 per cent or more of the voting power of the investee, it is presumed that it has significant influence, unless it can be clearly demonstrated that this is not the case. If the Company holds, directly or indirectly, less than 20 per cent of the voting power of the investee, it is presumed that the Company does 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 per cent-owned corporate investee requires a careful evaluation of voting rights and their impact on the Company's ability to exercise significant influence. Management considers the existence of the following circumstances which may indicate that the Company is in a position to exercise significant influence over a less than 20 per cent-owned corporate investee:

Representation on the board of directors or equivalent governing body of the investee;

Participation in policy-making processes, including participation in decisions about dividends or other distributions;

Material transactions between the Company and the investee;

Interchange of managerial personnel; or

Provision of essential technical information.

Management also considers the existence and effect of potential voting rights that are currently convertible when assessing whether the Company has significant influence.



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In addition, the Company evaluates certain indicators that provide evidence of significant influence, such as:

Whether the extent of the Company's ownership is significant relative to other shareholders (i.e., a lack of concentration of other shareholders);

Whether the Company's significant shareholders, fellow subsidiaries, or officers hold additional investment in the investee; and

Whether the Company is a part of significant investee committees, such as the executive committee or the finance committee.

### *2.3.1.9 Joint arrangements*

An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. When the Company is a party to an arrangement it 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. Management needs 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, management considers the following facts and circumstances:

a) Whether all the parties or a group of the parties, control the arrangement, considering definition of joint control, as described in note 3.11.2; and

b) 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, on January 25, 2013, Coca-Cola FEMSA closed the acquisition of 51% of Coca-Cola Bottlers Philippines (CCBPI). Coca-Cola FEMSA jointly controls CCBPI with TCCC. This is based on the following factors: (i) during the initial four-year period some relevant activities require joint approval between Coca-Cola FEMSA and TCCC; and (ii) potential voting rights to acquire the remaining 49% of CCBPI are not likely to be exercised in the foreseeable future due to the fact that the call option is out of the money as of December 31, 2013.

### *2.4 Changes in accounting policies*

The Company has adopted the following new IFRS and amendments to IFRS, during 2013:

IAS 28, Investments in Associates and Joint Ventures (2011).

IFRS 10, Consolidated Financial Statements.

IFRS 11, Joint Arrangements.

IFRS 12, Disclosure of Interests in Other Entities.

IFRS 13, Fair Value Measurement.

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Amendments to IFRS 7, Financial Instruments: Disclosures.  
The Company early adopted Amendments to IAS 19, Employee Benefits as of January 1, 2012.

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The nature and the effect of the changes are further explained below.

### **IAS 28, Investments in Associates and Joint Ventures (2011):**

IAS 28, Investments in Associates and Joint Ventures (2011), (which the Company refers to as IAS 28 -2011-) prescribes the accounting for investments in associates and establishes the requirements to apply the equity method for those investments in associates and in joint ventures. The standard is applicable to all entities with joint control of, or significant influence over, an investee. This standard supersedes the previous version of IAS 28, Investments in Associates, which did not include jointly controlled investments under its scope for evaluation purposes due to the existence of IAS 31, Interests in Joint Ventures, which required entities to apply either, proportionate consolidation or the equity method to ownership in joint ventures. As the Company's investments in associates and joint ventures were accounted for using the equity method since before the entry into force of IAS 28 (2011), the adoption of this standard did not impact the Company's consolidated financial statements.

### **IFRS 10, Consolidated Financial Statements :**

IFRS 10, Consolidated Financial Statements, establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires the controlling company to present its consolidated financial statements and replaces portions of IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation - Special Purpose Entities. As a result of IFRS 10, the Company changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, by focusing on whether the Company has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In accordance with the transitional provisions of IFRS 10, the Company reassessed the control conclusion for its investees as at January 1, 2013 and concluded that the adoption of this standard had no impact on the Company's consolidated financial statements.

### **IFRS 11, Joint Arrangements :**

IFRS 11, Joint Arrangements, classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). Joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method. As a result of IFRS 11, the Company has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Company classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Company's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Company considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the existence of a separate legal vehicle was the key factor for classification. The Company reassessed its involvement in its joint arrangements and concluded that the adoption of this standard had no impact on the Company's consolidated financial statements.

### **IFRS 12, Disclosure of Interests in Other Entities :**

IFRS 12, Disclosure of Interests in Other Entities, is a consolidated disclosure standard requiring a wide range of extensive disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities and has the objective to require the disclosure of information to allow the users of financial information to evaluate the nature and risk associated with their interests in other entities, and the effects of such interests on their financial position, financial performance and cash flows. IFRS 12 requires to disclose whatever additional information is necessary to disclosures required by IFRS 12, together with disclosures required by other IFRS to enable such evaluation. Disclosures in regards to interests in other entities were previously required by IAS 27 (2008), Consolidated and Separate Financial Statements, IAS 28, Investments in Associates and IAS 31, Interests in Joint Ventures. As a result of the adoption of IFRS 12 the Company added additional disclosures regarding to the following items:

Joint ventures.- At December 31, 2013 and 2012, the Company does not have material joint ventures. Additional summarized aggregate financial information for non-material joint ventures, such as: current and non-current assets, current and non-current liabilities, revenues, costs and expenses and net income (loss). These disclosures are presented in Note 10.

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Non-controlling interest.- For each subsidiary that has non-controlling interest that are material to the Company, it disclosed summarized financial information about current and non-current assets, current and non-current liabilities, net income, comprehensive income and cash flows of the subsidiary (see Note 21).

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### **IFRS 13, Fair Value Measurement :**

IFRS 13, Fair Value Measurement, establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

### **Amendments to IFRS 7, Financial Instruments: Disclosures :**

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The Company evaluated the amendments to IFRS 7 and concluded that they do not impact its previous disclosures of financial instruments, as no enforceable master netting agreements exist for its financial instruments.

### **Amendments to IAS 19, Employee Benefits (2011):**

IAS 19 (2011), which was early adopted by the Company in 2012 (mandatory effective as of January 1, 2013), eliminates the use of the corridor method, which defers the remeasurements of the net defined benefit liability, and requires that such items be recorded directly within other comprehensive income in each reporting period. The standard also eliminates deferral of past service costs and requires entities to record them in earnings in each reporting period. These requirements increased the Company's liability for post-employment and other long-term employee benefits with a corresponding reduction in retained earnings at the transition date. Based on these requirements, the items pending to be amortized in accordance with Mexican FRS were reclassified as of December 31, 2011 and January 1, 2011 upon adoption of IFRS in 2012 to retained earnings at those dates for Ps. 840 and Ps. 708, respectively, in the consolidated statement of financial position.

### **Note 3. Significant Accounting Policies**

#### *3.1 Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Company controls an investee if and only if the Company has:

Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

Exposure, or rights, to variable returns from its involvement with the investee; and

The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

The contractual arrangements with the other vote holders of the investee;

Rights arising from other contractual arrangements; and

The Company's voting rights and potential voting rights.

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The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Consolidated net income and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intercompany assets and liabilities, equity, income, expenses and cash flows have been eliminated in full on consolidation.

### *3.1.1 Acquisitions of non-controlling interests*

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are measured at carrying amount and reflected in shareholders' equity as part of additional paid-in capital.

### *3.1.2 Loss of control*

Upon the loss of control, the Company derecognizes the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests, cumulative translation differences recorded in equity and the other components of equity related to the subsidiary. The Company recognizes the fair value of the consideration received, any surplus or deficit arising on the loss of control in consolidated net income, including the share by the controlling interest of components previously recognized in other comprehensive income. If the Company retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for by the equity method or as a financial asset depending on the level of influence retained.

### *3.2 Business combinations*

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Company. In assessing control, the Company takes into consideration substantive potential voting rights.

The Company measures goodwill at the acquisition date as the fair value of the consideration transferred plus the fair value of any previously-held equity interest in the acquiree and the recognized amount of any non-controlling interests in the acquiree (if any), less the net recognized amount of the identifiable assets acquired and liabilities assumed. If after reassessment, the excess is negative, a bargain purchase gain is recognized in consolidated net income at the time of the acquisition.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in consolidated net income of the Company.

Costs related to the acquisition, other than those associated with the issuance of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, if after reassessment, subsequent changes to the fair value of the contingent considerations are recognized in consolidated net income.

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If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete, and discloses that its allocation is preliminary in nature. Those provisional amounts are adjusted during the measurement period (not greater than 12 months), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

*3.3 Foreign currencies, consolidation of foreign subsidiaries and accounting for investments in associates and joint ventures*

In consolidating the financial statements of each individual subsidiary and accounting for investment in associates and joint ventures, transactions in currencies other than the individual entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not remeasured.

Exchange differences on monetary items are recognized in consolidated net income in the period in which they arise except for:

The variations in the net investment in foreign subsidiaries generated by exchange rate fluctuation which are included as part of the exchange differences on translation of foreign operations within the cumulative other comprehensive income (loss) item, which is recorded in equity.

Intercompany financing balances with foreign subsidiaries that are considered as long-term investments, since there is no plan to pay such financing in the foreseeable future. Monetary position and exchange rate fluctuation regarding this financing is included in the exchange differences on translation of foreign operations, which is recorded in the exchange differences on translation of foreign operations within the cumulative other comprehensive income (loss) item, which is recorded in equity.

Exchange differences on transactions entered into in order to hedge certain foreign currency risks. For incorporation into the Company's consolidated financial statements, each foreign subsidiary, associates or joint venture's individual financial statements are translated into Mexican pesos, as described as follows:

For hyperinflationary economic environments, the inflation effects of the origin country are recognized, and subsequently translated into Mexican pesos using the year-end exchange rate for the consolidated statements of financial position and consolidated income statement and comprehensive income; and

For non-hyperinflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, equity is translated into Mexican pesos using the historical exchange rate, and the income statement and comprehensive income is translated using the exchange rate at the date of each transaction. The Company uses the average exchange rate of each month only if the exchange rate does not fluctuate significantly.

| Country or Zone | Functional /<br>Recording Currency | Exchange Rates of Local Currencies Translated to Mexican Pesos |       |       |                     |                   |
|-----------------|------------------------------------|--|-------|-------|---------------------|-------------------|
|                 |                                    | Average Exchange Rate for                                      |       |       | Exchange Rate as of |                   |
|                 |                                    | 2013   | 2012  | 2011  | December 31, 2013   | December 31, 2012 |
| Guatemala       | Quetzal                            | <b>1.62</b>  | 1.68  | 1.59  | <b>1.67</b>         | 1.65              |
| Costa Rica      | Colon                              | <b>0.03</b>  | 0.03  | 0.02  | <b>0.03</b>         | 0.03              |
| Panama          | U.S. dollar                        | <b>12.77</b>   | 13.17 | 12.43 | <b>13.08</b>        | 13.01             |
| Colombia        | Colombian peso                     | <b>0.01</b>  | 0.01  | 0.01  | <b>0.01</b>         | 0.01              |
| Nicaragua       | Cordoba                            | <b>0.52</b>  | 0.56  | 0.55  | <b>0.52</b>         | 0.54              |



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|             |                 |              |       |       |              |       |
|-------------|-----------------|--------------|-------|-------|--------------|-------|
| Argentina   | Argentine peso  | <b>2.34</b>  | 2.90  | 3.01  | <b>2.01</b>  | 2.65  |
| Venezuela   | Bolivar         | <b>2.13</b>  | 3.06  | 2.89  | <b>2.08</b>  | 3.03  |
| Brazil      | Reai            | <b>5.94</b>  | 6.76  | 7.42  | <b>5.58</b>  | 6.37  |
| Euro Zone   | Euro ( )        | <b>16.95</b> | 16.92 | 17.28 | <b>17.98</b> | 17.12 |
| Philippines | Philippine peso | <b>0.30</b>  | 0.31  | 0.29  | <b>0.29</b>  | 0.32  |

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The Company has operated under exchange controls in Venezuela since 2003 that affect its ability to remit dividends abroad or make payments other than in local currencies and that may increase the real price of raw materials purchased in local currency.

In February 2013, the Venezuelan government announced a devaluation of its official exchange rates from 4.30 to 6.30 bolivars per U.S. dollar. Because the financial statements of the Venezuelan subsidiary are translated from Bolivars to Pesos for the purposes of group consolidation, as a result of this devaluation, the statement of financial position of the Company's Venezuelan subsidiary reflected a reduction in shareholders' equity of Ps. 3,700, approximately, which was accounted since February 2013 as part of other comprehensive income.

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in other comprehensive income in respect of that operation attributable to the owners of the Company are recognized in the consolidated income statement.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint ventures that do not result in the Company losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Foreign exchange differences arising are recognized in equity as part of the cumulative translation adjustment.

The translation of assets and liabilities denominated in foreign currencies into Mexican pesos is for consolidation purposes and does not indicate that the Company could realize or settle the reported value of those assets and liabilities in Mexican pesos. Additionally, this does not indicate that the Company could return or distribute the reported Mexican peso value equity to its shareholders.

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### *3.4 Recognition of the effects of inflation in countries with hyperinflationary economic environments*

The Company recognizes the effects of inflation on the financial information of its Venezuelan subsidiary that operates in hyperinflationary economic environments (when cumulative inflation of the three preceding years is approaching, or exceeds, 100% or more in addition to other qualitative factors), which consists of:

Using inflation factors to restate non-monetary assets, such as inventories, property, plant and equipment, intangible assets, including related costs and expenses when such assets are consumed or depreciated;

Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, net income, retained earnings and items of other comprehensive income by the necessary amount to maintain the purchasing power equivalent in the currency of Venezuela on the dates such capital was contributed or income was generated up to the date of these consolidated financial statements are presented; and

Including the monetary position gain or loss in consolidated net income.

The Company restates the financial information of subsidiaries that operate in a hyperinflationary economic environment (Venezuela) using the consumer price index of that country.

### *3.5 Cash and cash equivalents and restricted cash*

Cash is measured at nominal value and consists of non-interest bearing bank deposits. Cash equivalents consist principally of short-term bank deposits and fixed rate investments, both with maturities of three months or less at the acquisition date and are recorded at acquisition cost plus interest income not yet received, which is similar to market prices.

The Company also maintains restricted cash held as collateral to meet certain contractual obligations (see Note 9.2). Restricted cash is presented within other current financial assets given that the restrictions are short-term in nature.

### *3.6 Financial assets*

Financial assets are classified into the following specified categories: fair value through profit or loss (FVTPL), held-to-maturity investments, available-for-sale and loans and receivables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the nature and purpose of holding the financial assets and is determined at the time of initial recognition.

When a financial asset or financial liability is recognized initially, the Company measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company's financial assets include cash, cash equivalents and restricted cash, investments, loans and receivables, derivative financial instruments and other financial assets.

#### *3.6.1 Effective interest rate method*

The effective interest rate method is a method of calculating the amortized cost of loans and receivables and other financial assets (designated as held to-maturity) and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.



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### *3.6.2 Investments*

Investments consist of debt securities and bank deposits with maturities of more than three months at the acquisition date. Management determines the appropriate classification of investments at the time of purchase and assesses such designation as of each reporting date (see Note 6).

*3.6.2.1 Available-for-sale investments* are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. These investments are carried at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. Interest and dividends on investments classified as available-for-sale are included in interest income. The fair values of the investments are readily available based on quoted market prices. The exchange effects of securities available for sale are recognized in the consolidated income statement in the period in which they arise.

*3.6.2.2 Held-to maturity investments* are those that the Company has the positive intent and ability to hold to maturity, and after initial measurement, such financial assets are subsequently measured at amortized cost, which includes any cost of purchase and premium or discount related to the investment. Subsequently, the premium/discount is amortized over the life of the investment based on its outstanding balance utilizing the effective interest method less any impairment. Interest and dividends on investments classified as held-to maturity are included in interest income.

### *3.6.3 Loans and receivables*

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Loans and receivables with a stated term (including trade and other receivables) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. For the years ended December 31, 2013, 2012 and 2011 the interest income on loans and receivables recognized in the interest income line item within the consolidated income statements is Ps. 127, Ps. 87 and Ps. 61, respectively.

### *3.6.4 Other financial assets*

Other financial assets are long term accounts receivable and derivative financial instruments. Long term accounts receivable with a stated term are measured at amortized cost using the effective interest method, less any impairment.

### *3.6.5 Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, (an incurred loss event ) and that loss event has an impact on the estimated future cash flows of the financial assets that can be reliably estimated.

Evidence of impairment may include indicators as follows:

Significant financial difficulty of the issuer or counterparty; or

Default or delinquent in interest or principal payments; or

It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

The disappearance of an active market for that financial asset because of financial difficulties.



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For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for doubtful accounts. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in consolidated net income.

For the year ended December 31, 2012, the Company recognized impairment of Ps. 384 (see Note 19). No impairment was recognized for the years ended December 31, 2013 and 2011.

### *3.6.6 Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

The rights to receive cash flows from the financial asset have expired, or

The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

### *3.6.7 Offsetting of financial instruments*

Financial assets are required to be offset against financial liabilities and the net amount reported in the consolidated statement of financial position if, and only when the Company:

Currently has an enforceable legal right to offset the recognized amounts; and

Intends to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### *3.7 Derivative financial instruments*

The Company is exposed to different risks related to cash flows, liquidity, market and third party credit. As a result, the Company contracts different derivative financial instruments in order to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies, and interest rate fluctuations associated with its borrowings denominated in foreign currencies and the exposure to the risk of fluctuation in the costs of certain raw materials.

The Company values and records all derivative financial instruments and hedging activities, in the consolidated statement of financial position as either an asset or liability measured at fair value, considering quoted prices in recognized markets. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models supported by sufficient, reliable and verifiable market data. Changes in the fair value of derivative financial instruments are recorded each year in current earnings or as a component of cumulative other comprehensive income based on the item being hedged and the effectiveness of the hedge.

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### *3.7.1 Hedge accounting*

The Company designates certain hedging instruments, which include derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

### *3.7.2 Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading valuation of the effective portion of derivative financial instruments. The gain or loss relating to the ineffective portion is recognized immediately in consolidated net income, and is included in the market value (gain) loss on financial instruments line item within the consolidated income statements.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to consolidated net income in the periods when the hedged item is recognized in consolidated net income, in the same line of the consolidated income statement as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in cumulative other comprehensive income in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in consolidated net income. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in consolidated net income.

### *3.7.3 Fair value hedges*

The change in the fair value of a hedging derivative is recognized in the consolidated income statement as foreign exchange gain. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated income statement as foreign exchange gain.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the consolidated net income.



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### *3.8 Fair value measurement*

The Company measures financial instruments, such as derivatives and non-financial assets, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Notes 13 and 18.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability; or

In the absence of a principal market, in the most advantageous market for the asset or liability.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period

The Company determines the policies and procedures for both recurring fair value measurements, such as those described in Note 20 and unquoted liabilities such as Debt described in Note 18.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### *3.9 Inventories and cost of goods sold*

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Inventories represent the acquisition or production cost which is incurred when purchasing or producing a product, and are based on the weighted average cost formula. The operating segments of the Company use inventory costing methodologies to value their inventories, such as the standard cost method in Coca-Cola FEMSA and retail method in FEMSA Comercio.



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Cost of goods sold is based on average cost of the inventories at the time of sale. Cost of goods sold in Coca-Cola FEMSA includes expenses related to the purchase of raw materials used in the production process, as well as labor costs (wages and other benefits, including employee profit sharing), depreciation of production facilities, equipment and other costs, including fuel, electricity, breakage of returnable bottles during the production process, equipment maintenance, inspection and plant transfer costs.

### *3.10 Other current assets*

Other current assets, which will be realized within a period of less than one year from the reporting date, are comprised of prepaid assets and agreements with customers.

Prepaid assets principally consist of advances to suppliers of raw materials, advertising, promotional, leasing and insurance expenses, and are recognized as other current assets at the time of the cash disbursement. Prepaid assets are carried to the appropriate caption when inherent benefits and risks have already been transferred to the Company or services have been received.

The Company has prepaid advertising costs which consist of television and radio advertising airtime paid in advance. These expenses are generally amortized over the period based on the transmission of the television and radio spots. The related production costs are recognized in consolidated net income as incurred.

Coca-Cola FEMSA has agreements with customers for the right to sell and promote Coca-Cola FEMSA's products over a certain period. The majority of these agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract, with amortization presented as a reduction of net sales. During the years ended December 31, 2013, 2012 and 2011, such amortization aggregated to Ps. 696, Ps. 970 and Ps. 793, respectively.

### *3.11 Investments in associates and joint arrangements*

#### *3.11.1 Investments in associates*

Associates are those entities over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Investments in associates are accounted for using the equity method and initial recognition comprises the investment's purchase price and any directly attributable expenditure necessary to acquire it.

The consolidated financial statements include the Company's share of the consolidated net income and other comprehensive income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

Profits and losses resulting from upstream and downstream transactions between the Company (including its consolidated subsidiaries) and an associate are recognized in the consolidated financial statements only to the extent of unrelated investors' interests in the associate. Upstream transactions are, for example, sales of assets from an associate to the Company. Downstream transactions are, for example, sales of assets from the Company to an associate. The Company's share in the associate's profits and losses resulting from these transactions is eliminated.

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When the Company's share of losses exceeds the carrying amount of the associate, including any long-term investments, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has a legal or constructive obligation or has made payments on behalf of the associate.

Goodwill identified at the acquisition date is presented as part of the investment in shares of the associate in the consolidated statement of financial position. Any goodwill arising on the acquisition of the Company's interest in an associate is measured in accordance with the Company's accounting policy for goodwill arising in a business combination, see Note 3.2.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associates is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognizes the amount in the share of the profit or loss of associates and joint ventures accounted for using the equity method in the consolidated income statements.

### *3.11.2 Joint arrangements*

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Company's rights to the assets and obligations for the liabilities of the arrangements.

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Company recognizes its interest in the joint ventures as an investment and accounts for that investment using the equity method, as describes in note 3.11.1. As of December 31, 2013 and 2012 the Company does not have an interest in joint operations.

### *3.12 Property, plant and equipment*

Property, plant and equipment are initially recorded at their cost of acquisition and/or construction, and are presented net of accumulated depreciation and/or accumulated impairment losses, if any. The borrowing costs related to the acquisition or construction of qualifying asset is capitalized as part of the cost of that asset.

Major maintenance costs are capitalized as part of total acquisition cost. Routine maintenance and repair costs are expensed as incurred.

Investments in progress consist of long-lived assets not yet in service, in other words, that are not yet used for the purpose that they were bought, built or developed. The Company expects to complete those investments during the following 12 months.

Depreciation is computed using the straight-line method over the asset's estimated useful life. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted and depreciated for as separate items (major components) of property, plant and equipment. The Company estimates depreciation rates, considering the estimated useful lives of the assets.

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The estimated useful lives of the Company's principal assets are as follows:

|                                  | <b>Years</b>                          |
|----------------------------------|---------------------------------------|
| Buildings                        | 40-50                                 |
| Machinery and equipment          | 10-20                                 |
| Distribution equipment           | 7-15                                  |
| Refrigeration equipment          | 5-7                                   |
| Returnable bottles               | 1.5-4                                 |
| Leasehold improvements           | The shorter of lease term or 15 years |
| Information technology equipment | 3-5                                   |
| Other equipment                  | 3-10                                  |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds (if any) and the carrying amount of the asset and is recognized in consolidated net income.

*Returnable and non-returnable bottles:*

Coca-Cola FEMSA has two types of bottles: returnable and non-returnable.

Non returnable: Are recorded in consolidated net income at the time of product sale.

Returnable: Are classified as long-lived assets as a component of property, plant and equipment. Returnable bottles are recorded at acquisition cost; for countries with hyperinflationary economies, restated according to IAS 29, Financial Reporting in Hyperinflationary Economies. Depreciation of returnable bottles is computed using the straight-line method considering their estimated useful lives. There are two types of returnable bottles:

Those that are in Coca-Cola FEMSA's control within its facilities, plants and distribution centers; and

Those that have been placed in the hands of customers, but still belong to Coca-Cola FEMSA. Returnable bottles that have been placed in the hands of customers are subject to an agreement with a retailer pursuant to which Coca-Cola FEMSA retains ownership. These bottles are monitored by sales personnel during periodic visits to retailers and Coca-Cola FEMSA has the right to charge any breakage identified to the retailer. Bottles that are not subject to such agreements are expensed when placed in the hands of retailers.

Coca-Cola FEMSA's returnable bottles are depreciated according to their estimated useful lives. Deposits received from customers are amortized over the same useful estimated lives of the bottles.

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### *3.13 Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs may include:

Interest expense; and

Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in consolidated net income in the period in which they are incurred.

### *3.14 Intangible assets*

Intangible assets are identifiable non monetary assets without physical substance and represent payments whose benefits will be received in future years. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite, in accordance with the period over which the Company expects to receive the benefits.

Intangible assets with finite useful lives are amortized and mainly consist of:

Information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over their expected useful lives, with a range in useful lives from 3 to 10 years. Expenses that do not fulfill the requirements for capitalization are expensed as incurred.

Long-term alcohol licenses are amortized using the straight-line method over their estimated useful lives, which range between 12 and 15 years, and are presented as part of intangible assets with finite useful lives.

Amortized intangible assets, such as finite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable through its expected future cash flows.

Intangible assets with an indefinite life are not amortized and are subject to impairment tests on an annual basis as well as whenever certain circumstances indicate that the carrying amount of those intangible assets exceeds their recoverable value.

The Company's intangible assets with an indefinite life mainly consist of rights to produce and distribute Coca-Cola trademark products in the Company's territories. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers.

As of December 31, 2013, Coca-Cola FEMSA had nine bottler agreements in Mexico: (i) the agreements for Mexico's Valley territory, which expire in April 2016 and June 2023, (ii) the agreements for the Central territory, which expire in August 2014 (two agreements), May 2015 and July 2016, (iii) the agreement for the Northeast territory, which expires in September 2014, (iv) the agreement for the Bajio territory, which expires in May 2015, and (v) the agreement for the Southeast territory, which expires in June 2023. As of December 31, 2013, Coca-Cola FEMSA had four bottler agreements in Brazil, two expiring in October 2017 and the other two expiring in April 2024. The bottler agreements with The Coca-Cola Company will expire for territories in other countries as follows: Argentina in September 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016 and Panama in November 2014. All of 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 the applicable agreement. In addition, these agreements generally may be terminated in the case of material breach.



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### *3.15 Non-current assets held for sale*

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### *3.16 Impairment of non financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest CGUs for which a reasonable and consistent allocation basis can be identified.

For goodwill and other indefinite lived intangible assets, the Company tests for impairment on an annual basis and whenever certain circumstances indicate that the carrying amount of the cash generating unit might exceed its recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in consolidated net income. Impairment losses related to goodwill are not reversible.



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For the year ended December 31, 2011, the Company recognized impairment of Ps. 146 (see Note 12), regarding to indefinite life intangible assets. No impairment was recognized regarding to depreciable long-lived assets, goodwill nor investment in associates and joint ventures.

### *3.17 Leases*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are recognized immediately in consolidated net income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Leasehold improvements on operating leases are amortized using the straight-line method over the shorter of either the useful life of the assets or the related lease term.

### *3.18 Financial liabilities and equity instruments*

#### *3.18.1 Classification as debt or equity*

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *3.18.2 Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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### *3.18.3 Financial liabilities*

#### Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value less, in the case of loans and borrowings, directly attributable transaction costs.

The Company financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments, see Note 3.7.

#### Subsequent measurement

The measurement of financial liabilities depends on their classification as described below.

### *3.18.4 Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statements when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest method. The effective interest method amortization is included in interest expense in the consolidated income statements.

### *3.18.5 Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated income statements.

### *3.19 Provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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The Company recognizes a provision for a loss contingency when it is probable (i.e., the probability that the event will occur is greater than the probability that it will not) that certain effects related to past events, would materialize and can be reasonably quantified. These events and their financial impact are also disclosed as loss contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized, see Note 25.

Restructuring provisions are recognized only when the recognition criteria for provisions are fulfilled. The Company has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected must have been notified of the plan's main features.

*3.20 Post-employment and other long-term employee benefits*

Post-employment and other long-term employee benefits, which are considered to be monetary items, include obligations for pension and retirement plans, seniority premiums and postretirement medical services, are all based on actuarial calculations, using the projected unit credit method.

In Mexico and Brazil, the economic benefits from employee benefits and retirement pensions are granted to employees with 10 years of service and minimum age of 60 and 65, respectively. In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. For qualifying employees, the Company also provides certain post-employment healthcare benefits such as the medical-surgical services, pharmaceuticals and hospital.

For defined benefit retirement plans and other long-term employee benefits, such as the Company's sponsored pension and retirement plans, seniority premiums and postretirement medical service plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. All remeasurements of the Company's defined benefit obligation such as actuarial gains and losses are recognized directly in other comprehensive income (OCI). The Company presents service costs within cost of goods sold, administrative and selling expenses in the consolidated income statements. The Company presents net interest cost within interest expense in the consolidated income statements. The projected benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as of the end of each reporting period. Certain subsidiaries of the Company have established plan assets for the payment of pension benefits, seniority premiums and postretirement medical services through irrevocable trusts of which the employees are named as beneficiaries, which serve to increase the funded status of such plans' related obligations.

Costs related to compensated absences, such as vacations and vacation premiums, are recognized on an accrual basis. Cost for mandatory severance benefits are recorded as incurred.

The Company recognizes a liability and expense for termination benefits at the earlier of the following dates:

- a) When it can no longer withdraw the offer of those benefits; or
- b) When it recognizes costs for a restructuring that is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits.

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The Company is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal.

A settlement occurs when an employer enters into a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan. A curtailment arises from an isolated event such as closing of a plant, discontinuance of an operation or termination or suspension of a plan. Gains or losses on the settlement or curtailment of a defined benefit plan are recognized when the settlement or curtailment occurs.

### *3.21 Revenue recognition*

Sales of products are recognized as revenue upon delivery to the customer, and once all the following conditions are satisfied:

The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

The amount of revenue can be measured reliably;

It is probable that the economic benefits associated with the transaction will flow to the Company; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

All of the above conditions are typically met at the point in time that goods are delivered to the customer at the customer's facilities. Net sales reflect units delivered at list prices reduced by promotional allowances, discounts and the amortization of the agreements with customers to obtain the rights to sell and promote the Company's products.

### *Rendering of services and other*

Revenue arising from services of sales of waste material and packing of raw materials are recognized in the other operating revenues caption in the consolidated income statement.

The Company recognized these transactions as revenues in accordance with the requirements established in the IAS 18 Revenue for delivery of goods and rendering of services, which are:

a) The amount of revenue can be measured reliably;

b) It is probable that the economic benefits associated with the transaction will flow to the entity.

### *Interest income*

Revenue arising from the use by others of entity assets yielding interest is recognized once all the following conditions are satisfied:

The amount of the revenue can be measured reliably; and

It is probable that the economic benefits associated with the transaction will flow to the entity.

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For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate ( EIR ), which is the rate that exactly discounts the estimated future cash or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The related interest income is included in the consolidated income statements.

### *3.22 Administrative and selling expenses*

Administrative expenses include labor costs (salaries and other benefits, including employee profit sharing PTU ) of employees not directly involved in the sale or production of the Company's products, as well as professional service fees, the depreciation of office facilities, amortization of capitalized information technology system implementation costs and any other similar costs.

Selling expenses include:

Distribution: labor costs (salaries and other related benefits), outbound freight costs, warehousing costs of finished products, write off of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2013, 2012 and 2011, these distribution costs amounted to Ps. 17,971, Ps. 16,839 and Ps. 14,967, respectively;

Sales: labor costs (salaries and other benefits, including PTU) and sales commissions paid to sales personnel; and

Marketing: labor costs (salaries and other benefits), promotional expenses and advertising costs.

PTU is paid by the Company's Mexican and Venezuelan subsidiaries to its eligible employees. In Mexico, employee profit sharing is computed at the rate of 10% of the individual company taxable income, except for considering cumulative dividends received from resident legal persons in Mexico, depreciation of historical rather tax restated values, foreign exchange gains and losses, which are not included until the asset is disposed of or the liability is due and other effects of inflation are also excluded. As of January 1, 2014, PTU in Mexico will be calculated from the same taxable income for income tax, except for the following: a) neither tax losses from prior years nor the PTU paid during the year are deductible; and b) payments exempt from taxes for the employees are fully deductible in the PTU computation.

In Venezuela, employee profit sharing is computed at a rate equivalent to 15% of after tax income, and it is no more than four months of salary.

### *3.23 Income taxes*

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are charged to consolidated net income as they are incurred, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

#### *3.23.1 Current income taxes*

Income taxes are recorded in the results of the year they are incurred.

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### *3.23.2 Deferred income taxes*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized and if any, future benefits from tax loss carry forwards and certain tax credits. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from initial recognition of goodwill (no recognition of deferred tax liabilities) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, except in the case of Brazil, where certain goodwill amounts are at times deductible for tax purposes.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred income taxes are classified as a long-term asset or liability, regardless of when the temporary differences are expected to reverse.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

In Mexico, the income tax rate is 30% for 2011, 2012 and 2013, and as result of Mexican Tax Reform for 2014, it will no longer be 29% and 28% for 2014 and 2015 respectively; it will remain at 30% for the following years (see Note 24).

### *3.24 Share-based payments arrangements*

Senior executives of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. The equity instruments are granted and then held by a trust controlled by the Company until vesting. They are accounted for as equity settled transactions. The award of equity instruments is a fixed monetary value on grant date.

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed and recognized based on the graded vesting method over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in consolidated net income such that the cumulative expense reflects the revised estimate.

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### *3.25 Earnings per share*

The Company presents basic and diluted earnings per share (EPS) data for its shares. Basic EPS is calculated by dividing the net income attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the year. Diluted EPS is determined by adjusting the weighted average number of shares outstanding including the weighted average of own shares purchased in the year for the effects of all potentially dilutive securities, which comprise share rights granted to employees described above.

### *3.26 Issuance of subsidiary stock*

The Company recognizes the issuance of a subsidiary's stock as an equity transaction. The difference between the book value of the shares issued and the amount contributed by the non-controlling interest holder or third party is recorded as additional paid-in capital.

## **Note 4. Mergers, Acquisitions and Disposals**

### *4.1 Mergers and acquisitions*

The Company has certain business mergers and acquisitions that were recorded using the acquisition method of accounting. The results of the acquired operations have been included in the consolidated financial statements since the date on which the Company obtained control of the business, as disclosed below. Therefore, the consolidated income statements and the consolidated statements of financial position in the years of such acquisitions are not comparable with previous periods. The consolidated statements of cash flows for the years ended December 31, 2013, 2012 and 2011 show the merged and acquired operations net of the cash related to those mergers and acquisitions.

While the acquired companies disclosed below, from note 4.1.1 to note 4.1.6, represent bottlers of Coca-Cola trademarked beverages, such entities were not under common ownership control prior to their acquisition.

#### *4.1.1 Acquisition of Grupo Spaipa*

On October 29, 2013, Coca-Cola FEMSA through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Grupo Spaipa. Grupo Spaipa is comprised of the bottler entity Spaipa, S.A. Industria Brasileira de Bebidas and three Holding Companies (collectively Spaipa) for Ps. 26,856 in an all cash transaction. Spaipa is a bottler of Coca-Cola trademark products which operates mainly in Sao Paulo and Paraná, Brazil. This acquisition was made to reinforce Coca-Cola FEMSA's leadership position in South America and throughout Latin America. Transaction related costs of Ps. 8 were expensed by the Company as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Spaipa was included in operating results from November 2013.

As of December 31, 2013 Coca-Cola FEMSA is still in the process of completing its purchase price allocation of this transaction. Specifically, it is in the process of evaluating the fair value of the net assets acquired which are in the process of completion with the assistance of a third party valuation expert. Coca-Cola FEMSA ultimately anticipates allocating a large component of this purchase price to the value of the distribution agreement with the Coca-Cola Company, which will be an indefinite life intangible asset.



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The Coca-Cola FEMSA preliminary estimate of fair value of Spaipa's net assets acquired is as follows:

|   | 2013                  |
|---|-----------------------|
| Total current assets (including cash acquired of Ps. 3,800) | <b>Ps. 5,918</b>      |
| Total non-current assets                                    | <b>5,390</b>          |
| Distribution rights   | <b>13,731</b>         |
| <br>Total assets  | <br><b>25,039</b>     |
| <br>Total liabilities                                       | <br><b>(5,734)</b>    |
| <br>Net assets acquired                                     | <br><b>19,305</b>     |
| <br>Goodwill  | <br><b>7,551</b>      |
| <br>Total consideration transferred                         | <br><b>Ps. 26,856</b> |

Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to Coca-Cola FEMSA's cash generating unit in Brazil. The goodwill recognized and expected to be deductible for income tax purposes according to Brazil tax law, is for an amount of Ps. 22,202.

Selected income statement information of Spaipa for the period from to the acquisition date through December 31, 2013 is as follows:

| <i>Income Statement</i>    | 2013             |
|----------------------------|------------------|
| Total revenues             | <b>Ps. 2,466</b> |
| Income before income taxes | <b>354</b>       |
| Net income                 | <b>Ps. 311</b>   |

#### 4.1.2 Acquisition of Companhia Fluminense de Refrigerantes

On August 22, 2013, Coca-Cola FEMSA through its Brazilian subsidiary Spal Industria Brasileira de Bebidas, S.A. completed the acquisition of 100% of Companhia Fluminense de Refrigerantes ( Companhia Fluminense ) for Ps. 4,657 in an all cash transaction. Companhia Fluminense is a bottler of Coca-Cola trademark products which operates in the states of Minas Gerais, Rio de Janeiro and Sao Paulo, Brazil. This acquisition was made to reinforce Coca-Cola FEMSA's leadership position in South America and throughout Latin America. Transaction related costs of Ps. 11 were expensed by Coca-Cola FEMSA as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Companhia Fluminense was included in operating results from September 2013.

As of December 31, 2013 Coca-Cola FEMSA is still in the process of completing its purchase price allocation of this transaction. Specifically, it is in the process of evaluating the fair value of the net assets acquired which are in the process of completion with the assistance of a third party valuation expert. Coca-Cola FEMSA ultimately anticipates allocating a large component of this purchase price to the value of the distribution agreement with the Coca-Cola Company, which will be an indefinite life intangible asset.

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Coca-Cola FEMSA preliminary estimate of fair value of Companhia Fluminense's net assets acquired is as follows:

|   | 2013                 |
|---|----------------------|
| Total current assets (including cash acquired of Ps. 9) | <b>Ps. 515</b>       |
| Total non-current assets                                | <b>1,467</b>         |
| Distribution rights                                     | <b>2,634</b>         |
| <br>Total assets  | <br><b>4,616</b>     |
| <br>Total liabilities                                   | <br><b>(1,581)</b>   |
| <br>Net assets acquired                                 | <br><b>3,035</b>     |
| <br>Goodwill  | <br><b>1,622</b>     |
| <br>Total consideration transferred                     | <br><b>Ps. 4,657</b> |

Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to Coca-Cola FEMSA's cash generating unit in Brazil. The goodwill recognized and expected to be deductible for income tax purposes according to Brazil tax law is for an amount of Ps. 4,581.

Selected income statement information of Companhia Fluminense for the period from to the acquisition date through December 31, 2013 is as follows:

| <i>Income Statement</i> | 2013                |
|-------------------------|---------------------|
| Total revenues          | <b>Ps. 981</b>      |
| Loss before taxes       | <b>(39)</b>         |
| <br>Net loss            | <br><b>Ps. (34)</b> |

*4.1.3 Merger with Grupo YOLI*

On May 24, 2013, Coca-Cola FEMSA completed the merger of 100% of Grupo Yoli. Grupo Yoli comprises the bottler entity YOLI de Acapulco, S.A. de C.V. and other nine entities. Grupo Yoli is a bottler of Coca-Cola trademark products which operates mainly in the state of Guerrero, as well as in parts of the state of Oaxaca in Mexico. This merger was made to reinforce Coca-Cola FEMSA's leadership position in Mexico and throughout Latin America. The transaction involved the issuance of 42,377,925 new L shares of Coca-Cola FEMSA, along with a cash payment immediately prior to closing of Ps. 1,109, in exchange for 100% share ownership of Grupo YOLI, which was accomplished through a merger. The total purchase price was Ps. 9,130 based on a share price of Ps. 189.27 per share on May 24, 2013. Transaction related costs of Ps. 82 were expensed by Coca-Cola FEMSA as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Grupo YOLI was included in operating results from June 2013.

The fair value of Grupo Yoli net assets acquired is as follows:

|  | 2013           |
|--|----------------|
| Total current assets (including cash acquired of Ps. 63) | <b>Ps. 837</b> |
| Total non-current assets                                 | <b>2,144</b>   |
| Distribution rights                                      | <b>3,503</b>   |

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|                                 |           |
|---------------------------------|-----------|
| Total assets                    | 6,484     |
| Total liabilities               | (1,487)   |
| Net assets acquired             | 4,997     |
| Goodwill                        | 4,133     |
| Total consideration transferred | Ps. 9,130 |

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Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to Coca-Cola FEMSA's cash generating unit in Mexico. The entire amount of goodwill will not be tax deductible.

Selected income statement information of Grupo YOLI for the period from to the acquisition date through December 31, 2013 is as follows:

| <i>Income Statement</i> | <b>2013</b>      |
|-------------------------|------------------|
| Total revenues          | <b>Ps. 2,240</b> |
| Income before taxes     | <b>70</b>        |
| <b>Net income</b>       | <b>Ps. 44</b>    |

**4.1.4 Merger with Grupo Fomento Queretano**

On May 4, 2012, Coca-Cola FEMSA completed the merger of 100% of Grupo Fomento Queretano. Grupo Fomento Queretano comprises the bottler entity Refrescos Victoria del Centro, S. de R.L. de C.V. and other three entities. Grupo Fomento Queretano is a bottler of Coca-Cola trademark products in the state of Queretaro in Mexico. This merger was made to reinforce Coca-Cola FEMSA's leadership position in Mexico and throughout Latin America. The transaction involved the issuance of 45,090,375 new L shares of Coca-Cola FEMSA, along with a cash payment prior to closing of Ps. 1,221, in exchange for 100% share ownership of Grupo Fomento Queretano, which was accomplished through a merger. The total purchase price was Ps. 7,496 based on a share price of Ps. 139.22 per share on May 4, 2012. Transaction related costs of Ps. 12 were expensed by Coca-Cola FEMSA as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Grupo Fomento Queretano was included in operating results from May 2012.

The fair value of the Grupo Fomento Queretano's net assets acquired is as follows:

|   |           |
|---|-----------|
|   | 2012      |
| Total current assets (including cash acquired of Ps. 107) | Ps. 445   |
| Total non-current assets                                  | 2,123     |
| Distribution rights                                       | 2,921     |
| Total assets  | 5,489     |
| Total liabilities   | (598)     |
| Net assets acquired                                       | 4,891     |
| Goodwill  | 2,605     |
| Total consideration transferred                           | Ps. 7,496 |

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Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to Coca-Cola FEMSA's cash generating unit in Mexico. The entire amount of goodwill will not be tax deductible.

Selected income statement information of Grupo Fomento Queretano for the period from to the acquisition date through December 31, 2012 is as follows:

| <i>Income Statement</i> | 2012           |
|-------------------------|----------------|
| Total revenues          | Ps. 2,293      |
| Income before taxes     | 245            |
| <b>Net income</b>       | <b>Ps. 186</b> |

**4.1.5 Merger with Grupo CIMSA**

On December 9, 2011, Coca-Cola FEMSA completed the merger of 100% of Grupo CIMSA. Grupo CIMSA comprises the bottler entity Grupo Embotellador CIMSA, S.A. de C.V. and other four entities. Grupo CIMSA is a bottler of Coca-Cola trademark products, which operates mainly in the states of Morelos and Mexico, as well as in parts of the states of Guerrero and Michoacan in Mexico. This merger was also made to reinforce the Coca-Cola FEMSA's leadership position in Mexico and throughout Latin America. The transaction involved the issuance of 75,423,728 new L shares of Coca-Cola FEMSA along with a cash payment prior to closing of Ps. 2,100 in exchange for 100% share ownership of Grupo CIMSA, which was accomplished through a merger. The total purchase price was Ps. 11,117 based on a share price of Ps. 119.55 per share on December 9, 2011. Transaction related costs of Ps. 24 were expensed by Coca-Cola FEMSA as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Grupo CIMSA was included in operating results from December 2011.

The fair value of Grupo CIMSA's net assets acquired is as follows:

|   | 2011              |
|---|-------------------|
| Total current assets (including cash acquired of Ps. 188) | Ps. 603           |
| Total non-current assets                                  | 3,055             |
| Distribution rights                                       | 6,186             |
| <b>Total assets</b>                                       | <b>9,844</b>      |
| <b>Total liabilities</b>                                  | <b>(558)</b>      |
| <b>Net assets acquired</b>                                | <b>9,286</b>      |
| <b>Goodwill</b>   | <b>1,831</b>      |
| <b>Total consideration transferred</b>                    | <b>Ps. 11,117</b> |

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Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to Coca-Cola FEMSA's cash generating unit in Mexico. The entire amount of goodwill will not be tax deductible.

Selected income statement information of Grupo CIMSA for the one month of December 31, 2011 is as follows:

| <i>Income Statement</i> | 2011          |
|-------------------------|---------------|
| Total revenues          | Ps. 429       |
| Income before taxes     | 32            |
| <b>Net income</b>       | <b>Ps. 23</b> |

**4.1.6 Merger with Grupo Tampico**

On October 10, 2011, Coca-Cola FEMSA completed the merger of 100% of Grupo Tampico. Grupo Tampico comprises the bottler entity Comercializadora la Pureza, S.A. de C.V. and another entity. Grupo Tampico is a bottler of Coca-Cola trademark products in the states of Tamaulipas, San Luis Potosí and Veracruz; as well as in parts of the states of Hidalgo, Puebla and Queretaro in Mexico. This merger also was made to reinforce Coca-Cola FEMSA's leadership position in Mexico and throughout Latin America. The transaction involved the issuance of 63,500,000 new L shares of Coca-Cola FEMSA along with a cash payment prior to closing of Ps. 2,436, in exchange for 100% share ownership of Grupo Tampico, which was accomplished through a merger. The total purchase price was Ps. 10,264 based on a share price of Ps. 123.27 per share on October 10, 2011. Transaction related costs of Ps. 20 were expensed by Coca-Cola FEMSA as incurred, and recorded as a component of administrative expenses in the accompanying consolidated income statements. Grupo Tampico was included in operating results from October 2011.

The fair value of the Grupo Tampico's net assets acquired is as follows:

|  | 2011              |
|--|-------------------|
| Total current assets (including cash acquired of Ps. 22) | Ps. 461           |
| Total non-current assets                                 | 2,512             |
| Distribution rights                                      | 5,499             |
| <b>Total assets</b>                                      | <b>8,472</b>      |
| <b>Total liabilities</b>                                 | <b>(744)</b>      |
| <b>Net assets acquired</b>                               | <b>7,728</b>      |
| <b>Goodwill</b>  | <b>2,536</b>      |
| <b>Total consideration transferred</b>                   | <b>Ps. 10,264</b> |

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Coca-Cola FEMSA expects to recover the amount recorded as goodwill through synergies related to the available production capacity. Goodwill has been allocated to Coca-Cola FEMSA's cash generating unit in Mexico. The entire amount of goodwill will not be tax deductible.

Selected income statement of Grupo Tampico for the period from to the acquisition date through December 31, 2011 is as follows:

| <i>Income Statement</i> | 2011          |
|-------------------------|---------------|
| Total revenues          | Ps. 1,056     |
| Income before taxes     | 43            |
| <b>Net income</b>       | <b>Ps. 31</b> |

*4.1.7 Other acquisitions*

During 2013, other cash payments, net of cash acquired, related to the Company's smaller acquisitions amounted to Ps. 3,021. These payments were primarily related to the following: acquisition of Expresso Jundiá, supplier of logistics services in Brazil, with experience in the service industry breakbulk logistics, warehousing and value added services. Expresso Jundiá operated a network of 42 operating bases as of the date of the agreement, and has presence in six states in South and Southeast Brazil; acquisition of 80% of Doña Tota, brand leader in quick service restaurants in Northeast Mexico, originated in the state of Tamaulipas, Mexico, which operated 204 restaurants in Mexico and 11 in the state of Texas, United States, as of the date of the agreement. This transaction resulted in the acquisition of assets and rights for the production, processing, marketing and distribution of its fast food products, which was treated as business combination according to IFRS 3 Business Combinations; acquisition of Farmacias Moderna, leading pharmacy in the state of Sinaloa, Mexico which operated 100 stores in Mazatlan, Sinaloa as of the date of the agreement; and acquisition of 75% of Farmacias YZA, a leading pharmacy in Southeast Mexico, in the state of Yucatan, which operated 330 stores, as of the date of the agreement.

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The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Spaipa, Companhia Fluminense and merger of Grupo Yoli, mentioned in the preceding paragraphs as if they occurred on January 1, 2013; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired companies. Unaudited Pro Forma Financial Data for all other acquisitions is not included, as they are not material.

|   | Unaudited pro forma financial<br>information for the year<br>ended<br>December 31, 2013 |                |
|---|---|----------------|
| Total revenues  | Ps.   | <b>270,705</b> |
| Income before income taxes and share of the profit of associates and joint ventures<br>accounting for using the equity method |   | <b>23,814</b>  |
| Net income  |   | <b>20,730</b>  |
| Basic net controlling interest income per share Series B  |   | <b>0.76</b>    |
| Basic net controlling interest income per share Series D  |   | <b>0.95</b>    |

Below are pro-forma 2012 results as if Grupo Fomento Queretano was acquired on January 1, 2012:

|   | Unaudited pro forma financial<br>information for the year<br>ended<br>December 31, 2012 |         |
|---|---|---------|
| Total revenues  | Ps.   | 239,297 |
| Income before income taxes and share of the profit of associates and joint ventures<br>accounting for using the equity method |   | 27,618  |
| Net income  |   | 28,104  |
| Basic net controlling interest income per share Series B  |   | 1.03    |
| Basic net controlling interest income per share Series D  |   | 1.30    |



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Below are pro-forma 2011 results as if Grupo Tampico and Grupo CIMSA were acquired on January 1, 2011:

|   | Unaudited pro forma financial<br>information for the year<br>ended<br>December 31, 2011 |         |
|---|---|---------|
| Total revenues  | Ps.   | 210,760 |
| Income before income taxes and share of the profit of associates and joint ventures<br>accounting for using the equity method |   | 24,477  |
| Net income  |   | 21,536  |
| Basic net controlling interest income per share Series B  |   | 0.78    |
| Basic net controlling interest income per share Series D  |   | 0.98    |

*4.2 Disposals*

During 2012, gain on sale for shares from the disposal of subsidiaries and investments of associates amounted to Ps. 1,215, primarily related to the sale of the Company's subsidiary Industria Mexicana de Quimicos, S.A. de C.V., a manufacturer and supplier of cleaning and sanitizing products and services related to food and beverage industrial processes, as well as of water treatment, for an amount of Ps. 975. The Company recognized a gain of Ps. 871, as a sales of shares within other income, which is the difference between the fair value of the consideration received and the book value of the net assets disposed. None of the Company's other disposals was individually significant. (See Note 19).

**Note 5. Cash and Cash Equivalents**

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and cash equivalents, which are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with a maturity date of less than three months at their acquisition date. Cash at the end of the reporting period as shown in the consolidated statement of cash flows is comprised of the following:

|                                 | December 31,<br>2013 |        | December 31,<br>2012 |        |
|---------------------------------|----------------------|--------|----------------------|--------|
| Cash and bank balances          | Ps.                  | 16,862 | Ps.                  | 10,577 |
| Cash equivalents (see Note 3.5) |                      | 10,397 |                      | 25,944 |
|                                 | Ps.                  | 27,259 | Ps.                  | 36,521 |

**Table of Contents****Note 6. Investments**

As of December 31, 2013 and 2012 investments are classified as available-for-sale and held-to maturity. The carrying value of held-to maturity investments is similar to its fair value. The following is a detail of available-for-sale and held-to maturity investments:

|  | 2013 |     | 2012      |
|--|------|-----|-----------|
| <i>Available-for-Sale</i> <sup>(1)</sup>                 |      |     |           |
| <b>Debt Securities</b>                                   |      |     |           |
| Acquisition cost   | Ps.  |     | Ps. 10    |
| Unrealized gain recognized in other comprehensive income |      |     | 2         |
| Fair value   | Ps.  |     | Ps. 12    |
| <i>Held-to Maturity</i> <sup>(2)</sup>                   |      |     |           |
| <b>Bank Deposits</b>                                     |      |     |           |
| Acquisition cost   | Ps.  | 125 | Ps. 1,579 |
| Accrued interest   |      | 1   | 4         |
| Amortized cost   | Ps.  | 126 | Ps. 1,583 |
|  | Ps.  | 126 | 1,595     |

(1) Denominated in U.S. dollars as of December 31, 2012.

(2) Denominated in euros at a fixed interest rate. Investments as of December 31, 2013 mature during 2014. For the years ended December 31, 2013, 2012 and 2011, the effect of the investments in the consolidated income statements under the interest income caption is Ps. 3, Ps. 23 and Ps. 37, respectively.

**Note 7. Accounts Receivable, Net**

|   | December 31,<br>2013 | December 31,<br>2012 |
|---|----------------------|----------------------|
| Trade receivables                       | Ps. 9,294            | Ps. 7,519            |
| Allowance for doubtful accounts         | (489)                | (413)                |
| Current trade customer notes receivable | 185                  | 434                  |
| The Coca-Cola Company (see Note 14)     | 1,700                | 1,835                |
| Loans to employees                      | 211                  | 172                  |
| Travel advances to employees            | 64                   | 46                   |
| Other related parties (see Note 14)     | 235                  | 211                  |
| Heineken Company (see Note 14)          | 454                  | 462                  |
| Others                                  | 1,144                | 571                  |
|   | Ps. 12,798           | Ps. 10,837           |



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*7.1 Trade receivables*

Accounts receivable representing rights arising from sales and loans to employees or any other similar concept, are presented net of discounts and the allowance for doubtful accounts.

Coca-Cola FEMSA has accounts receivable from The Coca-Cola Company arising from the latter's participation in advertising and promotional programs and investment in refrigeration equipment and returnable bottles made by Coca-Cola FEMSA.

The carrying value of accounts receivable approximates its fair value as of December 31, 2013 and 2012.

*Aging of past due but not impaired (days outstanding)*

|             | December 31,<br>2013 |     | December 31,<br>2012 |     |
|-------------|----------------------|-----|----------------------|-----|
| 60-90 days  | Ps.                  | 208 | Ps.                  | 242 |
| 90-120 days |                      | 40  |                      | 69  |
| 120+ days   |                      | 299 |                      | 144 |
| Total       | Ps.                  | 547 | Ps.                  | 455 |

*7.2 Movement in the allowance for doubtful accounts*

|  | 2013 |      | 2012 |       | 2011 |      |
|--|------|------|------|-------|------|------|
| Opening balance  | Ps.  | 413  | Ps.  | 343   | Ps.  | 249  |
| Allowance for the year   |      | 154  |      | 330   |      | 146  |
| Charges and write-offs of uncollectible accounts   |      | (34) |      | (232) |      | (84) |
| Restatement of beginning balance in hyperinflationary economies and effects of changes in foreign exchange rates |      | (44) |      | (28)  |      | 32   |
| Ending balance   | Ps.  | 489  | Ps.  | 413   | Ps.  | 343  |

In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

*Aging of impaired trade receivables (days outstanding)*

|             | December 31,<br>2013 |     | December 31,<br>2012 |     |
|-------------|----------------------|-----|----------------------|-----|
| 60-90 days  | Ps.                  | 69  | Ps.                  | 4   |
| 90-120 days |                      | 14  |                      | 12  |
| 120+ days   |                      | 406 |                      | 397 |
| Total       | Ps.                  | 489 | Ps.                  | 413 |



**Table of Contents***7.3 Payments from The Coca-Cola Company*

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Coca-Cola FEMSA's refrigeration equipment and returnable bottles investment program. Contributions received by Coca-Cola FEMSA for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the investment in refrigeration equipment and returnable bottles items. For the years ended December 31, 2013, 2012 and 2011 contributions received were Ps. 4,206, Ps. 3,018 and Ps. 2,595, respectively.

**Note 8. Inventories**

|                        | December 31,<br>2013 | December 31,<br>2012 |
|------------------------|----------------------|----------------------|
| Finished products      | Ps. 10,492           | Ps. 9,630            |
| Raw materials          | 4,934                | 4,541                |
| Spare parts            | 1,404                | 978                  |
| Work in process        | 238                  | 63                   |
| Inventories in transit | 1,057                | 1,118                |
| Other                  | 164                  | 15                   |
|                        | <b>Ps. 18,289</b>    | <b>Ps. 16,345</b>    |

For the years ended at 2013, 2012 and 2011, the Company recognized write-downs of its inventories for Ps. 1,322, Ps. 793 and Ps. 747 to net realizable value, respectively.

For the years ended at 2013, 2012 and 2011, changes in inventories are comprised as follows and included in the consolidated income statement under the cost of goods sold caption:

|   | 2013               | 2012               | 2011               |
|---|--------------------|--------------------|--------------------|
| Changes in inventories of finished goods and work in progress | Ps. 76,163         | Ps. 68,712         | Ps. 61,566         |
| Raw materials and consumables used                            | 49,740             | 51,033             | 44,578             |
|   | <b>Ps. 125,903</b> | <b>Ps. 119,745</b> | <b>Ps. 106,144</b> |

**Table of Contents****Note 9. Other Current Assets and Other Current Financial Assets***9.1 Other current assets*

|                           | December 31,<br>2013 | December 31,<br>2012 |
|---------------------------|----------------------|----------------------|
| Prepaid expenses          | Ps. 1,666            | Ps. 1,108            |
| Agreements with customers | 148                  | 128                  |
| Short-term licenses       | 55                   | 47                   |
| Other                     | 110                  | 51                   |
|                           | <b>Ps. 1,979</b>     | <b>Ps. 1,334</b>     |

Prepaid expenses as of December 31, 2013 and 2012 are as follows:

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| Advances for inventories                             | Ps. 478              | Ps. 86               |
| Advertising and promotional expenses paid in advance | 191                  | 284                  |
| Advances to service suppliers                        | 309                  | 339                  |
| Prepaid leases                                       | 120                  | 101                  |
| Prepaid insurance                                    | 33                   | 61                   |
| Others   | 535                  | 237                  |
|  | <b>Ps. 1,666</b>     | <b>Ps. 1,108</b>     |

Advertising and deferred promotional expenses recorded in the consolidated income statement for the years ended December 31, 2013, 2012 and 2011 amounted to Ps. 6,232, Ps. 4,471 and Ps. 4,695, respectively.

*9.2 Other current financial assets*

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| Restricted cash                                | Ps. 3,106            | Ps. 1,465            |
| Derivative financial instruments (see Note 20) | 28                   | 106                  |
| Short term note receivable                     | 843                  | 975                  |
|  | <b>Ps. 3,977</b>     | <b>Ps. 2,546</b>     |

The Company has pledged part of its short-term deposits in order to fulfill the collateral requirements for the accounts payable in different currencies. As of December 31, 2013 and 2012, the fair value of the short-term deposit pledged were:

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|                     | December 31,<br>2013 | December 31,<br>2012 |
|---------------------|----------------------|----------------------|
| Venezuelan bolivars | <b>Ps. 2,658</b>     | Ps. 1,141            |
| Brazilian reais     | <b>340</b>           | 183                  |
| Colombian pesos     | <b>108</b>           | 141                  |
|                     | <b>Ps. 3,106</b>     | Ps. 1,465            |

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**Table of Contents****Note 10. Investments in Associates and Joint Ventures**

Details of the Company's associates and joint ventures accounted for under the equity method at the end of the reporting period are as follows:

| Investee   | Ownership Percentage      |                        | Carrying Amount   |                   |                   |                   |
|--|---------------------------|------------------------|-------------------|-------------------|-------------------|-------------------|
|  | Principal Activity        | Place of Incorporation | December 31, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 |
| Heineken Company <sup>(1)(2)</sup>   | Beverages                 | The Netherlands        | 20.0%             | 20.0%             | Ps. 80,351        | Ps. 77,484        |
| <b>Coca-Cola FEMSA:</b>  |                           |                        |                   |                   |                   |                   |
| <b>Joint ventures:</b>   |                           |                        |                   |                   |                   |                   |
| Grupo Panameño de Bebidas  | Beverages                 | Panama                 | 50.0%             | 50.0%             | 892               | 756               |
| Dispensadoras de Café, S.A.P.I. de C.V.  | Services                  | Mexico                 | 50.0%             | 50.0%             | 187               | 167               |
| Estancia Hidromineral Itabirito, LTDA  | Bottling and distribution | Brazil                 | 50.0%             | 50.0%             | 142               | 147               |
| Coca-Cola Bottlers Philippines, Inc. (CCBPI)   | Bottling                  | Philippines            | 51.0%             |                   | 9,398             |                   |
| <b>Associates:</b>   |                           |                        |                   |                   |                   |                   |
| Promotora Industrial Azucarera, S.A. de C.V. ( PIASA ) <sup>(3)</sup>  | Sugar production          | Mexico                 | 36.3%             | 26.1%             | 2,034             | 1,447             |
| Industria Envasadora de Queretaro, S.A. de C.V.( IEQSA )   | Canned bottling           | Mexico                 | 32.8%             | 27.9%             | 181               | 141               |
| Industria Mexicana de Reciclaje, S.A. de C.V. ( IMER )   | Recycling                 | Mexico                 | 35.0%             | 35.0%             | 90                | 74                |
| Jugos del Valle, S.A.P.I. de C.V.  | Beverages                 | Mexico                 | 26.2%             | 25.1%             | 1,470             | 1,351             |
| KSP Participações, LTDA  | Beverages                 | Brazil                 | 38.7%             | 38.7%             | 85                | 93                |
| SABB Sistema de Alimentos e Bebidas Do Brasil, LTDA (formerly Sucos del Valle do Brasil LTDA) <sup>(4)</sup> | Beverages                 | Brazil                 |                   | 19.7%             |                   | 902               |
| Holdfab2 Participações Societárias, LTDA ( Holdfab2 ) <sup>(4)</sup>   | Beverages                 | Brazil                 |                   | 27.7%             |                   | 205               |
| Leao Alimentos e Bebidas, LTDA <sup>(4)</sup>  | Beverages                 | Brazil                 | 26.1%             |                   | 2,176             |                   |
| Other investments in Coca Cola FEMSA's companies   | Various                   | Various                | Various           | Various           | 112               | 69                |
| <b>FEMSA Comercio:</b>   |                           |                        |                   |                   |                   |                   |
| Café del Pacifico, S.A.P.I. de C.V. (Caffenio) <sup>(1)</sup>  | Coffee                    | Mexico                 | 40.0%             | 40.0%             | 466               | 459               |
| Other investments <sup>(1)(6)</sup>  | Various                   | Various                | Various           | Various           | 746               | 545               |
|  |                           |                        |                   |                   | <b>Ps. 98,330</b> | <b>Ps. 83,840</b> |

(1) Associate.

(2) As of December 31, 2013, comprised of 12.53% of Heineken, N.V. and 14.94% of Heineken Holding, N.V., which represents an economic interest of 20% in Heineken. The Company has significant influence, mainly, due to the fact that it participates in the Board of Directors of Heineken Holding, N.V. and the Supervisory Board of Heineken N.V.; and for the material transactions between the Company and Heineken Company.

(3) As mentioned in Note 4, on May 24, 2013 and May 4, 2012, Coca-Cola FEMSA completed the merger of 100% of Grupo Yoli and Grupo Foque, respectively. As part of these mergers, Coca-Cola FEMSA increased its equity interest to 36.3% and 26.1% in Promotora Industrial Azucarera, S.A. de C.V., respectively.

(4) During March 2013, Holdfab2 Participações Societárias, LTDA and SABB- Sistema de Alimentos e Bebidas Do Brasil, LTDA. were merged into Leao Alimentos e Bebidas, Ltda.

(5) The Company has significant influence due to the fact that it has power to participate in the financial and operating policy decisions of the investee.

(6) Joint ventures.



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On January 25, 2013, Coca-Cola FEMSA finalized the acquisition of 51% of Coca-Cola Bottlers Philippines, Inc. (CCBPI) for an amount of \$688.5 U.S. dollars (Ps. 8,904) in an all-cash transaction. As part of the agreement, Coca-Cola FEMSA obtained a call option to acquire the remaining 49% of CCBPI at any time during the seven years following the closing. Coca-Cola FEMSA also has a put option to sell its 51% ownership to The Coca-Cola Company at any time from the fifth anniversary of the date of acquisition until the sixth anniversary, at a price which is based in part on the fair value of CCBPI at the date of acquisition (See Note 20.7).

From the date of the investment acquisition through December 31, 2013, the results of CCBPI have been recognized by Coca-Cola FEMSA using the equity method, this is based on the following factors: (i) during the initial four-year period some relevant activities require joint approval between Coca-Cola FEMSA and The Coca-Cola Company; and (ii) potential voting rights to acquire the remaining 49% of CCBPI are not likely to be exercised in the foreseeable future due to the fact that the call option is out of the money as of December 31, 2013.

On October 1, 2012 FEMSA Comercio acquired a 40% ownership interest in Café del Pacífico, S.A.P.I de C.V., a Mexican coffee producing company for Ps. 462. On the acquisition date, the difference between the cost of its investment and the FEMSA Comercio's share of the net book value and net fair value of the associate's identifiable assets, liabilities and contingent liabilities was accounted for in accordance with the Company's accounting policy described in Note 3.2 and resulted in the identification of amortizable intangible assets, primarily customer lists, step-up adjustments associated with the fair value of acquired fixed assets, including the associated deferred tax impacts as well as goodwill, which is not amortized, all of which are included in the carrying amount of the investment in associates. The Company made adjustments to its share of the associate's profits after the acquisition date to account for the depreciation of the depreciable assets and amortizable intangible assets based on their fair values at the acquisition date, net of their deferred tax impact and recognized a loss of Ps. 23 associated with its investment in this associate for the period from October 1, 2012 to December 31, 2012.

During 2013 Coca-Cola FEMSA made capital contributions to Jugos del Valle S.A.P.I. de C.V. in the amount of Ps. 27.

During 2012 Coca-Cola FEMSA made capital contributions to Jugos del Valle, S.A.P.I. de C.V. in the amount of Ps. 469. The funds were mainly used by Jugos del Valle to acquire Santa Clara in Mexico (a dairy products Company).

On March 17, 2011, a consortium of investors formed by FEMSA, the Macquarie Mexican Infrastructure Fund and other investors, acquired Energía Alterna Istmeña, S. de R.L. de C.V. ( EAI ), and Energía Eólica Mareña, S.A. de C.V. ( EEM ), from subsidiaries of Preneal, S.A. ( Preneal ). EAI and EEM are the owners of a 396 megawatt late-stage wind energy project in the southeastern region of the State of Oaxaca. On February 23, 2012, a wholly-owned subsidiary of Mitsubishi Corporation, and Stichting Depository PGGM Infrastructure Funds, a pension fund managed by PGGM, acquired the 45% interest held by FEMSA in the parent companies of the Mareña Renovables Wind Power Farm. The sale of FEMSA's participation as an investor resulted in a gain of Ps. 933. Certain subsidiaries of FEMSA, FEMSA Comercio and Coca-Cola FEMSA have entered into 20-year wind power supply agreements with the Mareña Renovables Wind Power Farm to purchase some of the energy output produced by it. These agreements will remain in full force and effect.

Heineken's main activities are the production, distribution and marketing of beer worldwide. The Company recognized an equity income of Ps. 4,587, Ps. 8,311 and Ps. 4,880, net of taxes regarding its interest in Heineken for the years ended December 31, 2013, 2012 and 2011, respectively.

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Summarized financial information in respect of the associate Heineken accounted for under the equity method is set out below.

|  | December 31, 2013 |                 | December 31, 2012 <sup>(1)</sup> |                 |
|--|-------------------|-----------------|----------------------------------|-----------------|
|  | Peso              | Million of Euro | Peso                             | Million of Euro |
| Total current assets   | Ps. 98,814        | . 5,495         | Ps. 94,788                       | . 5,537         |
| Total non-current assets   | 500,667           | 27,842          | 521,155                          | 30,443          |
| Total current liabilities  | 143,913           | 8,003           | 133,734                          | 7,812           |
| Total non-current liabilities  | 233,376           | 12,978          | 263,000                          | 15,363          |
| Total equity   | 222,192           | 12,356          | 219,209                          | 12,805          |
| Equity attributable to equity holders of Heineken                        | 205,038           | 11,402          | 200,876                          | 11,734          |
| Total revenue and other income   | Ps. 333,437       | .19,429         | Ps. 333,209                      | .19,893         |
| Total cost and expenses  | 289,605           | 16,875          | 271,284                          | 16,196          |
| Net income   | Ps. 27,236        | . 1,587         | Ps. 51,490                       | . 3,074         |
| Net income attributable to equity holders of the company                 | 23,409            | 1,364           | 48,810                           | 2,914           |
| Other comprehensive income   | (18,998)          | (1,107)         | (5,327)                          | (318)           |
| Total comprehensive income   | Ps. 8,238         | . 480           | Ps. 46,163                       | . 2,756         |
| Total comprehensive income attributable to equity holders of the company | 5,766             | 336             | 43,684                           | 2,608           |

(1) Heineken adjusted its comparative figures due to restatement for the revised IAS 19 and finalization of the purchase price allocation for APB.

Reconciliation from the equity of the associate Heineken to the investment of the Company.

|   | December 31, 2013 |                 | December 31, 2012 |                 |
|---|-------------------|-----------------|-------------------|-----------------|
|   | Peso              | Million of Euro | Peso              | Million of Euro |
| Equity attributable to equity holders of Heineken             | Ps. 205,038       | .11,402         | Ps. 200,876       | 11,734          |
| Restatement due to IAS 19 revised                             |                   |                 | (736)             | (43)            |
| Effects of fair value determined by Purchase Price Allocation | 88,822            | 4,939           | 84,566            | 4,939           |
| Goodwill  | 107,895           | 6,000           | 102,714           | 6,000           |
| Equity attributable to equity holders of Heineken adjusted    | 401,755           | 22,341          | 387,420           | 22,630          |
| Economic ownership percentage                                 | 20%               | 20%             | 20%               | 20%             |
| Investment in Heineken Company                                | 80,351            | 4,468           | 77,484            | 4,526           |

As of December 31, 2013 and 2012 fair value of Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 20% of its outstanding shares amounted to Ps. 99,279 ( 5,521 million) and Ps. 92,879 ( 5,425 million) based on quoted market prices of those dates. As of April 16, 2014, approval date of these consolidated financial statements, fair value amounted to 5,780 million.

During the years ended December 31, 2013, 2012 and 2011, the Company received dividends distributions from Heineken, amounted to Ps. 1,752, Ps. 1,697 and Ps. 1,661, respectively.

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Summarized financial information in respect of the interests in individually immaterial of Coca-Cola FEMSA's associates accounted for under the equity method is set out below.

|                               | 2013              | 2012       | 2011       |
|-------------------------------|-------------------|------------|------------|
| Total current assets          | <b>Ps. 8,232</b>  | Ps. 6,958  | Ps. 7,038  |
| Total non-current assets      | <b>11,750</b>     | 12,023     | 9,843      |
| Total current liabilities     | <b>4,080</b>      | 3,363      | 3,376      |
| Total non-current liabilities | <b>3,575</b>      | 2,352      | 2,067      |
| Total revenue                 | <b>Ps. 20,889</b> | Ps. 16,609 | Ps. 16,087 |
| Total cost and expenses       | <b>20,581</b>     | 15,514     | 14,894     |
| Net income <sup>(1)</sup>     | <b>433</b>        | 858        | 1,053      |

(1) Includes FEMSA Comercio's investments and other investments.

Summarized financial information in respect of the interests in individually immaterial of Coca-Cola FEMSA's joint ventures accounted for under the equity method is set out below.

|                                  | 2013              | 2012      | 2011      |
|----------------------------------|-------------------|-----------|-----------|
| Total current assets             | <b>Ps. 8,622</b>  | Ps. 1,612 | Ps. 1,091 |
| Total non-current assets         | <b>13,561</b>     | 2,616     | 3,097     |
| Total current liabilities        | <b>6,547</b>      | 1,977     | 2,053     |
| Total non-current liabilities    | <b>960</b>        | 106       | 140       |
| Total revenue                    | <b>Ps. 16,844</b> | Ps. 2,187 | Ps. 2,095 |
| Total cost and expenses          | <b>16,622</b>     | 2,262     | 2,093     |
| Net income (loss) <sup>(1)</sup> | <b>113</b>        | (77)      | (7)       |

(1) Includes FEMSA Comercio's investments and other investments.

The Company's share of other comprehensive income from equity investees, net of taxes for the year ended December 31, 2013, 2012 and 2011 are as follows:

|  | 2013               | 2012      | 2011        |
|--|--------------------|-----------|-------------|
| Valuation of the effective portion of derivative financial instruments | <b>Ps. (91)</b>    | Ps. 113   | Ps. 94      |
| Exchange differences on translating foreign operations                 | <b>(3,029)</b>     | 183       | (1,253)     |
| Remeasurements of the net defined benefit liability                    | <b>491</b>         | (1,077)   | (236)       |
|  | <b>Ps. (2,629)</b> | Ps. (781) | Ps. (1,395) |

**Table of Contents****Note 11. Property, Plant and Equipment, Net**

| Cost   | Machinery |            |                  |                            |                       | Investments<br>in Fixed |                           |         |            | Total |
|--|-----------|------------|------------------|----------------------------|-----------------------|-------------------------|---------------------------|---------|------------|-------|
|  | Land      | Buildings  | and<br>Equipment | Refrigeration<br>Equipment | Returnable<br>Bottles | Assets in<br>Progress   | Leasehold<br>Improvements | Other   |            |       |
| Cost as of January 1, 2011                               | Ps. 4,006 | Ps. 10,273 | Ps. 32,600       | Ps. 8,462                  | Ps. 2,930             | Ps. 3,082               | Ps. 7,270                 | Ps. 629 | Ps. 69,252 |       |
| Additions  | 233       | 271        | 3,348            | 960                        | 1,236                 | 5,849                   | 45                        | 104     | 12,046     |       |
| Additions from business combinations                     | 597       | 1,103      | 2,309            | 314                        | 183                   | 202                     |                           |         | 4,708      |       |
| Transfer of completed projects in progress               | 23        | 379        | 2,542            | 421                        | 521                   | (5,162)                 | 1,277                     | (1)     |            |       |
| Transfer to/(from) assets classified as held for sale    | 111       | 144        | (13)             |                            |                       |                         |                           | (68)    | 174        |       |
| Disposals  | (58)      | (15)       | (2,315)          | (325)                      | (901)                 | 5                       | (331)                     | (162)   | (4,102)    |       |
| Effects of changes in foreign exchange rates             | 141       | 414        | 981              | 536                        | 143                   | 76                      | 12                        | 82      | 2,385      |       |
| Changes in value on the recognition of inflation effects | 91        | 497        | 1,155            | 268                        | 3                     | 50                      |                           | 11      | 2,075      |       |
| Capitalization of borrowing costs                        |           |            | 17               |                            |                       |                         |                           |         | 17         |       |
| Cost as of December 31, 2011                             | Ps. 5,144 | Ps. 13,066 | Ps. 40,624       | Ps. 10,636                 | Ps. 4,115             | Ps. 4,102               | Ps. 8,273                 | Ps. 595 | Ps. 86,555 |       |
| Cost as of January 1, 2012                               | Ps. 5,144 | Ps. 13,066 | Ps. 40,624       | Ps. 10,636                 | Ps. 4,115             | Ps. 4,102               | Ps. 8,273                 | Ps. 595 | Ps. 86,555 |       |
| Additions  | 329       | 415        | 4,607            | 1,176                      | 1,434                 | 6,511                   | 186                       | 186     | 14,844     |       |
| Additions from business combinations                     | 206       | 390        | 486              | 84                         | 18                    |                         |                           |         | 1,184      |       |
| Adjustments of fair value of past business combinations  | 57        | 312        | (462)            | (39)                       | (77)                  |                         | (1)                       |         | (210)      |       |
| Transfer of completed projects in progress               | 137       | 339        | 1,721            | 901                        | 765                   | (5,183)                 | 1,320                     |         |            |       |
| Transfer to/(from) assets classified as held for sale    |           |            | (34)             |                            |                       |                         |                           |         | (34)       |       |
| Disposals  | (82)      | (131)      | (963)            | (591)                      | (324)                 | (14)                    | (100)                     | (69)    | (2,274)    |       |
| Effects of changes in foreign exchange rates             | (107)     | (485)      | (2,051)          | (451)                      | (134)                 | (28)                    | (60)                      | (41)    | (3,357)    |       |
| Changes in value on the recognition of inflation effects | 85        | 471        | 1,138            | 275                        | 17                    | (31)                    |                           | 83      | 2,038      |       |
| Capitalization of borrowing costs                        |           |            | 16               |                            |                       |                         |                           |         | 16         |       |
| Cost as of December 31, 2012                             | Ps. 5,769 | Ps. 14,377 | Ps. 45,082       | Ps. 11,991                 | Ps. 5,814             | Ps. 5,357               | Ps. 9,618                 | Ps. 754 | Ps. 98,762 |       |

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| Cost   | Machinery        |                    |                     | Investments<br>in Fixed    |                       |                       | Leasehold<br>Improvements | Other            | Total               |
|--|------------------|--------------------|---------------------|----------------------------|-----------------------|-----------------------|---------------------------|------------------|---------------------|
|  | Land             | Buildings          | and<br>Equipment    | Refrigeration<br>Equipment | Returnable<br>Bottles | Assets in<br>Progress |                           |                  |                     |
| <b>Cost as of January 1, 2013</b>                        | <b>Ps. 5,769</b> | <b>Ps. 14,377</b>  | <b>Ps. 45,082</b>   | <b>Ps. 11,991</b>          | <b>Ps. 5,814</b>      | <b>Ps. 5,357</b>      | <b>Ps. 9,618</b>          | <b>Ps. 754</b>   | <b>Ps. 98,762</b>   |
| Additions  | 433              | 167                | 4,648               | 1,107                      | 1,435                 | 8,238                 | 11                        | 341              | 16,380              |
| Additions from business combinations                     | 536              | 2,278              | 2,814               | 428                        | 96                    | 614                   | 36                        | 264              | 7,066               |
| Transfer of completed projects in progress               | 389              | 1,158              | 992                 | 1,144                      | 785                   | (6,296)               | 1,828                     |                  |                     |
| Transfer to/(from) assets classified as held for sale    |                  |                    | (216)               |                            |                       |                       |                           |                  | (216)               |
| Disposals  | (11)             | (291)              | (2,049)             | (749)                      | (324)                 | (748)                 | (697)                     | (15)             | (4,884)             |
| Effects of changes in foreign exchange rates             | (250)            | (1,336)            | (3,678)             | (1,135)                    | (466)                 | (291)                 | (103)                     | (55)             | (7,314)             |
| Changes in value on the recognition of inflation effects | 228              | 1,191              | 2,252               | 603                        | 46                    | 165                   |                           | 277              | 4,762               |
| Capitalization of borrowing costs                        |                  |                    | 32                  |                            |                       |                       |                           |                  | 32                  |
| <b>Cost as of December 31, 2013</b>                      | <b>Ps. 7,094</b> | <b>Ps. 17,544</b>  | <b>Ps. 49,877</b>   | <b>Ps. 13,389</b>          | <b>Ps. 7,386</b>      | <b>Ps. 7,039</b>      | <b>Ps. 10,693</b>         | <b>Ps. 1,566</b> | <b>Ps. 114,588</b>  |
| <b>Accumulated Depreciation</b>                          |                  |                    |                     |                            |                       |                       |                           |                  |                     |
| Accumulated Depreciation as of January 1, 2011           | Ps.              | Ps. (3,347)        | Ps. (15,829)        | Ps. (4,778)                | Ps. (478)             | Ps.                   | Ps. (2,464)               | Ps. (174)        | Ps. (27,070)        |
| Depreciation for the year                                |                  | (328)              | (2,985)             | (948)                      | (853)                 |                       | (533)                     | (47)             | (5,694)             |
| Transfer (to)/from assets classified as held for sale    |                  | (41)               | (3)                 |                            |                       |                       |                           |                  | (44)                |
| Disposals  |                  | 6                  | 2,146               | 154                        | 335                   |                       | 298                       | 67               | 3,006               |
| Effects of changes in foreign exchange rates             |                  | (171)              | (525)               | (270)                      | (35)                  |                       |                           | (29)             | (1,030)             |
| Changes in value on the recognition of inflation effects |                  | (280)              | (653)               | (202)                      |                       |                       |                           | (25)             | (1,160)             |
| <b>Accumulated Depreciation as of December 31, 2011</b>  | <b>Ps.</b>       | <b>Ps. (4,161)</b> | <b>Ps. (17,849)</b> | <b>Ps. (6,044)</b>         | <b>Ps. (1,031)</b>    | <b>Ps.</b>            | <b>Ps. (2,699)</b>        | <b>Ps. (208)</b> | <b>Ps. (31,992)</b> |

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|  |     |             | <b>Machinery<br/>and<br/>Equipment</b> | <b>Refrigeration<br/>Equipment</b> | <b>Returnable<br/>Bottles</b> | <b>Investments<br/>in<br/>Fixed<br/>Assets<br/>in<br/>Progress</b> | <b>Leasehold<br/>Improvements</b> | <b>Other</b> | <b>Total</b> |
|--|-----|-------------|--|------------------------------------|-------------------------------|--|-----------------------------------|--------------|--------------|
| <b>Accumulated Depreciation as of January 1, 2012</b>    | Ps. | Ps. (4,161) | Ps. (17,849)                           | Ps. (6,044)                        | Ps. (1,031)                   | Ps.  | Ps. (2,699)                       | Ps. (208)    | Ps. (31,992) |
| Depreciation for the year                                |     | (361)       | (3,781)                                | (1,173)                            | (1,149)                       |  | (639)                             | (72)         | (7,175)      |
| Transfer (to)/from assets classified as held for sale    |     |             | 1                                      | 10                                 |                               |  |                                   | (26)         | (15)         |
| Disposals  |     | 158         | 951                                    | 492                                | 200                           |  | 94                                | 1            | 1,896        |
| Effects of changes in foreign exchange rates             |     | 200         | 749                                    | 303                                | (5)                           |  | 68                                | (5)          | 1,310        |
| Changes in value on the recognition of inflation effects |     | (288)       | (641)                                  | (200)                              | (3)                           |  |                                   | (5)          | (1,137)      |
| <b>Accumulated Depreciation as of December 31, 2012</b>  | Ps. | Ps. (4,451) | Ps. (20,561)                           | Ps. (6,622)                        | Ps. (1,988)                   | Ps.  | Ps. (3,176)                       | Ps. (315)    | Ps. (37,113) |
| <b>Accumulated Depreciation as of January 1, 2013</b>    | Ps. | Ps. (4,451) | Ps. (20,561)                           | Ps. (6,622)                        | Ps. (1,988)                   | Ps.  | Ps. (3,176)                       | Ps. (315)    | Ps. (37,113) |
| Depreciation for the year                                |     | (431)       | (4,380)                                | (1,452)                            | (1,662)                       |  | (784)                             | (96)         | (8,805)      |
| Transfer (to)/from assets classified as held for sale    |     |             | 105                                    |                                    |                               |  |                                   |              | 105          |
| Disposals  |     | 200         | 1,992                                  | 785                                | 33                            |  | 682                               | 6            | 3,698        |
| Effects of changes in foreign exchange rates             |     | 591         | 2,061                                  | 755                                | 143                           |  | 8                                 | 73           | 3,631        |
| Changes in value on the recognition of inflation effects |     | (583)       | (996)                                  | (442)                              | (6)                           |  |                                   | (122)        | (2,149)      |
| <b>Accumulated Depreciation as of December 31, 2013</b>  | Ps. | Ps. (4,674) | Ps. (21,779)                           | Ps. (6,976)                        | Ps. (3,480)                   | Ps.  | Ps. (3,270)                       | Ps. (454)    | Ps. (40,633) |



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| Carrying Amount                | Land             | Buildings         | Machinery         |                         | Returnable Bottles | Investments                 |                        |                  | Total             |
|--------------------------------|------------------|-------------------|-------------------|-------------------------|--------------------|-----------------------------|------------------------|------------------|-------------------|
|                                |                  |                   | and Equipment     | Refrigeration Equipment |                    | in Fixed Assets in Progress | Leasehold Improvements | Other            |                   |
| As of December 31, 2011        | Ps. 5,144        | Ps. 8,905         | Ps. 22,775        | Ps. 4,592               | Ps. 3,084          | Ps. 4,102                   | Ps. 5,574              | Ps. 387          | Ps. 54,563        |
| As of December 31, 2012        | Ps. 5,769        | Ps. 9,926         | Ps. 24,521        | Ps. 5,369               | Ps. 3,826          | Ps. 5,357                   | Ps. 6,442              | Ps. 439          | Ps. 61,649        |
| <b>As of December 31, 2013</b> | <b>Ps. 7,094</b> | <b>Ps. 12,870</b> | <b>Ps. 28,098</b> | <b>Ps. 6,413</b>        | <b>Ps. 3,906</b>   | <b>Ps. 7,039</b>            | <b>Ps. 7,423</b>       | <b>Ps. 1,112</b> | <b>Ps. 73,955</b> |

During the years ended December 31, 2013, 2012 and 2011 the Company capitalized Ps. 32, Ps. 16 and Ps. 17, respectively of borrowing costs in relation to Ps. 790, Ps. 196 and Ps. 256 in qualifying assets. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were 4.1%, 4.3% and 5.8%, respectively.

For the years ended December 31, 2013, 2012 and 2011 interest expense, interest income and net foreign exchange losses are analyzed as follows:

|   | 2013             | 2012      | 2011    |
|---|------------------|-----------|---------|
| Interest expense, interest income and foreign exchange losses | <b>Ps. 3,887</b> | Ps. 1,937 | Ps. 325 |
| Amount capitalized <sup>(1)</sup>                             | <b>57</b>        | 38        | 185     |
| <b>Net amount in consolidated income statements</b>           | <b>Ps. 3,830</b> | Ps. 1,899 | Ps. 140 |

(1) Amount capitalized in property, plant and equipment and amortized intangible assets. Commitments related to acquisitions of property, plant and equipment are disclosed in Note 25.

**Table of Contents****Note 12. Intangible Assets**

|  | Rights to Produce and Distribute Coca-Cola Trademark Products | Goodwill  | Other Indefinite Lived Intangible Assets | Total Unamortized Intangible Assets | Technology Costs and Management Systems | Systems in Development | Alcohol Licenses | Other   | Total Amortized Intangible Assets | Total Intangible Assets |
|--|---|-----------|--|-------------------------------------|---|------------------------|------------------|---------|-----------------------------------|-------------------------|
| <b>Cost as of January 1, 2011</b>                        | Ps. 41,173  | Ps.       | Ps. 386                                  | Ps. 41,559                          | Ps. 1,627                               | Ps. 1,389              | Ps. 499          | Ps. 226 | Ps. 3,741                         | Ps. 45,300              |
| Purchases  |   |           | 9  | 9                                   | 221                                     | 300                    | 61               | 48      | 630                               | 639                     |
| Acquisition from business combinations                   | 11,878  | 4,515     |  | 16,393                              | 66                                      | 3                      |                  |         | 69                                | 16,462                  |
| Transfer of completed development systems                |   |           |  |                                     | 261                                     | (261)                  |                  |         |                                   |                         |
| Effect of movements in exchange rates                    | 1,072   |           |  | 1,072                               | 30                                      |                        |                  | 7       | 37                                | 1,109                   |
| Changes in value on the recognition of inflation effects | 815   |           |  | 815                                 |   |                        |                  |         |                                   | 815                     |
| Capitalization of borrowing costs                        |   |           |  |                                     | 168                                     |                        |                  |         | 168                               | 168                     |
| <b>Cost as of December 31, 2011</b>                      | Ps. 54,938  | Ps. 4,515 | Ps. 395                                  | Ps. 59,848                          | Ps. 2,373                               | Ps. 1,431              | Ps. 560          | Ps. 281 | Ps. 4,645                         | Ps. 64,493              |
| <b>Cost as of January 1, 2012</b>                        | Ps. 54,938  | Ps. 4,515 | Ps. 395                                  | Ps. 59,848                          | Ps. 2,373                               | Ps. 1,431              | Ps. 560          | Ps. 281 | Ps. 4,645                         | Ps. 64,493              |
| Purchases  |   |           | 6  | 6                                   | 35                                      | 90                     | 166              | 106     | 397                               | 403                     |
| Acquisition from business combinations                   | 2,973   | 2,605     |  | 5,578                               |   |                        |                  |         |                                   | 5,578                   |
| Internally developed                                     |   |           |  |                                     |   | 38                     |                  |         | 38                                | 38                      |
| Adjustments of fair value of past business combinations  | (42)  | (148)     |  | (190)                               |   |                        |                  |         |                                   | (190)                   |
| Transfer of completed development systems                |   |           |  |                                     | 559                                     | (559)                  |                  |         |                                   |                         |
| Disposals  |   |           | (62)                                     | (62)                                | (7)                                     |                        |                  |         | (7)                               | (69)                    |
| Effect of movements in exchange rates                    | (478)   |           |  | (478)                               | (97)                                    | (3)                    |                  | (3)     | (103)                             | (581)                   |
|  | (121)   |           |  | (121)                               |   |                        |                  |         |                                   | (121)                   |

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|  |                   |                  |                |                   |                  |                  |                |                |                  |                   |  |  |    |  |    |
|--|-------------------|------------------|----------------|-------------------|------------------|------------------|----------------|----------------|------------------|-------------------|--|--|----|--|----|
| Changes in value on the recognition of inflation effects |                   |                  |                |                   |                  |                  |                |                |                  |                   |  |  |    |  |    |
| Capitalization of borrowing costs                        |                   |                  |                |                   |                  |                  |                | 22             |                  |                   |  |  | 22 |  | 22 |
| <b>Balance as of December 31, 2012</b>                   | <b>Ps. 57,270</b> | <b>Ps. 6,972</b> | <b>Ps. 339</b> | <b>Ps. 64,581</b> | <b>Ps. 2,863</b> | <b>Ps. 1,019</b> | <b>Ps. 726</b> | <b>Ps. 384</b> | <b>Ps. 4,992</b> | <b>Ps. 69,573</b> |  |  |    |  |    |

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|  | Rights to<br>Produce<br>and<br>Distribute<br>Coca-Cola<br>Trademark<br>Products | Goodwill   | Other<br>Indefinite<br>Lived<br>Intangible<br>Assets | Total<br>Unamortized<br>Intangible<br>Assets | Technology<br>Costs and<br>Management<br>Systems | Systems<br>in<br>Development | Alcohol<br>Licenses | Other     | Total<br>Amortized<br>Intangible<br>Assets | Total<br>Intangible<br>Assets |
|--|---|------------|--|--|--|------------------------------|---------------------|-----------|--|-------------------------------|
| <b>Cost as of January 1, 2013</b>                        | Ps. 57,270  | Ps. 6,972  | Ps. 339  | Ps. 64,581                                   | Ps. 2,863  | Ps. 1,019                    | Ps. 726             | Ps. 384   | Ps. 4,992                                  | Ps. 69,573                    |
| Purchases  |   |            |  |  | 164  | 644                          | 179                 | 123       | 1,110                                      | 1,110                         |
| Acquisition from business combinations                   | 19,868  | 14,692     | 1,621  | 36,181                                       | 70   |                              |                     | 196       | 266  | 36,447                        |
| Transfer of completed development systems                |   |            |  |  | 172  | (172)                        |                     |           |  |                               |
| Disposals  |   |            | (163)  | (163)  |  |                              | (46)                |           | (46)                                       | (209)                         |
| Effect of movements in exchange rates                    | (1,828)   | (356)      | (10)   | (2,194)                                      | (75)   |                              |                     | (13)      | (88)                                       | (2,282)                       |
| Changes in value on the recognition of inflation effects | 417   |            |  | 417  |  | 113                          |                     |           | 113  | 530                           |
| Capitalization of borrowing costs                        |   |            |  |  | 25   |                              |                     |           | 25   | 25                            |
| <b>Cost as of December 31, 2013</b>                      | Ps. 75,727  | Ps. 21,308 | Ps. 1,787  | Ps. 98,822                                   | Ps. 3,219  | Ps. 1,604                    | Ps. 859             | Ps. 690   | Ps. 6,372                                  | Ps. 105,194                   |
| <b>Amortization and Impairment Losses</b>                |   |            |  |  |  |                              |                     |           |  |                               |
| Amortization as of January 1, 2011                       | Ps.   | Ps.        | Ps.  | Ps.  | Ps. (914)  | Ps.                          | Ps. (87)            | Ps. (46)  | Ps. (1,047)                                | Ps. (1,047)                   |
| Amortization expense                                     |   |            |  |  | (187)  |                              | (27)                | (41)      | (255)                                      | (255)                         |
| Impairment losses  |   |            | (103)  | (103)  |  |                              |                     | (43)      | (43)                                       | (146)                         |
| Effect of movements in exchange rates                    |   |            |  |  | (15)   |                              |                     |           | (15)                                       | (15)                          |
| Amortization as of December 31, 2011                     | Ps.   | Ps.        | Ps. (103)  | Ps. (103)                                    | Ps. (1,116)                                      | Ps.                          | Ps. (114)           | Ps. (130) | Ps. (1,360)                                | Ps. (1,463)                   |
| <b>Amortization as of January 1, 2012</b>                | Ps.   | Ps.        | Ps. (103)  | Ps. (103)                                    | Ps. (1,116)                                      | Ps.                          | Ps. (114)           | Ps. (130) | Ps. (1,360)                                | Ps. (1,463)                   |
| Amortization expense                                     |   |            |  |  | (202)  |                              | (36)                | (66)      | (304)                                      | (304)                         |
| Disposals  |   |            |  |  | 25   |                              |                     |           | 25   | 25                            |
| Effect of movements in exchange rates                    |   |            |  |  | 65   |                              |                     | (3)       | 62   | 62                            |
| <b>Amortization as of December 31, 2012</b>              | Ps.   | Ps.        | Ps. (103)  | Ps. (103)                                    | Ps. (1,228)                                      | Ps.                          | Ps. (150)           | Ps. (199) | Ps. (1,577)                                | Ps. (1,680)                   |

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|  | Rights to Produce and Distribute Coca-Cola Trademark Products | Goodwill   | Other Indefinite Lived Intangible Assets | Total Unamortized Intangible Assets | Technology Costs and Management Systems | Systems in Development | Alcohol Licenses | Other     | Total Amortized Intangible Assets | Total Intangible Assets |
|--|---|------------|--|-------------------------------------|---|------------------------|------------------|-----------|-----------------------------------|-------------------------|
| <b>Amortization and impairment losses Amortization as of January 1, 2013</b> | Ps.   | Ps.        | Ps. (103)                                | Ps. (103)                           | Ps. (1,228)                             | Ps.                    | Ps. (150)        | Ps. (199) | Ps. (1,577)                       | Ps. (1,680)             |
| Amortization expense   |   |            |  |                                     | (271)                                   |                        | (73)             | (72)      | (416)                             | (416)                   |
| Disposals  |   |            | 103                                      | 103                                 | 2                                       |                        | 46               |           | 48                                | 151                     |
| Effect of movements in exchange rates  |   |            |  |                                     | 35                                      |                        |                  | 9         | 44                                | 44                      |
| <b>Amortization as of December 31, 2013</b>                                  | Ps.   | Ps.        | Ps.                                      | Ps.                                 | Ps. (1,462)                             | Ps.                    | Ps. (177)        | Ps. (262) | Ps. (1,901)                       | Ps. (1,901)             |
| <b>Carrying Amount</b>   |   |            |  |                                     |   |                        |                  |           |                                   |                         |
| As of December 31, 2011  | Ps. 54,938  | Ps. 4,515  | Ps. 292                                  | Ps. 59,745                          | Ps. 1,257                               | Ps. 1,431              | Ps. 446          | Ps. 151   | Ps. 3,285                         | Ps. 63,030              |
| As of December 31, 2012  | Ps. 57,270  | Ps. 6,972  | Ps. 236                                  | Ps. 64,478                          | Ps. 1,635                               | Ps. 1,019              | Ps. 576          | Ps. 185   | Ps. 3,415                         | Ps. 67,893              |
| <b>As of December 31, 2013</b>   | Ps. 75,727  | Ps. 21,308 | Ps. 1,787                                | Ps. 98,822                          | Ps. 1,757                               | Ps. 1,604              | Ps. 682          | Ps. 428   | Ps. 4,471                         | Ps. 103,293             |

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During the years ended December 31, 2013, 2012 and 2011 the Company capitalized Ps. 25, Ps. 22 and Ps. 168, respectively of borrowing costs in relation to Ps. 630, Ps. 674 and Ps. 1,761 in qualifying assets, respectively. The effective interest rates used to determine the amount of borrowing costs eligible for capitalization were 4.1%, 4.3% and 5.8%, respectively.

For the years ended 2013, 2012 and 2011, allocation for amortization expense is as follows:

|                         | <b>2013</b>    | 2012    | 2011    |
|-------------------------|----------------|---------|---------|
| Cost of goods sold      | <b>Ps. 10</b>  | Ps. 3   | Ps. 4   |
| Administrative expenses | <b>249</b>     | 204     | 151     |
| Selling expenses        | <b>157</b>     | 97      | 100     |
|                         | <b>Ps. 416</b> | Ps. 304 | Ps. 255 |

The average remaining period for the Company's intangible assets that are subject to amortization is as follows:

|   | <b>Years</b> |
|---|--------------|
| Technology Costs and Management Systems | 7            |
| Alcohol Licenses                        | 9            |

**Coca-Cola FEMSA Impairment Tests for Cash-Generating Units Containing Goodwill and Distribution Rights**

For the purpose of impairment testing, goodwill and distribution rights are allocated and monitored on an individual country basis, which is considered to be the CGU.

The aggregate carrying amounts of goodwill and distribution rights allocated to each CGU are as follows:

|            | <b>December 31,<br/>2013</b> | December 31,<br>2012 |
|------------|------------------------------|----------------------|
| Mexico     | <b>Ps. 55,126</b>            | Ps. 47,492           |
| Guatemala  | <b>303</b>                   | 299                  |
| Nicaragua  | <b>390</b>                   | 407                  |
| Costa Rica | <b>1,134</b>                 | 1,114                |
| Panama     | <b>785</b>                   | 781                  |
| Colombia   | <b>5,895</b>                 | 6,387                |
| Venezuela  | <b>3,508</b>                 | 3,236                |
| Brazil     | <b>28,405</b>                | 4,416                |
| Argentina  | <b>103</b>                   | 110                  |
| Total      | <b>Ps. 95,649</b>            | Ps. 64,242           |

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Goodwill and distribution rights are tested for impairments annually. The recoverable amounts of the CGUs are based on value-in-use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU.

The key assumptions used for the value-in-use calculations are as follows:

Cash flows were projected based on actual operating results and the five-year business plan. Cash flows for a further five-year were forecasted maintaining the same stable growth and margins per country of the last year base. Coca-Cola FEMSA believes that this forecasted period is justified due to the non-current nature of the business and past experiences.

Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual population growth, in order to calculate the terminal recoverable amount.

A per CGU-specific Weighted Average Cost of Capital ( WACC ) was applied as a hurdle rate to discount cash flows to get the recoverable amount of the units; the calculation assumes, size premium adjusting.

The key assumptions by CGU for impairment test as of December 31, 2012 were as follows:

| CGU        | WACC real | Expected Annual Long-Term |  |
|------------|-----------|---------------------------|--|
|            |           | Inflation 2013-2023       | Expected Volume Growth Rates 2013-2023 |
| Mexico     | 5.5%      | 3.6%                      | 2.8%                                   |
| Colombia   | 5.8%      | 3.0%                      | 6.1%                                   |
| Venezuela  | 11.3%     | 25.8%                     | 2.8%                                   |
| Costa Rica | 7.7%      | 5.7%                      | 2.8%                                   |
| Guatemala  | 8.1%      | 5.3%                      | 4.0%                                   |
| Nicaragua  | 9.5%      | 6.6%                      | 5.1%                                   |
| Panama     | 7.7%      | 4.6%                      | 3.6%                                   |
| Argentina  | 10.7%     | 10.0%                     | 4.2%                                   |
| Brazil     | 5.5%      | 5.8%                      | 3.8%                                   |

The key assumptions by CGU for impairment test as of December 31, 2013 were as follows:

| CGU        | WACC real | Expected Annual Long-Term |  |
|------------|-----------|---------------------------|--|
|            |           | Inflation 2014-2024       | Expected Volume Growth Rates 2014-2024 |
| Mexico     | 5.1%      | 3.9%                      | 1.3%                                   |
| Colombia   | 6.0%      | 3.0%                      | 5.0%                                   |
| Venezuela  | 10.8%     | 32.2%                     | 2.5%                                   |
| Costa Rica | 7.2%      | 5.0%                      | 2.4%                                   |
| Guatemala  | 9.7%      | 5.2%                      | 5.2%                                   |
| Nicaragua  | 12.5%     | 6.3%                      | 4.1%                                   |
| Panama     | 7.1%      | 4.2%                      | 5.7%                                   |
| Argentina  | 10.9%     | 11.1%                     | 3.8%                                   |
| Brazil     | 5.9%      | 6.0%                      | 4.4%                                   |

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The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external sources and internal sources (historical data). Coca-Cola FEMSA consistently applied its methodology to determine CGU specific WACC's to perform its annual impairment testing.

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**Table of Contents****Sensitivity to Changes in Assumptions**

At December 31, 2013 Coca-Cola FEMSA performed an additional impairment sensitivity calculation, taking into account an adverse change in WACC, according to the country risk premium, using for each country the relative standard deviation between equity and sovereign bonds and an additional sensitivity to the volume of a 100 basis points, except in Mexico and concluded that no impairment would be recorded.

| CGU        | Change in WACC | Change in Volume           |                     |
|------------|----------------|----------------------------|---------------------|
|            |                | Growth CAGR <sup>(1)</sup> | Effect on Valuation |
| Mexico     | +2.5 %         | -0.25 %                    | Passes by 2.9x      |
| Colombia   | +0.9 %         | -1.0 %                     | Passes by 4.6x      |
| Venezuela  | +5.5 %         | -1.0 %                     | Passes by 7.4x      |
| Costa Rica | +0.3 %         | -1.0 %                     | Passes by 2.6x      |
| Guatemala  | +2.0 %         | -1.0 %                     | Passes by 3.5x      |
| Nicaragua  | +4.1 %         | -1.0 %                     | Passes by 1.5x      |
| Panama     | +1.8 %         | -1.0 %                     | Passes by 8.4x      |
| Argentina  | +3.8 %         | -1.0 %                     | Passes by 78.8x     |
| Brazil     | +3.7 %         | -1.0 %                     | Passes by 8.1x      |

(1) Compound Annual Growth Rate (CAGR).

**Note 13. Other Assets, Net and Other Financial Assets***13.1 Other assets, net*

|   | December 31,<br>2013 | December 31,<br>2012 |
|---|----------------------|----------------------|
| Agreement with customers, net                     | <b>Ps. 314</b>       | Ps. 278              |
| Long term prepaid advertising expenses            | <b>102</b>           | 78                   |
| Guarantee deposits <sup>(1)</sup>                 | <b>1,147</b>         | 953                  |
| Prepaid bonuses                                   | <b>116</b>           | 117                  |
| Advances to acquire property, plant and equipment | <b>866</b>           | 973                  |
| Recoverable taxes                                 | <b>185</b>           | 93                   |
| Others  | <b>770</b>           | 331                  |
|   | <b>Ps. 3,500</b>     | Ps. 2,823            |

(1) As it is customary in Brazil, the Company is required to collateralize tax, legal and labor contingencies by guarantee deposits.

**Table of Contents***13.2 Other financial assets*

|  | <b>December 31,<br/>2013</b> | December 31,<br>2012 |
|--|------------------------------|----------------------|
| Non-current accounts receivable                | <b>Ps. 1,120</b>             | Ps. 1,110            |
| Derivative financial instruments (see Note 20) | <b>1,472</b>                 | 1,144                |
| Other non-current financial assets             | <b>161</b>                   |                      |
|  | <b>Ps. 2,753</b>             | Ps. 2,254            |

As of December 31, 2013 and 2012, the fair value of long term accounts receivable amounted to Ps. 1,142 and Ps. 1,244, respectively. The fair value is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for receivable of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy.

**Table of Contents****Note 14. Balances and Transactions with Related Parties and Affiliated Companies**

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The consolidated statements of financial positions and consolidated income statements include the following balances and transactions with related parties and affiliated companies:

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| <b>Balances</b>  |                      |                      |
| Due from The Coca-Cola Company (see Note 7) <sup>(1) (9)</sup>                   | <b>Ps. 1,700</b>     | Ps. 1,835            |
| Balance with BBVA Bancomer, S.A. de C.V. <sup>(2)</sup>                          | <b>2,357</b>         | 2,299                |
| Balance with Grupo Financiero Banorte, S.A. de C.V. <sup>(2)</sup>               | <b>817</b>           |                      |
| Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. <sup>(3)</sup> | <b>171</b>           | 219                  |
| Due from Heineken Company <sup>(1) (7)</sup>                                     | <b>454</b>           | 462                  |
| Due from Compañía Panameña de Bebidas, S.A.P.I de C.V. <sup>(3) (8)</sup>        | <b>893</b>           | 828                  |
| Other receivables <sup>(1) (4)</sup>   | <b>924</b>           | 211                  |
| <br>   |                      |                      |
| Due to The Coca-Cola Company <sup>(6) (9)</sup>                                  | <b>Ps. 5,562</b>     | Ps. 4,088            |
| Due to BBVA Bancomer, S.A. de C.V. <sup>(5)</sup>                                | <b>1,080</b>         | 1,136                |
| Due to Caffenio <sup>(6) (7)</sup>   | <b>7</b>             | 144                  |
| Due to Grupo Financiero Banamex, S.A. de C.V. <sup>(5)</sup>                     | <b>1,962</b>         |                      |
| Due to British American Tobacco Mexico <sup>(6)</sup>                            | <b>280</b>           | 395                  |
| Due to Heineken Company <sup>(6) (7)</sup>                                       | <b>2,339</b>         | 1,939                |
| Other payables <sup>(6)</sup>  | <b>605</b>           | 488                  |

- (1) Presented within accounts receivable.
- (2) Presented within cash and cash equivalents.
- (3) Presented within other financial assets.
- (4) Presented within other current financial assets.
- (5) Recorded within bank loans.
- (6) Recorded within accounts payable.
- (7) Associates.
- (8) Joint venture.
- (9) Non controlling interest.

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Balances due from related parties are considered to be recoverable. Accordingly, for the years ended December 31, 2013 and 2012, there was no expense resulting from the uncollectibility of balances due from related parties.

| <b>Transactions</b>  | <b>2013</b>       | <b>2012</b> | <b>2011</b> |
|--|-------------------|-------------|-------------|
| <b>Income:</b>   |                   |             |             |
| Services to Heineken Company <sup>(1)</sup>  | <b>Ps. 2,412</b>  | Ps. 2,979   | Ps. 2,169   |
| Logistic services to Grupo Industrial Saltillo, S.A. de C.V. <sup>(4)</sup>  | <b>287</b>        | 242         | 241         |
| Sales of Grupo Inmobiliario San Agustin, S.A. shares to Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. <sup>(4)</sup> |                   | 391         |             |
| Logistic services to Jugos del Valle <sup>(1)</sup>  | <b>471</b>        | 431         |             |
| Other revenues from related parties  | <b>399</b>        | 341         | 469         |
| <b>Expenses:</b>   |                   |             |             |
| Purchase of concentrate from The Coca-Cola Company <sup>(3)</sup>  | <b>Ps. 22,988</b> | Ps. 23,886  | Ps. 20,882  |
| Purchases of raw material, beer and operating expenses from Heineken Company <sup>(1)</sup>  | <b>11,865</b>     | 11,013      | 9,397       |
| Purchase of coffee from Caffenio <sup>(1)</sup>  | <b>1,383</b>      | 342         |             |
| Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. <sup>(4)</sup>   | <b>2,860</b>      | 2,394       | 2,270       |
| Purchase of cigarettes from British American Tobacco Mexico <sup>(4)</sup>   | <b>2,460</b>      | 2,342       | 1,964       |
| Advertisement expense paid to The Coca-Cola Company <sup>(3)(5)</sup>  | <b>1,291</b>      | 1,052       | 872         |
| Purchase of juices from Jugos del Valle, S.A.P.I. de C.V. <sup>(1)</sup>   | <b>2,628</b>      | 1,985       | 1,564       |
| Purchase of sugar from Promotora Industrial Azucarera, S.A. de C.V. <sup>(1)</sup>   | <b>956</b>        | 423         | 52          |
| Interest expense and fees paid to BBVA Bancomer, S.A. de C.V. <sup>(4)</sup>   | <b>77</b>         | 205         | 128         |
| Purchase of sugar from Beta San Miguel <sup>(4)</sup>  | <b>1,557</b>      | 1,439       | 1,398       |
| Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V. <sup>(4)</sup>                         | <b>670</b>        | 711         | 701         |
| Purchase of canned products from IEQSA <sup>(1)</sup>  | <b>615</b>        | 483         | 262         |
| Advertising paid to Grupo Televisa, S.A.B. <sup>(4)</sup>  | <b>92</b>         | 124         | 86          |
| Interest expense paid to Grupo Financiero Banamex, S.A. de C.V. <sup>(4)</sup>   | <b>19</b>         |             | 28          |
| Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. <sup>(4)</sup>  | <b>67</b>         | 57          | 59          |
| Donations to Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. <sup>(4)</sup>  | <b>78</b>         | 109         | 81          |
| Donations to Fundación FEMSA, A.C. <sup>(4)</sup>  | <b>27</b>         | 864         | 46          |
| Purchase of plastic bottles from Embotelladora del Atlántico, S.A. (formerly Complejo Industrial Pet, S.A.) <sup>(4)</sup>               | <b>124</b>        | 99          | 56          |
| Purchase of juice and milk powder from Grupo Estrella Azul <sup>(2)</sup>  |                   |             | 60          |
| Donations to Difusión y Fomento Cultural, A.C. <sup>(4)</sup>  |                   | 29          | 21          |
| Interest expense paid to The Coca-Cola Company <sup>(3)</sup>  | <b>60</b>         | 24          | 7           |
| Other expenses with related parties  | <b>299</b>        | 389         | 321         |

(1) Associates.

(2) Joint Venture.

(3) Non controlling interest.

(4) Members of the board of directors in FEMSA participate in board of directors of this entity.

(5) Net of the contributions from The Coca-Cola Company of Ps. 4,206, Ps. 3,018 and Ps. 2,595, for the years ended in 2013, 2012 and 2011, respectively.

Also as disclosed in Note 10, during January 2013, Coca-Cola FEMSA purchased its 51% interest in CCBPI from The Coca-Cola Company. The remainder of CCBPI is owned by The Coca-Cola Company and Coca-Cola FEMSA has currently outstanding certain call and put options related to CCBPI's equity interests.



**Table of Contents***Commitments with related parties*

| Related Party    | Commitment | Amount | Conditions   |
|------------------|------------|--------|--|
| Heineken Company | Supply     | Ps.    | Supply of all beer products in Mexico s OXXO stores. The contract may be renewed for five years on additional periods. At the end of the contract OXXO will not hold exclusive contract with another supplier of beer for the next 3 years. Commitment term, Jan 1 <sup>st</sup> , 2010 to Jun 30, 2020. |

Ps.

The benefits and aggregate compensation paid to executive officers and senior management of the Company were as follows:

|                                   | 2013      | 2012      | 2011    |
|-----------------------------------|-----------|-----------|---------|
| Short-term employee benefits paid | Ps. 1,268 | Ps. 1,022 | Ps. 998 |
| Postemployment benefits           | 37        | 37        | 29      |
| Termination benefits              | 25        | 13        | 13      |
| Share based payments              | 306       | 275       | 253     |

**Note 15. Balances and Transactions in Foreign Currencies**

Assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different than the functional currency of the Company. As of the end and for the years ended on December 31, 2013, 2012 and 2011, assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos (contractual amounts) are as follows:

| Balances                       | Assets            |                  | Liabilities      |                   |
|--------------------------------|-------------------|------------------|------------------|-------------------|
|                                | Short-Term        | Long-Term        | Short-Term       | Long-Term         |
| <b>As of December 31, 2013</b> |                   |                  |                  |                   |
| U.S. dollars                   | Ps. 5,340         | Ps. 969          | Ps. 6,061        | Ps. 53,929        |
| Euros                          | 333               |                  | 152              |                   |
| Other currencies               |                   | 186              | 251              | 115               |
| <b>Total</b>                   | <b>Ps. 5,673</b>  | <b>Ps. 1,155</b> | <b>Ps. 6,464</b> | <b>Ps. 54,044</b> |
| <b>As of December 31, 2012</b> |                   |                  |                  |                   |
| U.S. dollars                   | Ps. 21,236        | Ps. 912          | Ps. 6,588        | Ps. 14,493        |
| Euros                          |                   |                  | 38               |                   |
| Other currencies               | 8                 |                  | 75               | 250               |
| <b>Total</b>                   | <b>Ps. 21,244</b> | <b>Ps. 912</b>   | <b>Ps. 6,701</b> | <b>Ps. 14,743</b> |

| Transactions | Revenues | Disposal Shares | Other Revenues | Purchases of Raw Materials | Interest Expense | Consulting Fees | Assets Acquisitions | Other |
|--------------|----------|-----------------|----------------|----------------------------|------------------|-----------------|---------------------|-------|
|--------------|----------|-----------------|----------------|----------------------------|------------------|-----------------|---------------------|-------|

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| <b>For the year ended<br/>December 31, 2013</b> |           |     |         |            |         |        |        |           |
|---|-----------|-----|---------|------------|---------|--------|--------|-----------|
| U.S. dollars                                    | Ps. 2,013 | Ps. | Ps. 605 | Ps. 15,017 | Ps. 435 | Ps. 11 | Ps. 80 | Ps. 1,348 |
| Euros   | 1         |     | 3       | 55         | 9       |        | 2      | 15        |
| Other currencies                                |           |     |         |            |         |        |        | 3         |

|              |                  |            |                |                   |                |               |               |                  |
|--------------|------------------|------------|----------------|-------------------|----------------|---------------|---------------|------------------|
| <b>Total</b> | <b>Ps. 2,014</b> | <b>Ps.</b> | <b>Ps. 608</b> | <b>Ps. 15,072</b> | <b>Ps. 444</b> | <b>Ps. 11</b> | <b>Ps. 82</b> | <b>Ps. 1,366</b> |
|--------------|------------------|------------|----------------|-------------------|----------------|---------------|---------------|------------------|

| <b>For the year ended<br/>December 31, 2012</b> |           |           |         |            |         |        |         |           |
|---|-----------|-----------|---------|------------|---------|--------|---------|-----------|
| U.S. dollars                                    | Ps. 1,631 | Ps. 1,127 | Ps. 717 | Ps. 12,016 | Ps. 380 | Ps. 13 | Ps. 154 | Ps. 1,585 |
| Euros   |           |           |         |            |         |        | 32      | 10        |
| Other currencies                                |           |           |         |            |         |        |         | 68        |

|              |                  |                  |                |                   |                |               |                |                  |
|--------------|------------------|------------------|----------------|-------------------|----------------|---------------|----------------|------------------|
| <b>Total</b> | <b>Ps. 1,631</b> | <b>Ps. 1,127</b> | <b>Ps. 717</b> | <b>Ps. 12,016</b> | <b>Ps. 380</b> | <b>Ps. 13</b> | <b>Ps. 186</b> | <b>Ps. 1,663</b> |
|--------------|------------------|------------------|----------------|-------------------|----------------|---------------|----------------|------------------|

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| Transactions                                    | Revenues         | Disposal<br>Shares | Other<br>Revenues | Purchases of<br>Raw<br>Materials | Interest<br>Expense | Consulting<br>Fees | Assets<br>Acquisitions | Other            |
|---|------------------|--------------------|-------------------|----------------------------------|---------------------|--------------------|------------------------|------------------|
| <b>For the year ended<br/>December 31, 2011</b> |                  |                    |                   |                                  |                     |                    |                        |                  |
| U.S. dollars                                    | Ps. 1,067        | Ps.                | Ps. 497           | Ps. 9,424                        | Ps. 319             | Ps. 11             | Ps. 306                | Ps. 1,075        |
| Euros   |                  |                    |                   |                                  |                     |                    |                        |                  |
| Other currencies                                |                  |                    | 2                 |                                  | 5                   |                    |                        | 90               |
| <b>Total</b>                                    | <b>Ps. 1,067</b> | <b>Ps.</b>         | <b>Ps. 499</b>    | <b>Ps. 9,424</b>                 | <b>Ps. 324</b>      | <b>Ps. 11</b>      | <b>Ps. 306</b>         | <b>Ps. 1,165</b> |

Mexican peso exchange rates effective at the dates of the consolidated statements of financial position and at the issuance date of the Company's consolidated financial statements were as follows:

|           | December 31,<br>2013 | December 31,<br>2012 | April 16,<br>2014 |
|-----------|----------------------|----------------------|-------------------|
| US dollar | 13.0765              | 13.0101              | 13.0493           |
| Euro      | 18.0079              | 17.0889              | 18.0734           |

**Note 16. Post-Employment and Other Long-Term Employee Benefits**

The Company has various labor liabilities for employee benefits in connection with pension, seniority and post-retirement medical benefits. Benefits vary depending upon the country where the individual employees are located. Presented below is a discussion of the Company's labor liabilities in Mexico, Brazil and Venezuela, which comprise the substantial majority of those recorded in the consolidated financial statements.

*16.1 Assumptions*

The Company annually evaluates the reasonableness of the assumptions used in its labor liability for post-employment and other non-current employee benefits computations.



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Actuarial calculations for pension and retirement plans, seniority premiums and post-retirement medical benefits, as well as the associated cost for the period, were determined using the following long-term assumptions to non-hyperinflationary most significant countries:

|  | December 31,<br>2013 | December 31,<br>2012 | December 31,<br>2011 |
|--|----------------------|----------------------|----------------------|
| <b>Mexico</b>  |                      |                      |                      |
| <b>Financial:</b>  |                      |                      |                      |
| Discount rate used to calculate the defined benefit obligation | 7.50%                | 7.10%                | 7.64%                |
| Salary increase  | 4.79%                | 4.79%                | 4.79%                |
| Future pension increases                                       | 3.50%                | 3.50%                | 3.50%                |
| Healthcare cost increase rate                                  | 5.10%                | 5.10%                | 5.10%                |
| <b>Biometric:</b>  |                      |                      |                      |
| Mortality <sup>(1)</sup>                                       | EMSSA 82-89          | EMSSA 82-89          | EMSSA 82-89          |
| Disability <sup>(2)</sup>                                      | IMSS - 97            | IMSS - 97            | IMSS - 97            |
| Normal retirement age  | 60 years             | 60 years             | 60 years             |
| Employee turnover table <sup>(3)</sup>                         | BMAR 2007            | BMAR 2007            | BMAR 2007            |
| Measurement date December:                                     |                      |                      |                      |

- (1) EMSSA. Mexican Experience of social security.  
(2) IMSS. Mexican Experience of Instituto Mexicano del Seguro Social.  
(3) BMAR. Actuary experience.

|  | December 31,<br>2013  | December 31,<br>2012  | December 31,<br>2011  |
|--|-----------------------|-----------------------|-----------------------|
| <b>Brazil</b>  |                       |                       |                       |
| <b>Financial:</b>  |                       |                       |                       |
| Discount rate used to calculate the defined benefit obligation | 10.70%                | 9.30%                 | 9.70%                 |
| Salary increase  | 6.80%                 | 5.00%                 | 5.00%                 |
| Future pension increases                                       | 5.80%                 | 4.00%                 | 4.00%                 |
| <b>Biometric:</b>  |                       |                       |                       |
| Mortality <sup>(1)</sup>                                       | UP84                  | UP84                  | UP84                  |
| Disability <sup>(2)</sup>                                      | IMSS - 97             | IMSS - 97             | IMSS - 97             |
| Normal retirement age  | 65 years              | 65 years              | 65 years              |
| Employee turnover table  | Brazil <sup>(3)</sup> | Brazil <sup>(3)</sup> | Brazil <sup>(3)</sup> |
| Measurement date December:                                     |                       |                       |                       |

- (1) UP84. Unisex mortality table.  
(2) IMSS. Mexican Experience of Instituto Mexicano del Seguro Social.  
(3) Rest of employee turnover bases on the experience of the Company's subsidiary in Brazil.

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Venezuela is a hyper-inflationary economy. The actuarial calculations for post-employment benefit (termination indemnity), as well as the associated cost for the period, were determined using the following long-term assumptions which are real assumptions (excluding inflation):

| Venezuela  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| <b>Financial:</b>  |                      |                      |
| Discount rate used to calculate the defined benefit obligation | 1.00%                | 1.50%                |
| Salary increase  | 1.00%                | 1.50%                |
| <b>Biometric:</b>  |                      |                      |
| Mortality <sup>(1)</sup>                                       | EMSSA 82-89          | EMSSA 82-89          |
| Disability <sup>(2)</sup>                                      | IMSS - 97            | IMSS - 97            |
| Normal retirement age  | 65 years             | 65 years             |
| Employee turnover table <sup>(3)</sup>                         | BMAR 2007            | BMAR 2007            |
| Measurement date December:                                     |                      |                      |

(1) EMSSA. Mexican Experience of social security.

(2) IMSS. Mexican Experience of Instituto Mexicano del Seguro Social.

(3) BMAR. Actuary experience.

In Mexico the methodology used to determine the discount rate was the Yield or Internal Rate of Return ( IRR ) which involves a yield curve. In this case, the expected rates of each period were taken from a yield curve of Mexican Federal Government Treasury Bond (known as CETES in Mexico).

In Brazil the methodology used to determine the discount rate was the Yield or Internal Rate of Return ( IRR ) which involves a yield curve. In this case, the expected rates of each period were taken from a yield curve of fixed long term bonds of Federal Republic of Brazil.

In Venezuela the methodology used to determine the discount rate started with reference to the interest rate bonds of similar denomination issued by the Republic of Venezuela, with subsequent consideration of other economic assumptions appropriate for hyper-inflationary economy. Ultimately, the discount rates disclosed in the table above are calculated in real terms (without inflation).

In Mexico upon retirement, the Company purchases an annuity for the employee, which will be paid according to the option chosen by the employee.

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Based on these assumptions, the amounts of benefits expected to be paid out in the following years are as follows:

|              | Pension and Retirement Plans |       | Seniority Premiums |  | Post Retirement Medical Services |  | Post-employment (Venezuela) |  | Total        |
|--------------|------------------------------|-------|--------------------|--|----------------------------------|--|-----------------------------|--|--------------|
|              | Ps.                          |       | Ps.                |  | Ps.                              |  | Ps.                         |  | Ps.          |
| 2014         |                              | 520   | 22                 |  | 15                               |  | 33                          |  | <b>590</b>   |
| 2015         |                              | 252   | 20                 |  | 14                               |  | 30                          |  | <b>316</b>   |
| 2016         |                              | 267   | 21                 |  | 14                               |  | 35                          |  | <b>337</b>   |
| 2017         |                              | 349   | 23                 |  | 14                               |  | 46                          |  | <b>432</b>   |
| 2018         |                              | 287   | 25                 |  | 14                               |  | 51                          |  | <b>377</b>   |
| 2019 to 2023 |                              | 1,863 | 175                |  | 60                               |  | 450                         |  | <b>2,548</b> |

*16.2 Balances of the liabilities for post-employment and other long-term employee benefits*

|   | December 31, 2013 |                | December 31, 2012 |         |
|---|-------------------|----------------|-------------------|---------|
| <b>Pension and Retirement Plans:</b>                        |                   |                |                   |         |
| Defined benefit obligation                                  | Ps.               | <b>4,866</b>   | Ps.               | 4,495   |
| Pension plan funds at fair value                            |                   | <b>(2,230)</b> |                   | (2,043) |
| Net defined benefit liability                               |                   | <b>2,636</b>   |                   | 2,452   |
| Effect due to asset ceiling                                 |                   | <b>94</b>      |                   | 105     |
| Net defined benefit liability after asset ceiling           | Ps.               | <b>2,730</b>   | Ps.               | 2,557   |
| <b>Seniority Premiums:</b>                                  |                   |                |                   |         |
| Defined benefit obligation                                  | Ps.               | <b>475</b>     | Ps.               | 324     |
| Seniority premium plan funds at fair value                  |                   | <b>(90)</b>    |                   | (18)    |
| Net defined benefit liability                               | Ps.               | <b>385</b>     | Ps.               | 306     |
| <b>Postretirement Medical Services:</b>                     |                   |                |                   |         |
| Defined benefit obligation                                  | Ps.               | <b>267</b>     | Ps.               | 267     |
| Medical services funds at fair value                        |                   | <b>(51)</b>    |                   | (49)    |
| Net defined benefit liability                               | Ps.               | <b>216</b>     | Ps.               | 218     |
| <b>Post-employment:</b>                                     |                   |                |                   |         |
| Defined benefit obligation                                  | Ps.               | <b>743</b>     | Ps.               | 594     |
| Post-employment plan funds at fair value                    |                   |                |                   |         |
| Net defined benefit liability                               | Ps.               | <b>743</b>     | Ps.               | 594     |
| Total post-employment and other long-term employee benefits | Ps.               | <b>4,074</b>   | Ps.               | 3,675   |

The net defined benefit liability of the pension and retirement plan includes an asset generated in Brazil (the following information is included in the consolidated information of the tables above), which is as follows:

|   | <b>December 31,<br/>2013</b> | December 31,<br>2012 |
|---|------------------------------|----------------------|
| Defined benefit obligation                    | <b>313</b>                   | 313                  |
| Pension plan funds at fair value              | <b>(498)</b>                 | (589)                |
| Net defined benefit asset                     | <b>(185)</b>                 | (276)                |
| Effect due to asset ceiling                   | <b>94</b>                    | 105                  |
| Net defined benefit asset after asset ceiling | <b>(91)</b>                  | (171)                |

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**Table of Contents***16.3 Trust assets*

Trust assets consist of fixed and variable return financial instruments recorded at market value, which are invested as follows:

| Type of Instrument   | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| <b>Fixed return:</b>                                       |                      |                      |
| Traded securities  | 15%                  | 10%                  |
| Bank instruments   | 6%                   | 5%                   |
| Federal government instruments of the respective countries | 57%                  | 65%                  |
| <b>Variable return:</b>                                    |                      |                      |
| Publicly traded shares                                     | 22%                  | 20%                  |
|  | <b>100%</b>          | <b>100%</b>          |

In Mexico, the regulatory framework for pension plans is established in the Income Tax Law and its Regulations, the Federal Labor Law and the Mexican Social Security Institute Law. None of these laws establish minimum funding levels or a minimum required level of contributions.

In Brazil, the regulatory framework for pension plans is established by the Brazilian Social Security Institute (INSS), which indicates that the contributions must be made by the Company and the workers. There are not minimum funding requirements of contributions in Brazil neither contractual nor given.

In Venezuela, the regulatory framework for post-employment benefits is established by the Organic Labor Law for Workers (LOTTT). The organic nature of this law means that its purpose is to defend constitutional rights, and therefore has precedence over other laws.

In Mexico, the Income Tax Law requires that, in the case of private plans, certain notifications must be submitted to the authorities and a certain level of instruments must be invested in Federal Government securities among others.

The Company's various pension plans have a technical committee that is responsible for verifying the correct operation of the plan with regard to the payment of benefits, actuarial valuations of the plan, and supervise the trustee. The committee is responsible for determining the investment portfolio and the types of instruments the fund will be invested in. This technical committee is also responsible for reviewing the correct operation of the plans in all of the countries in which the Company has these benefits.

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The risks related to the Company's employee benefit plans are primarily attributable to the plan assets. The Company's plan assets are invested in a diversified portfolio, which considers the term of the plan so as to invest in assets whose expected return coincides with the estimated future payments.

Since the Mexican Tax Law limits the plan asset investment to 10% for related parties, this risk is not considered to be significant for purposes of the Company's Mexican subsidiaries.

In Mexico, the Company's policy is to invest at least 30% of the fund assets in Mexican Federal Government instruments. Guidelines for the target portfolio have been established for the remaining percentage and investment decisions are made to comply with these guidelines insofar as the market conditions and available funds allow.

In Brazil, the investment target is to obtain the consumer price index (inflation), plus six percent. Investment decisions are made to comply with this guideline insofar as the market conditions and available funds allow.

On May 7, 2012, the President of Venezuela amended the Organic Law for Workers (LOTTT), which establishes a minimum level of social welfare benefits to which workers have a right when their labor relationship ends for whatever reason. This benefit is computed based on the last salary received by the worker and retroactive to June 19, 1997 for any employee who joined the Company prior to that date. For employees who joined the Company after June 19, 1997, the benefit is computed based on the date on which the employee joined the Company. An actuarial computation must be performed using the projected unit credit method to determine the amount of the labor obligations that arise. As a result of the initial calculation, there was an amount for Ps. 381 to other expenses caption in the consolidated income statement reflecting past service costs during the year ended December 31, 2012 (See Note 19).

In Mexico, the amounts and types of securities of the Company in related parties included in plan assets are as follows:

|   | <b>December 31,<br/>2013</b> | December 31,<br>2012 |
|---|------------------------------|----------------------|
| <b>Debt:</b>                                    |                              |                      |
| BBVA Bancomer, S.A. de C.V.                     | <b>Ps.</b>                   | Ps. 10               |
| Grupo Televisa, S.A.B. de C.V.                  | <b>3</b>                     | 3                    |
| Grupo Financiero Banorte, S.A.B. de C.V.        |                              | 8                    |
| El Puerto de Liverpool, S.A.B. de C.V.          | <b>5</b>                     | 5                    |
| Grupo Industrial Bimbo, S. A. B. de C. V.       | <b>3</b>                     | 3                    |
| Grupo Financiero Banamex, S.A.B. de C.V.        | <b>22</b>                    | 21                   |
| Teléfonos de México, S.A. de C.V.               | <b>4</b>                     |                      |
| <b>Capital:</b>                                 |                              |                      |
| Fomento Económico Mexicano, S.A.B. de C.V.      | <b>85</b>                    | 70                   |
| Coca-Cola FEMSA, S.A.B. de C.V.                 | <b>19</b>                    | 8                    |
| Grupo Televisa, S.A.B. de C.V.                  | <b>3</b>                     | 10                   |
| Alfa, S.A.B. de C.V.                            | <b>4</b>                     | 5                    |
| Grupo Aeroportuario del Sureste, S.A.B. de C.V. | <b>1</b>                     | 8                    |
| Grupo Industrial Bimbo, S.A.B. de C.V.          | <b>1</b>                     |                      |

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In Brazil, the amounts and types of securities of the Company in related parties included in plan assets are as follows:

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| <b>Brazil Portfolio</b>                            |                      |                      |
| <b>Debt:</b>                                       |                      |                      |
| HSBC Sociedad de inversión Actuarial INPC (Brazil) | Ps. 383              | Ps. 485              |
| <b>Capital:</b>                                    |                      |                      |
| HSBC Sociedad de inversión Actuarial INPC (Brazil) | 114                  | 104                  |

During the years ended December 31, 2013 and 2012, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during the following fiscal year.

*16.4 Amounts recognized in the consolidated income statements and the consolidated statement of comprehensive income*

|                                 | Income Statement        |                      |                                  | Net Interest on<br>the Net<br>Defined<br>Benefit<br>Liability <sup>(1)</sup> | OCI<br>Remeasurements<br>of the Net<br>Defined<br>Benefit<br>Liability |
|---------------------------------|-------------------------|----------------------|----------------------------------|--|--|
|                                 | Current<br>Service Cost | Past<br>Service Cost | Gain or<br>Loss on<br>Settlement |  |  |
| <b>December 31, 2013</b>        |                         |                      |                                  |  |  |
| Pension and retirement plans    | Ps. 220                 | Ps. 12               | Ps. (7)                          | Ps. 164  | Ps. 470  |
| Seniority premiums              | 55                      |                      |                                  | 22   | 44   |
| Postretirement medical services | 11                      |                      |                                  | 15   | 14   |
| Post-employment Venezuela       | 48                      |                      |                                  | 67   | 312  |
| Total                           | Ps. 334                 | Ps. 12               | Ps. (7)                          | Ps. 268  | Ps. 840  |
| <b>December 31, 2012</b>        |                         |                      |                                  |  |  |
| Pension and retirement plans    | Ps. 185                 | Ps.                  | Ps. 1                            | Ps. 136  | Ps. 499  |
| Seniority premiums              | 42                      |                      |                                  | 17   | 38   |
| Postretirement medical services | 8                       |                      |                                  | 14   | 25   |
| Post-employment Venezuela       | 48                      | 381                  |                                  | 63   | 71   |
| Total                           | Ps. 283                 | Ps. 381              | Ps. 1                            | Ps. 230  | Ps. 633  |
| <b>December 31, 2011</b>        |                         |                      |                                  |  |  |
| Pension and retirement plans    | Ps. 164                 | Ps.                  | Ps. 5                            | Ps. 151  | Ps. 272  |
| Seniority premiums              | 30                      |                      |                                  | 12   | 3  |
| Postretirement medical services | 9                       |                      | (6)                              | 14   | 1  |
| Total                           | Ps. 203                 | Ps.                  | Ps. (1)                          | Ps. 177  | Ps. 276  |

(1) Interest due to asset ceiling amounted to Ps. 8, Ps. 11 y Ps. 19 in 2013, 2012 and 2011, respectively. For the years ended December 31, 2013, 2012 and 2011, current service cost of Ps. 334, Ps. 283 and Ps. 203 has been included in the consolidated income statement as cost of goods sold, administration and selling expenses.

Remeasurements of the net defined benefit liability recognized in other comprehensive income are as follows:

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|  | <b>December 31,<br/>2013</b> | December 31,<br>2012 | December 31,<br>2011 |
|--|------------------------------|----------------------|----------------------|
| Amount accumulated in other comprehensive income as of the beginning of the period, net of tax | <b>Ps. 469</b>               | Ps. 190              | Ps. 131              |
| Actuarial gains and losses arising from exchange rates   | <b>(26)</b>                  | (13)                 |                      |
| Remeasurements during the year, net of tax   | <b>251</b>                   | 20                   | 119                  |
| Actuarial gains and losses arising from changes in financial assumptions                       | <b>(109)</b>                 | 281                  |                      |
| Changes in the effect of limiting a net defined benefit asset to the asset ceiling             |                              | (9)                  | (60)                 |
| Amount accumulated in other comprehensive income as of the end of the period, net of tax       | <b>Ps. 585</b>               | Ps. 469              | Ps. 190              |

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Remeasurements of the net defined benefit liability include the following:

The return on plan assets, excluding amounts included in interest expense.

Actuarial gains and losses arising from changes in demographic assumptions.

Actuarial gains and losses arising from changes in financial assumptions.

Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest expense.

*16.5 Changes in the balance of the defined benefit obligation for post-employment*

|  | December 31,<br>2013 | December 31,<br>2012 | December 31,<br>2011 |
|--|----------------------|----------------------|----------------------|
| <b>Pension and Retirement Plans:</b>                 |                      |                      |                      |
| Initial balance                                      | Ps. 4,495            | Ps. 3,972            | Ps. 3,297            |
| Current service cost                                 | 220                  | 185                  | 164                  |
| Interest expense                                     | 311                  | 288                  | 263                  |
| Settlement   | (7)                  | 1                    | 5                    |
| Remeasurements of the net defined benefit obligation | (143)                | 238                  | 85                   |
| Foreign exchange (gain) loss                         | (60)                 | (67)                 | 45                   |
| Benefits paid  | (152)                | (154)                | (142)                |
| Plan amendments                                      | 28                   |                      |                      |
| Acquisitions   | 174                  | 32                   | 255                  |
| <b>Ending balance</b>                                | <b>Ps. 4,866</b>     | <b>Ps. 4,495</b>     | <b>Ps. 3,972</b>     |
| <b>Seniority Premiums:</b>                           |                      |                      |                      |
| Initial balance                                      | Ps. 324              | Ps. 241              | Ps. 154              |
| Current service cost                                 | 55                   | 42                   | 30                   |
| Interest expense                                     | 24                   | 19                   | 12                   |
| Curtailement   |                      | (2)                  |                      |
| Remeasurements of the net defined benefit obligation | 2                    | 33                   | 2                    |
| Benefits paid  | (36)                 | (23)                 | (19)                 |
| Acquisitions   | 106                  | 14                   | 62                   |
| <b>Ending balance</b>                                | <b>Ps. 475</b>       | <b>Ps. 324</b>       | <b>Ps. 241</b>       |
| <b>Postretirement Medical Services:</b>              |                      |                      |                      |
| Initial balance                                      | Ps. 267              | Ps. 235              | Ps. 232              |
| Current service cost                                 | 11                   | 8                    | 9                    |
| Interest expense                                     | 17                   | 17                   | 15                   |
| Curtailement   |                      |                      | (6)                  |
| Remeasurements of the net defined benefit obligation | (11)                 | 25                   |                      |
| Benefits paid  | (17)                 | (18)                 | (15)                 |
| <b>Ending balance</b>                                | <b>Ps. 267</b>       | <b>Ps. 267</b>       | <b>Ps. 235</b>       |

| <b>Post-employment:</b>                              |            |              |         |     |
|--|------------|--------------|---------|-----|
| Initial balance                                      | <b>Ps.</b> | <b>594</b>   | Ps.     | Ps. |
| Current service cost                                 |            | <b>48</b>    | 48      |     |
| Past service cost                                    |            |              | 381     |     |
| Interest expense                                     |            | <b>67</b>    | 63      |     |
| Remeasurements of the net defined benefit obligation |            | <b>238</b>   | 108     |     |
| Foreign exchange (gain) loss                         |            | <b>(187)</b> |         |     |
| Benefits paid  |            | <b>(17)</b>  | (6)     |     |
| <b>Ending balance</b>                                | <b>Ps.</b> | <b>743</b>   | Ps. 594 | Ps. |

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**Table of Contents***16.6 Changes in the balance of plan assets*

|                               | <b>December 31,<br/>2013</b> | December 31,<br>2012 | December 31,<br>2011 |
|-------------------------------|------------------------------|----------------------|----------------------|
| <b>Total Plan Assets:</b>     |                              |                      |                      |
| Initial balance               | <b>Ps. 2,110</b>             | Ps. 1,991            | Ps. 1,544            |
| Actual return on trust assets | <b>29</b>                    | 145                  | 53                   |
| Foreign exchange (gain) loss  | <b>(73)</b>                  | (91)                 | 6                    |
| Life annuities                | <b>88</b>                    | 29                   | 152                  |
| Benefits paid                 |                              | (12)                 | (12)                 |
| Acquisitions                  | <b>201</b>                   | 48                   | 248                  |
| Plan amendments               | <b>16</b>                    |                      |                      |
| <b>Ending balance</b>         | <b>Ps. 2,371</b>             | Ps. 2,110            | Ps. 1,991            |

As a result of the Company's investments in life annuities plan, management does not expect it will need to make material contributions to plan assets in order to meet its future obligations.

*16.7 Variation in assumptions*

The Company decided that the relevant actuarial assumptions that are subject to sensitivity and valued through the projected unit credit method, are the discount rate, the salary increase rate and healthcare cost increase rate. The reasons for choosing these assumptions are as follows:

Discount rate: The rate that determines the value of the obligations over time.

Salary increase rate: The rate that considers the salary increase which implies an increase in the benefit payable.

Healthcare cost increase rate: The rate that considers the trends of health care costs which implies an impact on the postretirement medical service obligations and the cost for the year.

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The following table presents the impact in absolute terms of a variation of 0.5% on the net defined benefit liability associated with the Company's defined benefit plans. The sensitivity of this 0.5% on the significant actuarial assumptions is based on a projected long-term discount rates to Mexico and a yield curve projections of long-term sovereign bonds:

|   | Income Statement     |                   |                            | OCI   |   |
|---|----------------------|-------------------|----------------------------|---|---|
|   | Current Service Cost | Past Service Cost | Gain or Loss on Settlement | Net Interest on the Net Defined Benefit Liability (Asset) | Remeasurements of the Net Defined Benefit Liability (Asset) |
| <b>+0.5%:</b>                                       |                      |                   |                            |   |   |
| <b>Discount rate used to calculate the</b>          |                      |                   |                            |   |   |
| <b>defined benefit obligation and the</b>           |                      |                   |                            |   |   |
| <b>net interest on the net defined</b>              |                      |                   |                            |   |   |
| <b>benefit liability (asset)</b>                    |                      |                   |                            |   |   |
| Pension and retirement plans                        | Ps. 208              | Ps. 11            | Ps. (7)                    | Ps. 148   | Ps. 203   |
| Seniority premiums                                  | 52                   |                   |                            | 22  | 19  |
| Postretirement medical services                     | 10                   |                   |                            | 15  | (1)   |
| Post-employment                                     | 44                   |                   |                            | 64  | 255   |
| <b>Total</b>  | <b>Ps. 314</b>       | <b>Ps. 11</b>     | <b>Ps. (7)</b>             | <b>Ps. 249</b>  | <b>Ps. 476</b>  |
| <b>Expected salary increase</b>                     |                      |                   |                            |   |   |
| Pension and retirement plans                        | Ps. 231              | Ps. 12            | Ps. (7)                    | Ps. 165   | Ps. 557   |
| Seniority premiums                                  | 59                   |                   |                            | 23  | 66  |
| Postretirement medical services                     | 11                   |                   |                            | 16  | 14  |
| Post-employment                                     | 56                   |                   |                            | 76  | 413   |
| <b>Total</b>  | <b>Ps. 357</b>       | <b>Ps. 12</b>     | <b>Ps. (7)</b>             | <b>Ps. 280</b>  | <b>Ps. 1,050</b>  |
| <b>Assumed rate of increase in healthcare costs</b> |                      |                   |                            |   |   |
| Postretirement medical services                     | Ps. 10               | Ps.               | Ps.                        | Ps. 16  | Ps. 34  |
| <b>-0.5%:</b>                                       |                      |                   |                            |   |   |
| <b>Discount rate used to calculate the</b>          |                      |                   |                            |   |   |
| <b>defined benefit obligation and the</b>           |                      |                   |                            |   |   |
| <b>net interest on the net defined</b>              |                      |                   |                            |   |   |
| <b>benefit liability (asset)</b>                    |                      |                   |                            |   |   |
| Pension and retirement plans                        | Ps. 234              | Ps. 13            | Ps. (7)                    | Ps. 159   | Ps. 640   |
| Seniority premiums                                  | 59                   |                   |                            | 21  | 74  |
| Postretirement medical services                     | 12                   |                   |                            | 15  | 34  |
| Post-employment                                     | 52                   |                   |                            | 72  | 384   |
| <b>Total</b>  | <b>Ps. 357</b>       | <b>Ps. 13</b>     | <b>Ps. (7)</b>             | <b>Ps. 267</b>  | <b>Ps. 1,132</b>  |
| <b>Expected salary increase</b>                     |                      |                   |                            |   |   |
| Pension and retirement plans                        | Ps. 211              | Ps. 11            | Ps. (7)                    | Ps. 144   | Ps. 240   |
| Seniority premiums                                  | 52                   |                   |                            | 21  | 27  |
| Postretirement medical services                     | 11                   |                   |                            | 15  | 14  |
| Post-employment                                     | 42                   |                   |                            | 57  | 232   |
| <b>Total</b>  | <b>Ps. 316</b>       | <b>Ps. 11</b>     | <b>Ps. (7)</b>             | <b>Ps. 237</b>  | <b>Ps. 513</b>  |

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**Assumed rate of increase in healthcare costs**

|                                 |     |    |     |     |     |    |     |     |
|---------------------------------|-----|----|-----|-----|-----|----|-----|-----|
| Postretirement medical services | Ps. | 10 | Ps. | Ps. | Ps. | 15 | Ps. | (2) |
|---------------------------------|-----|----|-----|-----|-----|----|-----|-----|

*16.8 Employee benefits expense*

For the years ended December 31, 2013, 2012 and 2011, employee benefits expenses recognized in the consolidated income statements are as follows:

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|   | 2013              | 2012       | 2011       |
|---|-------------------|------------|------------|
| Wages and salaries  | <b>Ps. 36,995</b> | Ps. 31,561 | Ps. 27,249 |
| Social security costs   | <b>5,741</b>      | 3,874      | 3,189      |
| Employee profit sharing   | <b>1,936</b>      | 1,650      | 1,237      |
| Post employment benefits  | <b>607</b>        | 514        | 379        |
| Post employment benefits recognized in other expenses (Note 19) |                   | 381        |            |
| Share-based payments  | <b>306</b>        | 275        | 253        |
| Termination benefits  | <b>480</b>        | 541        | 411        |
|   | <b>Ps. 46,065</b> | Ps. 38,796 | Ps. 32,718 |

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**Note 17. Bonus Programs**

*17.1 Quantitative and qualitative objectives*

The bonus program for executives is based on complying with certain goals established annually by management, which include quantitative and qualitative objectives, and special projects.

The quantitative objectives represent approximately 50% of the bonus, and are based on the Economic Value Added (EVA) methodology. The objective established for the executives at each entity is based on a combination of the EVA generated per entity and the EVA generated by the Company, calculated at approximately 70% and 30%, respectively. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

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. This formula is established by considering the level of responsibility within the organization, the employee's 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 Company contributes the individual employee's special bonus (after taxes) in cash to the Administrative Trust (which is controlled and consolidated by FEMSA), who then uses the funds to purchase FEMSA or Coca-Cola FEMSA shares (as instructed by the Administrative Trust's Technical Committee), which are then allocated to such employee.

*17.2 Share-based payment bonus plan*

The Company has implemented a stock incentive plan for the benefit of its senior executives. As discussed above, this plan uses as its main evaluation metric the Economic Value Added, or EVA. Under the EVA stock incentive plan, eligible employees are entitled to receive a special annual bonus (fixed amount), to be paid in shares of FEMSA or Coca-Cola FEMSA, as applicable or stock options (the plan considers providing stock options to employees; however, since inception only shares of FEMSA or Coca-Cola FEMSA have been granted).

The plan is managed by FEMSA's chief executive officer (CEO), with the support of the board of directors, together with the CEO of the respective sub-holding company. FEMSA's Board of Directors is responsible for approving the plan's structure, and the annual amount of the bonus. Each year, FEMSA's CEO in conjunction with the Evaluation and Compensation Committee of the board of directors and the CEO of the respective sub-holding company determine the employees eligible to participate in the plan and the bonus formula to determine the number of shares to be received, which vest ratably over a six year period. On such date, the Company and the eligible employee agree to the share-based payment arrangement, being when it and the counterparty have a shared understanding of the terms and conditions of the arrangement. FEMSA accounts for its share-based payment bonus plan as an equity-settled share based payment transaction as it will ultimately settle its obligations with its employees by issuing its own shares or those of its subsidiary Coca-Cola FEMSA.

The Administrative Trust tracks the individual employees' account balance. FEMSA created the Administrative Trust with the objective of administering the purchase of FEMSA and Coca-Cola FEMSA shares by each of its subsidiaries with eligible executives participating in the stock incentive plan. The Administrative Trust's objectives are to acquire FEMSA shares, or shares of Coca-Cola FEMSA and to manage the shares granted to the individual employees based on instructions set forth by the Technical Committee. 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

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shares) or as a reduction of the noncontrolling interest (as it relates to Coca-Cola FEMSA's shares) in the consolidated statement of changes in equity, on the line issuance (repurchase) of shares associated with share-based payment plans. 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 the Company. 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. For the years ended December 31, 2013, 2012 and 2011, the compensation expense recorded in the consolidated income statement amounted to Ps. 306, Ps. 275 and Ps. 253, respectively.

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

As of December 31, 2013 and 2012, the number of shares held by the trust associated with the Company's share based payment plans is as follows:

|  | Number of Shares   |             |                    |             |
|--|--------------------|-------------|--------------------|-------------|
|  | FEMSA UBD          |             | KOFL               |             |
|  | 2013               | 2012        | 2013               | 2012        |
| Beginning balance  | <b>8,416,027</b>   | 9,400,083   | <b>2,421,876</b>   | 2,714,552   |
| Shares acquired by the Administrative Trust and granted to employees | <b>2,285,948</b>   | 2,390,815   | <b>407,487</b>     | 749,830     |
| Shares released from Administrative trust to employees upon vesting  | <b>(3,700,547)</b> | (3,374,871) | <b>(1,049,299)</b> | (1,042,506) |
| Forfeitures  |                    |             |                    |             |
| Ending balance   | <b>7,001,428</b>   | 8,416,027   | <b>1,780,064</b>   | 2,421,876   |

The fair value of the shares held by the trust as of the end of December 31, 2013 and 2012 was Ps. 1,166 and Ps. 1,552, respectively, based on quoted market prices of those dates.



**Table of Contents****Note 18. Bank Loans and Notes Payables**

| (in millions of Mexican pesos)   | At December 31, <sup>(1)</sup> |         |         |           |            |                        | Carrying                         | Fair                             | Carrying  |
|----------------------------------|--------------------------------|---------|---------|-----------|------------|------------------------|----------------------------------|----------------------------------|---|
|                                  | 2014                           | 2015    | 2016    | 2017      | 2018       | 2019 and<br>Thereafter | Value at<br>December 31,<br>2013 | Value at<br>December 31,<br>2013 | Value at<br>December 31,<br>2012 <sup>(1)</sup> |
| <b>Short-term debt:</b>          |                                |         |         |           |            |                        |                                  |                                  |   |
| <b>Fixed rate debt:</b>          |                                |         |         |           |            |                        |                                  |                                  |   |
| Argentine pesos                  |                                |         |         |           |            |                        |                                  |                                  |   |
| Bank loans                       | Ps. 495                        | Ps.     | Ps.     | Ps.       | Ps.        | Ps.                    | Ps. 495                          | Ps. 489                          | Ps. 291   |
| Interest rate                    | 25.4%                          |         |         |           |            |                        | 25.4%                            | 25.4%                            | 19.2%   |
| <b>Variable rate debt:</b>       |                                |         |         |           |            |                        |                                  |                                  |   |
| Brazilian Reais                  |                                |         |         |           |            |                        |                                  |                                  |   |
| Bank loans                       | 34                             |         |         |           |            |                        | 34                               | 34                               | 19  |
| Interest rate                    | 9.7%                           |         |         |           |            |                        | 9.7%                             | 9.7%                             | 8.1%  |
| <b>U.S. dollars (bank loans)</b> |                                |         |         |           |            |                        |                                  |                                  |   |
| Interest rate                    |                                |         |         |           |            |                        |                                  |                                  | 3,903   |
|                                  |                                |         |         |           |            |                        |                                  |                                  | 0.6%  |
| <b>Total short-term debt</b>     | Ps. 529                        | Ps.     | Ps.     | Ps.       | Ps.        | Ps.                    | Ps. 529                          | Ps. 523                          | Ps. 4,213                                       |
| <b>Long-term debt:</b>           |                                |         |         |           |            |                        |                                  |                                  |   |
| <b>Fixed rate debt:</b>          |                                |         |         |           |            |                        |                                  |                                  |   |
| U.S. dollars                     |                                |         |         |           |            |                        |                                  |                                  |   |
| Senior notes                     | Ps.                            | Ps.     | Ps.     | Ps.       | Ps. 13,022 | Ps. 21,250             | Ps. 34,272                       | Ps. 35,327                       | Ps. 6,458                                       |
| Interest rate                    |                                |         |         |           | 2.4%       | 4.4%                   | 3.7%                             | 3.7%                             | 4.6%  |
| Senior note (FEMSA USD 2023)     |                                |         |         |           |            | 3,736                  | 3,736                            | 3,486                            |   |
| Interest rate                    |                                |         |         |           |            | 2.9%                   | 2.9%                             | 2.9%                             |   |
| Senior note (FEMSA USD 2043)     |                                |         |         |           |            | 8,377                  | 8,377                            | 7,566                            |   |
| Interest rate                    |                                |         |         |           |            | 4.4%                   | 4.4%                             | 4.4%                             |   |
| Bank loans                       | 97                             | 26      |         |           |            |                        | 123                              | 125                              |   |
| Interest rate                    | 3.8%                           | 3.8%    |         |           |            |                        | 3.8%                             | 3.8%                             |   |
| Mexican pesos                    |                                |         |         |           |            |                        |                                  |                                  |   |
| Units of investment (UDIs)       |                                |         |         | 3,630     |            |                        | 3,630                            | 3,630                            | 3,567   |
| Interest rate                    |                                |         |         | 4.2%      |            |                        | 4.2%                             | 4.2%                             | 4.2%  |
| Domestic senior notes            |                                |         |         |           |            | 9,987                  | 9,987                            | 9,427                            | 2,495   |
| Interest rate                    |                                |         |         |           |            | 6.2%                   | 6.2%                             | 6.2%                             | 8.3%  |
| Brazilian reais                  |                                |         |         |           |            |                        |                                  |                                  |   |
| Bank loans                       | 66                             | 72      | 65      | 63        | 29         | 42                     | 337                              | 311                              | 119   |
| Interest rate                    | 3.2%                           | 2.9%    | 3.0%    | 3.0%      | 3.4%       | 3.1%                   | 3.1%                             | 3.1%                             | 3.8%  |
| Finance leases                   | 242                            | 216     | 184     | 157       | 84         | 82                     | 965                              | 817                              | 11  |
| Interest rate                    | 4.7%                           | 4.7%    | 4.6%    | 4.6%      | 4.6%       | 4.6%                   | 4.6%                             | 4.6%                             | 4.5%  |
| Argentine pesos                  |                                |         |         |           |            |                        |                                  |                                  |   |
| Bank loans                       | 259                            | 71      | 28      |           |            |                        | 358                              | 327                              | 529   |
| Interest rate                    | 21.8%                          | 16.8%   | 15.3%   |           |            |                        | 20.3%                            | 20.3%                            | 19.9%   |
| <b>Subtotal</b>                  | Ps. 664                        | Ps. 385 | Ps. 277 | Ps. 3,850 | Ps. 13,135 | Ps. 43,474             | Ps. 61,785                       | Ps. 61,016                       | Ps. 13,179                                      |

(1) All interest rates shown in this table are weighted average contractual annual rates.

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| (in millions of Mexican pesos)           | At December 31, <sup>(1)</sup> |                  |                  |                  |                   | 2019 and<br>Thereafter | Carrying                         | Fair                             | Carrying  |
|--|--------------------------------|------------------|------------------|------------------|-------------------|------------------------|----------------------------------|----------------------------------|---|
|  | 2014                           | 2015             | 2016             | 2017             | 2018              |                        | Value at<br>December 31,<br>2013 | Value at<br>December 31,<br>2013 | Value at<br>December 31,<br>2012 <sup>(1)</sup> |
| <b>Variable rate debt:</b>               |                                |                  |                  |                  |                   |                        |                                  |                                  |   |
| <b>U.S. dollars</b>                      |                                |                  |                  |                  |                   |                        |                                  |                                  |   |
| Bank loans                               |                                |                  | Ps. 1,566        | Ps.              | Ps. 4,277         | Ps.                    | Ps. 5,843                        | Ps. 5,897                        | Ps. 7,990                                       |
| Interest rate                            |                                |                  | 1.1%             |                  | 0.8%              |                        | 0.9%                             | 0.9%                             | 0.9%  |
| <b>Mexican pesos</b>                     |                                |                  |                  |                  |                   |                        |                                  |                                  |   |
| Domestic senior notes                    |                                |                  | 2,517            |                  |                   |                        | 2,517                            | 2,500                            | 6,011   |
| Interest rate                            |                                |                  | 3.9%             |                  |                   |                        | 3.9%                             | 3.9%                             | 5.0%  |
| Bank loans                               | 1,368                          | 2,764            |                  |                  |                   |                        | 4,132                            | 4,205                            | 4,380   |
| Interest rate                            | 4.0%                           | 4.0%             |                  |                  |                   |                        | 4.0%                             | 4.0%                             | 5.1%  |
| <b>Argentine pesos</b>                   |                                |                  |                  |                  |                   |                        |                                  |                                  |   |
| Bank loans                               | 180                            |                  |                  |                  |                   |                        | 180                              | 179                              | 106   |
| Interest rate                            | 25.7%                          |                  |                  |                  |                   |                        | 25.7%                            | 25.7%                            | 22.9%   |
| <b>Brazilian reais</b>                   |                                |                  |                  |                  |                   |                        |                                  |                                  |   |
| Bank loans                               | 138                            | 18               | 11               |                  |                   |                        | 167                              | 167                              | 106   |
| Interest rate                            | 11.3%                          | 11.3%            | 11.3%            |                  |                   |                        | 11.3%                            | 11.3%                            | 8.9%  |
| Finance leases                           | 35                             | 39               | 26               |                  |                   |                        | 100                              | 100                              | 149   |
| Interest rate                            | 10.0%                          | 10.0%            | 10.0%            |                  |                   |                        | 10.0%                            | 10.0%                            | 10.5%   |
| <b>Colombian pesos</b>                   |                                |                  |                  |                  |                   |                        |                                  |                                  |   |
| Bank loans                               | 913                            | 582              |                  |                  |                   |                        | 1,495                            | 1,490                            | 1,023   |
| Interest rate                            | 5.6%                           | 5.7%             |                  |                  |                   |                        | 5.7%                             | 5.7%                             | 6.8%  |
| Finance leases                           |                                |                  |                  |                  |                   |                        |                                  |                                  | 185   |
| Interest rate                            |                                |                  |                  |                  |                   |                        |                                  |                                  | 6.8%  |
| <b>Subtotal</b>                          | <b>Ps. 2,634</b>               | <b>Ps. 3,403</b> | <b>Ps. 4,120</b> | <b>Ps.</b>       | <b>Ps. 4,277</b>  | <b>Ps.</b>             | <b>Ps. 14,434</b>                | <b>Ps. 14,538</b>                | <b>Ps. 19,950</b>                               |
| <b>Total long-term debt</b>              | <b>Ps. 3,298</b>               | <b>Ps. 3,788</b> | <b>Ps. 4,397</b> | <b>Ps. 3,850</b> | <b>Ps. 17,412</b> | <b>Ps. 43,474</b>      | <b>Ps. 76,219</b>                | <b>Ps. 75,554</b>                | <b>Ps. 33,129</b>                               |
| <b>Current portion of long term debt</b> |                                |                  |                  |                  |                   |                        | <b>(3,298)</b>                   |                                  | <b>(4,489)</b>                                  |
|  |                                |                  |                  |                  |                   |                        | <b>Ps. 72,921</b>                |                                  | <b>Ps. 28,640</b>                               |

(1) All interest rates shown in this table are weighted average contractual annual rates.

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| Hedging Derivative Financial Instruments <sup>(1)</sup>  | 2014  | 2015  | 2016 | 2017      | 2018   | 2019 and<br>Thereafter | 2013          | 2012      |
|--|---|-------|------|-----------|--------|------------------------|---------------|-----------|
|  | (notional amounts in millions of Mexican pesos) |       |      |           |        |                        |               |           |
| <b>Cross currency swaps:</b>                             |   |       |      |           |        |                        |               |           |
| Units of investments to Mexican pesos and variable rate: |   |       |      |           |        |                        |               |           |
| Fixed to variable  | Ps.   | Ps.   | Ps.  | Ps. 2,500 | Ps.    | Ps.                    | Ps. 2,500     | Ps. 2,500 |
| Interest pay rate  |   |       |      | 4.1%      |        |                        | 4.1%          | 4.7%      |
| <b>Interest receive rate</b>                             |   |       |      | 4.2%      |        |                        | 4.2%          | 4.2%      |
| U.S. dollars to Mexican pesos:                           |   |       |      |           |        |                        |               |           |
| Fixed to variable  |   |       |      |           |        | 11,403                 | <b>11,403</b> |           |
| Interest pay rate  |   |       |      |           |        | 5.1%                   | <b>5.1%</b>   |           |
| Interest receive rate                                    |   |       |      |           |        | 4.0%                   | <b>4.0%</b>   |           |
| Variable to variable                                     |   |       |      |           |        |                        |               | 2,553     |
| Interest pay rate  |   |       |      |           |        |                        |               | 3.7%      |
| Interest receive rate                                    |   |       |      |           |        |                        |               | 1.4%      |
| Fixed to fixed   | 1,308   |       |      |           |        | 1,267                  | <b>2,575</b>  |           |
| Interest pay rate  | 8.7%  |       |      |           |        | 5.7%                   | <b>7.2%</b>   |           |
| <b>Interest receive rate</b>                             | <b>4.6%</b>                                     |       |      |           |        | 2.9%                   | <b>3.8%</b>   |           |
| U.S. dollars to Brazilian reais:                         |   |       |      |           |        |                        |               |           |
| Fixed to variable  | 50  | 83    |      |           | 5,884  |                        | <b>6,017</b>  |           |
| Interest pay rate  | 12.1%   | 12.0% |      |           | 9.5%   |                        | <b>9.5%</b>   |           |
| Interest receive rate                                    | 3.6%  | 3.9%  |      |           | 2.7%   |                        | <b>2.7%</b>   |           |
| Variable to variable                                     |   |       |      |           | 18,046 |                        | <b>18,046</b> |           |
| Interest pay rate  |   |       |      |           | 9.5%   |                        | <b>9.5%</b>   |           |
| Interest receive rate                                    |   |       |      |           | 1.5%   |                        | <b>1.5%</b>   |           |
| <b>Interest rate swap:</b>                               |   |       |      |           |        |                        |               |           |
| Mexican pesos  |   |       |      |           |        |                        |               |           |
| Variable to fixed rate:                                  | 575   | 1,963 |      |           |        |                        | <b>2,538</b>  | 6,325     |
| Interest pay rate  | 8.4%  | 8.6%  |      |           |        |                        | <b>8.6%</b>   | 8.4%      |
| Interest receive rate                                    | 4.0%  | 4.0%  |      |           |        |                        | <b>4.0%</b>   | 5.0%      |

(1) All interest rates shown in this table are weighted average contractual annual rates.

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For the years ended December 31, 2013, 2012 and 2011, the interest expense is comprised as follows:

|  | 2013             | 2012      | 2011      |
|--|------------------|-----------|-----------|
| Interest on debts and borrowings                   | <b>Ps. 3,055</b> | Ps. 2,029 | Ps. 2,083 |
| Finance charges payable under capitalized interest | <b>(59)</b>      | (38)      | (185)     |
| Finance charges for employee benefits              | <b>268</b>       | 230       | 177       |
| Derivative instruments                             | <b>825</b>       | 142       | 111       |
| Finance operating charges                          | <b>225</b>       | 98        | 103       |
| Finance charges payable under finance leases       | <b>17</b>        | 45        | 13        |
|  | <b>Ps. 4,331</b> | Ps. 2,506 | Ps. 2,302 |

On May 7, 2013, the Company issued long-term debt on the NYSE in the amount of \$1,000, which was made up of senior notes of \$300 with a maturity of 10 years and a fixed interest rate of 2.875%; and senior notes of \$700 with a maturity of 30 years and a fixed interest rate of 4.375%. After the issuance, the Company contracted cross-currency swaps to reduce its exposure to risk of exchange rate and interest rate fluctuations associated with this issuance, see Note 20.

In November 2013, Coca-Cola FEMSA issued U.S.\$1,000 in aggregate principal amount of 2.375% Senior Notes due 2018, U.S.\$750 in aggregate principal amount of 3.875% Senior Notes due 2023 and U.S.\$400 in aggregate principal amount of 5.250% Senior Notes due 2043, in an SEC registered offering. These notes are guaranteed by its subsidiaries: Propimex, S. de R.L. de C.V., Comercializadora La Pureza de Bebidas, S. de R.L. de C.V., Controladora Interamericana de Bebidas, S. de R.L. de C.V., Grupo Embotellador Cimsa, S. de R.L. de C.V., Refrescos Victoria del Centro, S. de R.L. de C.V., Servicios Integrados Inmuebles del Golfo, S. de R.L. de C.V. and Yoli de Acapulco, S.A. de C.V. (the Guarantors).

On December 4, 2007, the Company obtained the approval from the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores or CNBV) for the issuance of long-term domestic senior notes (Certificados Bursátiles) in the amount of Ps. 10,000 (nominal amount) or its equivalent in investment units. As of December 31, 2013, the Company has issued the following domestic senior notes: i) on December 7, 2007, the Company issued domestic senior notes composed of Ps. 3,500 (nominal amount) with a maturity date on November 29, 2013 and a floating interest rate, which was paid at maturity; ii) on December 7, 2007, the Company issued domestic senior notes in the amount of 637,587,000 investment units (Ps. 2,500 nominal amount), with a maturity date on November 24, 2017 and a fixed interest rate, iii) on May 26, 2008, the Company issued domestic senior notes composed of Ps. 1,500 (nominal amount), with a maturity date on May 23, 2011 and a floating interest rate, which was paid at maturity.

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Coca-Cola FEMSA has the following bonds: a) registered with the Mexican stock exchange: i) Ps. 2,500 (nominal amount) with a maturity date in 2016 and a variable interest rate, ii) Ps. 2,500 (nominal amount) with a maturity date in 2021 and fixed interest rate of 8.3% and iii) Ps. 7,500 (nominal amount) with a maturity date in 2023 and fixed interest rate of 5.5%; b) registered with the SEC : i) Senior notes of \$500 with interest at a fixed rate of 4.6% and maturity date on February 15, 2020, ii) Senior notes of \$1,000 with interest at a fixed rate of 2.4% and maturity date on November 26, 2018, iii) Senior notes of \$750 with interest at a fixed rate of 3.9% and maturity date on November 26, 2023 and iv) Senior notes of \$400 with interest at a fixed rate of 5.3% and maturity date on November 26, 2043 which are guaranteed by the Guarantors.

During 2013, Coca-Cola FEMSA contracted and prepaid in part the following Bank loans denominated in dollars: i) \$500 (nominal amount) with a maturity date in 2016 and variable interest rate and prepaid \$380 (nominal amount) in November 2013, the outstanding amount of this loan is \$120 (nominal amount) and ii) \$1,500 (nominal amount) with a maturity date in 2018 and variable interest rate and prepaid \$1,170 (nominal amount) in November 2013, the outstanding amount of this loan is \$330 (nominal amount). In December 2013, Coca-Cola FEMSA prepaid in full outstanding Bank loans denominated in dollars for a total amount of \$600 (nominal amount).

The Company has financing from different institutions under agreements that stipulate different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

**Table of Contents****Note 19. Other Income and Expenses**

|   | 2013             | 2012      | 2011      |
|---|------------------|-----------|-----------|
| Gain on sale of shares (see Note 4)                           | <b>Ps. 41</b>    | Ps. 1,215 | Ps. 95    |
| Gain on sale of long-lived assets                             | <b>170</b>       | 38        | 8         |
| Gain on sale of other assets                                  | <b>43</b>        | 43        | 40        |
| Sale of waste material  | <b>120</b>       | 76        | 80        |
| Write off-contingencies                                       | <b>277</b>       | 241       | 158       |
| Others  |                  |           |           |
| <b>Other income</b>   | <b>Ps. 651</b>   | Ps. 1,745 | Ps. 381   |
| Contingencies associated with prior acquisitions or disposals | <b>385</b>       | 213       | 226       |
| Impairment of non current assets                              |                  | 384       | 146       |
| Disposal of long-lived assets (1)                             | <b>122</b>       | 133       | 656       |
| Foreign Exchange  | <b>99</b>        | 40        | 11        |
| Securities taxes from Colombia                                | <b>51</b>        | 40        | 197       |
| Severance payments  | <b>190</b>       | 349       | 256       |
| Donations (2)   | <b>119</b>       | 200       | 200       |
| Legal fees and other expenses from past acquisitions          | <b>110</b>       |           | 40        |
| Effect of new labor law (LOTTT) (see Note 16) (3)             |                  | 381       |           |
| <b>Other</b>  | <b>363</b>       | 233       | 340       |
| <b>Other expenses</b>   | <b>Ps. 1,439</b> | Ps. 1,973 | Ps. 2,072 |

- (1) Charges related to fixed assets retirement from ordinary operations and other long-lived assets.
- (2) In 2012 are included the gain on the sale of 45% interest held by FEMSA in the parent companies of the Mareña Renovables Wind Power Farm (see Note 10) offsetting to the donation made to Fundación FEMSA, A. C. (see Note 14).
- (3) This amount relates to the past service cost related to post-employment by Ps. 381 as a result of the effect of the change in LOTTT and it is included in the consolidated income statement under the Other expenses caption.

**Table of Contents****Note 20. Financial Instruments****Fair Value of Financial Instruments**

The Company measures the fair value of its financial assets and liabilities classified as level 2 applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes the Company's financial assets and liabilities measured at fair value, as of December 31, 2013 and 2012:

|   | December 31, 2013 |         | December 31, 2012 |         |
|---|-------------------|---------|-------------------|---------|
|   | Level 1           | Level 2 | Level 1           | Level 2 |
| Available-for-sale investments                          |                   |         | 12                |         |
| Derivative financial instrument (current asset)         | 2                 | 26      |                   | 106     |
| Derivative financial instrument (non-current asset)     |                   | 1,472   |                   | 1,144   |
| Derivative financial instrument (current liability)     | 272               | 75      | 200               | 79      |
| Derivative financial instrument (non-current liability) |                   | 1,526   |                   | 212     |

*20.1 Total debt*

The fair value of bank and syndicated loans is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for debt of similar amounts and maturities, which is considered to be level 2 in the fair value hierarchy. The fair value of the Company's publicly traded debt is based on quoted market prices as of December 31, 2013 and 2012, which is considered to be level 1 in the fair value hierarchy.

|                | 2013       | 2012       |
|----------------|------------|------------|
| Carrying value | Ps. 76,748 | Ps. 37,342 |
| Fair value     | 76,077     | 38,456     |

*20.2 Interest rate swaps*

The Company uses interest rate swaps to offset the interest rate risk associated with its borrowings, pursuant to which it pays amounts based on a fixed rate and receives amounts based on a floating rate. These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value. The fair value is estimated using formal technical models. The valuation method involves discounting to present value the expected cash flows of interest, calculated from the rate curve of the cash flow currency, and expresses the net result in the reporting currency. Changes in fair value are recorded in cumulative other comprehensive income, net of taxes until such time as the hedged amount is recorded in the consolidated income statements.

At December 31, 2013, the Company has the following outstanding interest rate swap agreements:

| Maturity Date | Notional Amount | Fair Value Liability December 31, 2013 | Fair Value Asset December 31, 2013 |
|---------------|-----------------|--|------------------------------------|
| 2014          | Ps. 575         | Ps. (18)                               | Ps.                                |
| 2015          | 1,963           | (122)                                  |                                    |

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At December 31, 2012 the Company has the following outstanding interest rate swap agreements:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability December 31, 2012</b> | <b>Fair Value Asset December 31, 2012</b> |
|----------------------|------------------------|---|---|
| 2013                 | Ps. 3,787              | Ps. (82)                                      | 5   |
| 2014                 | 575                    | (33)  | 2   |
| 2015                 | 1,963                  | (160)   | 5   |

A portion of certain interest rate swaps do not meet the criteria for hedge accounting; consequently, changes in the estimated fair value of these portions were recorded within the consolidated income statements under the caption market value gain (loss) on financial instruments.

The net effect of expired contracts treated as hedges are recognized as interest expense within the consolidated income statements.

### 20.3 Forward agreements to purchase foreign currency

The Company has entered into forward agreements to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies. Foreign exchange forward contracts measured at fair value are designated hedging instruments in cash flow hedges of forecast inflows in Euros and forecast purchases of raw materials in U.S. dollars. These forecast transactions are highly probable.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. The price agreed in the instrument is compared to the current price of the market forward currency and is discounted to present value of the rate curve of the relevant currency. Changes in the fair value of these forwards are recorded as part of cumulative other comprehensive income, net of taxes. Net gain/loss on expired contracts is recognized as part of cost of goods sold when the raw material is included in sale transaction, and as a part of foreign exchange when the inflow in Euros are received.

Net changes in the fair value of forward agreements that do not meet hedging criteria for hedge accounting are recorded in the consolidated income statements under the caption market value gain (loss) on financial instruments.

At December 31, 2013, the Company had the following outstanding forward agreements to purchase foreign currency:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability December 31, 2013</b> | <b>Fair Value Asset December 31, 2013</b> |
|----------------------|------------------------|---|---|
| 2014                 | Ps. 3,002              | Ps. (17)                                      | Ps. 1                                     |
| 2015                 | 614                    |   |   |



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At December 31, 2012, the Company had the following outstanding forward agreements to purchase foreign currency:

| <b>Maturity Date</b>                             | <b>Notional Amount</b> | <b>Fair Value Asset December 31, 2012</b> |
|--|------------------------|---|
| 2013   | Ps. 2,803              | Ps. 36                                    |
| <i>20.4 Options to purchase foreign currency</i> |                        |   |

The Company has entered into a collar strategy to reduce its exposure to the risk of exchange rate fluctuations. A collar is a strategy that limits the exposure to the risk of exchange rate fluctuations in a similar way as a forward agreement.

These instruments have been designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. They are valued based on the Black & Scholes model, doing a split in the intrinsic and extrinsic value. Changes in the fair value of these options, corresponding to the intrinsic value are initially recorded as part of cumulative other comprehensive income, net of taxes. Changes in the fair value, corresponding to the extrinsic value are recorded in the consolidated income statements under the caption market value gain (loss) on financial instruments, as part of the consolidated net income. Net gain (loss) on expired contracts is recognized as part of cost of goods sold when the related raw material is affecting the cost of good sold.

At December 31, 2013, the Company had no outstanding collars to purchase foreign currency (composed of a call and a put option with different strike levels with the same notional amount and maturity).

At December 31, 2012, the Company had the following outstanding collars to purchase foreign currency (composed of a call and a put option with different strike levels with the same notional amount and maturity):

| <b>Maturity Date</b>             | <b>Notional Amount</b> | <b>Fair Value Asset December 31, 2012</b> |
|----------------------------------|------------------------|---|
| 2013                             | Ps. 982                | Ps. 47                                    |
| <i>20.5 Cross-currency swaps</i> |                        |   |

The Company has contracted for a number of cross-currency swaps to reduce its exposure to risks of exchange rate and interest rate fluctuations associated with its borrowings denominated in U.S. dollars and other foreign currencies. Cross-Currency swaps contracts are designated as hedging instruments through which the Company changes the debt profile to its functional currency to reduce exchange exposure.

These instruments are recognized in the consolidated statement of financial position at their estimated fair value which is estimated using formal technical models. The valuation method involves discounting to present value the expected cash flows of interest, calculated from the rate curve of the cash foreign currency, and expresses the net result in the reporting currency. These contracts are designated as financial instruments at fair value through profit or loss. The fair values changes related to those cross currency swaps are recorded under the caption market value gain (loss) on financial instruments, net of changes related to the long-term liability, within the consolidated income statements.

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The Company has cross-currency contracts designated as cash flow hedges and are recognized in the consolidated statement of financial position at their estimated fair value. Changes in fair value are recorded in cumulative other comprehensive income, net of taxes until such time as the hedge amount is recorded in the consolidated income statement.

The Company has certain cross-currency swaps that do not meet the criteria for hedge accounting purposes. Consequently, changes in the estimated fair value were recorded in the income statement as market value gain (loss) of financial instruments.

At December 31, 2013, the Company had the following outstanding cross currency swap agreements:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Liability 2013</b> | <b>Fair Value Asset December 31, 2013</b> |
|----------------------|------------------------|-----------------------|---|
| 2014                 | Ps. 1,358              | Ps.                   | Ps. 18                                    |
| 2015                 | 83                     |                       | 11  |
| 2017                 | 2,711                  |                       | 1,180                                     |
| 2018                 | 23,930                 | (825)                 |   |
| 2023                 | 12,670                 | (350)                 |   |

At December 31, 2012, the Company had the following outstanding cross currency swap agreements:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Asset December 31, 2012</b> |
|----------------------|------------------------|---|
| 2014                 | Ps. 2,553              | Ps. 46                                    |
| 2017                 | 2,711                  | 1,089                                     |

*20.6 Commodity price contracts*

The Company has entered into various commodity price contracts to reduce its exposure to the risk of fluctuation in the costs of certain raw material. The fair value is estimated based on the market valuations to terminate the contracts at the end of the period. These instruments are designated as Cash Flow Hedges and the changes in the fair value are recorded as part of cumulative other comprehensive income.

The fair value of expired commodity price contract was recorded in cost of goods sold where the hedged item was recorded.

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At December 31, 2013, Coca-Cola FEMSA had the following sugar price contracts:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability December 31, 2013</b> | <b>Asset</b> |
|----------------------|------------------------|---|--------------|
| 2014                 | <b>Ps. 1,183</b>       | <b>Ps. (246)</b>                              | <b>Ps.</b>   |
| 2015                 | <b>730</b>             | <b>(48)</b>                                   |              |
| 2016                 | <b>103</b>             |   | <b>2</b>     |

At December 31, 2013, Coca-Cola FEMSA had the following aluminum price contracts:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability December 31, 2013</b> |
|----------------------|------------------------|---|
| 2014                 | <b>Ps. 205</b>         | <b>Ps. (10)</b>                               |

At December 31, 2012, Coca-Cola FEMSA had the following outstanding sugar price contracts:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability December 31, 2012</b> |
|----------------------|------------------------|---|
| 2013                 | <b>Ps. 1,567</b>       | <b>Ps. (151)</b>                              |
| 2014                 | <b>856</b>             | <b>(34)</b>                                   |
| 2015                 | <b>213</b>             | <b>(10)</b>                                   |

At December 31, 2012, Coca-Cola FEMSA had the following aluminum price contracts:

| <b>Maturity Date</b> | <b>Notional Amount</b> | <b>Fair Value Liability December 31, 2012</b> |
|----------------------|------------------------|---|
| 2013                 | <b>Ps. 335</b>         | <b>Ps. (5)</b>                                |

**Table of Contents***20.7 Derivative financial Instruments for CCBPI acquisition:*

The Company's call option related to the remaining 49% ownership interest in CCBPI is recorded at fair value in its financial statements using a Level 3 concept. The call option had an estimated fair value of approximately Ps. 859 million at inception of the option, and approximately Ps. 799 million as of December 31, 2013, with the change during that period being recorded through the income statement. Significant observable inputs into that Level 3 estimate include the call option's expected term (7 years at inception), risk free rate as expected return (LIBOR), implied volatility at inception (19.77%) and the underlying enterprise value of the CCBPI. The enterprise value of CCBPI for the purpose of this estimate was based on CCBPI's long-term business plan. The Company acquired its 51% ownership interest in CCBPI in January 2013 and continues to integrate CCBPI into its global operations using the equity method of accounting, and currently believes that the underlying exercise price of the call option is out of the money. The Level 3 fair value of the Company's put option related to its 51% ownership interest approximates zero as its exercise price as defined in the contract adjusts proportionately to the underlying fair value of CCBPI.

*20.8 Net effects of expired contracts that met hedging criteria*

| Type of Derivatives                             | Impact in Consolidated<br>Income Statement | 2013      | 2012      | 2011      |
|---|--|-----------|-----------|-----------|
|   |  |           |           |           |
| Interest rate swaps                             | Interest expense                           | Ps. (214) | Ps. (147) | Ps. (120) |
| Forward agreements to purchase foreign currency | Foreign exchange                           | 1,710     | 126       |           |
| Commodity price contracts                       | Cost of goods sold                         | (362)     | 6         | 257       |
| Options to purchase foreign currency            | Cost of goods sold                         |           | 13        |           |
| Forward agreements to purchase foreign currency | Cost of goods sold                         |           |           | 21        |

*20.9 Net effect of changes in fair value of derivative financial instruments that did not meet the hedging criteria for accounting purposes*

| Type of Derivatives  | Impact in Consolidated Income Statement    | 2013    | 2012    | 2011    |
|----------------------|--|---------|---------|---------|
|                      |  |         |         |         |
| Interest rate swaps  | Market value loss on financial instruments | Ps. (7) | Ps. (4) | Ps. (2) |
| Cross currency swaps |  | 33      | (2)     |         |
| Others               |  | (19)    | (29)    |         |

**Table of Contents***20.10 Net effect of expired contracts that did not meet the hedging criteria for accounting purposes*

| <b>Type of Derivatives</b> | <b>Impact in Consolidated Income Statement</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|----------------------------|--|-------------|-------------|-------------|
| Cross-currency swaps       | Market value                                   | <b>Ps.</b>  | Ps. 42      | Ps. (144)   |
| Interest rate swaps        | gain (loss) on                                 |             |             |             |
| Others                     | financial instruments                          |             |             | 37          |

*20.11 Market risk*

Market risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market prices. Market prices include currency risk and commodity price risk.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and commodity prices. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, and commodity prices risk including:

Forward Agreements to Purchase Foreign Currency in order to reduce its exposure to the risk of exchange rate fluctuations.

Cross-Currency Swaps in order to reduce its exposure to the risk of exchange rate fluctuations.

Commodity price contracts in order to reduce its exposure to the risk of fluctuation in the costs of certain raw materials. The Company tracks the fair value (mark to market) of its derivative financial instruments and its possible changes using scenario analyses.

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The following disclosures provide a sensitivity analysis of the market risks management considered to be reasonably possible at the end of the reporting period, which the Company is exposed to as it relates to foreign exchange rates and commodity prices, which it considers in its existing hedging strategy:

| Foreign Currency Risk | Change in Exchange Rate   | Effect on Equity | Effect on Profit or Loss |
|-----------------------|---------------------------|------------------|--------------------------|
| <b>2013</b>           |                           |                  |                          |
| FEMSA <sup>(3)</sup>  | +7% MXN/EUR               | Ps. (157)        | Ps.                      |
|                       | -7% MXN/EUR               | 157              |                          |
| Coca-Cola FEMSA       | +11% MXN/USD              | 67               |                          |
|                       | +13% BRL/USD              | 86               |                          |
|                       | +6% COP/USD               | 19               |                          |
|                       | -11% MXN/USD              | (67)             |                          |
|                       | -13% BRL/USD              | (86)             |                          |
|                       | -6% COP/USD               | (19)             |                          |
| <b>2012</b>           |                           |                  |                          |
| FEMSA <sup>(3)</sup>  | +9% MXN/EUR/+11% MXN/USD  | Ps. (250)        |                          |
|                       | -9% MXN/EUR/-11% MXN/USD  | 104              |                          |
| Coca-Cola FEMSA       | -11% MXN/USD              | (204)            |                          |
| <b>2011</b>           |                           |                  |                          |
| FEMSA                 | +13% MXN/EUR/+15% MXN/USD | Ps. (189)        | Ps.                      |
|                       | -13% MXN/EUR/-15% MXN/USD | 191              |                          |
| Coca-Cola FEMSA       | -15% MXN/USD              | (352)            | (127)                    |

| Cross Currency Swaps <sup>(1)(2)</sup> | Change in Exchange Rate | Effect on Profit or Loss |
|--|-------------------------|--------------------------|
| <b>2013</b>                            |                         |                          |
| FEMSA <sup>(3)</sup>                   | -11% MXN/ USD           | (1,581)                  |
| Coca-Cola FEMSA                        | -11% MXN/ USD           | (392)                    |
|  | -13% USD/BRL            | (3,719)                  |
| <b>2012</b>                            |                         |                          |
| FEMSA <sup>(3)</sup>                   |                         |                          |
| Coca-Cola FEMSA                        | -11% MXN/ USD           | (234)                    |

| Net Cash in Foreign Currency <sup>(1)</sup> | Change in Exchange Rate | Effect on Profit or Loss |
|---|-------------------------|--------------------------|
| <b>2013</b>                                 |                         |                          |
| FEMSA <sup>(3)</sup>                        | +7% EUR/+11% USD        | Ps. 335                  |
|   | -7% EUR/-11% USD        | (335)                    |
| Coca-Cola FEMSA                             | +11% USD                | (1,090)                  |
|   | -11% USD                | 1,090                    |
| <b>2012</b>                                 |                         |                          |
| FEMSA <sup>(3)</sup>                        | +9% EUR/+11% USD        | Ps. 809                  |
|   | -9% EUR/-11% USD        | (809)                    |
| Coca-Cola FEMSA                             | +15% USD                | (362)                    |
| <b>2011</b>                                 |                         |                          |
| FEMSA                                       | +13% EUR/+15% USD       | Ps. 1,188                |
|   | -13% EUR/-15% USD       | (1,188)                  |
| Coca-Cola FEMSA                             | +16% USD                | (398)                    |

- (1) The sensitivity analysis effects include all subsidiaries of the Company.
- (2) Includes the sensitivity analysis effects of all derivative financial instruments related to foreign exchange risk.
- (3) Does not include Coca-Cola FEMSA.

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| Commodity Price Contracts <sup>(1)</sup> | Change in U.S.\$ Rate | Effect on Equity |
|--|-----------------------|------------------|
| <b>2013</b>                              |                       |                  |
| Coca-Cola FEMSA                          | Sugar - 18%           | Ps. (298)        |
|  | Aluminum - 19%        | (36)             |
| <b>2012</b>                              |                       |                  |
| Coca-Cola FEMSA                          | Sugar - 30%           | Ps. (732)        |
|  | Aluminum - 20%        | (66)             |

(1) The sensitivity analysis effects include all subsidiaries of the Company.

(2) Includes the sensitivity analysis effects of all derivative financial instruments related to foreign exchange risk.

(3) Does not include Coca-Cola FEMSA.

*20.12 Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk because it and its subsidiaries borrow funds at both fixed and variable interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and variable rate borrowings, and by the use of the different derivative financial instruments. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The following disclosures provide a sensitivity analysis of the interest rate risks management considered to be reasonably possible at the end of the reporting period, which the Company is exposed to as it relates to its fixed and floating rate borrowings, which it considers in its existing hedging strategy:

|                         | 2013             | 2012      | 2011      |
|-------------------------|------------------|-----------|-----------|
| Change in interest rate | <b>+100 Bps.</b> | +100 Bps. | +100 Bps. |
| Effect on profit loss   | <b>Ps. (332)</b> | Ps. (198) | Ps. (98)  |

*20.13 Liquidity risk*

Each of the Company's sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2013 and 2012, 79.48% and 81.07%, respectively of the Company's outstanding consolidated total indebtedness was at the level of its sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA. Currently, the Company's management expects to continue to finance its operations and capital requirements primarily at the level of its sub-holding companies. Nonetheless, they may decide to incur indebtedness at its holding company in the future to finance the operations and capital requirements of the Company's subsidiaries or significant acquisitions, investments or capital expenditures. As a holding company, the Company depends on dividends and other distributions from its subsidiaries to service the Company's indebtedness.

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





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Ultimate responsibility for liquidity risk management rests with the Company's board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity requirements. The Company manages liquidity risk by maintaining adequate reserves and credit facilities, by continuously monitoring forecast and actual cash flows, and by maintaining a conservative debt maturity profile.

The Company has access to credit from national and international bank institutions in order to meet treasury needs; besides, the Company has the highest rating for Mexican companies (AAA) given by independent rating agencies, allowing the Company to evaluate capital markets in case it needs resources.

As part of the Company's financing policy, management expects to continue financing its liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which the Company operates, it may not be beneficial or, as in the case of exchange controls in Venezuela, practicable 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 from operations to fund debt requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, management may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds another country. In addition, the Company'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 the Company management may finance its working capital and capital expenditure needs with short-term or other borrowings.

The Company's management continuously evaluates 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.

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

The Company presents the maturity dates associated with its long-term financial liabilities as of December 31, 2013, see Note 18. The Company generally makes payments associated with its long-term financial liabilities with cash generated from its operations.

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The following table reflects all contractually fixed pay-offs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected net cash outflows from derivative financial liabilities that are in place as per December 31, 2013. Such expected net cash outflows are determined based on each particular settlement date of an instrument. The amounts disclosed are undiscounted net cash outflows for the respective upcoming fiscal years, based on the earliest date on which the Company could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on economic conditions (like interest rates and foreign exchange rates) existing at December 31, 2013.

|  | 2014      | 2015      | 2016      | 2017      | 2018       | 2019 and thereafter |
|--|-----------|-----------|-----------|-----------|------------|---------------------|
| <b>Non-derivative financial liabilities:</b> |           |           |           |           |            |                     |
| Notes and bonds                              | Ps. 1,971 | Ps. 1,971 | Ps. 4,407 | Ps. 5,086 | Ps. 14,937 | Ps. 55,946          |
| Loans from banks                             | 4,005     | 3,762     | 1,739     | 119       | 4,380      | 43                  |
| Obligations under finance leases             | 309       | 279       | 228       | 168       | 89         | 87                  |
| Derivative financial liabilities             | 140       | 25        |           | 1,132     |            | 350                 |

The Company generally makes payments associated with its non-current financial liabilities with cash generated from its operations.

*20.14 Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee.

The Company has a high receivable turnover; hence management believes credit risk is minimal due to the nature of its businesses, which have a large portion of their sales settled in cash. The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2013 and 2012 is the carrying amounts (see Note 7).

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company manages the credit risk related to its derivative portfolio by only entering into transactions with reputable and credit-worthy counterparties as well as by maintaining in some cases a Credit Support Annex (CSA) that establishes margin requirements, which could change upon changes to the credit ratings given to the Company by independent rating agencies. As of December 31, 2013, the Company concluded that the maximum exposure to credit risk related with derivative financial instruments is not significant given the high credit rating of its counterparties.

**Note 21. Non-Controlling Interest in Consolidated Subsidiaries**

An analysis of FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2013 and 2012 is as follows:

|                 | December 31,<br>2013 | December 31,<br>2012 |
|-----------------|----------------------|----------------------|
| Coca-Cola FEMSA | Ps. 62,719           | Ps. 54,902           |
| Other           | 439                  |                      |
|                 | <b>Ps. 63,158</b>    | Ps. 54,902           |



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The changes in the FEMSA's non-controlling interest were as follows:

|  | 2013              | 2012       | 2011       |
|--|-------------------|------------|------------|
| Balance at beginning of the year                                       | <b>Ps. 54,902</b> | Ps. 47,949 | Ps. 31,521 |
| Net income of non controlling interest <sup>(1)</sup>                  | <b>6,233</b>      | 7,344      | 5,569      |
| Other comprehensive income:  |                   |            |            |
| Exchange differences on translation foreign operation                  | <b>(664)</b>      | (1,342)    | 1,944      |
| Remeasurements of the net defined benefits liability                   | <b>(80)</b>       | (60)       | 6          |
| Valuation of the effective portion of derivative financial instruments | <b>(166)</b>      | (113)      | (15)       |
| Increase in capital stock  | <b>515</b>        |            |            |
| Acquisitions effects (see Note 4 )                                     | <b>5,550</b>      | 4,172      | 11,038     |
| Disposal effects   |                   | (50)       | (70)       |
| Dividends  | <b>(3,125)</b>    | (2,986)    | (2,025)    |
| Share based payment  | <b>(7)</b>        | (12)       | (19)       |
| Balance at end of the year   | <b>Ps. 63,158</b> | Ps. 54,902 | Ps. 47,949 |

(1) For the years ended at 2013, 2012 and 2011, Coca-Cola FEMSA's net income allocated to non-controlling interest was Ps. 239, 565 and 551, respectively.

Non controlling cumulative other comprehensive income is comprised as follows:

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| Exchange differences on translation foreign operation                  | <b>Ps. (62)</b>      | Ps. 602              |
| Remeasurements of the net defined benefits liability                   | <b>(206)</b>         | (126)                |
| Valuation of the effective portion of derivative financial instruments | <b>(238)</b>         | (72)                 |
| Cumulative other comprehensive income                                  | <b>Ps. (506)</b>     | Ps. 404              |

Coca-Cola FEMSA shareholders, especially the Coca-Cola Company which hold Series D shares, have some protective rights about investing in or disposing of significant businesses. However, these rights do not limit the continued normal operations of Coca-Cola FEMSA.

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Summarized financial information in respect of Coca-Cola FEMSA is set out below.

|   | December 31,<br>2013 | December 31,<br>2012 |
|---|----------------------|----------------------|
| Total current assets                            | Ps. 43,231           | Ps. 45,897           |
| Total non-current assets                        | 173,434              | 120,206              |
| Total current liabilities                       | 32,398               | 29,550               |
| Total non-current liabilities                   | 67,114               | 31,725               |
| Total revenue                                   | Ps. 156,011          | Ps. 147,739          |
| Total consolidated net income                   | 11,782               | 13,898               |
| Total consolidated comprehensive income         | Ps. 9,791            | Ps. 11,209           |
| Net cash flow from operating activities         | 22,097               | 23,650               |
| Net cash flow from used in investing activities | 49,481               | 10,989               |
| Net cash flow from financing activities         | 23,506               | 60                   |

**Note 22. Equity***22.1 Equity accounts*

The capital stock of FEMSA is comprised of 2,161,177,770 BD units and 1,417,048,500 B units.

As of December 31, 2013 and 2012, the capital stock of FEMSA was comprised 17,891,131,350 common shares, without par value and with no foreign ownership restrictions. Fixed capital stock amounts to Ps. 300 (nominal value) and the variable capital may not exceed 10 times the minimum fixed capital stock amount.

The characteristics of the common shares are as follows:

Series B shares, with unlimited voting rights, which at all times must represent a minimum of 51% of total capital stock;

Series L shares, with limited voting rights, which may represent up to 25% of total capital stock; and

Series D shares, with limited voting rights, which individually or jointly with series L shares may represent up to 49% of total capital stock.

The Series D shares are comprised as follows:

Subseries D-L shares may represent up to 25% of the series D shares;

Subseries D-B shares may comprise the remainder of outstanding series D shares; and

The non-cumulative premium dividend to be paid to series D shareholders will be 125% of any dividend paid to series B shareholders. The Series B and D shares are linked together in related units as follows:

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B units each of which represents five series B shares and which are traded on the BMV; and

BD units each of which represents one series B share, two subseries D-B shares and two subseries D-L shares, and which are traded both on the BMV and the NYSE.

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As of December 31, 2013 and 2012, FEMSA's capital stock is comprised as follows:

|               | <b>B Units</b> | <b>BD Units</b> | <b>Total</b>   |
|---------------|----------------|-----------------|----------------|
| Units         | 1,417,048,500  | 2,161,177,770   | 3,578,226,270  |
| Shares:       |                |                 |                |
| Series B      | 7,085,242,500  | 2,161,177,770   | 9,246,420,270  |
| Series D      |                | 8,644,711,080   | 8,644,711,080  |
| Subseries D-B |                | 4,322,355,540   | 4,322,355,540  |
| Subseries D-L |                | 4,322,355,540   | 4,322,355,540  |
| Total shares  | 7,085,242,500  | 10,805,888,850  | 17,891,131,350 |

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve equals 20% of capital stock at nominal value. This reserve may not be distributed to shareholders during the existence of the Company, except as a stock dividend. As of December 31, 2013 and 2012, this reserve amounted to Ps. 596.

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect at the date of distribution, except when capital reductions come from restated shareholder contributions and when the distributions of dividends come from net taxable income, denominated Cuenta de Utilidad Fiscal Neta ( CUFIN ).

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. Due to the Mexican Tax Reform, a new Income Tax Law (LISR) went into effect on January 1, 2014. Such law no longer includes the tax consolidation regime which allowed calculating the CUFIN on a consolidated basis; therefore, beginning in 2014, distributed dividends must be taken from the individual CUFIN balance of FEMSA, which can be increased with the subsidiary companies' individual CUFINES through the transfers of dividends. The sum of the individual CUFIN balances of the FEMSA and its subsidiaries as of December 31, 2013 amounted to Ps. 69,496.

In addition, the new LISR sets forth that entities that distribute dividends to its stockholders who are individuals and foreign residents must withhold 10% thereof for ISR purposes, which will be paid in Mexico. The foregoing will not be applicable when distributed dividends arise from the accumulated CUFIN balance as of December 31, 2013.

At an ordinary shareholders' meeting of FEMSA held on March 15, 2013, the shareholders approved a dividend of Ps. 6,684 that was paid 50% on May 7, 2013 and other 50% on November 7, 2013; and a reserve for share repurchase of a maximum of Ps. 3,000. As of December 31, 2013, the Company has not repurchased shares. Treasury shares resulted from share-based payment bonus plan are disclosed in Note 17.

At an ordinary shareholders' meeting of FEMSA held on December 6, 2013, the shareholders approved a dividend of Ps. 6,684 that was paid on December 18, 2013.

At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 5, 2013, the shareholders approved a dividend of Ps. 5,950 that was paid 50% on May 2, 2013 and other 50% on November 5, 2013. The corresponding payment to the non-controlling interest was Ps. 3,073.



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For the years ended December 31, 2013, 2012 and 2011 the dividends declared and paid by the Company and Coca-Cola FEMSA were as follows:

|                                    | 2013              | 2012      | 2011      |
|------------------------------------|-------------------|-----------|-----------|
| FEMSA                              | <b>Ps. 13,368</b> | Ps. 6,200 | Ps. 4,600 |
| Coca-Cola FEMSA (100% of dividend) | <b>5,950</b>      | 5,625     | 4,358     |

For the years ended December 31, 2013 and 2012 the dividends declared and paid per share by the Company are as follows:

| Series of Shares | 2013               | 2012        |
|------------------|--------------------|-------------|
| B                | <b>Ps. 0.66667</b> | Ps. 0.30919 |
| D                | <b>0.83333</b>     | 0.38649     |

**22.2 Capital management**

The Company manages its capital to ensure that its subsidiaries will be able to continue as going concerns while maximizing the return to shareholders through the optimization of its debt and equity balance in order to obtain the lowest cost of capital available. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2013 and 2012.

The Company is not subject to any externally imposed capital requirements, other than the legal reserve (see Note 22.1) and debt covenants (see Note 18).

The Company's finance committee reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. In conjunction with this objective, the Company seeks to maintain the highest credit rating both nationally and internationally and is currently rated AAA in Mexico and BBB+ in the United States, which requires it to have a debt to earnings before interest, taxes, depreciation and amortization ( EBITDA ) ratio lower than 2. As a result, prior to entering into new business ventures, acquisitions or divestures, management evaluates the optimal ratio of debt to EBITDA in order to maintain its high credit rating.

**Note 23. Earnings per Share**

Basic earnings per share amounts are calculated by dividing consolidated net income for the year attributable to controlling interest by the weighted average number of shares outstanding during the period adjusted for the weighted average of own shares purchased in the period.

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Diluted earnings per share amounts are calculated by dividing consolidated net income for the year attributable to controlling interest by the weighted average number of shares outstanding during the period plus the weighted average number of shares for the effects of dilutive potential shares (originated by the Company's share based payment program).

|   | 2013                   |                        | 2012                   |                        | 2011                   |                        |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|   | Per Series<br>B Shares | Per Series<br>D Shares | Per Series<br>B Shares | Per Series<br>D Shares | Per Series<br>B Shares | Per Series<br>D Shares |
| <b>Net Controlling Interest Income</b>  | <b>7,341.74</b>        | <b>8,579.98</b>        | 9,548.21               | 11,158.58              | 7,069.69               | 8,262.04               |
| <i>Shares expressed in millions:</i>  |                        |                        |                        |                        |                        |                        |
| Weighted average number of shares for basic earnings per share                    | <b>9,238.69</b>        | <b>8,613.80</b>        | 9,237.49               | 8,609.00               | 9,236.62               | 8,605.49               |
| Effect of dilution associated with nonvested shares for share based payment plans | <b>7.73</b>            | <b>30.91</b>           | 8.93                   | 35.71                  | 9.80                   | 39.22                  |
| <b>Weighted average number of shares adjusted for the effect of dilution</b>      | <b>9,246.42</b>        | <b>8,644.71</b>        | 9,246.42               | 8,644.71               | 9,246.42               | 8,644.71               |

**Note 24. Income Taxes**

In December of 2013, the Mexican government enacted a package of tax reforms (the 2014 Tax Reform) which includes several significant changes to tax laws, discussed in further detail below, entering into effect on January 1, 2014. The following changes are expected to most significantly impact the Company's financial position and results of operations:

The introduction of a new withholding tax at the rate of 10% for dividends and/or distributions of earnings generated in 2014 and beyond;

A fee of one Mexican peso per liter on the sale and import of flavored beverages with added sugar, and an excise tax of 8% on food with caloric content equal to, or greater than 275 kilocalories per 100 grams of product;

The prior 11% value added tax (VAT) rate that applied to transaction in the border region was raised to 16%, matching the general VAT rate applicable in the rest of Mexico;

The elimination of the tax on cash deposits (IDE) and the business flat tax (IETU);

Deductions on exempt payroll items for workers are limited to 53%;

The income tax rate in 2013 and 2012 was 30%. Scheduled decreases to the income tax rate that would have reduced the rate to 29% in 2014 and 28% in 2015 and thereafter, were canceled in connection with the 2014 Tax Reform;

The repeal of the existing tax consolidation regime, which is effective as of January 1, 2014, modified the payment term of a tax on assets payable of Ps. 180, which will be paid over the following 5 years instead of an indefinite term. Additionally, deferred tax assets and liabilities associated with the Company's subsidiaries in Mexico are no longer offset as of December 31, 2013, as the future income tax balances are expected to reverse in periods where the Company is no longer consolidating these entities for tax purposes and the right of offset does not exist; and

The introduction of a new optional tax integration regime (a modified form of tax consolidation), which replaces the previous tax consolidation regime. The new optional tax integration regime requires an equity ownership of at least 80% for qualifying subsidiaries and

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would allow the Company to defer the annual tax payment of its profitable participating subsidiaries for a period equivalent to 3 years to the extent their individual tax expense exceeds the integrated tax expense of the Company.

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The impacts of the 2014 Tax Reform on the Company's financial position and results of operations as of and for the year ended December 31, 2013, resulted from the repeal of the tax consolidation regime as described above regarding the payable of Ps. 180 and the effects of the changes in tax rates on deferred tax assets and liabilities as disclosed below, which was recognized in earnings in 2013.

In Colombia, the tax reform (Law 1607) was enacted on December 26, 2012 and will take effect during fiscal year 2013. The main changes in this legislation include a reduction in the corporate tax rate from 33% to 25% and the introduction of a new income tax (CREE tax) of 9% of taxable income (taxable base) and 8% starting 2016. Tax losses and excess presumptive income, among other items, may not be applied against the CREE tax base. The payable tax for a taxpayer in a given year is the higher of CREE or income tax computed under the Colombian income tax law. The effect was recognized in the consolidated income statement in 2012 and it was not material.

*24.1 Income Tax*

The major components of income tax expense for the years ended December 31, 2013, 2012 and 2011 are:

|   | 2013             | 2012      | 2011      |
|---|------------------|-----------|-----------|
| Current tax expense                         | <b>Ps. 7,855</b> | Ps. 7,412 | Ps. 7,519 |
| Deferred tax expense                        | <b>45</b>        | 537       | 99        |
| Change in the statutory rate <sup>(1)</sup> | <b>(144)</b>     |           |           |
|   | <b>Ps. 7,756</b> | Ps. 7,949 | Ps. 7,618 |

(1) Effect due to 2014 Tax Reform.

**Recognized in Consolidated Statement of Other Comprehensive Income (OCI)**

| <b>Income tax related to items charged or recognized directly in OCI during the year:</b> | 2013             | 2012        | 2011      |
|---|------------------|-------------|-----------|
| Unrealized (gain) loss on cash flow hedges  | <b>Ps. (128)</b> | Ps. (120)   | Ps. 43    |
| Unrealized (gain) loss on available for sale securities                                   | <b>(1)</b>       | (1)         | 2         |
| Exchange differences on translation of foreign operations                                 | <b>1,384</b>     | (1,012)     | 1,930     |
| Remeasurements of the net defined benefit liability                                       | <b>(56)</b>      | (113)       | (18)      |
| Share of the other comprehensive income of associates and joint ventures                  | <b>(1,203)</b>   | (304)       | (542)     |
| Total income tax (benefit) cost recognized in OCI   | <b>Ps. (4)</b>   | Ps. (1,550) | Ps. 1,415 |

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A reconciliation between tax expense and income before income taxes and share of the profit or loss of associates and joint ventures accounted for using the equity method multiplied by the Mexican domestic tax rate for the years ended December 31, 2013, 2012 and 2011 is as follows:

|  | <b>2013</b>   | 2012   | 2011   |
|--|---------------|--------|--------|
| Mexican statutory income tax rate                    | <b>30.0%</b>  | 30.0%  | 30.0%  |
| Difference between book and tax inflationary effects | <b>(1.4%)</b> | (1.1%) | (1.1%) |
| Difference between statutory income tax rates        | <b>1.2%</b>   | 1.1%   | 1.5%   |
| Non-deductible expenses                              | <b>1.0%</b>   | 0.8%   | 1.3%   |
| Taxable (non-taxable) income, net                    | <b>0.7%</b>   | (1.3%) | (0.2%) |
| Change in the statutory Mexican tax rate             | <b>(0.6%)</b> |        |        |
| Others   |               | (0.6%) | 0.8%   |
|  | <b>30.9%</b>  | 28.9%  | 32.3%  |

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**Table of Contents****Deferred Income Tax Related to:**

|  | Consolidated Statement<br>of Financial Position as of |                      | Consolidated Statement<br>of Income |          |          |
|--|---|----------------------|-------------------------------------|----------|----------|
|  | December 31,<br>2013                                  | December 31,<br>2012 | 2013                                | 2012     | 2011     |
| Allowance for doubtful accounts  | Ps. (148)   | Ps. (131)            | Ps. (24)                            | Ps. (33) | Ps. (28) |
| Inventories  | 9   | 1                    | (2)                                 | 51       | (124)    |
| Other current assets   | 147   | 25                   | 109                                 | (104)    | 93       |
| Property, plant and equipment, net   | (452)   | (405)                | (630)                               | (101)    | (75)     |
| Investments in associates and joint ventures   | (271)   | 938                  | 115                                 | 1,589    | 200      |
| Other assets   | (188)   | (187)                | (2)                                 | 238      | (308)    |
| Finite useful lived intangible assets  | 384   | 221                  | 236                                 | (38)     | 65       |
| Indefinite useful lived intangible assets  | 299   | 41                   | 88                                  | 32       | 24       |
| Post-employment and other long-term employee benefits  | (906)   | (847)                | 30                                  | (40)     | (14)     |
| Derivative financial instruments   | (148)   | (87)                 | 62                                  | (14)     | (8)      |
| Provisions   | (860)   | (645)                | (164)                               | (12)     | (1)      |
| Temporary non-deductible provision   | (150)   | (767)                | 562                                 | 51       | 133      |
| Employee profit sharing payable  | (255)   | (221)                | (27)                                | (13)     | (56)     |
| Tax loss carryforwards   | (393)   | (181)                | (212)                               | 434      | 358      |
| Exchange differences on translation of foreign operations  | 2,195   | 853                  |                                     |          |          |
| Other liabilities  | (62)  | 64                   | (131)                               | 72       | 40       |
| Deferred tax expense (income)  |   |                      | Ps.10                               | Ps.2,112 | Ps.299   |
| Deferred tax expense (income) net recorded in share of the profit of associates and joint ventures accounted for using the equity method |   |                      | (109)                               | (1,575)  | (200)    |
| Deferred tax (income) expense, net   |   |                      | Ps. (99)                            | Ps. 537  | Ps. 99   |
| Deferred income taxes, net   | (799)   | (1,328)              |                                     |          |          |
| Deferred tax asset   | (3,792)   | (2,028)              |                                     |          |          |
| Deferred tax liability   | Ps. 2,993   | Ps. 700              |                                     |          |          |

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The changes in the balance of the net deferred income tax asset are as follows:

|  | 2013        | 2012        | 2011        |
|--|-------------|-------------|-------------|
| Initial balance  | Ps. (1,328) | Ps. (1,586) | Ps. (3,511) |
| Deferred tax provision for the year  | 45          | 537         | 99          |
| Change in the statutory rate   | (144)       |             |             |
| Deferred tax expense (income) net recorded in share of the profit of associates and joint ventures accounted for using the equity method | 109         | 1,575       | 200         |
| Acquisition of subsidiaries (see Note 4)   | 647         | (77)        | 218         |
| Disposal of subsidiaries   |             | 16          |             |
| Effects in equity:   |             |             |             |
| Unrealized (gain) loss on cash flow hedges   | (149)       | (76)        | 80          |
| Unrealized (gain) loss on available for sale securities  | (1)         | (1)         | 2           |
| Exchange differences on translation of foreign operations  | 2           | (974)       | 1,410       |
| Remeasurements of the net defined benefit liability  | 102         | (532)       | (110)       |
| Retained earnings of associates  | (121)       | (189)       | 23          |
| Restatement effect of beginning balances associated with hyperinflationary economies   | 39          | (21)        | 3           |
| Ending balance   | Ps. (799)   | Ps. (1,328) | Ps. (1,586) |

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes are levied by the same tax authority.

**Tax Loss Carryforwards**

The subsidiaries in Mexico and Brazil have tax loss carryforwards. The tax effect net of consolidation benefits and their years of expiration are as follows:

| <u>Year</u>                      | <u>Tax Loss<br/>Carryforwards</u> |
|----------------------------------|-----------------------------------|
| 2014                             | Ps. 3                             |
| 2015                             |                                   |
| 2016                             |                                   |
| 2017                             | 2                                 |
| 2018                             | 3                                 |
| 2019                             | 13                                |
| 2020                             | 53                                |
| 2021                             | 95                                |
| 2022 and thereafter              | 576                               |
| No expiration (Brazil)           | 499                               |
|                                  | 1,244                             |
| Tax losses used in consolidation | (686)                             |
|                                  | Ps. 558                           |

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The changes in the balance of tax loss carryforwards are as follows:

|  | 2013           | 2012    |
|--|----------------|---------|
| Balance at beginning of the year         | <b>Ps. 91</b>  | Ps. 688 |
| Additions                                | <b>593</b>     | 903     |
| Usage of tax losses                      | <b>(122)</b>   | (1,449) |
| Translation effect of beginning balances | <b>(4)</b>     | (51)    |
| <b>Balance at end of the year</b>        | <b>Ps. 558</b> | Ps. 91  |

There were no withholding taxes associated with the payment of dividends in either 2013, 2012 or 2011 by the Company to its shareholders.

The Company has determined that undistributed profits of its subsidiaries, joint venture or associate will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized, aggregate to Ps. 44,920 (December 31, 2012: Ps. 43,569 and December 31, 2011: Ps. 42,225).

#### *24.2 Other taxes*

The operations in Guatemala, Nicaragua, Colombia and Argentina are subject to a minimum tax, which is based primary on a percentage of assets. Any payments are recoverable in future years, under certain conditions.



**Table of Contents****Note 25. Other Liabilities, Provisions, Contingencies and Commitments***25.1 Other current financial liabilities*

|                                  | <b>December 31,<br/>2013</b> | December 31,<br>2012 |
|----------------------------------|------------------------------|----------------------|
| Sundry creditors                 | <b>Ps. 3,998</b>             | Ps. 3,129            |
| Derivative financial instruments | <b>347</b>                   | 279                  |
| <b>Total</b>                     | <b>Ps. 4,345</b>             | Ps. 3,408            |

*25.2 Provisions and other long term liabilities*

|               | <b>December 31,<br/>2013</b> | December 31,<br>2012 |
|---------------|------------------------------|----------------------|
| Provisions    | <b>Ps. 4,674</b>             | Ps. 2,476            |
| Taxes payable | <b>558</b>                   | 356                  |
| Others        | <b>885</b>                   | 938                  |
| <b>Total</b>  | <b>Ps. 6,117</b>             | Ps. 3,770            |

**Table of Contents***25.3 Other financial liabilities*

|                                  | <b>December 31,<br/>2013</b> | December 31,<br>2012 |
|----------------------------------|------------------------------|----------------------|
| Derivative financial instruments | <b>Ps. 1,526</b>             | Ps. 212              |
| Security deposits                | <b>142</b>                   | 268                  |
| <b>Total</b>                     | <b>Ps. 1,668</b>             | Ps. 480              |

*25.4 Provisions recorded in the consolidated statement of financial position*

The Company has various loss contingencies, and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. Most of these loss contingencies are the result of the Company's business acquisitions. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2013 and 2012:

|                               | <b>December 31,<br/>2013</b> | December 31,<br>2012 |
|-------------------------------|------------------------------|----------------------|
| Indirect taxes <sup>(1)</sup> | <b>Ps. 3,300</b>             | Ps. 1,263            |
| Labor                         | <b>1,063</b>                 | 934                  |
| Legal                         | <b>311</b>                   | 279                  |
| <b>Total</b>                  | <b>Ps. 4,674</b>             | Ps. 2,476            |

- (1) As of December 31, 2013 and 2012, indirect taxes include Ps. 246 and Ps. 250, respectively, of tax loss contingencies regarding indemnification accorded with Heineken over FEMSA Cerveza prior tax contingencies.

**Table of Contents***25.5 Changes in the balance of provisions recorded**25.5.1 Indirect taxes*

|   | <b>December 31,<br/>2013</b> | December 31,<br>2012 | December 31,<br>2011 |
|---|------------------------------|----------------------|----------------------|
| Balance at beginning of the year  | <b>Ps. 1,263</b>             | Ps. 1,405            | Ps. 1,358            |
| Penalties and other charges   | <b>1</b>                     | 107                  | 16                   |
| New contingencies   | <b>263</b>                   | 56                   | 43                   |
| Contingencies added in business combination   | <b>2,143</b>                 | 117                  | 170                  |
| Cancellation and expiration   | <b>(5)</b>                   | (124)                | (47)                 |
| Payments  | <b>(303)</b>                 | (157)                | (102)                |
| Current portion   | <b>(163)</b>                 | (52)                 | (113)                |
| Restatement of the beginning balance of subsidiaries in hyperinflationary economies | <b>101</b>                   | (89)                 | 80                   |
| Balance at end of the year  | <b>Ps. 3,300</b>             | Ps. 1,263            | Ps. 1,405            |

*25.5.2 Labor*

|   | <b>December 31,<br/>2013</b> | December 31,<br>2012 | December 31,<br>2011 |
|---|------------------------------|----------------------|----------------------|
| Balance at beginning of the year  | <b>Ps. 934</b>               | Ps. 1,128            | Ps. 1,134            |
| Penalties and other charges   | <b>139</b>                   | 189                  | 105                  |
| New contingencies   | <b>187</b>                   | 134                  | 122                  |
| Contingencies added in business combination   | <b>157</b>                   | 15                   | 8                    |
| Cancellation and expiration   | <b>(226)</b>                 | (359)                | (261)                |
| Payments  | <b>(69)</b>                  | (91)                 | (71)                 |
| Restatement of the beginning balance of subsidiaries in hyperinflationary economies | <b>(59)</b>                  | (82)                 | 91                   |
| Balance at end of the year  | <b>Ps. 1,063</b>             | Ps. 934              | Ps. 1,128            |

A roll forward for legal contingencies is not disclosed because the amounts are not considered to be material.

While provision for all claims has already been made, the actual outcome of the disputes and the timing of the resolution cannot be estimated by the Company at this time.

**Table of Contents***25.6 Unsettled lawsuits*

The Company has entered into several proceedings with its labor unions, tax authorities and other parties that primarily involve Coca-Cola FEMSA. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. The aggregate amount being claimed against the Company resulting from such proceedings as of December 31, 2013 is Ps. 20,671. Such contingencies were classified by legal counsel as less than probable but more than remote of being settled against the Company. However, the Company believes that the ultimate resolution of such several proceedings will not have a material effect on its consolidated financial position or result of operations.

In recent years in its Mexican and Brazilian territories, Coca-Cola FEMSA has been requested to present certain information regarding possible monopolistic practices. These requests are commonly generated in the ordinary course of business in the soft drink industry where this subsidiary operates. The Company does not expect any material liability to arise from these contingencies.

*25.7 Collateralize contingencies*

As is customary in Brazil, the Company has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 2,248 and Ps. 2,164 as of December 31, 2013 and 2012, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies.

*25.8 Commitments*

As of December 31, 2013, the Company has contractual commitments for finance leases for machinery and transport equipment and operating lease for the rental of production machinery and equipment, distribution and computer equipment, and land for FEMSA Comercio s operations.

The contractual maturities of the operating lease commitments by currency, expressed in Mexican pesos as of December 31, 2013, are as follows:

|  | Mexican<br>Pesos | U.S.<br>Dollars | Others  |
|--|------------------|-----------------|---------|
| Not later than 1 year                        | Ps. 3,067        | Ps. 141         | Ps. 76  |
| Later than 1 year and not later than 5 years | 10,919           | 509             | 84      |
| Later than 5 years                           | 13,801           | 246             | 6       |
| Total  | Ps. 27,787       | Ps. 896         | Ps. 166 |

Rental expense charged to consolidated net income was Ps. 4,345, Ps. 4,032 and Ps. 3,248 for the years ended December 31, 2013, 2012 and 2011, respectively.

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Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows:

|  | <b>2013<br/>Minimum<br/>Payments<br/>Ps.</b> | <b>Present<br/>Value of<br/>Payments<br/>Ps.</b> | 2012<br>Minimum<br>Payments<br>Ps. | Present<br>Value of<br>Payments<br>Ps. |
|--|--|--|------------------------------------|--|
| Not later than 1 year                          | <b>322</b>                                   | <b>276</b>                                       | 236                                | 225                                    |
| Later than 1 year and not later than 5 years   | <b>852</b>                                   | <b>789</b>                                       | 134                                | 122                                    |
| <b>Total minimum lease payments</b>            | <b>1,174</b>                                 | <b>1,065</b>                                     | 370                                | 347                                    |
| Less amount representing finance charges       | <b>109</b>                                   |  | 23                                 |  |
| <b>Present value of minimum lease payments</b> | <b>1,065</b>                                 | <b>1,065</b>                                     | 347                                | 347                                    |

The Company through its subsidiary Coca-Cola FEMSA has firm commitments for the purchase of property, plant and equipment of Ps. 1,828 as December 31, 2013.

*25.9 Restructuring provision*

Coca-Cola FEMSA recorded a restructuring provision. This provision relates principally to reorganization in the structure of Coca-Cola FEMSA. The restructuring plan was drawn up and announced to the employees of Coca-Cola FEMSA in 2011 when the provision was recognized in its consolidated financial statements. The restructuring of Coca-Cola FEMSA was completed by 2013.

|                                   | <b>December 31,<br/>2013<br/>Ps.</b> | December 31,<br>2012<br>Ps. | December 31,<br>2011<br>Ps. |
|-----------------------------------|--------------------------------------|-----------------------------|-----------------------------|
| Balance at beginning of the year  | <b>90</b>                            | 153                         | 230                         |
| New                               | <b>179</b>                           | 195                         | 48                          |
| Payments                          | <b>(234)</b>                         | (258)                       | (76)                        |
| Cancellation                      | <b>(35)</b>                          |                             | (49)                        |
| <b>Balance at end of the year</b> | <b>Ps.</b>                           | Ps. 90                      | Ps. 153                     |

**Note 26. Information by Segment**

The analytical information by segment is presented considering the Company's business units (Subholding Companies as defined in Note 1), which is consistent with the internal reporting presented to the Chief Operating Decision Maker. A segment is a component of the Company that engages in business activities from which it earns revenues, and incurs the related costs and expenses, including revenues, costs and expenses that relate to transactions with any of Company's other components. All segments' operating results are reviewed regularly by the Chief Operating Decision Maker, which makes decisions about the resources that would be allocated to the segment and to assess its performance, and for which financial information is available.

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Inter-segment transfers or transactions are entered into and presented under accounting policies of each segment, which are the same to those applied by the Company. Intercompany operations are eliminated and presented within the consolidation adjustment column included in the tables below.

**a) By Business Unit:**

| 2013  | Coca-Cola<br>FEMSA | FEMSA<br>Comercio | CB<br>Equity | Other <sup>(1)</sup> | Consolidation<br>Adjustments | Consolidated |
|---|--------------------|-------------------|--------------|----------------------|------------------------------|--------------|
|   | Ps. 156,011        | Ps. 97,572        | Ps.          | Ps. 17,254           | Ps. (12,740)                 | Ps. 258,097  |
| Total revenues  |                    |                   |              |                      |                              |              |
| Intercompany revenue  | 3,116              |                   |              | 9,624                | (12,740)                     |              |
| Gross profit  | 72,935             | 34,586            |              | 4,670                | (2,537)                      | 109,654      |
| Administrative expenses   |                    |                   |              |                      |                              | 9,963        |
| Selling expenses  |                    |                   |              |                      |                              | 69,574       |
| Other income  |                    |                   |              |                      |                              | 651          |
| Other expenses  |                    |                   |              |                      |                              | (1,439)      |
| Interest expense  | (3,341)            | (601)             |              | (865)                | 476                          | (4,331)      |
| Interest income   | 654                | 5                 | 12           | 1,030                | (476)                        | 1,225        |
| Other net finance expenses <sup>(3)</sup>   |                    |                   |              |                      |                              | (1,143)      |
| Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method | 17,224             | 2,890             | 4            | 5,120                | (158)                        | 25,080       |
| Income taxes  | 5,731              | 339               | 1            | 1,685                |                              | 7,756        |
| Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes                  | 289                | 11                | 4,587        | (56)                 |                              | 4,831        |
| Consolidated net income   |                    |                   |              |                      |                              | 22,155       |
| Depreciation and amortization <sup>(2)</sup>  | 7,132              | 2,443             |              | 121                  |                              | 9,696        |
| Non-cash items other than depreciation and amortization   | 12                 | 197               |              | 108                  |                              | 317          |
| Investments in associates and joint ventures  | 16,767             | 734               | 80,351       | 478                  |                              | 98,330       |
| Total assets  | 216,665            | 39,617            | 82,576       | 45,487               | (25,153)                     | 359,192      |
| Total liabilities   | 99,512             | 37,858            | 1,933        | 21,807               | (24,468)                     | 136,642      |
| Investments in fixed assets <sup>(4)</sup>  | 11,703             | 5,683             |              | 831                  | (335)                        | 17,882       |

(1) Includes other companies (see Note 1) and corporate.

(2) Includes bottle breakage.

(3) Includes foreign exchange loss, net; loss on monetary position for subsidiaries in hyperinflationary economies; and market value gain on financial instruments.

(4) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

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| 2012  | Coca-Cola<br>FEMSA | FEMSA<br>Comercio | CB Equity | Other <sup>(1)</sup> | Consolidation<br>Adjustments | Consolidated |
|---|--------------------|-------------------|-----------|----------------------|------------------------------|--------------|
|   | Ps. 147,739        | Ps. 86,433        | Ps.       | Ps. 15,899           | Ps. (11,762)                 | Ps. 238,309  |
| Total revenues  |                    |                   |           |                      |                              |              |
| Intercompany revenue  | 2,873              | 5                 |           | 8,884                | (11,762)                     |              |
| Gross profit  | 68,630             | 30,250            |           | 4,647                | (2,227)                      | 101,300      |
| Administrative expenses   |                    |                   |           |                      |                              | 9,552        |
| Selling expenses  |                    |                   |           |                      |                              | 62,086       |
| Other income  |                    |                   |           |                      |                              | 1,745        |
| Other expenses  |                    |                   |           |                      |                              | (1,973)      |
| Interest expense  | (1,955)            | (445)             |           | (511)                | 405                          | (2,506)      |
| Interest income   | 424                | 19                | 18        | 727                  | (405)                        | 783          |
| Other net finance expenses <sup>(3)</sup>   |                    |                   |           |                      |                              | (181)        |
| Income before income taxes and share of<br>the profit of associates and joint ventures<br>accounted for using the equity method | 19,992             | 6,146             | 10        | 1,620                | (238)                        | 27,530       |
| Income taxes  | 6,274              | 729               |           | 946                  |                              | 7,949        |
| Share of the profit of associates and joint<br>ventures accounted for using the equity<br>method, net of taxes                  | 180                | (23)              | 8,311     | 2                    |                              | 8,470        |
| Consolidated net income   |                    |                   |           |                      |                              | 28,051       |
| Depreciation and amortization <sup>(2)</sup>  | 5,692              | 2,031             |           | 293                  | (126)                        | 7,890        |
| Non-cash items other than depreciation and<br>amortization  | 580                | 200               |           | 237                  |                              | 1,017        |
| Investments in associates and joint ventures  | 5,352              | 459               | 77,484    | 545                  |                              | 83,840       |
| Total assets  | 166,103            | 31,092            | 79,268    | 31,078               | (11,599)                     | 295,942      |
| Total liabilities   | 61,275             | 21,356            | 1,822     | 12,409               | (11,081)                     | 85,781       |
| Investments in fixed assets <sup>(4)</sup>  | 10,259             | 4,707             |           | 959                  | (365)                        | 15,560       |

(1) Includes other companies (see Note 1) and corporate.

(2) Includes bottle breakage.

(3) Includes foreign exchange loss, net; loss on monetary position for subsidiaries in hyperinflationary economies; and market value gain on financial instruments.

(4) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.

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| 2011  | Coca-Cola<br>FEMSA | FEMSA<br>Comercio | CB<br>Equity | Other <sup>(1)</sup> | Consolidation<br>Adjustments | Consolidated |
|---|--------------------|-------------------|--------------|----------------------|------------------------------|--------------|
|   | Ps. 123,224        | Ps. 74,112        | Ps.          | Ps. 13,360           | Ps. (9,156)                  | Ps. 201,540  |
| Total revenues  |                    |                   |              |                      |                              |              |
| Intercompany revenue  | 2,099              | 2                 |              | 7,055                | (9,156)                      |              |
| Gross profit  | 56,531             | 25,476            |              | 3,884                | (1,595)                      | 84,296       |
| Administrative expenses   |                    |                   |              |                      |                              | 8,172        |
| Selling expenses  |                    |                   |              |                      |                              | 50,685       |
| Other income  |                    |                   |              |                      |                              | 381          |
| Other expenses  |                    |                   |              |                      |                              | (2,072)      |
| Interest expense  | (1,729)            | (396)             |              | (540)                | 363                          | (2,302)      |
| Interest income   | 616                | 12                | 7            | 742                  | (363)                        | 1,014        |
| Other net finance income <sup>(3)</sup>   |                    |                   |              |                      |                              | 1,092        |
| Income before income taxes and share of<br>the profit of associates and joint ventures<br>accounted for using the equity method | 16,794             | 4,993             |              | 1,827                | (62)                         | 23,552       |
| Income taxes  | 5,667              | 578               | 67           | 1,306                |                              | 7,618        |
| Share of the profit of associates and joint<br>ventures accounted for using the equity<br>method, net of taxes                  | 86                 |                   | 4,880        | 1                    |                              | 4,967        |
| Consolidated net income   |                    |                   |              |                      |                              | 20,901       |
| Depreciation and amortization <sup>(2)</sup>  | 4,219              | 1,778             |              | 246                  | (80)                         | 6,163        |
| Non-cash items other than depreciation<br>and amortization  | 638                | 170               |              | 31                   |                              | 839          |
| Investments in fixed assets <sup>(4)</sup>  | 7,862              | 4,186             |              | 735                  | (117)                        | 12,666       |

(1) Includes other companies (see Note 1) and corporate.

(2) Includes bottle breakage.

(3) Includes foreign exchange gain, net; gain on monetary position for subsidiaries in hyperinflationary economies; and market value loss on financial instruments.

(4) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other long-lived assets.



**Table of Contents****b) Information by geographic area:**

The Company aggregates geographic areas into the following for the purposes of its consolidated financial statements: (i) Mexico and Central America division (comprising the following countries: Mexico, Guatemala, Nicaragua, Costa Rica and Panama) and (ii) the South America division (comprising the following countries: Brazil, Argentina, Colombia and Venezuela). Venezuela operates in an economy with exchange controls and hyper-inflation; and as a result, it is not aggregated into the South America area.

Geographic disclosure for the Company is as follow:

|   | Total<br>Revenues | Total Non<br>Current<br>Assets |
|---|-------------------|--------------------------------|
| <b>2013</b>                                   |                   |                                |
| Mexico and Central America <sup>(1) (2)</sup> | Ps.171,726        | Ps.133,571                     |
| South America <sup>(3)</sup>                  | 55,157            | 61,143                         |
| Venezuela                                     | 31,601            | 10,558                         |
| Europe  |                   | 80,351                         |
| Consolidation adjustments                     | (387)             |                                |
| Consolidated                                  | Ps.258,097        | Ps.285,623                     |
| <b>2012</b>                                   |                   |                                |
| Mexico and Central America <sup>(1)</sup>     | Ps.155,576        | Ps.104,983                     |
| South America <sup>(3)</sup>                  | 56,444            | 29,275                         |
| Venezuela                                     | 26,800            | 9,127                          |
| Europe  |                   | 77,484                         |
| Consolidation adjustments                     | (511)             | (382)                          |
| Consolidated                                  | Ps.238,309        | Ps.220,487                     |
| <b>2011</b>                                   |                   |                                |
| Mexico and Central America <sup>(1)</sup>     |                   | Ps.129,716                     |
| South America <sup>(3)</sup>                  |                   | 52,149                         |
| Venezuela                                     |                   | 20,173                         |
| Europe  |                   |                                |
| Consolidation adjustments                     |                   | (498)                          |
| Consolidated                                  |                   | Ps.201,540                     |

(1) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 163,351, Ps. 148,098 and Ps. 122,690 during the years ended December 31, 2013, 2012 and 2011, respectively. Domestic (Mexico only) non-current assets were Ps. 127,693 and Ps. 99,772, as of December 31, 2013, and December 31, 2012, respectively.

(2) Coca-Cola FEMSA's Asian division consists of the 51% equity investment in CCBPI (Philippines) which was acquired in 2013, and is accounted for using the equity method of accounting (see Note 10). The equity in earnings of the Asian division were Ps. 108 in 2013, as is the equity method investment in CCBPI Ps. 9,398 and this is presented as part of the Company's corporate operations in 2013 and thus disclosed net in the table above as part of the Total Non Current assets in the Mexico & Central America division. However, the Asian division is represented by the following investee level amounts, prior to reflection of the Company's 51% equity interest in the

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- accompanying consolidated financial statements: revenues Ps. 13,438, gross profit Ps. 4,285, income before income taxes Ps. 310, depreciation and amortization Ps. 1,229, total assets Ps. 17,232, total liabilities Ps. 4,488, capital expenditures Ps. 1,889.
- (3) South America includes Brazil, Argentina, Colombia and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 31,138, Ps. 30,930 and Ps. 31,405 during the years ended December 31, 2013, 2012 and 2011, respectively. Brazilian non-current assets were Ps. 45,900 and Ps. 14,221, as of December 31, 2013 and December 31, 2012, respectively. South America revenues include Colombia revenues of Ps. 13,354, Ps. 14,597 and Ps. 12,320 during the years ended December 31, 2013, 2012 and 2011, respectively. Colombia non-current assets were Ps. 12,888 and Ps. 13,203, as of December 31, 2013 and December 31, 2012, respectively. South America revenues include Argentina revenues of Ps. 10,729, Ps. 10,270 and Ps. 8,399 during the years ended December 31, 2013, 2012 and 2011, respectively. Argentina non-current assets were Ps. 2,042 and Ps. 2,188, as of December 31, 2013 and December 31, 2012, respectively.

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**Note 27. Future Impact of Recently Issued Accounting Standards not yet in Effect**

The Company has not applied the following new and revised IFRS and IAS, that have been issued but are not yet effective as of December 31, 2013.

IFRS 9, *Financial Instruments* as issued in November 2009, and amended in October 2010, introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. The standard requires all recognized financial assets that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at FVTPL) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was recognized in profit or loss.

IFRS 9, was further amended in November 2013, and as such introduces a new chapter on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. In addition, IFRS 9 as amended in 2013 permits an entity to apply only those requirements introduced in IFRS 9 as amended in 2010 for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in other comprehensive income rather than within profit or loss.

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IFRS 9 as amended in 2013 removes the mandatory effective date that had been established for IFRS 9, in 2009 and 2010, leaving the effective date open pending the finalization of the impairment and classification and measurement requirements. The Company has decided that the adoption of this standard will not take place until IFRS 9 is completed. It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the final version has been issued.

*Amendments to IAS 19 (2011) Employee Benefits* : With regards to employee contributions to defined benefit plans, these amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, they permit a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions can be, but are not required to be, recognized as a reduction in the service cost in the period in which the related service is rendered. The amendments to IAS 19 are effective for annual periods beginning on or after July 1, 2014. These amendments have not been early adopted by the Company and are not expected to have a material effects on its consolidated financial statements.

*Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities* : These amendments clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of currently has a legally enforceable right of set-off and simultaneous realization and settlement. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, with retrospective application required. These amendments have not been early adopted by the Company and are not expected to have a material effect on its consolidated financial statements.

*Amendments to IAS 36 Impairment of Assets* : These amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. These amendments have not been early adopted by the Company and are not expected to have a material effect on its consolidated financial statements.

*Amendments to IAS 39 Financial Instruments: Recognition and Measurement* : These amendments clarify that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations. The amendments to IAS 39 have not been early adopted by the Company and are not expected to have a material effect on its consolidated financial statements.

*Annual Improvements 2010-2012 Cycle*: These Annual Improvements make amendments to: IFRS 2 Share-based payment, by amending the definitions of vesting condition and market condition, and adding definitions for performance condition and service condition; IFRS 3 Business combinations, by requiring contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date; IFRS 8 Operating

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segments, requiring disclosure of the judgments made by management in applying the aggregation criteria to operating segments and clarifying that reconciliations of segment assets are only required if segment assets are reported regularly; IFRS 13 Fair value measurement, by clarifying that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only); IAS 16 Property, plant and equipment and IAS 38 Intangible assets, by clarifying that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount; and IAS 24 Related party Disclosures, by clarifying how payments to entities providing management services are to be disclosed. These Annual Improvements are applicable to annual periods beginning on or after 1 July 2014. The Company has yet to complete its evaluation of whether these improvements will have a significant impact on its consolidated financial statements.

Annual Improvements 2011-2013 Cycle: These Annual Improvements make amendments to the following standards that are applicable to the Company: IFRS 3, by clarifying that the standard excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; IFRS 13, by clarifying the scope of the portfolio exception of paragraph 52, which permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received by selling a net long position for a particular risk exposure or by transferring a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. These Annual Improvements are applicable to annual periods beginning on or after July 1, 2014. The Company has yet to complete its evaluation of whether these improvements will have a significant impact on its consolidated financial statements.

IFRIC 21 *Levies* : This Interpretation provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and those where the timing and amount of the levy is certain. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides guidance on recognition of a liability to pay levies, where the liability is recognized progressively if the obligating event occurs over a period of time; and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This Interpretation is effective for accounting periods beginning on or after January 1, 2014, with early adoption permitted. The Company has not early adopted this IFRIC, and the Company has yet to complete its evaluation of whether it will have a material impact on its consolidated financial statements.

**Note 28. Subsequent Events**

On January 13, 2014 Coca-Cola FEMSA issued a U.S. dollar-denominated 10-year bonds and 30-year bonds that were placed on November 19, 2013 (the Original Senior Notes ) in the international capital markets, to increase the total principal amount to U.S.\$2.5 billion (in three tranches), placing an additional US \$150 million for 10-year bonds at a yield of US Treasury +107 basis points, with a coupon of 3.875%; and an additional US\$200 million for 30-year bonds at a yield of US Treasury +122 basis points, with a coupon of 5.250% (the Additional Senior Notes ). Coca-Cola FEMSA's 10-year bonds now have an aggregate principal amount of US \$900 million and 30-year bonds now have an aggregate principal amount of US \$600 million. The Additional Senior Notes have the same CUSIP and the same coupon as the respective Original Senior Notes. The Additional Senior Notes have the same CUSIP and the same coupon as the respective Original Senior Notes. These notes are guaranteed by the Guarantors Subsidiaries.

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

In January 2014, the Venezuelan government announced that certain transactions, such as payment of services and payments related to foreign investments in Venezuela, must be settled at an alternative exchange rate determined by the state-run system known as the Sistema Complementario de Administración de Divisas, or SICAD. The SICAD determines this alternative exchange rate based on limited periodic sales of U.S. dollars through auctions. The exchange rate based on the most recent SICAD auction, held on April 4, 2014, and in effect as of April 7, 2014, was 10.00 bolivars to US\$1.00. Imports of Coca-Cola FEMSA's raw materials into Venezuela qualify as transactions that may be settled using the official exchange rate of 6.30 bolivars to US\$1.00, thus, Coca-Cola FEMSA will continue to account for these transactions using such official exchange rate. Coca-Cola FEMSA will recognize in the cumulative translation account in its consolidated financial statements as of March 31, 2014 a reduction in equity as a result of the valuation of its net investment in Venezuela at the SICAD exchange rate (10.70 bolivars to US\$1.00 as of March 31, 2014). As of December 31, 2013, Coca-Cola FEMSA foreign direct investment in Venezuela was Ps.13,788 million (at the official exchange rate of 6.30 bolivars per US\$1.00). In addition, in March 2014, the Venezuelan government enacted a new law that authorizes an additional method (known as SICAD II) of exchanging Venezuelan bolivars to U.S. dollars at rates other than the current official exchange and the existing SICAD rates, for any transaction other than those described above. As of April 4, 2014, the SICAD II exchange rate was 49.04 bolivars to US\$1.00.

In February 2014, Coca-Cola FEMSA prepaid in full the following Bank loans denominated in pesos: i) Ps. 250 (nominal amount) with a maturity date in 2015, ii) Ps. 1,000 (nominal amount) with a maturity date in 2015, iii) Ps. 375 (nominal amount) with a maturity date in 2015, iv) Ps. 1,100 (nominal amount) with a maturity date in 2014 and v) Ps. 1,450 (nominal amount) with a maturity date in 2015.

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**Report of Independent Registered Public Accounting Firm**

To: The Executive and Supervisory Board of Heineken N.V.

We have audited the accompanying consolidated statements of financial position of Heineken N.V. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of cash flows, and consolidated statements of changes in equity for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heineken N.V. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

/s/ KPMG Accountants N.V.

Amsterdam, the Netherlands

February 11, 2014

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**Table of Contents****Financial statements****Consolidated Income Statement**

|  | Note | 2013            | 2012*       | 2011*       |
|--|------|-----------------|-------------|-------------|
| For the year ended 31 December   |      |                 |             |             |
| In millions of EUR   |      |                 |             |             |
| Revenue  | 5    | 19,203          | 18,383      | 17,123      |
| Other income   | 8    | 226             | 1,510       | 64          |
| Raw materials, consumables and services  | 9    | (12,186)        | (11,849)    | (10,966)    |
| Personnel expenses   | 10   | (3,108)         | (3,031)     | (2,835)     |
| Amortisation, depreciation and impairments   | 11   | (1,581)         | (1,316)     | (1,168)     |
| Total expenses   |      | <b>(16,875)</b> | (16,196)    | (14,969)    |
| Results from operating activities  |      | <b>2,554</b>    | 3,697       | 2,218       |
| Interest income  | 12   | 47              | 62          | 70          |
| Interest expenses  | 12   | (579)           | (551)       | (494)       |
| Other net finance income/(expenses)  | 12   | (61)            | 168         | (33)        |
| Net finance expenses   |      | <b>(593)</b>    | (321)       | (457)       |
| Share of profit of associates and joint ventures and impairments thereof (net of income tax) | 16   | 146             | 213         | 240         |
| Profit before income tax   |      | <b>2,107</b>    | 3,589       | 2,001       |
| Income tax expense   | 13   | (520)           | (515)       | (459)       |
| Profit   |      | <b>1,587</b>    | 3,074       | 1,542       |
| Attributable to:   |      |                 |             |             |
| Equity holders of the Company (net profit)   |      | 1,364           | 2,914       | 1,412       |
| Non-controlling interests  |      | 223             | 160         | 130         |
| Profit   |      | <b>1,587</b>    | 3,074       | 1,542       |
| Weighted average number of shares basic  | 23   | 575,062,357     | 575,022,338 | 585,100,381 |
| Weighted average number of shares diluted  | 23   | 576,002,613     | 576,002,613 | 586,277,702 |
| Basic earnings per share (EUR)   | 23   | 2.37            | 5.07        | 2.41        |
| Diluted earnings per share (EUR)   | 23   | 2.37            | 5.06        | 2.41        |

\* Restated for the revised IAS 19.



**Table of Contents****Financial statements***Consolidated Statement of Comprehensive Income*

|   | Note  | 2013           | 2012* | 2011* |
|---|-------|----------------|-------|-------|
| For the year ended 31 December  |       |                |       |       |
| In millions of EUR  |       |                |       |       |
| Profit  |       | <b>1,587</b>   | 3,074 | 1,542 |
| Other comprehensive income:   |       |                |       |       |
| Items that will not be reclassified to profit or loss:                                |       |                |       |       |
| Actuarial gains and losses  | 24/28 | 197            | (404) | (75)  |
| Items that may be subsequently reclassified to profit or loss:                        |       |                |       |       |
| Currency translation differences  | 24    | (1,282)        | 39    | (493) |
| Recycling of currency translation differences to profit or loss                       | 24    | 1              |       |       |
| Effective portion of net investment hedges  | 24    | 13             | 6     |       |
| Effective portion of changes in fair value of cash flow hedges                        | 24    | 16             | 14    | (21)  |
| Effective portion of cash flow hedges transferred to profit or loss                   | 24    | (4)            | 41    | (11)  |
| Net change in fair value available-for-sale investments                               | 24    | (53)           | 135   | 71    |
| Net change in fair value available-for-sale investments transferred to profit or loss | 24    |                | (148) | (1)   |
| Share of other comprehensive income of associates/joint ventures                      | 24    | 5              | (1)   | (5)   |
| Other comprehensive income, net of tax  | 24    | <b>(1,107)</b> | (318) | (535) |
| Total comprehensive income  |       | <b>480</b>     | 2,756 | 1,007 |
| Attributable to:  |       |                |       |       |
| Equity holders of the Company   |       | 336            | 2,608 | 884   |
| Non-controlling interests   |       | 144            | 148   | 123   |
| Total comprehensive income  |       | <b>480</b>     | 2,756 | 1,007 |

\* Restated for the revised IAS 19.

**Table of Contents****Financial statements****Consolidated Statement of Financial Position**

|  | Note | 2013          | 2012*  |
|--|------|---------------|--------|
| As at 31 December                                    |      |               |        |
| In millions of EUR                                   |      |               |        |
| <b>Assets</b>  |      |               |        |
| Property, plant & equipment                          | 14   | 8,454         | 8,844  |
| Intangible assets                                    | 15   | 15,934        | 17,688 |
| Investments in associates and joint ventures         | 16   | 1,883         | 1,950  |
| Other investments and receivables                    | 17   | 762           | 1,099  |
| Advances to customers                                |      | 301           | 312    |
| Deferred tax assets                                  | 18   | 508           | 550    |
| Total non-current assets                             |      | <b>27,842</b> | 30,443 |
| Inventories  | 19   | 1,512         | 1,596  |
| Other investments                                    | 17   | 11            | 11     |
| Trade and other receivables                          | 20   | 2,427         | 2,537  |
| Prepayments and accrued income                       |      | 218           | 232    |
| Cash and cash equivalents                            | 21   | 1,290         | 1,037  |
| Assets classified as held for sale                   | 7    | 37            | 124    |
| Total current assets                                 |      | <b>5,495</b>  | 5,537  |
| Total assets   |      | <b>33,337</b> | 35,980 |
| <b>Equity</b>  |      |               |        |
| Share capital  | 22   | 922           | 922    |
| Share premium  | 22   | 2,701         | 2,701  |
| Reserves   |      | (858)         | 365    |
| Retained earnings                                    |      | 8,637         | 7,746  |
| Equity attributable to equity holders of the Company |      | <b>11,402</b> | 11,734 |
| Non-controlling interests                            | 22   | 954           | 1,071  |
| Total equity   |      | <b>12,356</b> | 12,805 |
| <b>Liabilities</b>                                   |      |               |        |
| Loans and borrowings                                 | 25   | 9,853         | 11,437 |
| Tax liabilities                                      |      | 112           | 140    |
| Employee benefits                                    | 28   | 1,202         | 1,575  |
| Provisions   | 30   | 367           | 419    |
| Deferred tax liabilities                             | 18   | 1,444         | 1,792  |
| Total non-current liabilities                        |      | <b>12,978</b> | 15,363 |
| Bank overdrafts                                      | 21   | 178           | 191    |
| Loans and borrowings                                 | 25   | 2,195         | 1,863  |
| Trade and other payables                             | 31   | 5,131         | 5,285  |
| Tax liabilities                                      |      | 317           | 305    |
| Provisions   | 30   | 171           | 129    |
| Liabilities classified as held for sale              | 7    | 11            | 39     |
| Total current liabilities                            |      | <b>8,003</b>  | 7,812  |
| Total liabilities                                    |      | <b>20,981</b> | 23,175 |
| Total equity and liabilities                         |      | <b>33,337</b> | 35,980 |

\* Restated for the revised IAS 19 and finalisation of the purchase price allocation for APB.

**Table of Contents****Financial statements****Consolidated Statement of Cash Flows**

|   | Note | 2013           | 2012*   | 2011* |
|---|------|----------------|---------|-------|
| For the year ended 31 December  |      |                |         |       |
| In millions of EUR  |      |                |         |       |
| <b>Operating activities</b>   |      |                |         |       |
| Profit  |      | 1,587          | 3,074   | 1,542 |
| Adjustments for:  |      |                |         |       |
| Amortisation, depreciation and impairments  | 11   | 1,581          | 1,316   | 1,168 |
| Net interest expenses   | 12   | 532            | 489     | 424   |
| Gain on sale of property, plant & equipment, intangible assets and subsidiaries, joint ventures and associates  | 8    | (226)          | (1,510) | (64)  |
| Investment income and share of profit and impairments of associates and joint ventures and dividend income on available-for-sale and held-for-trading investments |      | (160)          | (238)   | (252) |
| Income tax expenses   | 13   | 520            | 515     | 459   |
| Other non-cash items  |      | 156            | (65)    | 268   |
| Cash flow from operations before changes in working capital and provisions  |      | <b>3,990</b>   | 3,581   | 3,545 |
| Change in inventories   |      | (42)           | (52)    | (145) |
| Change in trade and other receivables   |      | 5              | (64)    | (21)  |
| Change in trade and other payables  |      | 88             | 217     | 417   |
| Total change in working capital   |      | <b>51</b>      | 101     | 251   |
| Change in provisions and employee benefits  |      | (58)           | (164)   | (76)  |
| Cash flow from operations   |      | <b>3,983</b>   | 3,518   | 3,720 |
| Interest paid   |      | (557)          | (490)   | (485) |
| Interest received   |      | 56             | 82      | 65    |
| Dividends received  |      | 148            | 184     | 137   |
| Income taxes paid   |      | (716)          | (599)   | (526) |
| Cash flow related to interest, dividend and income tax  |      | <b>(1,069)</b> | (823)   | (809) |
| Cash flow from operating activities   |      | <b>2,914</b>   | 2,695   | 2,911 |
| <b>Investing activities</b>   |      |                |         |       |
| Proceeds from sale of property, plant & equipment and intangible assets   |      | 152            | 131     | 101   |
| Purchase of property, plant & equipment   | 14   | (1,369)        | (1,170) | (800) |
| Purchase of intangible assets   | 15   | (77)           | (78)    | (56)  |
| Loans issued to customers and other investments   |      | (143)          | (143)   | (127) |
| Repayment on loans to customers   |      | 41             | 50      | 64    |
| Cash flow (used in)/from operational investing activities   |      | <b>(1,396)</b> | (1,210) | (818) |
| Free operating cash flow  |      | <b>1,518</b>   | 1,485   | 2,093 |
| Acquisition of subsidiaries, net of cash acquired   |      | (17)           | (3,311) | (806) |
| Acquisition of/additions to associates, joint ventures and other investments  |      | (53)           | (1,246) | (166) |
| Disposal of subsidiaries, net of cash disposed of   | 6    | 460            |         | (9)   |
| Disposal of associates, joint ventures and other investments  | 6    | 165            | 142     | 44    |
| Cash flow (used in)/from acquisitions and disposals   |      | <b>555</b>     | (4,415) | (937) |
| Cash flow (used in)/from investing activities   |      | <b>(841)</b>   | (5,625) | 1,755 |

**Table of Contents***Consolidated Statement of Cash Flows (second half)*

|   | Note | 2013           | 2012*   | 2011*   |
|---|------|----------------|---------|---------|
| For the year ended 31 December                    |      |                |         |         |
| In millions of EUR                                |      |                |         |         |
| <b>Financing activities</b>                       |      |                |         |         |
| Proceeds from loans and borrowings                |      | 1,663          | 6,837   | 1,782   |
| Repayment of loans and borrowings                 |      | (2,474)        | (2,928) | (1,587) |
| Dividends paid                                    |      | (710)          | (604)   | (580)   |
| Purchase own shares                               |      | (21)           |         | (687)   |
| Acquisition of non-controlling interests          |      | (209)          | (252)   | (11)    |
| Disposal of interests without a change in control |      |                |         | 43      |
| Other   |      | (1)            | 3       | 6       |
| Cash flow (used in)/from financing activities     |      | <b>(1,752)</b> | 3,056   | 1,034   |
| <b>Net cash flow</b>                              |      | <b>321</b>     | 126     | 122     |
| Cash and cash equivalents as at 1 January         |      | 846            | 606     | 478     |
| Effect of movements in exchange rates             |      | (55)           | 114     | 6       |
| Cash and cash equivalents as at 31 December       | 21   | <b>1,112</b>   | 846     | 606     |

\* Restated for the revised IAS 19.

**Table of Contents****Financial statements****Consolidated Statement of Changes in Equity**

| In millions of EUR   | Note  | Share capital | Share Premium | Translation reserve | Hedging reserve | Fair value reserve | Other legal reserves | Reserve for own shares | ASDI  | Retained earnings | Equity attributable to holders of Company equity | Non-controlling interests | Total equity |
|--|-------|---------------|---------------|---------------------|-----------------|--------------------|----------------------|------------------------|-------|-------------------|--|---------------------------|--------------|
| Balance as at 1 January 2011   |       | 922           | 2,701         | (93)                | (27)            | 90                 | 899                  | (55)                   | 666   | 4,829             | 9,932  | 288                       | 10,220       |
| Policy change  |       |               |               |                     |                 |                    |                      |                        |       | 43                | 43   |                           | 43           |
| Restated balance as at 1 January 2011*                               |       | 922           | 2,701         | (93)                | (27)            | 90                 | 899                  | (55)                   | 666   | 4,872             | 9,975  | 288                       | 10,263       |
| Profit   |       |               |               |                     |                 |                    | 253                  |                        |       | 1,159             | 1,412  | 130                       | 1,542        |
| Other comprehensive income   | 12/24 |               |               | (482)               | (42)            | 69                 |                      |                        |       | (73)              | (528)  | (7)                       | (535)        |
| Total comprehensive income   |       |               |               | (482)               | (42)            | 69                 | 253                  |                        |       | 1,086             | 884  | 123                       | 1,007        |
| Transfer to retained earnings  |       |               |               |                     |                 |                    | (126)                |                        |       | 126               |  |                           |              |
| Dividends to shareholders  |       |               |               |                     |                 |                    |                      |                        |       | (474)             | (474)  | (97)                      | (571)        |
| Purchase/reissuance of own/non-controlling shares                    |       |               |               |                     |                 |                    |                      | (687)                  |       |                   | (687)  | (1)                       | (688)        |
| Allotted share delivery  |       |               |               |                     |                 |                    |                      | 694                    | (666) | (28)              |  |                           |              |
| Own shares delivered   |       |               |               |                     |                 |                    |                      | 5                      |       | (5)               |  |                           |              |
| Share-based payments   |       |               |               |                     |                 |                    |                      |                        |       | 11                | 11   |                           | 11           |
| Share purchase mandate   |       |               |               |                     |                 |                    |                      |                        |       | 96                | 96   |                           | 96           |
| Acquisition of non-controlling interests without a change in control |       |               |               |                     |                 |                    |                      |                        |       | (21)              | (21)   | (1)                       | (22)         |
| Disposal of interests without a change in control                    |       |               |               |                     |                 |                    |                      |                        |       | 33                | 33   | 6                         | 39           |
| Balance as at 31 December 2011                                       |       | 922           | 2,701         | (575)               | (69)            | 159                | 1,026                | (43)                   |       | 5,696             | 9,817  | 318                       | 10,135       |

\* Restated for the revised IAS 19

**Table of Contents****Financial statements****Consolidated Statement of Changes in Equity**

| In millions of EUR   | Note | Share capital | Share Premium | Translation reserve | Hedging reserve | Fair value reserve | Other legal reserves | Reserve for own shares | Retained earnings | Equity attributable to equity holders of the Company | Non-controlling interests | Total equity |
|--|------|---------------|---------------|---------------------|-----------------|--------------------|----------------------|------------------------|-------------------|--|---------------------------|--------------|
| Balance as at 1 January 2012   |      | 922           | 2,701         | (575)               | (69)            | 159                | 1,026                | (43)                   | 5,653             | 9,774  | 318                       | 10,092       |
| Policy change  |      |               |               |                     |                 |                    |                      |                        | 43                | 43   |                           | 43           |
| Restated balance as at 1 January 2012*                                     |      | 922           | 2,701         | (575)               | (69)            | 159                | 1,026                | (43)                   | 5,696             | 9,817  | 318                       | 10,135       |
| Profit   |      |               |               |                     |                 |                    | 222                  |                        | 2,692             | 2,914  | 160                       | 3,074        |
| Other comprehensive income   | 24   |               |               | 48                  | 58              | (9)                | 4                    |                        | (407)             | (306)  | (12)                      | (318)        |
| <b>Total comprehensive income</b>  |      |               |               | 48                  | 58              | (9)                | 226                  |                        | 2,285             | 2,608  | 148                       | 2,756        |
| Transfer to retained earnings  |      |               |               |                     |                 |                    | (473)                |                        | 473               |  |                           |              |
| Dividends to shareholders  |      |               |               |                     |                 |                    |                      |                        | (494)             | (494)  | (110)                     | (604)        |
| Purchase/reissuance<br>own/non-controlling shares                          |      |               |               |                     |                 |                    |                      |                        |                   |  |                           |              |
| Own shares delivered   |      |               |               |                     |                 |                    |                      | 17                     | (17)              |  |                           |              |
| Share-based payments   |      |               |               |                     |                 |                    |                      |                        | 15                | 15   |                           | 15           |
| Acquisition of non-controlling<br>interests without a change in<br>control |      |               |               |                     |                 |                    |                      |                        | (212)             | (212)  | 715                       | 503          |
| Balance as at 31 December 2012   |      | 922           | 2,701         | (527)               | (11)            | 150                | 779                  | (26)                   | 7,746             | 11,734   | 1,071                     | 12,805       |

\* Restated for the revised IAS 19.

**Table of Contents***Consolidated Statement of Changes in Equity (second half)*

| In millions of EUR   | Note | Share capital | Share Premium | Translation reserve | Hedging reserve | Fair value reserve | Other legal reserves | Reserve for own shares | Retained earnings | Equity attributable to equity holders of the Company | Non-controlling interests | Total equity  |
|--|------|---------------|---------------|---------------------|-----------------|--------------------|----------------------|------------------------|-------------------|--|---------------------------|---------------|
| <b>Balance as at 1 January 2013</b>  |      | <b>922</b>    | <b>2,701</b>  | <b>(527)</b>        | <b>(11)</b>     | <b>150</b>         | <b>779</b>           | <b>(26)</b>            | <b>7,746</b>      | <b>11,734</b>  | <b>1,071</b>              | <b>12,805</b> |
| Profit   |      |               |               |                     |                 |                    | 214                  |                        | 1,150             | 1,364  | 223                       | 1,587         |
| Other comprehensive income   | 24   |               |               | (1,194)             | 13              | (53)               |                      |                        | 206               | (1,028)  | (79)                      | (1,107)       |
| <b>Total comprehensive income</b>  |      |               |               | <b>(1,194)</b>      | <b>13</b>       | <b>(53)</b>        | <b>214</b>           |                        | <b>1,356</b>      | <b>336</b>   | <b>144</b>                | <b>480</b>    |
| Transfer to retained earnings  |      |               |               |                     |                 |                    | (188)                |                        | 188               |  |                           |               |
| Dividends to shareholders  |      |               |               |                     |                 |                    |                      |                        | (530)             | (530)  | (185)                     | (715)         |
| Purchase/reissuance<br>own/non-controlling shares                          |      |               |               |                     |                 |                    |                      | (21)                   |                   | (21)   |                           | (21)          |
| Own shares delivered   |      |               |               |                     |                 |                    |                      | 6                      | (6)               |  |                           |               |
| Share-based payments   |      |               |               |                     |                 |                    |                      |                        | 8                 | 8  |                           | 8             |
| Acquisition of non-controlling<br>interests without a change in<br>control | 6    |               |               |                     |                 |                    |                      |                        | (125)             | (125)  | (76)                      | (201)         |
| <b>Balance as at 31 December 2013</b>                                      |      | <b>922</b>    | <b>2,701</b>  | <b>(1,721)</b>      | <b>2</b>        | <b>97</b>          | <b>805</b>           | <b>(41)</b>            | <b>8,637</b>      | <b>11,402</b>  | <b>954</b>                | <b>12,356</b> |

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### **Notes to the Consolidated Financial Statements**

#### **1. Reporting entity**

Heineken N.V. (the Company) is a company domiciled in the Netherlands. The address of the Company's registered office is Tweede Weteringplantsoen 21, Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company, its subsidiaries (together referred to as HEINEKEN and individually as HEINEKEN entities) and HEINEKEN's interest in jointly controlled entities and associates.

Disclosures on subsidiaries, jointly controlled entities and associates are included in note 36 and 16 respectively.

HEINEKEN is primarily involved in the brewing and selling of beer.

#### **2. Basis of preparation**

##### **(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. Substantially all standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) effective year-end 2013 have been adopted by the EU. It is noted that IFRS 10, 11 and 12, which were adopted by the EU with an effective date of 1 January 2014, were adopted by HEINEKEN as at 1 January 2013. Consequently, the accounting policies applied by the Company also comply fully with IFRS as issued by the IASB.

The consolidated financial statements have been prepared by the Executive Board of the Company and authorised for issue on 11 February 2014 and will be submitted for adoption to the Annual General Meeting of Shareholders on 24 April 2014.

##### **(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis unless otherwise indicated.

The methods used to measure fair values are discussed further in note 3 and 4.

##### **(c) Functional and presentation currency**

These consolidated financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest million unless stated otherwise.

##### **(d) Use of estimates and judgements**

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about assumptions and estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in the following notes:



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Note 6 Acquisitions and disposals of subsidiaries and non-controlling interests

Note 15 Intangible assets

Note 16 Investments in associates and joint ventures

Note 17 Other investments and receivables

Note 18 Deferred tax assets and liabilities

Note 28 Employee benefits

Note 30 Provisions

Note 32 Financial risk management and financial instruments

Note 34 Contingencies.

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### **(e) Changes in accounting policies**

HEINEKEN has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

IFRS 13 Fair Value Measurement

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

Revised IAS 19 Employee Benefits

The new standards and amendment to standards IFRS 10, 11 and 12 were early adopted by HEINEKEN. The nature and the effect of the changes are further explained below.

#### *IFRS 10 Consolidated Financial Statements*

As a result of IFRS 10, HEINEKEN has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, by focusing on whether HEINEKEN has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 requires HEINEKEN to consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of IFRS 10, HEINEKEN reassessed the control conclusion for its investees as at 1 January 2013, and concluded that the standard has no impact on the consolidated financial statements of HEINEKEN.

#### *IFRS 11 Joint Arrangements*

As a result of IFRS 11, HEINEKEN has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, HEINEKEN classifies its interests in joint arrangements as either joint operations or joint ventures depending on HEINEKEN's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, HEINEKEN considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

HEINEKEN has joint control over its joint arrangements as under the contractual agreements, unanimous consent is required from all parties to the arrangements for all relevant activities. HEINEKEN's joint arrangements are structured as limited companies and provide HEINEKEN and the parties to the arrangements with rights to the net assets of the limited companies under the arrangements. Therefore those entities are classified as joint ventures.

HEINEKEN has re-evaluated its involvement in its joint arrangements and concluded that the standard has no impact on the consolidated financial statements of HEINEKEN.

#### *IFRS 12 Disclosure of Interests in Other Entities*

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As a result of IFRS 12 HEINEKEN has changed its disclosures about its interests in subsidiaries (note 36 and note 6) and equity-accounted investees (note 16).

### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures (see note 32).

In accordance with the transitional provisions of IFRS 13, HEINEKEN has applied the new fair value measurement guidance prospectively as from 1 January 2013. The change had no significant impact on the measurement of HEINEKEN's assets and liabilities.

### *Presentation of Items of Other Comprehensive Income (Amendments to IAS1)*

As a result of the amendments to IAS 1, HEINEKEN has modified the presentation of its statement of other comprehensive income. The modification is to split items based on whether or not they could be recycled to profit or loss in the future. Comparative information has been re-presented accordingly.

### *Revised IAS 19 Employee Benefits*

As a result of the revision of IAS 19, HEINEKEN has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit plans.

Under the revised IAS 19, HEINEKEN determines the net interest expense (income) on the net defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments.

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Consequently, the net interest on the net defined benefit liability (asset) now comprises:

interest cost on the defined benefit obligation;

interest income on plan assets; and

interest effect of applying the asset ceiling.

Previously, HEINEKEN determined interest income on plan assets based on their long-term expected return. The variance between actual and expected return continues to be accounted for in other comprehensive income. Therefore, the change in method of calculating the net interest expense (income) has no impact on equity. The change in accounting policy increased the defined benefit expense recognised in profit or loss and correspondingly increased the defined benefit plan remeasurement gain recognised in other comprehensive income by EUR98 million for the reporting period ending 31 December 2013 (EUR 45 million reduction of remeasurement loss for the period ending 2012)

HEINEKEN no presents the net interest on the net defined benefit liability (asset) in other net finance income and expenses rather than personnel expenses. As a result, a reclassification from personnel expenses to other net finance income and expenses of EUR57 million was made for the reporting period ending 31 December 2013 (EUR51 million for the period ending 31 December 2012).

The revised IAS 19 no longer allows inclusion of future pension administration costs as part of the defined benefit obligation. Such costs should be recognised when the administration services are incurred. Previously, HEINEKEN accrued a surcharge for pension administration costs of the Dutch pension plan as part of the current service costs in the defined benefit obligation. With the adoption of the revised standard, this accrual was released to equity. As a result, HEINEKEN s defined benefit obligation decreased by EUR57 million as at 1 January 2012.

### **3. Significant accounting policies**

#### **General**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by HEINEKEN entities.

#### **(a) Basis of consolidation**

##### **(i) Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to HEINEKEN. HEINEKEN controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

HEINEKEN measures goodwill at the acquisition date as the fair value of the consideration transferred plus the fair value of any previously-held equity interest in the acquiree and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that HEINEKEN incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent considerations are recognised in profit or loss.

***(ii) Acquisitions of non-controlling interests***

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

***(iii) Subsidiaries***

Subsidiaries are entities controlled by HEINEKEN. HEINEKEN controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by HEINEKEN. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

***(iv) Loss of control***

Upon the loss of control, HEINEKEN derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any resulting gain or loss is recognised in profit or loss. If HEINEKEN retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

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**(v) *Interests in equity-accounted investees***

HEINEKEN's investments in associates and joint ventures are accounted for using the equity method of accounting. Investments in associates are those entities in which HEINEKEN has significant influence, but no control or joint control, over the financial and operating policies. Joint ventures are the arrangements in which HEINEKEN has joint control, whereby HEINEKEN has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include HEINEKEN's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of HEINEKEN, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When HEINEKEN's share of losses exceeds the carrying amount of the associate or joint venture, including any long-term investments, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that HEINEKEN has an obligation or has made a payment on behalf of the associate or joint venture.

**(vi) *Transactions eliminated on consolidation***

Intra-HEINEKEN balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-HEINEKEN transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted associates and JVs are eliminated against the investment to the extent of HEINEKEN's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) *Foreign currency***

**(i) *Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of HEINEKEN entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss arising on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale (equity) investments and foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment, which are recognised in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost remain translated into the functional currency at historical exchange rates.

**(ii) *Foreign operations***

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to euro at exchange rates approximating the exchange rates ruling at the dates of the transactions. Group entities, with a functional currency being the currency of a hyperinflationary economy, first restate their financial statements in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies (see Reporting in hyperinflationary economies below). The related income, costs and

balance sheet amounts are translated at the foreign exchange rate ruling at the balance sheet date.

Foreign currency differences are recognised in other comprehensive income and are presented within equity in the translation reserve. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When HEINEKEN disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When HEINEKEN disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the translation reserve.

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The following exchange rates, for the most important countries in which HEINEKEN has operations, were used while preparing these consolidated financial statements:

| In EUR      | Year-end<br>2013 | Year-end<br>2012 | Year-end<br>2011 | Average<br>2013 | Average<br>2012 | Average<br>2011 |
|-------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|
| BRL         | 0.3070           | 0.3699           | 0.4139           | 0.3486          | 0.3987          | 0.4298          |
| GBP         | 1.1995           | 1.2253           | 1.1972           | 1.1775          | 1.2332          | 1.1522          |
| MXN         | 0.0553           | 0.0582           | 0.0554           | 0.0590          | 0.0592          | 0.0578          |
| NGN         | 0.0047           | 0.0049           | 0.0049           | 0.0049          | 0.0050          | 0.0047          |
| PLN         | 0.2407           | 0.2455           | 0.2243           | 0.2382          | 0.2390          | 0.2427          |
| RUB         | 0.0221           | 0.0248           | 0.0239           | 0.0236          | 0.0250          | 0.0245          |
| SGD         | 0.5743           | 0.6207           | 0.5946           | 0.6017          | 0.6229          | 0.5718          |
| VND in 1000 | 0.0345           | 0.0364           | 0.0367           | 0.0358          | 0.0373          | 0.0348          |
| USD         | 0.7251           | 0.7579           | 0.7729           | 0.7530          | 0.7783          | 0.7184          |

**(iii) Reporting in hyperinflationary economies**

When the economy of a country in which we operate is deemed hyperinflationary and the functional currency of a Group entity is the currency of that hyperinflationary economy, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit current at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and, restatement of non-monetary items in the balance sheet, such as P, P & E to reflect current purchasing power as at the period end using a general price index from the date when they were first recognised. Comparative amounts are not adjusted. Any differences arising were recorded in equity on adoption.

**(iv) Hedge of net investments in foreign operations**

Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective and regardless of whether the net investment is held directly or through an intermediate parent. These differences are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

**(c) Non-derivative financial instruments****(i) General**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described hereafter.

If HEINEKEN has a legal right to offset financial assets with financial liabilities and if HEINEKEN intends either to settle on a net basis or to realise the asset and settle the liability simultaneously then financial assets and liabilities are presented in the statement of financial position as a net amount.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts form an integral part of HEINEKEN's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.



Accounting policies for interest income, interest expenses and other net finance income and expenses are discussed in note 3r.

**(ii) Held-to-maturity investments**

If HEINEKEN has the positive intent and ability to hold debt securities to maturity, they are classified as held-to-maturity. Debt securities are loans and long-term receivables and are measured at amortised cost using the effective interest method, less any impairment losses. Investments held-to-maturity are recognised or derecognised on the day they are transferred to or by HEINEKEN.

**(iii) Available-for-sale investments**

HEINEKEN's investments in equity securities and certain debt securities are classified as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein other than impairment losses (see note 3i(i)), and foreign currency differences on available-for-sale monetary items (see note 3b(i)) are recognised in other comprehensive income and presented within equity in the fair value reserve. When these investments are derecognised, the relevant cumulative gain or loss in the fair value reserve is transferred to profit or loss.

Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the profit or loss. Available-for-sale investments are recognised or derecognised by HEINEKEN on the date it commits to purchase or sell the investments.

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### ***(iv) Investments at fair value through profit or loss***

An investment is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Investments are designated at fair value through profit or loss if HEINEKEN manages such investments and makes purchase and sale decisions based on their fair value in accordance with HEINEKEN's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss as incurred.

Investments at fair value through profit or loss are measured at fair value, with changes therein recognised in profit or loss as part of the other net finance income/(expenses). Investments at fair value through profit and loss are recognised or derecognised by HEINEKEN on the date it commits to purchase or sell the investments.

### ***(v) Other***

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Included in non-derivative financial instruments are advances to customers. Subsequently, the advances are amortised over the term of the contract as a reduction of revenue.

## **(d) Derivative financial instruments (including hedge accounting)**

### ***(i) General***

HEINEKEN uses derivatives in the ordinary course of business in order to manage market risks. Generally HEINEKEN seeks to apply hedge accounting in order to minimise the effects of foreign currency, interest rate or commodity price fluctuations in profit or loss.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, commodity swaps, spot and forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules approved and monitored by the Executive Board.

Derivative financial instruments are recognised initially at fair value, with attributable transaction costs recognised in profit or loss as incurred. Derivatives for which hedge accounting is not applied are accounted for as instruments at fair value through profit or loss. When derivatives qualify for hedge accounting, subsequent measurement is at fair value, and changes therein accounted for as described in 3b(iv), 3d(ii) or 3d(iii).

### ***(ii) Cash flow hedges***

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve within equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued and the cumulative unrealised gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity, is recognised in profit or loss immediately, or when a hedging instrument is terminated, but the hedged transaction still is expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above-mentioned policy when the transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in other comprehensive income is transferred to the same line of profit or loss in the same period that the hedged item affects profit or loss.

### ***(iii) Fair value hedges***

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss and

adjusts the carrying amount of the hedged item.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

**(iv) *Separable embedded derivatives***

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

**(e) *Share capital***

**(i) *Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**(ii) *Repurchase of share capital (treasury shares)***

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

**(iii) *Dividends***

Dividends are recognised as a liability in the period in which they are declared.

**Table of Contents****(f) Property, Plant and Equipment (P, P & E)****(i) Owned assets**

Items of P, P & E are measured at cost less government grants received (refer (q)), accumulated depreciation (refer (iv)) and accumulated impairment losses (3i(ii)).

Cost comprises the initial purchase price increased with expenditures that are directly attributable to the acquisition of the asset (like transports and non-recoverable taxes). The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use (like an appropriate proportion of production overheads), and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of P, P & E.

Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment are capitalised and amortised as part of the equipment. For example, purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. In all other cases spare parts are carried as inventory and recognised in the income statement as consumed. Where an item of P, P & E comprises major components having different useful lives, they are accounted for as separate items (major components) of P, P & E.

Returnable bottles and kegs in circulation are recorded within P, P & E and a corresponding liability is recorded in respect of the obligation to repay the customers' deposits. Deposits paid by customers for returnable items are reflected in the consolidated statement of financial position within current liabilities.

**(ii) Leased assets**

Leases in terms of which HEINEKEN assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition P, P & E acquired by way of finance lease is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease. Lease payments are apportioned between the outstanding liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognised in HEINEKEN's statement of financial position. Payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

**(iii) Subsequent expenditure**

The cost of replacing a part of an item of P, P & E is recognised in the carrying amount of the item or recognised as a separate asset, as appropriate, if it is probable that the future economic benefits embodied within the part will flow to HEINEKEN and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of P, P & E are recognised in profit or loss when incurred.

**(iv) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Land except for financial leases on land over the contractual period is not depreciated as it is deemed to have an infinite life. Depreciation on other P, P & E is charged to profit or loss on a straight-line basis over the estimated useful lives of items of P, P & E, and major components that are accounted for separately, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Assets under construction are not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonable certain that HEINEKEN will obtain ownership by the end of the lease term. The estimated useful lives for the current and

comparative years are as follows:

|                     |    |          |
|---------------------|----|----------|
| Buildings           | 30 | 40 years |
| Plant and equipment | 10 | 30 years |
| Other fixed assets  | 3  | 10 years |

Where parts of an item of P, P & E have different useful lives, they are accounted for as separate items of P, P & E.

The depreciation methods, residual value as well as the useful lives are reassessed, and adjusted if appropriate, at each financial year-end.

(v) ***Gains and losses on sale***

Net gains on sale of items of P, P & E are presented in profit or loss as other income. Net losses on sale are included in depreciation. Net gains and losses are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and there is no continuing management involvement with the P, P & E.

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### **(g) Intangible assets**

#### **(i) Goodwill**

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the cost of the acquisition over HEINEKEN's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill arising on the acquisition of associates and joint ventures is included in the carrying amount of the associate, respectively the joint ventures. In respect of acquisitions prior to 1 October 2003, goodwill is included on the basis of deemed cost, being the amount recorded under previous GAAP. Goodwill on acquisitions purchased before 1 January 2003 has been deducted from equity.

Goodwill arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

Goodwill is measured at cost less accumulated impairment losses (refer accounting policy 3i(ii)). Goodwill is allocated to individual or groups of cash-generating units (CGUs) for the purpose of impairment testing and is tested annually for impairment. Negative goodwill is recognised directly in profit or loss as other income.

#### **(ii) Brands**

Brands acquired, separately or as part of a business combination, are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied.

Strategic brands are well-known international/local brands with a strong market position and an established brand name. Strategic brands are amortised on an individual basis over the estimated useful life of the brand. Other brands are amortised on a portfolio basis per country.

#### **(iii) Customer-related, contract-based intangibles and reacquired rights**

Customer-related and contract-based intangibles are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied. If the amounts are not material these are included in the brand valuation. The relationship between brands and customer-related intangibles is carefully considered so that brands and customer-related intangibles are not both recognised on the basis of the same cash flows.

Reacquired rights are identifiable intangible assets recognised in an acquisition that represent the right an acquirer previously has granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets.

Customer-related and contract-based intangibles acquired as part of a business combination are valued at fair value. Customer-related and contract-based intangibles acquired separately are measured at cost.

Customer-related, contract-based intangibles and reacquired rights are amortised over the remaining useful life of the customer relationships or the period of the contractual arrangements.

#### **(iv) Software, research and development and other intangible assets**

Purchased software is measured at cost less accumulated amortisation (refer (vi)) and impairment losses (refer accounting policy 3i(ii)). Expenditure on internally developed software is capitalised when the expenditure qualifies as development activities, otherwise it is recognised in profit or loss when incurred.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss when incurred.

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Development activities involve a plan or design for the production of new or substantially improved products, software and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and HEINEKEN intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation (refer (vi)) and accumulated impairment losses (refer accounting policy 3i(ii)).

Other intangible assets that are acquired by HEINEKEN and have finite useful lives, are measured at cost less accumulated amortisation (refer (vi)) and impairment losses (refer accounting policy 3i(ii)). Expenditure on internally generated goodwill and brands is recognised in profit or loss when incurred.

### **(v) *Subsequent expenditure***

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

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Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives, other than goodwill, from the date they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

|   |    |          |
|---|----|----------|
| Strategic brands                                | 40 | 50 years |
| Other brands                                    | 15 | 25 years |
| Customer-related and contract-based intangibles | 5  | 20 years |
| Reacquired rights                               | 3  | 12 years |
| Software  | 3  | 7 years  |
| Capitalised development costs                   |    | 3 years  |

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(vii) Gains and losses on sale**

Net gains on sale of intangible assets are presented in profit or loss as other income. Net losses on sale are included in amortisation. Net gains and losses are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and there is no continuing management involvement with the intangible assets.

**(h) Inventories****(i) General**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(ii) Finished products and work in progress**

Finished products and work in progress are measured at manufacturing cost based on weighted averages and takes into account the production stage reached. Costs include an appropriate share of direct production overheads based on normal operating capacity.

**(iii) Other inventories and spare parts**

The cost of other inventories is based on weighted averages. Spare parts are valued at the lower of cost and net realisable value. Value reductions and usage of parts are charged to profit or loss. Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment are initially capitalised and depreciated as part of the equipment.

**(i) Impairment**



**(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income and presented in the fair value reserve in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

**(ii) Non-financial assets**

The carrying amounts of HEINEKEN's non-financial assets, other than inventories (refer accounting policy (h)) and deferred tax assets (refer accounting policy (s)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

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The recoverable amount of an asset or CGU is the higher of an asset's fair value less costs to sell and value in use. 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 or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU).

For the purpose of impairment testing, goodwill acquired in a business combination, is allocated to each of the acquirer's CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored on regional, sub regional or country level depending on the characteristics of the acquisition, the synergies to be achieved and the level of integration.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate and joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate and joint venture is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

### **(j) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee defined benefit plan assets, which continue to be measured in accordance with HEINEKEN's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and P, P & E once classified as held for sale are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

### **(k) Employee benefits**

#### **(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan (pension plan) under which HEINEKEN pays fixed contributions into a separate entity. HEINEKEN has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employee renders the service are discounted to their present value.

**(ii) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan (pension plan) that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

HEINEKEN's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any defined benefit plan assets is deducted. The discount rate is the yield at balance sheet date on AA-rated bonds that have maturity dates approximating the terms of HEINEKEN's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculations are performed annually by qualified actuaries using the projected unit credit method. When the calculation results in a benefit to HEINEKEN, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in HEINEKEN. An economic benefit is available to HEINEKEN if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are changed, the expense or benefit is recognised immediately in profit or loss.

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HEINEKEN recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses and other net finance income and expenses in profit or loss.

### ***(iii) Other long-term employee benefits***

HEINEKEN's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at balance sheet date on high-quality credit-rated bonds that have maturity dates approximating the terms of HEINEKEN's obligations. The obligation is calculated using the projected unit credit method. Any actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

### ***(iv) Termination benefits***

Termination benefits are payable when employment is terminated by HEINEKEN before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Termination benefits are recognised as an expense when HEINEKEN is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if HEINEKEN has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

### ***(v) Share-based payment plan (LTV)***

As from 1 January 2005 HEINEKEN established a share plan for the Executive Board and as from 1 January 2006 HEINEKEN also established a share plan for senior management (see note 29).

The grant date fair value of the share rights granted is recognised as personnel expenses with a corresponding increase in equity (equity-settled) over the period that the employees become unconditionally entitled to the share rights. The costs of the share plan for both the Executive Board and senior management members are spread evenly over the performance period.

At each balance sheet date, HEINEKEN revises its estimates of the number of share rights that are expected to vest, for the 100 per cent internal performance conditions of the share plans 2011-2013, 2012-2014 and 2013-2015 of the senior management members and the Executive Board. It recognises the impact of the revision of original estimates (only applicable for internal performance conditions, if any) in profit or loss, with a corresponding adjustment to equity.

### ***(vi) Matching share entitlement***

As from 21 April 2011 HEINEKEN established a matching share entitlement for the Executive Board. The grant date fair value of the matching shares is recognised as personnel expenses in the income statement as it is deemed an equity settled incentive.

### ***(vii) Short-term employee benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term benefits if HEINEKEN has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(l) Provisions**

**(i) General**

A provision is recognised if, as a result of a past event, HEINEKEN has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures to be expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as part of the net finance expenses.

**(ii) Restructuring**

A provision for restructuring is recognised when HEINEKEN has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating losses are not provided for. The provision includes the benefit commitments in connection with early retirement and redundancy schemes.

**(iii) Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by HEINEKEN from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract and taking into consideration any reasonably obtainable sub-leases. Before a provision is established, HEINEKEN recognises any impairment loss on the assets associated with that contract.

**(iv) Other**

The other provisions, not being provisions for restructuring or onerous contracts, consist mainly of surety and guarantees, litigation and claims and environmental provisions.

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### **(m) Loans and borrowings**

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Loans and borrowings included in a fair value hedge are stated at fair value in respect of the risk being hedged.

Loans and borrowings for which HEINEKEN has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date, are classified as non-current liabilities.

### **(n) Revenue**

#### ***(i) Products sold***

Revenue from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of sales tax, excise duties, returns, customer discounts and other sales-related discounts. Revenue from the sale of products is recognised in profit or loss when the amount of revenue can be measured reliably, the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, and there is no continuing management involvement with the products.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

#### ***(ii) Other revenue***

Other revenues are proceeds from royalties, rental income, pub management services and technical services to third parties, net of sales tax. Royalties are recognised in profit or loss on an accrual basis in accordance with the substance of the relevant agreement. Rental income, pub management services and technical services are recognised in profit or loss when the services have been delivered.

#### **(o) Other income**

Other income includes gains from sale of P, P & E, intangible assets and (interests in) subsidiaries, joint ventures and associates, net of sales tax. They are recognised in profit or loss when ownership has been transferred to the buyer.

### **(p) Expenses**

#### ***(i) Operating lease payments***

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

#### ***(ii) Finance lease payments***

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

**(q) Government grants**

Government grants are recognised at their fair value when it is reasonably assured that HEINEKEN will comply with the conditions attaching to them and the grants will be received.

Government grants relating to P, P & E are deducted from the carrying amount of the asset.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

**(r) Interest income, interest expenses and other net finance income and expenses**

Interest income and expenses are recognised as they accrue in profit or loss, using the effective interest method unless collectability is in doubt.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Other net finance income and expenses comprises dividend income, gains and losses on the disposal of available-for-sale investments, changes in the fair value of investments designated at fair value through profit or loss and held for trading investments, changes in fair value of hedging instruments that are recognised in profit or loss, unwinding of the discount on provisions, impairment losses recognised on investments and interest on the net defined benefit obligation. Dividend income is recognised in the income statement on the date that HEINEKEN's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Foreign currency gains and losses are reported on a net basis in the other net finance income and expenses.

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### **(s) Income tax**

Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

### **(i) Current tax**

Current tax is the expected income tax payable or receivable in respect of taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to income tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

### **(ii) Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax is not recognised for:

temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **(iii) Tax exposures**

In determining the amount of current and deferred income tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the income tax expense in the period that such a determination is made.



**(t) Discontinued operations**

A discontinued operation is a component of HEINEKEN's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

**(u) Earnings per share**

HEINEKEN presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for the weighted average number of own shares purchased in the year. Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, adjusted for the weighted average number of own shares purchased in the year and for the effects of all dilutive potential ordinary shares which comprise share rights granted to employees.

**(v) Cash flow statement**

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, fair value changes, equity-settled share-based payments and other non-cash items, have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to ordinary shareholders are included in financing activities. Dividends received are classified as operating activities. Interest paid is also included in operating activities.

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### **(w) Operating segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Board, who is considered to be HEINEKEN's chief operating decision maker. An operating segment is a component of HEINEKEN that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of HEINEKEN's other components. All operating segments' operating results are reviewed regularly by the Executive Board to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment results, assets and liabilities that are reported to the Executive Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated result items comprise net finance expenses and income tax expenses. Unallocated assets comprise current other investments and cash call deposits.

Segment capital expenditure is the total cost incurred during the period to acquire P, P & E, and intangible assets other than goodwill.

### **(x) Emission rights**

Emission rights are related to the emission of CO<sub>2</sub>, which relates to the production of energy. These rights are freely tradable. Bought emission rights and liabilities due to production of CO<sub>2</sub> are measured at cost, including any directly attributable expenditure. Emission rights received for free are also recorded at cost, i.e. with a zero value.

### **(y) Recently issued IFRS**

#### ***New relevant standards and interpretations not yet adopted***

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below, however HEINEKEN does not expect these changes to have a significant effect on the consolidated financial statements.

IFRS 9 (2009) Financial Instruments introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. In November 2013 the IASB concluded the project phase in relation to hedge accounting. The last phase of the project to replace IAS 39, about impairment of financial assets is ongoing and an effective date for applicability of IFRS 9 will only be determined by the IASB when concluding on the entire project. Early adoption is allowed. HEINEKEN is in the process of evaluating the impact of the implementation of the new standard.

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### **4. Determination of fair values**

#### ***General***

A number of HEINEKEN's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values or for the purpose of impairment testing is disclosed in the notes specific to that asset or liability.

#### **Fair value as a result of business combinations**

##### ***(i) Property, plant and equipment***

The fair value of P, P & E recognised as a result of a business combination is based on quoted market prices for similar items when available and replacement cost when appropriate.

##### ***(ii) Intangible assets***

The fair value of brands acquired in a business combination is based on the relief of royalty method or determined using the multi-period excess earnings method. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of reacquired rights and other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

##### ***(iii) Inventories***

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

##### ***(iv) Trade and other receivables***

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

#### **Fair value from normal business**

##### ***(i) Investments in equity and debt securities***

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using an appropriate valuation technique. The fair value of held-to-maturity investments is determined for disclosure purposes only. In case the quoted price does not exist at the date of exchange or in case the quoted price exists at the date of exchange but was not used as the cost, the investments are valued indirectly based on discounted cash flow models.

##### ***(ii) Derivative financial instruments***

The fair value of derivative financial instruments is based on their listed market price, if available. If a listed market price is not available, then fair value is in general estimated by discounting the difference between the cash flows based on contractual price and the cash flows based on

current price for the residual maturity of the contract using a risk-free interest rate (based on inter-bank interest rates).

Fair values include the instrument's credit risk and adjustments to take account of the credit risk of HEINEKEN entity and counterparty when appropriate.

*(iii) Non-derivative financial instruments*

Fair value, which is determined for disclosure purposes or when fair value hedge accounting is applied, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Fair values include the instrument's credit risk and adjustments to take account of the credit risk of the HEINEKEN entity and counterparty when appropriate.

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### **5. Operating segments**

HEINEKEN distinguishes the following six reportable segments:

Western Europe

Central and Eastern Europe

The Americas

Africa Middle East

Asia Pacific

Head Office and Other/eliminations.

The first five reportable segments as stated above are HEINEKEN's business regions. These business regions are each managed separately by a Regional President. The Regional President is directly accountable for the functioning of the segment's assets, liabilities and results of the region and reports regularly to the Executive Board (the chief operating decision maker) to discuss operating activities, regional forecasts and regional results. The Head Office operating segment falls directly under the responsibility of the Executive Board. For each of the six reportable segments, the Executive Board reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in the table on the next page. Performance is measured based on EBIT (beia), as included in the internal management reports that are reviewed by the Executive Board. EBIT (beia) is defined as earnings before interest and taxes and net finance expenses, before exceptional items and amortisation of acquisition related intangibles. Exceptional items are defined as items of income and expense of such size, nature or incidence, that in view of management their disclosure is relevant to explain the performance of HEINEKEN for the period. EBIT and EBIT (beia) are not financial measures calculated in accordance with IFRS. EBIT (beia) is used to measure performance as management believes that this measurement is the most relevant in evaluating the results of these segments.

HEINEKEN has multiple distribution models to deliver goods to end customers. There is no reliance on major clients. Deliveries to end consumers are done in some countries via own wholesalers or own pubs, in other markets directly and in some others via third parties. As such, distribution models are country specific and on consolidated level diverse. In addition, these various distribution models are not centrally managed or monitored. Consequently, the Executive Board is not allocating resources and assessing the performance based on business type information and therefore no segment information is provided on business type.

Inter-segment pricing is determined on an arm's-length basis. As net finance expenses and income tax expenses are monitored on a consolidated level (and not on an individual regional basis) and regional presidents are not accountable for that, net finance expenses and income tax expenses are not provided per reportable segment.

**Table of Contents****Information about reportable segments**

| In millions of EUR   | Note | Western Europe |              |               | Central and Eastern Europe |              |               | The Americas  |              |              |
|--|------|----------------|--------------|---------------|----------------------------|--------------|---------------|---------------|--------------|--------------|
|  |      | 2013           | 2012*        | 2011*         | 2013                       | 2012*        | 2011*         | 2013          | 2012*        | 2011*        |
| <b>Revenue</b>   |      |                |              |               |                            |              |               |               |              |              |
| Third party revenue <sup>1</sup>   |      | 6,800          | 7,140        | 7,158         | 3,082                      | 3,255        | 3,209         | 4,486         | 4,507        | 4,002        |
| Interregional revenue  |      | 656            | 645          | 594           | 15                         | 25           | 20            | 9             | 16           | 27           |
| <b>Total revenue</b>   |      | <b>7,456</b>   | <b>7,785</b> | <b>7,752</b>  | <b>3,097</b>               | <b>3,280</b> | <b>3,229</b>  | <b>4,495</b>  | <b>4,523</b> | <b>4,029</b> |
| Other income   |      | 50             | 13           | 48            | 119                        | 9            | 7             | 56            | 2            | 1            |
| Results from operating activities  |      | 737            | 723          | 823           | 231                        | 320          | 318           | 681           | 593          | 493          |
| <b>Net finance expenses</b>  |      |                |              |               |                            |              |               |               |              |              |
| Share of profit of associates and joint ventures and impairments thereof |      | 2              | 1            | 3             | 15                         | 24           | 17            | 70            | 81           | 77           |
| Income tax expense   |      |                |              |               |                            |              |               |               |              |              |
| <b>Profit</b>  |      |                |              |               |                            |              |               |               |              |              |
| <b>Attributable to:</b>  |      |                |              |               |                            |              |               |               |              |              |
| Equity holders of the Company (net profit)                               |      |                |              |               |                            |              |               |               |              |              |
| Non-controlling interests  |      |                |              |               |                            |              |               |               |              |              |
| <b>EBIT reconciliation</b>   |      |                |              |               |                            |              |               |               |              |              |
| EBIT <sup>2</sup>  |      | 739            | 724          | 826           | 246                        | 344          | 335           | 751           | 674          | 570          |
| Eia <sup>2</sup>   |      | 115            | 224          | 139           | 60                         | 12           | 11            | 39            | 86           | 85           |
| EBIT (beia) <sup>2</sup>   | 27   | <b>854</b>     | 948          | <b>965</b>    | <b>306</b>                 | 356          | <b>346</b>    | <b>790</b>    | 760          | 655          |
| <b>Beer volumes (in million hectolitres)</b>                             |      |                |              |               |                            |              |               |               |              |              |
| Consolidated beer volume <sup>2</sup>                                    |      | 42,224         | 44,288       | 45,380        | 44,261                     | 47,269       | 45,377        | 51,209        | 53,124       | 50,497       |
| Attributable share of joint ventures and associates volume <sup>2</sup>  |      |                |              |               | 3,743                      | 3,735        | 3,628         | 3,717         | 3,785        | 2,032        |
| <b>Group beer volume<sup>2</sup></b>                                     |      | <b>42,224</b>  | 44,288       | <b>45,380</b> | <b>48,004</b>              | 51,004       | <b>49,004</b> | <b>54,926</b> | 56,909       | 52,528       |
| Current segment assets   |      | 2,036          | 2,007        | 1,843         | 982                        | 1,082        | 985           | 1,236         | 1,193        | 1,045        |
| Non-current segment assets   |      | 7,262          | 8,015        | 8,186         | 3,128                      | 3,423        | 3,365         | 5,193         | 5,649        | 5,619        |
| Investment in associates and joint ventures                              |      | 43             | 22           | 23            | 194                        | 196          | 165           | 823           | 835          | 711          |
| <b>Total segment assets</b>  |      | <b>9,341</b>   | 10,044       | 10,052        | <b>4,304</b>               | 4,701        | 4,515         | <b>7,252</b>  | 7,677        | 7,375        |
| Unallocated assets   |      |                |              |               |                            |              |               |               |              |              |
| Total assets   |      |                |              |               |                            |              |               |               |              |              |
| Segment liabilities  |      | 3,571          | 4,121        | 3,666         | 1,242                      | 1,347        | 1,160         | 1,027         | 1,072        | 1068         |
| Unallocated liabilities  |      |                |              |               |                            |              |               |               |              |              |
| Total equity   |      |                |              |               |                            |              |               |               |              |              |
| Total equity and liabilities   |      |                |              |               |                            |              |               |               |              |              |
| Purchase of P, P & E   |      | 264            | 260          | 215           | 191                        | 197          | 170           | 261           | 250          | 199          |
| Acquisition of goodwill  |      | 9              | 7            |               |                            |              | 1             |               | 36           | 4            |
| Purchases of intangible assets   |      | 24             | 26           | 11            | 6                          | 12           | 9             | 12            | 14           | 20           |
| Depreciation of P, P & E   |      | (329)          | (344)        | (343)         | (235)                      | (247)        | (234)         | (211)         | (201)        | (183)        |
|  |      | (7)            | (36)         |               | (9)                        | 15           | (2)           | (1)           | (17)         | 5            |

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|  |      |      |       |      |      |      |      |       |      |
|--|------|------|-------|------|------|------|------|-------|------|
| (Impairment) and reversal of impairment of P, P & E          |      |      |       |      |      |      |      |       |      |
| Amortisation intangible assets                               | (65) | (86) | (100) | (17) | (16) | (18) | (97) | (103) | (93) |
| (Impairment) and reversal of impairment of intangible assets | (17) | (7)  |       | (99) |      | (3)  |      |       |      |

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|  | Africa<br>Middle East |        |               | Asia Pacific  |         |            | Head Office &<br>Other/<br>Eliminations |       |             | Consolidated   |              |              |
|--|-----------------------|--------|---------------|---------------|---------|------------|---|-------|-------------|----------------|--------------|--------------|
|  | 2013                  | 2012*  | 2011*         | 2013          | 2012*   | 2011*      | 2013                                    | 2012* | 2011*       | 2013           | 2012*        | 2011*        |
| <b>Revenue</b>   |                       |        |               |               |         |            |   |       |             |                |              |              |
| Third party revenue <sup>1</sup>   | 2,554                 | 2,639  | 2,223         | 2,036         | 527     | 216        | 245                                     | 315   | 315         | 19,203         | 18,383       | 17,123       |
| Interregional revenue  |                       |        |               | 1             |         |            | (681)                                   | (686) | (641)       |                |              |              |
| <b>Total revenue</b>   | <b>2,554</b>          | 2,639  | 2,223         | <b>2,037</b>  | 527     | 216        | <b>(436)</b>                            | (371) | (326)       | <b>19,203</b>  | 18,383       | 17,123       |
| <b>Other income</b>  |                       |        |               |               |         |            |   |       |             |                |              |              |
| Results from operating activities  | 606                   | 616    | 533           | 376           | 1,546   | 64         | (77)                                    | (101) | (13)        | <b>2,554</b>   | 3,697        | 2,218        |
| Net finance expenses   |                       |        |               |               |         |            |   |       |             | <b>(593)</b>   | <b>(321)</b> | <b>(457)</b> |
| Share of profit of associates and joint ventures and impairments thereof | 37                    | 1      | 35            | 26            | 109     | 112        | (4)                                     | (3)   | (4)         | 146            | 213          | 240          |
| Income tax expense   |                       |        |               |               |         |            |   |       |             | (520)          | (515)        | (459)        |
| <b>Profit</b>  |                       |        |               |               |         |            |   |       |             | <b>1,587</b>   | 3,074        | 1,542        |
| <b>Attributable to:</b>  |                       |        |               |               |         |            |   |       |             |                |              |              |
| Equity holders of the Company (net profit)                               |                       |        |               |               |         |            |   |       |             | 1,364          | 2,914        | 1,412        |
| Non-controlling interests  |                       |        |               |               |         |            |   |       |             | 223            | 160          | 130          |
|  |                       |        |               |               |         |            |   |       |             | <b>1,587</b>   | 3,074        | 1,542        |
| <b>EBIT reconciliation</b>   |                       |        |               |               |         |            |   |       |             |                |              |              |
| EBIT <sup>2</sup>  | 643                   | 617    | 568           | 402           | 1,655   | 176        | (81)                                    | (104) | (17)        | 2,700          | 3,910        | 2,458        |
| Eia <sup>2</sup>   | 2                     | 38     | 2             | 163           | (1,388) |            | 12                                      | 36    | 5           | 391            | (992)        | 242          |
| <b>EBIT (beia)<sup>2</sup></b>   | <b>645</b>            | 655    | <b>570</b>    | <b>565</b>    | 267     | <b>176</b> | <b>(69)</b>                             | (68)  | <b>(12)</b> | <b>3,091</b>   | 2,918        | 2,700        |
| <b>Beer volumes (in million hectolitres)</b>                             |                       |        |               |               |         |            |   |       |             |                |              |              |
| Consolidated beer volume <sup>2</sup>                                    | 23,281                | 23,289 | 22,029        | 17,347        | 3,742   | 1,309      |   |       |             | 178,322        | 171,712      | 164,592      |
| Attributable share of joint ventures and associates volume <sup>2</sup>  | 4,119                 | 4,200  | 3,310         | 5,345         | 13,202  | 13,731     |   |       |             | 16,924         | 24,922       | 22,701       |
| <b>Group beer volume<sup>2</sup></b>                                     | <b>27,400</b>         | 27,489 | <b>25,339</b> | <b>22,692</b> | 16,944  | 15,040     |   |       |             | <b>195,246</b> | 196,634      | 187,291      |
| <b>Current segment assets</b>  |                       |        |               |               |         |            |   |       |             |                |              |              |
|  | 939                   | 959    | 854           | 757           | 913     | 91         | (475)                                   | (629) | (124)       | 5,475          | 5,525        | 4,694        |
|  | 2,216                 | 2,073  | 1,867         | 6,254         | 7,166   | 2          | 1,400                                   | 1,619 | 1,143       | 25,453         | 27,945       | 20,182       |



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|  |              |       |              |              |       |            |              |       |              |               |         |        |
|--|--------------|-------|--------------|--------------|-------|------------|--------------|-------|--------------|---------------|---------|--------|
| Non-current segment assets                                   |              |       |              |              |       |            |              |       |              |               |         |        |
| Investment in associates and joint ventures                  | 238          | 281   | 272          | 476          | 534   | 536        | 109          | 82    | 57           | 1,883         | 1,950   | 1,764  |
| Total segment assets   | <b>3,393</b> | 3,313 | <b>2,993</b> | <b>7,487</b> | 8,613 | <b>629</b> | <b>1,034</b> | 1,072 | <b>1,076</b> | <b>32,811</b> | 35,420  | 26,640 |
| Unallocated assets   |              |       |              |              |       |            |              |       |              | 526           | 560     | 473    |
| Total assets   |              |       |              |              |       |            |              |       |              | <b>33,337</b> | 35,980  | 27,127 |
| Segment liabilities  | 853          | 760   | 653          | 449          | 513   | 36         | 319          | 238   | 508          | 7,461         | 8,051   | 7,091  |
| Unallocated liabilities                                      |              |       |              |              |       |            |              |       |              | 13,520        | 15,124  | 9,887  |
| Total equity   |              |       |              |              |       |            |              |       |              | 12,356        | 12,805  | 10,135 |
| Total equity and liabilities                                 |              |       |              |              |       |            |              |       |              | <b>33,337</b> | 35,980  | 27,113 |
| Purchase of P, P & E   | 461          | 395   | 202          | 142          | 20    |            | 50           | 48    | 14           | 1,369         | 1,170   | 800    |
| Acquisition of goodwill                                      |              |       | 282          |              | 2,720 |            |              | 480   |              | 9             | 3,243   | 287    |
| Purchases of intangible assets                               | 2            | 2     |              | 5            |       |            | 28           | 24    | 16           | 77            | 78      | 56     |
| Depreciation of P, P & E                                     | (183)        | (176) | (140)        | (80)         | (11)  |            | (35)         | (38)  | (36)         | (1,073)       | (1,017) | (936)  |
| (Impairment) and reversal of impairment of P, P & E          |              | (8)   | (3)          | 2            |       |            | (1)          | 2     |              | (16)          | (44)    |        |
| Amortisation intangible assets                               | (6)          | (6)   | (6)          | (179)        | (24)  |            | (12)         | (12)  | (12)         | (376)         | (247)   | (229)  |
| (Impairment) and reversal of impairment of intangible assets |              |       |              |              |       |            |              |       |              | (116)         | (7)     | (3)    |

\* Restated for the revised IAS 19 and finalisation of the purchase price allocation for APB.

<sup>1</sup> Includes other revenue of EUR375 million in 2013, EUR433 million in 2012 and EUR463 million in 2011.

<sup>2</sup> For definition see Glossary . Note that these are both non-GAAP measures and therefore unaudited.

**Table of Contents****6. Acquisitions and disposals of subsidiaries and non-controlling interests****Accounting for the acquisition of APIPL/APB**

The accounting for the acquisition of Asia Pacific Investment Pte. Ltd ( APIPL ) and Asia Pacific Breweries Ltd ( APB ) and their subsidiaries (together referred to as the APIPL/APB acquisition ) has been finalised on 15 November 2013. Some adjustments were made to the provisional accounting for the APIPL/APB acquisition, resulting in a decrease in goodwill of EUR37 million. The adjustments mainly related to the revaluation of P, P & E based on additional information obtained about the facts and circumstances that existed at the acquisition date, which resulted in an increase in P, P & E of EUR52 million and an increase in trade and other payables of EUR10 million. Comparative information has been restated.

In 2012 the APIPL/APB financial figures were consolidated for 1.5 months from 15 November 2012 to year end. In 2013 the APIPL/APB financial figures have been consolidated for the full year.

**Acquisitions of non-controlling interests**

In 2013 HEINEKEN paid a total cash consideration of EUR156 million for the remaining APB shares outstanding in the market as at 31 December 2012. There were no other individually material acquisitions of non-controlling interests during 2013.

The value of non-controlling interests and equity impact (result of buy-out) are disclosed in the table below:

| In millions of EUR | Consideration paid | Value of the non-controlling interest | Result buy-out |
|--------------------|--------------------|---------------------------------------|----------------|
| APB                | 156                | 65                                    | 91             |
| Other              | 53                 | 7                                     | 46             |

**Disposals****Disposal of Oy Hartwall Ab ( Hartwall ) in Finland**

On 23 August 2013 HEINEKEN sold its 100 per cent stake in Oy Hartwall Ab in Finland to Danish Royal Unibrew A/S. A EUR6 million pre-tax book gain on the disposal was recorded in other income.

**Disposal of our stake in Kazakhstan**

On 8 January 2013 HEINEKEN sold its 28 per cent stake in Efes Kazakhstan JSC FE to the majority shareholder Efes Breweries International N.V. A EUR75 million pre-tax book gain on the disposal was recorded in other income.

**Disposal of Jiangsu Dafuhao Breweries Co. Ltd**

On 15 January 2013 HEINEKEN sold its 49 per cent stake in Jiangsu Dafuhao Breweries Co. Ltd, which was acquired in the APIPL/APB acquisition, to Nantong Fuhao Alcohol Co. Ltd.

**Disposal of Pago International GmbH**

On 15 February 2013 HEINEKEN sold its 100 per cent stake in Pago International GmbH to the Eckes-Granini Group. A pre-tax EUR17 million book gain on the disposal was recorded in other income.

**Disposal of stake in Shanghai Asia Pacific Brewery Company**

On 12 April 2013 HEINEKEN disposed Shanghai Asia Pacific Brewery Company by selling its shares in Heineken-APB (China) Pte. Ltd to Step Best Investments Ltd. Full ownership of these entities was acquired in the APIPL/APB acquisition.

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The aggregated consideration received in cash amounted to EUR588 million. Assets sold in the transactions above that resulted in loss of control included cash and cash equivalents amounting to EUR37 million negative. The other categories of assets and liabilities other than cash and cash equivalents in the operations over which control was lost were as follows:

| In millions of EUR      | 2013  |
|-------------------------|-------|
| Current assets          | 83    |
| Non-current assets      | 541   |
| Current liabilities     | (165) |
| Non-current liabilities | (63)  |

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**Table of Contents****7. Assets and liabilities (or disposal groups) classified as held for sale**

The below assets and liabilities are classified as held for sale following the commitment of HEINEKEN to a plan to sell certain assets and liabilities. Efforts to sell these assets and liabilities have commenced and are expected to be completed during 2014.

**Assets and liabilities classified as held for sale**

| In millions of EUR      | 2013      | 2012      |
|-------------------------|-----------|-----------|
| Current assets          | 19        | 38        |
| Non-current assets      | 18        | 86        |
| Current liabilities     | (10)      | (36)      |
| Non-current liabilities | (1)       | (3)       |
|                         | <b>26</b> | <b>85</b> |

**8. Other income**

| In millions of EUR   | 2013       | 2012         | 2011      |
|--|------------|--------------|-----------|
| Net gain/(loss) on sale of property, plant & equipment                 | 87         | 22           | 35        |
| Net gain/(loss) on sale of intangible assets                           |            | 2            | 24        |
| Net gain/(loss) on sale of subsidiaries, joint ventures and associates | 139        | 1,486        | 5         |
|  | <b>226</b> | <b>1,510</b> | <b>64</b> |

In addition to the results disclosed in note 6, HEINEKEN's shareholding in joint venture Compania Cervecerias Unidas S.A.(CCU) reduced as a result of a share issuance. The corresponding gain amounted to EUR47 million and is included in other income. Other income in 2012 comprises the fair value gain of HEINEKEN's previously held equity interest in APB amounting to EUR1,486 million.

**9. Raw materials, consumables and services**

| In millions of EUR             | 2013          | 2012          | 2011          |
|--------------------------------|---------------|---------------|---------------|
| Raw materials                  | 1,868         | 1,892         | 1,576         |
| Non-returnable packaging       | 2,502         | 2,376         | 2,075         |
| Goods for resale               | 1,551         | 1,616         | 1,498         |
| Inventory movements            | 2             | (85)          | (8)           |
| Marketing and selling expenses | 2,418         | 2,250         | 2,186         |
| Transport expenses             | 1,031         | 1,029         | 1,056         |
| Energy and water               | 564           | 562           | 525           |
| Repair and maintenance         | 482           | 458           | 417           |
| Other expenses                 | 1,768         | 1,751         | 1,641         |
|                                | <b>12,186</b> | <b>11,849</b> | <b>10,966</b> |

Other expenses mainly include rentals of EUR282 million (2012: EUR264 million, 2011: EUR241 million), consultant expenses of EUR166 million (2012: EUR191 million, 2011: EUR166 million), telecom and office automation of EUR183 million (2012: EUR179 million, 2011: EUR159 million) and travel expenses of EUR155 million (2012: EUR155 million, 2011: EUR137 million).

**Table of Contents****10. Personnel expenses**

| In millions of EUR                                    | Note | 2013         | 2012* | 2011* |
|---|------|--------------|-------|-------|
| Wages and salaries                                    |      | 2,125        | 2,078 | 1,891 |
| Compulsory social security contributions              |      | 346          | 352   | 333   |
| Contributions to defined contribution plans           |      | 41           | 39    | 24    |
| Expenses related to defined benefit plans             | 28   | 41           | 22    | 53    |
| Expenses related to other long-term employee benefits |      | 11           | 11    | 11    |
| Equity-settled share-based payment plan               | 29   | 10           | 12    | 11    |
| Other personnel expenses                              |      | 534          | 517   | 512   |
|   |      | <b>3,108</b> | 3,031 | 2,835 |

\* Restated for the revised IAS 19.

In other personnel expenses, restructuring costs are included for an amount of EUR80 million for the year 2013. These costs are primarily related to the restructuring of operations in the United Kingdom, France and Greece.

The average number of full-time equivalent (FTE) employees during the year was:

|                                | 2013          | 2012   | 2011   |
|--------------------------------|---------------|--------|--------|
| The Netherlands                | 4,054         | 4,053  | 3,991  |
| Other Western Europe           | 13,924        | 14,410 | 14,749 |
| Central and Eastern Europe     | 15,946        | 16,835 | 17,424 |
| The Americas                   | 23,951        | 25,035 | 23,906 |
| Africa Middle East             | 14,062        | 14,604 | 11,396 |
| Asia Pacific                   | 8,996         | 1,254  | 279    |
| Heineken N.V. and subsidiaries | <b>80,933</b> | 76,191 | 71,745 |

**11. Amortisation, depreciation and impairments**

| In millions of EUR                      | Note | 2013         | 2012  | 2011  |
|---|------|--------------|-------|-------|
| Property, plant & equipment             | 14   | 1,089        | 1,061 | 936   |
| Intangible assets                       | 15   | 492          | 254   | 232   |
| Impairment on available-for-sale assets |      |              | 1     |       |
|   |      | <b>1,581</b> | 1,316 | 1,168 |

**Table of Contents****12. Net finance income and expense****Recognised in profit or loss**

| In millions of EUR  | 2013  | 2012* | 2011* |
|---|-------|-------|-------|
| Interest income   | 47    | 62    | 70    |
| Interest expenses   | (579) | (551) | (494) |
| Dividend income from available-for-sale investments           | 15    | 25    | 12    |
| Net gain/(loss) on disposal of available-for-sale investments |       | 192   | 1     |
| Net change in fair value of derivatives                       | 16    | (7)   | 96    |
| Net foreign exchange gain/(loss)                              | (31)  | 15    | (107) |
| Unwinding discount on provisions                              | (5)   | (7)   | (7)   |
| Interest on the net defined benefit obligation                | (56)  | (51)  | (27)  |
| Other net financial income/(expenses)                         |       | 1     | (2)   |
| Other net finance income/(expenses)                           | (61)  | 168   | (34)  |
| Net finance income/(expenses)                                 | (593) | (321) | (457) |

\* Restated for the revised IAS 19.

The net gain on disposal of available-for-sale-investments for the year ended 31 December 2012 mainly related to the sale of our minority shareholding in Cervecería Nacional Dominicana S.A. in the Dominican Republic and to the revaluation of HEINEKEN's existing interest in the acquisition of Brasserie d' Haiti.

**13. Income tax expense****Recognised in profit or loss**

| In millions of EUR                                       | 2013  | 2012* | 2011* |
|--|-------|-------|-------|
| Current tax expense                                      |       |       |       |
| Current year   | 740   | 639   | 502   |
| Under/(over) provided in prior years                     | 13    | (6)   | (26)  |
|  | 753   | 633   | 476   |
| Deferred tax expense                                     |       |       |       |
| Origination and reversal of temporary differences        | (173) | (100) | 11    |
| Previously unrecognised deductible temporary differences |       | (28)  | (9)   |
| Changes in tax rate                                      | (32)  | 4     | 1     |
| Utilisation/(benefit) of tax losses recognised           | (13)  | (6)   | (19)  |
| Under/(over) provided in prior years                     | (15)  | 12    | (1)   |
|  | (233) | (118) | (17)  |
| Total income tax expense in profit or loss               | 520   | 515   | 459   |

\* Restated for the revised IAS 19.

**Reconciliation of the effective tax rate**

| In millions of EUR       | 2013  | 2012* | 2011* |
|--------------------------|-------|-------|-------|
| Profit before income tax | 2,107 | 3,589 | 2,001 |

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|   |              |       |       |
|---|--------------|-------|-------|
| Share of net profit of associates and joint ventures and impairments thereof  | (146)        | (213) | (240) |
| Profit before income tax excluding share of profit of associates and joint ventures (including impairments thereof) | <b>1,961</b> | 3,376 | 1,761 |

\* Restated for the revised IAS 19.

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|  | %           | 2013       | %*     | 2012* | %*    | 2011* |
|--|-------------|------------|--------|-------|-------|-------|
| Income tax using the Company's domestic tax rate                 | 25.0        | 490        | 25.0   | 845   | 25.0  | 440   |
| Effect of tax rates in foreign jurisdictions                     | 4.1         | 79         | 1.9    | 63    | 3.5   | 62    |
| Effect of non-deductible expenses                                | 4.6         | 90         | 1.9    | 64    | 3.3   | 58    |
| Effect of tax incentives and exempt income                       | (8.3)       | (162)      | (14.0) | (472) | (6.0) | (107) |
| Recognition of previously unrecognised temporary differences     |             |            | (0.8)  | (28)  | (0.5) | (9)   |
| Utilisation or recognition of previously unrecognised tax losses | (0.6)       | (11)       | (0.5)  | (17)  | (0.3) | (5)   |
| Unrecognised current year tax losses                             | 1.3         | 26         | 0.8    | 25    | 1.0   | 18    |
| Effect of changes in tax rate                                    | (1.6)       | (32)       | 0.1    | 4     | 0.1   | 1     |
| Withholding taxes  | 2.1         | 42         | 0.8    | 27    | 1.5   | 26    |
| Under/(over) provided in prior years                             | (0.1)       | (2)        | 0.2    | 6     | (1.5) | (27)  |
| Other reconciling items  |             |            | (0.1)  | (2)   | 0.1   | 2     |
|  | <b>26.5</b> | <b>520</b> | 15.3   | 515   | 26.1  | 459   |

\* Restated for the revised IAS 19.

The higher reported tax rate in 2013 of 26.5 per cent (2012: 15.3 per cent, 2011: 26.1 per cent) can be mainly explained by the fact that in 2012 the revaluation of HEINEKEN's PHEI in APIPL/APB was tax exempt.

**Income tax recognised in other comprehensive income**

| In millions of EUR             | Note | 2013         | 2012* | 2011* |
|--------------------------------|------|--------------|-------|-------|
| Changes in fair value          |      | 10           | (24)  |       |
| Changes in hedging reserve     |      | (2)          | (18)  | 13    |
| Changes in translation reserve |      | (43)         | (22)  | 11    |
| Other                          |      | (67)         | 113   | 10    |
|                                | 24   | <b>(102)</b> | 49    | 34    |

\* Restated for the revised IAS 19.

**14. Property, plant and equipment**

| In millions of EUR  | Note | Land and buildings* | Plant and equipment | Other fixed assets | Under construction | Total*        |
|---|------|---------------------|---------------------|--------------------|--------------------|---------------|
| Cost  |      |                     |                     |                    |                    |               |
| Balance as at 1 January 2012                                |      | 4,870               | 6,277               | 4,052              | 332                | 15,531        |
| Changes in consolidation                                    |      | 297                 | 385                 | 91                 | 77                 | 850           |
| Purchases   |      | 38                  | 105                 | 365                | 662                | 1,170         |
| Transfer of completed projects under construction and other |      | 58                  | 235                 | 270                | (540)              | 23            |
| Transfer (to)/from assets classified as held for sale       |      | (37)                | (21)                | (24)               |                    | (82)          |
| Disposals   |      | (19)                | (81)                | (284)              | (1)                | (385)         |
| Effect of hyperinflation                                    |      | 1                   | 4                   | 1                  |                    | 6             |
| Effect of movements in exchange rates                       |      | 59                  | 23                  | 23                 | (4)                | 101           |
| Balance as at 31 December 2012                              |      | 5,267               | 6,927               | 4,494              | 526                | 17,214        |
| Balance as at 1 January 2013                                |      | <b>5,267</b>        | <b>6,927</b>        | <b>4,494</b>       | <b>526</b>         | <b>17,214</b> |
| Changes in consolidation                                    |      | (204)               | (138)               | (28)               | 12                 | (358)         |
| Purchases   |      | 60                  | 162                 | 375                | 772                | 1,369         |
| Transfer of completed projects under construction           |      | 77                  | 288                 | 202                | (567)              |               |
| Transfer (to)/from assets classified as held for sale       |      | (24)                | (25)                | (5)                |                    | (54)          |



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|                                       |              |              |              |            |               |
|---------------------------------------|--------------|--------------|--------------|------------|---------------|
| Disposals                             | (90)         | (86)         | (290)        |            | (466)         |
| Effect of hyperinflation              |              | 2            | 1            |            | 3             |
| Effect of movements in exchange rates | (152)        | (225)        | (133)        | (38)       | (548)         |
| Balance as at 31 December 2013        | <b>4,934</b> | <b>6,905</b> | <b>4,616</b> | <b>705</b> | <b>17,160</b> |

Depreciation and impairment losses

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| In millions of EUR                                    | Note | Land and buildings* | Plant and equipment | Other fixed assets | Under construction | Total*  |
|---|------|---------------------|---------------------|--------------------|--------------------|---------|
| Balance as at 1 January 2012                          |      | (1,622)             | (3,339)             | (2,710)            |                    | (7,671) |
| Changes in consolidation                              |      |                     | (2)                 | (1)                |                    | (3)     |
| Depreciation charge for the year                      | 11   | (142)               | (399)               | (476)              |                    | (1,017) |
| Impairment losses                                     | 11   | (10)                | (36)                | (19)               |                    | (65)    |
| Reversal impairment losses                            | 11   | 4                   | 12                  | 5                  |                    | 21      |
| Transfer to/(from) assets classified as held for sale |      | 26                  | 15                  | 20                 |                    | 61      |
| Disposals   |      | 5                   | 80                  | 261                |                    | 346     |
| Effect of movements in exchange rates                 |      | (14)                | (9)                 | (19)               |                    | (42)    |
| Balance as at 31 December 2012                        |      | (1,753)             | (3,678)             | (2,939)            |                    | (8,370) |
| Balance as at 1 January 2013                          |      | (1,753)             | (3,678)             | (2,939)            |                    | (8,370) |
| Changes in consolidation                              |      | 17                  | 59                  | 40                 |                    | 116     |
| Depreciation charge for the year                      | 11   | (163)               | (416)               | (494)              |                    | (1,073) |
| Impairment losses                                     | 11   | (3)                 | (15)                | (5)                |                    | (23)    |
| Reversal impairment losses                            | 11   | 1                   | 2                   | 4                  |                    | 7       |
| Transfer to/(from) assets classified as held for sale |      | 7                   | 16                  | 3                  |                    | 26      |
| Disposals   |      | 70                  | 119                 | 229                |                    | 418     |
| Effect of movements in exchange rates                 |      | 35                  | 86                  | 72                 |                    | 193     |
| Balance as at 31 December 2013                        |      | (1,789)             | (3,827)             | (3,090)            |                    | (8,706) |
| Carrying amount                                       |      |                     |                     |                    |                    |         |
| As at 1 January 2012                                  |      | 3,248               | 2,938               | 1,342              | 332                | 7,860   |
| As at 31 December 2012                                |      | 3,514               | 3,249               | 1,555              | 526                | 8,844   |
| As at 1 January 2013                                  |      | 3,514               | 3,249               | 1,555              | 526                | 8,844   |
| As at 31 December 2013                                |      | 3,145               | 3,078               | 1,526              | 705                | 8,454   |

\* Restated for the finalisation of the purchase price allocation for APB.

**Impairment losses**

In 2013 a total impairment loss of EUR23 million (2012: EUR65 million, 2011: EUR 8 million) was charged to profit or loss.

**Financial lease assets**

HEINEKEN leases P, P & E under a number of finance lease agreements. At 31 December 2013 the net carrying amount of leased P,P & E was EUR9 million (2012: EUR39 million). During the year, HEINEKEN acquired leased assets of EUR13 million (2012: EUR5 million).

**Security to authorities**

Certain P, P & E amounting to EUR122 million (2012: EUR142 million) has been pledged to the authorities in a number of countries as security for the payment of taxes, particularly import and excise duties on beers, non-alcoholic beverages and spirits. This mainly relates to Brazil (see note 34).

**Property, plant and equipment under construction**

P, P & E under construction mainly relates to expansion of the brewing capacity in various countries.

**Capitalised borrowing costs**

During 2013 borrowing costs amounting to EUR8 million have been capitalised (2012: EUR nil).



**Table of Contents****15. Intangible assets**

| In millions of EUR                        | Note | Goodwill*     | Brands       | Customer-related intangibles | Contract-based intangibles | Software, research and development and other | Total*         |
|---|------|---------------|--------------|------------------------------|----------------------------|--|----------------|
| <b>Cost</b>                               |      |               |              |                              |                            |  |                |
| Balance as at 1 January 2012              |      | 7,809         | 2,272        | 1,228                        | 162                        | 378  | 11,849         |
| Changes in consolidation                  |      | 3,243         | 2,069        | 1,077                        | 624                        | 48   | 7,061          |
| Purchased/internally developed            |      |               |              |                              | 7                          | 71   | 78             |
| Disposals                                 |      | (11)          |              | (5)                          | (4)                        |  | (20)           |
| Transfers to assets held for sale         |      |               |              |                              |                            | (1)  | (1)            |
| Effect of movements in exchange rates     |      | (1)           | (9)          | 4                            | (9)                        | 6  | (9)            |
| Balance as at 31 December 2012            |      | 11,040        | 4,332        | 2,304                        | 780                        | 502  | 18,958         |
| Balance as at 1 January 2013              |      | <b>11,040</b> | <b>4,332</b> | <b>2,304</b>                 | <b>780</b>                 | <b>502</b>                                   | <b>18,958</b>  |
| Changes in consolidation                  |      | (167)         | (153)        | (46)                         | (1)                        | (9)  | (376)          |
| Purchased/internally developed            |      |               |              |                              | (7)                        | 84   | 77             |
| Disposals                                 |      |               |              |                              | (4)                        | (38)   | (42)           |
| Transfers to assets held for sale         |      |               |              |                              |                            | (1)  | (1)            |
| Effect of movements in exchange rates     |      | (466)         | (328)        | (148)                        | (88)                       | (32)   | (1,062)        |
| Balance as at 31 December 2013            |      | <b>10,407</b> | <b>3,851</b> | <b>2,110</b>                 | <b>680</b>                 | <b>506</b>                                   | <b>17,554</b>  |
| <b>Amortisation and impairment losses</b> |      |               |              |                              |                            |  |                |
| Balance as at 1 January 2012              |      | (279)         | (221)        | (268)                        | (3)                        | (243)  | (1,014)        |
| Changes in consolidation                  |      |               |              |                              |                            |  |                |
| Amortisation charge for the year          | 11   |               | (68)         | (121)                        | (11)                       | (47)   | (247)          |
| Impairment losses                         | 11   | (7)           |              |                              |                            |  | (7)            |
| Disposals                                 |      |               |              |                              |                            |  |                |
| Transfers to assets held for sale         |      |               |              |                              |                            | 1  | 1              |
| Effect of movements in exchange rates     |      | (11)          |              | 7                            | (9)                        | 10   | (3)            |
| Balance as at 31 December 2012            |      | (297)         | (289)        | (382)                        | (23)                       | (279)  | (1,270)        |
| Balance as at 1 January 2013              |      | <b>(297)</b>  | <b>(289)</b> | <b>(382)</b>                 | <b>(23)</b>                | <b>(279)</b>                                 | <b>(1,270)</b> |
| Changes in consolidation                  |      |               | 22           | 27                           |                            | 7  | 56             |
| Amortisation charge for the year          | 11   |               | (101)        | (176)                        | (62)                       | (37)   | (376)          |
| Impairment losses                         | 11   | (94)          | (5)          |                              |                            | (17)   | (116)          |
| Disposals                                 |      |               |              |                              | 4                          | 30   | 34             |
| Transfers to assets held for sale         |      |               |              |                              |                            | 1  | 1              |
| Effect of movements in exchange rates     |      |               | 14           | 20                           | 10                         | 7  | 51             |
| Balance as at 31 December 2013            |      | <b>(391)</b>  | <b>(359)</b> | <b>(511)</b>                 | <b>(71)</b>                | <b>(288)</b>                                 | <b>(1,620)</b> |
| <b>Carrying amount</b>                    |      |               |              |                              |                            |  |                |
| As at 1 January 2012                      |      | 7,530         | 2,051        | 960                          | 159                        | 135  | 10,835         |
| As at 31 December 2012                    |      | 10,743        | 4,043        | 1,922                        | 757                        | 223  | 17,688         |
| As at 1 January 2013                      |      | <b>10,743</b> | <b>4,043</b> | <b>1,922</b>                 | <b>757</b>                 | <b>223</b>                                   | <b>17,688</b>  |
| As at 31 December 2013                    |      | <b>10,016</b> | <b>3,492</b> | <b>1,599</b>                 | <b>609</b>                 | <b>218</b>                                   | <b>15,934</b>  |

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\* Restated for the finalisation of the purchase price allocation for APB.

As at 31 December 2013 the carrying amount of our CGU in Russia has been reduced to its recoverable amount through recognition of a EUR94 million impairment loss against goodwill and EUR5 million against brands.

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**Table of Contents****Brands, customer-related and contract-based intangibles**

The main brands capitalised are the brands acquired in 2008: Scottish & Newcastle (Fosters and Strongbow), 2010: Cervecería Cuauhtémoc Moctezuma (Dos Equis, Tecate and Sol) and 2012: Asia Pacific Breweries (Tiger, Anchor and Bintang). The main customer-related and contract-based intangibles were acquired in 2010 and 2012 and relate to customer relationships with retailers in Mexico and Asia Pacific (constituting either by way of a contractual agreement or by way of non-contractual relations) and reacquired rights.

**Impairment tests for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill in respect of Western Europe, Central and Eastern Europe (excluding Russia), the Americas (excluding Brazil) and Asia Pacific is allocated and monitored by management on a regional basis. In respect of less integrated subsidiaries such as Russia, Brazil, and subsidiaries within Africa Middle East and Head Office and other, goodwill is allocated and monitored by management on an individual country basis.

The carrying amounts of goodwill allocated to each CGU are as follows:

| In millions of EUR                            | 2013          | 2012*         |
|---|---------------|---------------|
| Western Europe                                | 3,246         | 3,428         |
| Central and Eastern Europe (excluding Russia) | 1,419         | 1,445         |
| Russia  |               | 106           |
| The Americas (excluding Brazil)               | 1,707         | 1,778         |
| Brazil  | 82            | 99            |
| Africa Middle East (aggregated)               | 482           | 507           |
| Asia Pacific                                  | 2,364         | 2,637         |
| Head Office and other (aggregated)            | 716           | 743           |
|   | <b>10,016</b> | <b>10,743</b> |

\* Restated for the finalisation of the purchase price allocation for APB.

Throughout the year total goodwill mainly decreased due to the disposal of Hartwall, an impairment loss recognised in our CGU Russia and net foreign currency differences.

The recoverable amounts of the CGUs are based on value-in-use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit using a pre-tax discount rate.

The key assumptions used for the value-in-use calculations are as follows:

Cash flows were projected based on actual operating results and the three-year business plan. Cash flows for a further seven-year period were extrapolated using expected annual per country volume growth rates, which are based on external sources. Management believes that this forecasted period is justified due to the long-term nature of the beer business and past experiences.

The beer price growth per year after the first three-year period is assumed to be at specific per country expected annual long-term inflation, based on external sources.

Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual long-term inflation, in order to calculate the terminal recoverable amount.

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A per CGU-specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.

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The values assigned to the key assumptions used for the value in use calculations are as follows:

| In per cent                                   | Pre-tax WACC | Expected annual long-term inflation 2017-2023 | Expected volume growth rates 2017-2023 |
|---|--------------|---|--|
| Western Europe                                | 9.6          | 2.0   | -0.5                                   |
| Central and Eastern Europe (excluding Russia) | 11.7         | 2.3   | 0.5                                    |
| Russia  | 14.1         | 4.1   | 1.0                                    |
| The Americas (excluding Brazil)               | 12.0         | 3.2   | 1.7                                    |
| Brazil  | 15.5         | 4.5   | 0.9                                    |
| Africa Middle East                            | 14.8-22.7    | 3.2-10.7                                      | 1.8-7.7                                |
| Asia Pacific                                  | 13.3         | 4.9   | 3.9                                    |
| Head Office and other                         | 11.2-13.0    | 2.1-3.8                                       | 2.2-2.6                                |

The impact of excise duty increases and other recent adverse regulatory changes has resulted in the deterioration of the beer market outlook in Russia, whilst also limiting HEINEKEN's commercial freedom in the country. Consequently, a goodwill impairment of EUR94 million before tax has been recognised in 2013. The recoverable amount is based on the value in use.

**Sensitivity to changes in assumptions**

The outcome of a sensitivity analysis of 100 basis points adverse change in key assumptions (lower growth rates or higher discount rates respectively) did not result in a material different outcome of the impairment test.

**16. Investments in associates and joint ventures**

HEINEKEN has interests in a number of individually insignificant joint ventures and associates.

HEINEKEN holds a 75 per cent equity interest in Sedibeng Brewery Pty Ltd, but based on the contractual arrangements HEINEKEN has joint control. As a result this investment is equity accounted for.

**Summarised financial information for equity accounted joint ventures and associates**

The following table includes, in aggregate, the carrying amount and HEINEKEN's share of profit and OCI of joint ventures and associates:

| In millions of EUR                        | Joint ventures 2013 | Joint ventures 2012 | Associates 2013 | Associates 2012 |
|---|---------------------|---------------------|-----------------|-----------------|
| Carrying amount of interests              | 1,814               | 1,883               | 69              | 67              |
| Share of:                                 |                     |                     |                 |                 |
| Profit or loss from continuing operations | 130                 | 179                 | 16              | 34              |
| Other comprehensive income                | 5                   | (1)                 |                 |                 |
|   | <b>135</b>          | <b>178</b>          | <b>16</b>       | <b>34</b>       |

**Reporting date**

The reporting date of the financial statements of HEINEKEN joint ventures and associates, used in applying the equity method, is the same as for the Company except for:

Heineken Lion Australia Pty which has a 30 September reporting date;



Cerveceria Costa Rica S.A. which has a 30 September reporting date;

United Breweries Limited which has a 31 March reporting date;

Guinness Ghana Breweries Ltd which has a 30 June reporting date.

This is due to historical reasons or local statutory requirements. The results of Cerveceria Costa Rica S.A., Guinness Ghana Breweries Ltd and United Breweries Limited have been adjusted to include numbers for the full financial year ended 31 December 2013.

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**Table of Contents****17. Other investments and receivables**

| In millions of EUR                   | Note | 2013       | 2012  |
|--------------------------------------|------|------------|-------|
| <b>Non-current other investments</b> |      |            |       |
| Loans to customers                   | 32   | 203        | 368   |
| Indemnification receivable           | 32   | 113        | 136   |
| Other receivables                    | 32   | 128        | 148   |
| Held-to-maturity investments         | 32   | 4          | 4     |
| Available-for-sale investments       | 32   | 247        | 327   |
| Non-current derivatives              | 32   | 67         | 116   |
|                                      |      | <b>762</b> | 1,099 |
| <b>Current other investments</b>     |      |            |       |
| Investments held for trading         | 32   | 11         | 11    |
|                                      |      | <b>11</b>  | 11    |

Effective interest rates on loans to customers range from 6 to 12 per cent.

The indemnification receivable represents the receivable on FEMSA and Lewiston investments and is a mirroring of the corresponding indemnified liabilities originating from the acquisition of the beer operations of FEMSA and Sona.

The other receivables mainly originate from the acquisition of the beer operations of FEMSA and represent a receivable on the Brazilian Authorities on which interest is calculated in accordance with Brazilian legislation. Collection of this receivable is expected to be beyond a period of five years.

The main available-for-sale investments are S.A. Des Brasseries du Cameroun, Desnoes & Geddes Ltd and Sabeco Ltd. As far as these investments are listed they are measured at their quoted market price. For others multiples are used. Debt securities (which are interest-bearing) with a carrying amount of EUR14 million (2012: EUR21 million) are included in available-for-sale investments.

**Sensitivity analysis equity price risk**

As at 31 December 2013 an amount of EUR134 million (2012: EUR193 million) of available-for-sale investments and investments held for trading is listed on stock exchanges. An increase or decrease of 1 per cent in the share price at the reporting date would not result in a material impact on HEINEKEN's financial position.

**18. Deferred tax assets and liabilities****Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following items:

| In millions of EUR          | 2013 | Assets<br>2012* | 2013    | Liabilities<br>2012* | 2013    | Net<br>2012* |
|-----------------------------|------|-----------------|---------|----------------------|---------|--------------|
| Property, plant & equipment | 119  | 136             | (655)   | (756)                | (536)   | (620)        |
| Intangible assets           | 84   | 75              | (1,318) | (1,610)              | (1,234) | (1,535)      |
| Investments                 | 128  | 134             | (9)     | (12)                 | 119     | 122          |
| Inventories                 | 19   | 20              |         | (7)                  | 19      | 13           |
| Loans and borrowings        | 1    | 2               |         |                      | 1       | 2            |
| Employee benefits*          | 317  | 385             | (2)     | (2)                  | 315     | 383          |
| Provisions                  | 113  | 125             | (12)    | (17)                 | 101     | 108          |
| Other items                 | 261  | 242             | (202)   | (195)                | 59      | 47           |

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|                                     |              |       |                |         |              |         |
|-------------------------------------|--------------|-------|----------------|---------|--------------|---------|
| Tax losses carry forward            | 220          | 238   |                |         | 220          | 238     |
| Tax assets/(liabilities)            | <b>1,262</b> | 1,357 | <b>(2,198)</b> | (2,599) | <b>(936)</b> | (1,242) |
| Set-off of tax                      | (754)        | (807) | 754            | 807     |              |         |
| <u>Net tax assets/(liabilities)</u> | <b>508</b>   | 550   | <b>(1,444)</b> | (1,792) | <b>(936)</b> | (1,242) |

\* Restated for the revised IAS 19 and finalisation of the purchase price allocation for APB.

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Of the total net deferred tax assets of EUR508 million at 31 December 2013 (2012: EUR550 million \*), EUR280 million (2012: EUR287 million\*) is recognised in respect of subsidiaries in various countries where losses have been incurred in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise these deferred tax assets.

**Tax losses carry forward**

HEINEKEN has tax losses carry forward for an amount of EUR1,906 million as at 31 December 2013 (2012: EUR2,011 million), which expire in the following years:

| In millions of EUR                             | 2013         | 2012         |
|--|--------------|--------------|
| 2013   |              | 11           |
| 2014   | 16           | 17           |
| 2015   | 33           | 32           |
| 2016   | 28           | 29           |
| 2017   | 29           | 27           |
| 2018   | 23           |              |
| After 2018 respectively 2017 but not unlimited | 330          | 292          |
| Unlimited                                      | 1,447        | 1,603        |
|  | <b>1,906</b> | <b>2,011</b> |
| Recognised as deferred tax assets gross        | (978)        | (989)        |
| Unrecognised                                   | <b>928</b>   | 1,022        |

The unrecognised losses relate to entities for which it is not probable that taxable profit will be available to offset these losses. The majority of the unrecognised losses was acquired as part of the beer operations of FEMSA in 2010.

**Movement in deferred tax balances during the year**

| In millions of EUR           | Balance<br>1 January<br>2012* | Changes in<br>consolidation | Effect<br>of<br>movements<br>in<br>foreign<br>exchange | Recognised<br>in<br>income | Recognised<br>in equity | Transfers | Balance<br>31 December<br>2012* |
|------------------------------|-------------------------------|-----------------------------|--|----------------------------|-------------------------|-----------|---------------------------------|
| Property, plant & equipment  | (497)                         | (66)                        | (5)  | (54)                       |                         | 2         | (620)                           |
| Intangible assets            | (682)                         | (923)                       | 6  | 59                         |                         | 5         | (1,535)                         |
| Investments                  | 85                            | (4)                         | 4  | 37                         | (2)                     | 2         | 122                             |
| Inventories                  | 11                            | (18)                        | 1  | 22                         |                         | (3)       | 13                              |
| Loans and borrowings         | 3                             |                             | (2)  |                            |                         | 1         | 2                               |
| Employee benefits*           | 250                           | 6                           | 6  | 12                         | 113                     | (4)       | 383                             |
| Provisions                   | 151                           | (9)                         | 3  | (34)                       |                         | (3)       | 108                             |
| Other items                  | 8                             | 9                           | (9)  | 70                         | (40)                    | 9         | 47                              |
| Tax losses carry forward     | 237                           | 1                           | 4  | 6                          |                         | (10)      | 238                             |
| Net tax assets/(liabilities) | (434)                         | (1,004)                     | 8  | 118                        | 71                      | (1)       | (1,242)                         |

\* Restated for the revised IAS 19 and finalisation of the purchase price allocation for APB.

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| In millions of EUR           | Balance<br>1 January<br>2013 | Changes<br>in<br>consolidation | Effect of<br>movements<br>in<br>foreign<br>exchange | Recognised<br>in<br>income | Recognised<br>in equity | Transfers  | Balance<br>31 December<br>2013 |
|------------------------------|------------------------------|--------------------------------|---|----------------------------|-------------------------|------------|--------------------------------|
| Property, plant & equipment  | (620)                        | 19                             | 29  | 30                         | 3                       | 3          | (536)                          |
| Intangible assets            | (1,535)                      | 43                             | 127   | 129                        |                         | 2          | (1,234)                        |
| Investments                  | 122                          |                                | (6)   | 1                          | 2                       |            | 119                            |
| Inventories                  | 13                           | 2                              |   | 4                          |                         |            | 19                             |
| Loans and borrowings         | 2                            |                                |   |                            |                         | (1)        | 1                              |
| Employee benefits            | 383                          |                                | (6)   | (6)                        | (70)                    | 14         | 315                            |
| Provisions                   | 108                          | (5)                            | (1)   | (1)                        |                         |            | 101                            |
| Other items                  | 47                           | (9)                            | (44)  | 79                         | 6                       | (20)       | 59                             |
| Tax losses carry forward     | 238                          |                                | (10)  | (3)                        |                         | (5)        | 220                            |
| Net tax assets/(liabilities) | <b>(1,242)</b>               | <b>50</b>                      | <b>89</b>   | <b>233</b>                 | <b>(59)</b>             | <b>(7)</b> | <b>(936)</b>                   |

**19. Inventories**

| In millions of EUR                | 2013         | 2012         |
|-----------------------------------|--------------|--------------|
| Raw materials                     | 271          | 320          |
| Work in progress                  | 176          | 176          |
| Finished products                 | 388          | 407          |
| Goods for resale                  | 218          | 207          |
| Non-returnable packaging          | 171          | 191          |
| Other inventories and spare parts | 288          | 295          |
|                                   | <b>1,512</b> | <b>1,596</b> |

During 2013 and 2012 no write-down of inventories to net realisable value was made.

**20. Trade and other receivables**

| In millions of EUR                                       | Note | 2013         | 2012         |
|--|------|--------------|--------------|
| Trade receivables due from associates and joint ventures |      | 22           | 27           |
| Trade receivables  |      | 1,804        | 1,944        |
| Other receivables  |      | 556          | 529          |
| Derivatives  |      | 45           | 37           |
|  | 32   | <b>2,427</b> | <b>2,537</b> |

A net impairment loss of EUR34 million (2012: EUR38 million) in respect of trade and other receivables was included in expenses for raw materials, consumables and services.

**21. Cash and cash equivalents**

| In millions of EUR                                       | Note | 2013         | 2012       |
|--|------|--------------|------------|
| Cash and cash equivalents                                | 32   | 1,290        | 1,037      |
| Bank overdrafts  | 25   | (178)        | (191)      |
| Cash and cash equivalents in the statement of cash flows |      | <b>1,112</b> | <b>846</b> |



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### **22. Capital and reserves**

#### **Share capital**

As at 31 December 2013 the issued share capital comprised 576,002,613 ordinary shares (2012: 576,002,613). The ordinary shares have a par value of EUR1.60. All issued shares are fully paid. The share capital as at 31 December 2013 amounted to EUR922 million (2012: EUR922 million).

The Company's authorised capital amounts to EUR2.5 billion, comprising of 1,562,500,000 shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by HEINEKEN (see next page), rights are suspended.

#### **Share premium**

As at 31 December 2013 the share premium amounted to EUR2,701 million (2012: EUR2,701 million).

#### **Translation reserve**

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations of HEINEKEN (excluding amounts attributable to non-controlling interests) as well as value changes of the hedging instruments in the net investment hedges. HEINEKEN considers this a legal reserve.

#### **Hedging reserve**

This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred. HEINEKEN considers this a legal reserve.

#### **Fair value reserve**

This reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired. HEINEKEN considers this a legal reserve.

#### **Other legal reserves**

These reserves relate to the share of profit of joint ventures and associates over the distribution of which HEINEKEN does not have control. The movement in these reserves reflects retained earnings of joint ventures and associates minus dividends received. In case of a legal or other restriction which causes that retained earnings of subsidiaries cannot be freely distributed, a legal reserve is recognised for the restricted part.

#### **Reserve for own shares**

The reserve for the Company's own shares comprises the cost of the Company's shares held by HEINEKEN. As at 31 December 2013, HEINEKEN held 1,010,213 of the Company's shares (2012: 891,561).

#### **LTV**

During the period of 1 January through 31 December 2013 HEINEKEN acquired 375,000 shares for delivery against LTV and other share based payment plans.

#### **Dividends**

The following dividends were declared and paid by HEINEKEN:

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| In millions of EUR  | 2013       | 2012       |
|---|------------|------------|
| Final dividend previous year EUR0.56, respectively EUR0.53 per qualifying ordinary share  | 323        | 305        |
| Interim dividend current year EUR0.36, respectively EUR0.33 per qualifying ordinary share | 207        | 189        |
| Total dividend declared and paid  | <b>530</b> | <b>494</b> |

The Heineken N.V. dividend policy is to pay-out a ratio of 30 per cent to 35 per cent of full-year net profit (beia). The interim dividend is fixed at 40 per cent of the total dividend of the previous year.

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After the balance sheet date the Executive Board proposed the following dividends. The dividends, taking into account the interim dividends declared and paid, have not been provided for.

|   |             |      |
|---|-------------|------|
| In millions of EUR                                    | <b>2013</b> | 2012 |
| Per qualifying ordinary share EUR0.89 (2012: EUR0.89) | 512         | 512  |

**Non-controlling interests**

The non-controlling interests (NCI) relate to minority stakes held by third parties in HEINEKEN consolidated subsidiaries. The total non-controlling interest as at 31 December 2013 amounted to EUR954 million (2012: EUR1,071 million). Decrease of the NCI is mostly due to the purchase in 2013 of the remaining APIPL/APB shares in the open market as at 31 December 2012, see note 6. All non-controlling interests are individually immaterial for HEINEKEN.

**23. Earnings per share****Basic earnings per share**

The calculation of basic earnings per share as at 31 December 2013 is based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR1,364 million (2012: EUR2,914 million, 2011: EUR1,412 million\*) and a weighted average number of ordinary shares basic outstanding during the year ended 31 December 2013 of 575,062,357 (2012: 575,022,338, 2011: 585,100,381). Basic earnings per share for the year amounted to EUR2.37 (2012: EUR5.07\*, 2011: EUR2.41\*).\*)

**Diluted earnings per share**

The calculation of diluted earnings per share as at 31 December 2013 is based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR1,364 million (2012: EUR2,914 million, 2011: EUR1,412 million\*) and a weighted average number of ordinary shares basic outstanding after adjustment for the effects of all dilutive potential ordinary shares of 576,002,613 (2012: 576,002,613, 2011: 586,277,702). Diluted earnings per share for the year amounted to EUR2.37 (2012: EUR5.06\*, 2011: EUR2.41\*).

\* Restated for the revised IAS 19.

**Weighted average number of shares basic and diluted**

|  | 2013               | 2012        | 2011        |
|--|--------------------|-------------|-------------|
| Number of shares basic 1 January                       | 576,002,613        | 576,002,613 | 576,002,613 |
| Effect of own shares held                              | (940,256)          | (980,275)   | (1,177,321) |
| Effect of undelivered ASDI shares                      |                    |             | 10,275,089  |
| Weighted average number of basic shares for the year   | <b>575,062,357</b> | 575,022,338 | 585,100,381 |
| Effect of own shares held                              | 940,256            | 980,275     | 1,177,321   |
| Weighted average number of diluted shares for the year | <b>576,002,613</b> | 576,002,613 | 586,277,207 |

**ASDI**

The Allotted Share Delivery Instrument (ASDI) represents HEINEKEN's obligation to deliver shares to FEMSA, either through issuance and/or purchasing of its own shares in the open market, which was concluded in 2011. EPS in 2011 was impacted by ASDI as in the formula calculating EPS the net profit is divided by the weighted average number of ordinary shares. In this weighted average number of ordinary shares, the weighted average of outstanding ASDI is included. This means that the ASDI has led to a lower basic EPS until all shares had been repurchased in 2011.



**Table of Contents****24. Income tax on other comprehensive income**

| In millions of EUR  | 2013                 |              | Amount<br>net of<br>tax | 2012*                |           | Amount<br>net of<br>tax | 2011*                |           | Amount<br>net of<br>tax |
|---|----------------------|--------------|-------------------------|----------------------|-----------|-------------------------|----------------------|-----------|-------------------------|
|   | Amount<br>before tax | Tax          |                         | Amount<br>before tax | Tax       |                         | Amount<br>before tax | Tax       |                         |
| Other comprehensive income  |                      |              |                         |                      |           |                         |                      |           |                         |
| Actuarial gains and losses  | 263                  | (66)         | 197                     | (517)                | 113       | (404)                   | (85)                 | 10        | (75)                    |
| Currency translation differences  | (1,244)              | (38)         | (1,282)                 | 59                   | (20)      | 39                      | (504)                | 11        | (493)                   |
| Recycling of currency translation differences to profit or loss                       | 1                    |              | 1                       |                      |           |                         |                      |           |                         |
| Effective portion of net investment hedges  | 18                   | (5)          | 13                      | 8                    | (2)       | 6                       |                      |           |                         |
| Effective portion of changes in fair value of cash flow hedges                        | 17                   | (1)          | 16                      | 16                   | (2)       | 14                      | (31)                 | 10        | (21)                    |
| Effective portion of cash flow hedges transferred to profit or loss                   | (3)                  | (1)          | (4)                     | 57                   | (16)      | 41                      | (14)                 | 3         | (11)                    |
| Net change in fair value available-for-sale investments                               | (63)                 | 10           | (53)                    | 203                  | (68)      | 135                     | 71                   |           | 71                      |
| Net change in fair value available-for-sale investments transferred to profit or loss |                      |              |                         | (192)                | 44        | (148)                   | (1)                  |           | (1)                     |
| Share of other comprehensive income of associates/joint ventures                      | 6                    | (1)          | 5                       | (1)                  |           | (1)                     | (5)                  |           | (5)                     |
| Total other comprehensive income  | <b>(1,005)</b>       | <b>(102)</b> | <b>(1,107)</b>          | <b>(367)</b>         | <b>49</b> | <b>(318)</b>            | <b>(569)</b>         | <b>34</b> | <b>(535)</b>            |

\* Restated for the revised IAS 19.

**25. Loans and borrowings**

This note provides information about the contractual terms of HEINEKEN's interest-bearing loans and borrowings. For more information about HEINEKEN's exposure to interest rate risk and foreign currency risk, see note 32.

**Non-current liabilities**

| In millions of EUR                             | Note | 2013         | 2012          |
|--|------|--------------|---------------|
| Secured bank loans                             |      | 16           | 28            |
| Unsecured bank loans                           |      | 422          | 1,221         |
| Unsecured bond issues                          |      | 8,083        | 8,206         |
| Finance lease liabilities                      | 26   | 5            | 22            |
| Other non-current interest-bearing liabilities |      | 1,271        | 1,828         |
| Non-current interest-bearing liabilities       |      | <b>9,797</b> | <b>11,305</b> |
| Non-current derivatives                        |      | 47           | 111           |
| Non-current non-interest-bearing liabilities   |      | 9            | 21            |
| Non-current liabilities                        |      | <b>9,853</b> | <b>11,437</b> |

**Table of Contents****Current interest-bearing liabilities**

| In millions of EUR  | Note | 2013         | 2012  |
|---|------|--------------|-------|
| Current portion of secured bank loans                             |      | 12           | 13    |
| Current portion of unsecured bank loans                           |      | 261          | 740   |
| Current portion of unsecured bonds issued                         |      | 904          | 600   |
| Current portion of finance lease liabilities                      | 26   | 4            | 16    |
| Current portion of other non-current interest-bearing liabilities |      | 471          | 12    |
| Total current portion of non-current interest-bearing liabilities |      | <b>1,652</b> | 1,381 |
| Deposits from third parties (mainly employee loans)               |      | 543          | 482   |
|   |      | <b>2,195</b> | 1,863 |
| Bank overdrafts   | 21   | 178          | 191   |
| Current interest-bearing liabilities                              |      | <b>2,373</b> | 2,054 |

**Net interest-bearing debt position**

| In millions of EUR  | Note | 2013          | 2012    |
|---|------|---------------|---------|
| Non-current interest-bearing liabilities                    |      | 9,797         | 11,305  |
| Current portion of non-current interest-bearing liabilities |      | 1,652         | 1,381   |
| Deposits from third parties (mainly employee loans)         |      | 543           | 482     |
|   |      | <b>11,992</b> | 13,168  |
| Bank overdrafts   | 21   | 178           | 191     |
|   |      | <b>12,170</b> | 13,359  |
| Cash, cash equivalents and current other investments        |      | (1,302)       | (1,048) |
| Net interest-bearing debt position                          |      | <b>10,868</b> | 12,311  |

**Non-current liabilities**

| In millions of EUR                      | Secured bank loans | Unsecured bank loans | Unsecured bond issues | Finance lease liabilities | Other non-current interest-bearing liabilities | Non-current derivatives | Non-current non-interest-bearing liabilities | Total         |
|---|--------------------|----------------------|-----------------------|---------------------------|--|-------------------------|--|---------------|
| Balance as at 1 January 2013            | <b>28</b>          | <b>1,221</b>         | <b>8,206</b>          | <b>22</b>                 | <b>1,828</b>                                   | <b>111</b>              | <b>21</b>                                    | <b>11,437</b> |
| Consolidation changes                   |                    | (9)                  | (1)                   | (9)                       | 8  |                         | (1)  | (12)          |
| Effect of movements in exchange rates   |                    | (12)                 |                       |                           | (59)   | 26                      | (5)  | (50)          |
| Transfers to current liabilities        | (9)                | (404)                | (990)                 | (8)                       | (455)  | (116)                   | (3)  | (1,985)       |
| Charge to/(from) equity i/r derivatives |                    | (24)                 | (10)                  |                           | (15)   | 7                       |  | (42)          |
| Proceeds                                | 1                  | 214                  | 1,259                 |                           | 56   |                         |  | 1,530         |
| Repayments                              | (4)                | (578)                | (231)                 |                           | (55)   |                         | (2)  | (870)         |
| Other                                   |                    | 14                   | (150)                 |                           | (37)   | 19                      | (1)  | (155)         |
| Balance as at 31 December 2013          | <b>16</b>          | <b>422</b>           | <b>8,083</b>          | <b>5</b>                  | <b>1,271</b>                                   | <b>47</b>               | <b>9</b>                                     | <b>9,853</b>  |

**Table of Contents****Terms and debt repayment schedule**

Terms and conditions of outstanding non-current and current loans and borrowings were as follows:

| In millions of EUR   | Category                              | Currency | Nominal interest rate % | Repayment | Carrying amount 2013 | Face value 2013 | Carrying amount 2012 | Face value 2012 |
|----------------------|---------------------------------------|----------|-------------------------|-----------|----------------------|-----------------|----------------------|-----------------|
| Secured bank loans   | Bank Facilities                       | GBP      | 1.8                     | 2016      | 9                    | 9               | 13                   | 13              |
| Secured bank loans   | Various                               | various  | various                 | various   | 19                   | 19              | 28                   | 28              |
| Unsecured bank loans | Bank Facilities                       | USD      | 0.7                     | 2013      |                      |                 | 30                   | 30              |
| Unsecured bank loans | Bank Facilities                       | MXN      | 4.9                     | 2013      |                      |                 | 36                   | 36              |
| Unsecured bank loans | Bank Facilities                       | PLN      | 3.2                     | 2014      | 46                   | 46              | 81                   | 81              |
| Unsecured bank loans | Bank Facility                         | EUR      | 5.1                     | 2016      | 207                  | 207             | 207                  | 207             |
| Unsecured bank loans | Bank Facilities                       | NGN      | 13.0                    | 2013-2016 | 110                  | 110             | 276                  | 276             |
| Unsecured bank loans | German Schuldschein notes             | EUR      | 1.0-6.0                 | 2013      |                      |                 | 102                  | 102             |
| Unsecured bank loans | German Schuldschein notes             | EUR      | 1.0-6.0                 | 2014      | 202                  | 206             | 207                  | 207             |
| Unsecured bank loans | German Schuldschein notes             | EUR      | 1.0-6.2                 | 2016      | 111                  | 111             | 111                  | 111             |
| Unsecured bank loans | 2008 Syndicated Bank Facility         | EUR      | 0.8                     | 2013      |                      |                 | 198                  | 200             |
| Unsecured bank loans | 2008 Syndicated Bank Facility         | GBP      | 1.2                     | 2013      |                      |                 | 291                  | 294             |
| Unsecured bank loans | 2011 Syndicated Bank Facility         | GBP      | 0.9                     | 2017      |                      |                 | 196                  | 196             |
| Unsecured bank loans | 2011 Syndicated Bank Facility         | EUR      | 0.6                     | 2017      |                      |                 | 180                  | 180             |
| Unsecured bank loans | Various                               | various  | various                 | various   | 7                    | 7               | 45                   | 45              |
| Unsecured bond       | Eurobond on Luxembourg Stock Exchange | EUR      | 5.0                     | 2013      |                      |                 | 600                  | 600             |
| Unsecured bond       | Issue under EMTN programme            | EUR      | 7.1                     | 2014      | 906                  | 906             | 1,001                | 1,000           |
| Unsecured bond       | Issue under EMTN programme            | GBP      | 7.3                     | 2015      | 479                  | 480             | 488                  | 490             |
| Unsecured bond       | Issue under EMTN programme            | SGD      | 2.7                     | 2015      | 41                   | 43              |                      |                 |
| Unsecured bond       | Issue under EMTN programme            | EUR      | 4.6                     | 2016      | 399                  | 400             | 398                  | 400             |
| Unsecured bond       | Issue under EMTN programme            | SGD      | 2.3                     | 2017      | 57                   | 57              |                      |                 |
| Unsecured bond       | Issue under EMTN programme            | EUR      | 1.3                     | 2018      | 99                   | 100             |                      |                 |
| Unsecured bond       | Issue under EMTN programme            | SGD      | 2.2                     | 2018      | 54                   | 55              |                      |                 |
| Unsecured bond       | Issue under EMTN programme            | EUR      | 0.7                     | 2018      | 60                   | 60              |                      |                 |
| Unsecured bond       | Issue under EMTN programme            | EUR      | 2.5                     | 2019      | 843                  | 850             | 841                  | 850             |
| Unsecured bond       | Issue under EMTN programme            | EUR      | 2.1                     | 2020      | 995                  | 1,000           | 995                  | 1,000           |
| Unsecured bond       | Issue under EMTN programme            | EUR      | 2.0                     | 2021      | 496                  | 500             |                      |                 |
| Unsecured bond       | Issue under EMTN programme            | EUR      | 3.5                     | 2024      | 496                  | 500             | 496                  | 500             |

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|                |                            |     |     |      |     |     |     |     |
|----------------|----------------------------|-----|-----|------|-----|-----|-----|-----|
| Unsecured bond | Issue under EMTN programme | EUR | 2.9 | 2025 | 741 | 750 | 740 | 750 |
| Unsecured bond | Issue under EMTN programme | EUR | 3.3 | 2033 | 179 | 180 |     |     |
| Unsecured bond | Issue under EMTN programme | EUR | 2.6 | 2033 | 90  | 100 |     |     |

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| In millions of EUR                 | Category                      | Currency | Nominal interest rate % | Repayment | Carrying amount 2013 | Face value 2013 | Carrying amount 2012 | Face value 2012 |
|------------------------------------|-------------------------------|----------|-------------------------|-----------|----------------------|-----------------|----------------------|-----------------|
| Unsecured bond                     | Issue under EMTN programme    | EUR      | 3.5                     | 2043      | 75                   | 75              |                      |                 |
| Unsecured bond                     | Issue under APB MTN programme | SGD      | 3.0-4.0                 | 2014-2020 | 75                   | 75              | 220                  | 220             |
| Unsecured bond                     | Issue under 144A/RegS         | USD      | 0.8                     | 2015      | 361                  | 363             | 377                  | 379             |
| Unsecured bond                     | Issue under 144A/RegS         | USD      | 1.4                     | 2017      | 901                  | 906             | 941                  | 947             |
| Unsecured bond                     | Issue under 144A/RegS         | USD      | 3.4                     | 2022      | 539                  | 543             | 563                  | 568             |
| Unsecured bond                     | Issue under 144A/RegS         | USD      | 2.8                     | 2023      | 720                  | 725             | 753                  | 758             |
| Unsecured bond                     | Issue under 144A/RegS         | USD      | 4.0                     | 2042      | 353                  | 363             | 369                  | 379             |
| Unsecured bond issues              | n/a                           | various  | various                 | various   | 28                   | 28              | 24                   | 24              |
| Other interest-bearing liabilities | 2002 S&N US private placement | USD      | 5.6                     | 2014      | 452                  | 435             | 491                  | 455             |
| Other interest-bearing liabilities | 2005 S&N US private placement | USD      | 5.4                     | 2015      | 229                  | 218             | 248                  | 227             |
| Other interest-bearing liabilities | 2008 US private placement     | USD      | 5.9                     | 2015      | 38                   | 38              | 40                   | 40              |
| Other interest-bearing liabilities | 2011 US private placement     | USD      | 2.8                     | 2017      | 65                   | 65              | 68                   | 69              |
| Other interest-bearing liabilities | 2008 US private placement     | GBP      | 7.3                     | 2016      | 30                   | 30              | 31                   | 31              |
| Other interest-bearing liabilities | 2010 US private placement     | USD      | 4.6                     | 2018      | 526                  | 526             | 548                  | 549             |
| Other interest-bearing liabilities | 2008 US private placement     | USD      | 6.3                     | 2018      | 282                  | 282             | 295                  | 296             |
| Other interest-bearing liabilities | Various                       | various  | various                 | various   | 120                  | 120             | 120                  | 120             |
| Deposits from third parties        | n/a                           | various  | various                 | various   | 543                  | 543             | 482                  | 482             |
| Finance lease liabilities          | n/a                           | various  | various                 | various   | 9                    | 9               | 38                   | 38              |
|                                    |                               |          |                         |           | <b>11,992</b>        | <b>12,040</b>   | 13,168               | 13,178          |

**Financing headroom**

As at 31 December 2013 no amounts were drawn on the existing revolving credit facility of EUR2 billion. This revolving credit facility matures in 2018.

The committed financing headroom<sup>1</sup> including cash balances available at Group level was approximately EUR2.7 billion as at 31 December 2013.

**Incurrence covenant**

HEINEKEN has an incurrence covenant in some of its financing facilities. This incurrence covenant is calculated by dividing net debt (calculated in accordance with the consolidation method of the 2007 Annual Accounts) by EBITDA (beia) (also calculated in accordance with the consolidation method of the 2007 Annual Accounts and including the pro-forma full-year EBITDA of any acquisitions made in 2013). As at 31 December 2013 this ratio was 2.5 (2012: 2.8, 2011: 2.1). If the ratio would be beyond a level of 3.5, the incurrence covenant would prevent us from conducting further significant debt financed acquisitions.

<sup>1</sup> Non-GAAP measure

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**Table of Contents****26. Finance lease liabilities**

Finance lease liabilities are payable as follows:

| In millions of EUR         | Future<br>minimum<br>lease<br>payments<br>2013 | Interest<br>2013 | Present value<br>of<br>minimum<br>lease<br>payments<br>2013 | Future<br>minimum<br>lease<br>payments<br>2012 | Interest<br>2012 | Present value<br>of<br>minimum<br>lease<br>payments<br>2012 |
|----------------------------|--|------------------|---|--|------------------|---|
| Less than one year         | 4  |                  | 4   | 16   |                  | 16  |
| Between one and five years | 5  |                  | 5   | 21   | (1)              | 20  |
| More than five years       |  |                  |   | 2  |                  | 2   |
|                            | <b>9</b>                                       |                  | <b>9</b>  | 39   | (1)              | 38  |

The decrease in the finance lease liabilities mainly relates to the disposal of our Hartwall operations in Finland.

**27. Non-GAAP measures**

In the internal management reports HEINEKEN measures its performance primarily based on EBIT and EBIT (beia), these are non-GAAP measures not calculated in accordance with IFRS. A similar non-GAAP adjustment can be made to the IFRS profit or loss as defined in IAS 1 paragraph 7 being the total of income less expense. Exceptional items are defined as items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period. The table below presents the relationship with IFRS measures, the results from operating activities and Net profit and HEINEKEN non-GAAP measures being EBIT, EBIT (beia), Consolidated operating profit (beia), Group operating profit (beia) and Net profit (beia) for the financial year 2013.

| In millions of EUR  | 2013 <sup>1</sup> | 2012* <sup>1</sup> | 2011* <sup>1</sup> |
|---|-------------------|--------------------|--------------------|
| Results from operating activities   | <b>2,554</b>      | 3,697              | 2,218              |
| Share of profit of associates and joint ventures and impairments thereof (net of income tax)        | 146               | 213                | 240                |
| EBIT  | <b>2,700</b>      | 3,910              | 2,458              |
| Exceptional items and amortisation of acquisition related intangible assets included in EBIT        | 391               | (992)              | 242                |
| EBIT (beia)   | <b>3,091</b>      | 2,918              | 2,700              |
| Share of profit of associates and joint ventures and impairments thereof (beia) (net of income tax) | (150)             | (252)              | (247)              |
| Consolidated operating profit (beia)  | <b>2,941</b>      | 2,666              | 2,453              |
| Attributable share of operating profit from joint ventures and associates and impairments thereof   | 251               | 440                | 395                |
| Group operating profit (beia)   | <b>3,192</b>      | 3,106              | 2,848              |
| Profit attributable to equity holders of the Company (net profit)                                   | <b>1,364</b>      | 2,914              | 1,412              |
| Exceptional items and amortisation of acquisition related intangible assets included in EBIT        | 391               | (992)              | 242                |
| Exceptional items included in finance costs   | (11)              | (206)              | (14)               |
| Exceptional items included in income tax expense  | (151)             | (55)               | (74)               |
| Exceptional items included in non-controlling interest  | (8)               |                    |                    |
| Net profit (beia)   | <b>1,585</b>      | 1,661              | 1,566              |

\* Restated for the revised IAS 19.

<sup>1</sup> Unaudited

The 2013 exceptional items included in EBIT contain the amortisation of acquisition related intangibles for EUR329 million (2012: EUR198 million, 2011: EUR170 million), the impairment of intangible assets and P, P & E in Russia for EUR102 million, the gain on sale of our Kazakhstan operations of EUR75 million and restructuring expenses in Europe of EUR99 million (2012: EUR97 million). The remainder of EUR64 million primarily relates to the dilution gain as a result of the share issuance by our joint venture Compania Cervecerias Unidas S.A. of EUR47 million.



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The exceptional items in income tax expense include the tax impact on amortisation of acquisition related intangible assets of EUR84 million (2012: EUR53 million, 2011: EUR47 million), the tax impact on other exceptional items included in EBIT and finance cost of EUR21 million (2012: EUR2 million, 2011: EUR27 million) and the remeasurement of a deferred tax position due to a tax rate change amounting to EUR46 million (2012: nil, 2011: nil).

EBIT and EBIT (beia) are not financial measures calculated in accordance with IFRS. The presentation on these financial measures may not be comparable to similarly titled measures reported by other companies due to differences in the ways the measures are calculated.

**28. Employee benefits**

| In millions of EUR                                    | 2013         | 2012*        |
|---|--------------|--------------|
| Present value of unfunded defined benefit obligations | 306          | 253          |
| Present value of funded defined benefit obligations   | 7,368        | 7,591        |
| Total present value of defined benefit obligations    | <b>7,674</b> | <b>7,844</b> |
| Fair value of defined benefit plan assets             | (6,553)      | (6,401)      |
| Present value of net obligations                      | <b>1,121</b> | <b>1,443</b> |
| Asset ceiling items                                   | 2            | 1            |
| Recognised liability for defined benefit obligations  | <b>1,123</b> | <b>1,444</b> |
| Other long-term employee benefits                     | 79           | 131          |
|   | <b>1,202</b> | <b>1,575</b> |

\* Restated for the revised IAS 19.

HEINEKEN makes contributions to defined benefit plans that provide pension benefits for employees upon retirement in a number of countries. The defined benefit plans in the Netherlands and the UK combined cover 87.5 per cent of the total defined benefit plan assets (2012: 87.4 per cent), 82.5 per cent of the present value of the defined benefit obligations (2012: 82.1 per cent\*) and 53.0 per cent of the present value of net obligations (2012: 58.5 per cent\*) as at 31 December 2013.

HEINEKEN provides employees in the Netherlands with an average pay pension plan, whereby indexation of accrued benefits is conditional on the funded status of the pension fund. HEINEKEN's UK plan (Scottish & Newcastle pension plan) was closed for future accrual in July 2010 and the liabilities thus relate to past service before plan closure.

In 2013, HEINEKEN's cash contribution to the Dutch pension plan was at the maximum contribution level agreed with the Board of the Pension Fund. The same level will be paid in 2014.

For the UK plan, based on the triennial review finalised in early 2013, HEINEKEN has agreed a 10-year funding plan including base company contributions of GBP21 million per year, with a further company contribution of between GBP15 million and GBP40 million per year, contingent on the funding level of the pension fund. As at 31 December 2013 the IAS 19 (revised) present value of the net obligations of the Scottish & Newcastle pension plan represents a GBP306 million (EUR367 million) deficit. No additional liability has to be recognised as the net present value of the minimum funding requirement does not exceed the net obligation.

Other countries where HEINEKEN offers a defined benefit plan to employees are: Austria, Belgium, Greece, Ireland (closed for majority of employees in 2012), Mexico, Nigeria (closed for majority of employees in 2007), Portugal, Spain and Switzerland.

The vast majority of benefit payments are from pension funds that are held in trusts (or equivalent), however, there is a small portion where HEINEKEN meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by Trustee Boards composed of HEINEKEN representatives and independent and/or member representation, in accordance with local regulations and practice in each country. The relationship and division of responsibility between HEINEKEN and the Trustee Board (or equivalent) including investment decisions and contribution schedules is carried out in accordance with the plan's regulations.

In other countries the pension plans are defined contribution plans and/or similar arrangements for employees.

Other long-term employee benefits mainly relate to long-term bonus plans, termination benefits, medical plans and jubilee benefits.

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**Table of Contents****Movement in net defined benefit obligation**

The movement in the defined benefit obligation over the year is as follows:

| In millions of EUR                              | Note | Present value of defined benefit obligations |       | Fair value of defined benefit plan assets |         | Present value of net obligations |       |
|---|------|--|-------|---|---------|----------------------------------|-------|
|   |      | 2013   | 2012* | 2013                                      | 2012*   | 2013                             | 2012* |
| Balance as at 1 January                         |      | <b>7,844</b>                                 | 6,843 | <b>(6,401)</b>                            | (5,860) | <b>1,443</b>                     | 983   |
| Included in profit or loss                      |      |  |       |   |         |                                  |       |
| Current service cost                            |      | 80   | 60    |   |         | 80                               | 60    |
| Past service cost/(credit)                      |      | (42)   | (43)  |   |         | (42)                             | (43)  |
| Administration expense                          |      |  |       | 3   | 3       | 3                                | 3     |
| Expense recognised in personnel expenses        | 10   | <b>38</b>                                    | 17    | <b>3</b>                                  | 3       | <b>41</b>                        | 20    |
| Interest expense/(income)                       | 12   | 288  | 330   | (232)                                     | (277)   | 56                               | 53    |
|   |      | <b>326</b>                                   | 347   | <b>(229)</b>                              | (274)   | <b>97</b>                        | 73    |
| Included in OCI                                 |      |  |       |   |         |                                  |       |
| Remeasurement loss/(gain):                      |      |  |       |   |         |                                  |       |
| Actuarial loss/(gain) arising from              |      |  |       |   |         |                                  |       |
| Demographic assumptions                         |      | 16   | 116   |   |         | 16                               | 116   |
| Financial assumptions                           |      | (167)  | 907   |   |         | (167)                            | 907   |
| Experience adjustments                          |      | (6)  | (170) |   |         | (6)                              | (170) |
| Return on plan assets excluding interest income |      |  |       | (106)                                     | (336)   | (106)                            | (336) |
| Effect of movements in exchange rates           |      | (100)  | 99    | 76  | (73)    | (24)                             | 26    |
|   |      | <b>(257)</b>                                 | 952   | <b>(30)</b>                               | (409)   | <b>(287)</b>                     | 543   |
| Other   |      |  |       |   |         |                                  |       |
| Changes in consolidation and reclassification   |      | 48   | (1)   | 5   | 1       | 53                               |       |
| Contributions paid:                             |      |  |       |   |         |                                  |       |
| By the employer                                 |      |  |       | (185)                                     | (156)   | (185)                            | (156) |
| By the plan participants                        |      | 26   | 26    | (26)                                      | (26)    |                                  |       |
| Benefits paid                                   |      | (313)  | (323) | 313                                       | 323     |                                  |       |
|   |      | <b>(239)</b>                                 | (298) | <b>107</b>                                | 142     | <b>(132)</b>                     | (156) |
| Balance as at 31 December                       |      | <b>7,674</b>                                 | 7,844 | <b>(6,553)</b>                            | (6,401) | <b>1,121</b>                     | 1,443 |

\* Restated for the revised IAS 19.

The defined benefit plan in the Netherlands was amended to reflect changes in legal requirements. From 1 January 2014 the target retirement age went up from 65 to 67 and the maximum build up rate was changed to the maximum rate allowed under the law of 2.15 per cent. As a result, the defined benefit obligation in the Dutch plan decreased by EUR30 million. A corresponding past service credit was recognised in profit or loss during 2013.

In Mexico, a curtailment gain was recognised as a result of a reduction in number of employees covered by the plan following a restructuring.

**Defined benefit plan assets**

| In millions of EUR  | 2013   |          |       | 2012   |          |       |
|---------------------|--------|----------|-------|--------|----------|-------|
|                     | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Equity instruments: |        |          |       |        |          |       |
| Europe              | 706    |          | 706   | 616    |          | 616   |
| Northern America    | 257    |          | 257   | 268    |          | 268   |
| Japan               | 197    |          | 197   | 169    |          | 169   |

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|  |              |            |              |       |     |       |
|--|--------------|------------|--------------|-------|-----|-------|
| Asia other                             | 152          |            | 152          | 209   |     | 209   |
| Other                                  | 242          |            | 242          | 190   |     | 190   |
|  | <b>1,554</b> |            | <b>1,554</b> | 1,452 |     | 1,452 |
| Debt instruments:                      |              |            |              |       |     |       |
| Corporate bonds - investment grade     | 2,109        |            |              | 1,903 |     |       |
| Corporate bonds - non-investment grade | 31           |            |              | 28    |     |       |
|  | <b>2,140</b> | <b>20</b>  | <b>2,160</b> | 1,931 | 16  | 1,947 |
| Derivatives                            | 423          | 2          | 425          | 210   | 6   | 216   |
| Properties and real estate             | 233          | 214        | 447          | 213   | 222 | 435   |
| Cash and cash equivalents              | 103          | 12         | 115          | 236   | 24  | 260   |
| Investment funds                       | 1,397        | 228        | 1,625        | 1,673 | 166 | 1,839 |
| Other plan assets                      | 184          | 43         | 227          | 197   | 55  | 252   |
|  | <b>2,340</b> | <b>499</b> | <b>2,839</b> | 2,529 | 473 | 3,002 |
| Balance as at 31 December              | <b>6,034</b> | <b>519</b> | <b>6,553</b> | 5,912 | 489 | 6,401 |

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The primary goal of the Heineken pension funds is to monitor the mix of debt and equity securities in its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis. Through its defined benefit pension plans, HEINEKEN is exposed to a number of risks, the most significant which are detailed below:

### **Asset volatility**

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform this yield, this will create a deficit. Both the Netherlands and the UK plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term, while providing volatility and risk in the short-term.

In the Netherlands, an Asset-Liability Matching (ALM) study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 35 per cent equity securities, 40 per cent bonds, 10 per cent property and real estate and 15 per cent other investments. The objective is to hedge currency risk on the dollar, yen and sterling for 50 per cent in the strategic investment mix.

In the UK, an Asset-Liability Matching study is performed at least on a triennial basis. The ALM study is the basis for the strategic investment policies and the (long-term) strategic investment mix. This resulted in a strategic asset mix comprising 29 per cent equity securities (including synthetic exposure from derivatives), 35 per cent bonds (including synthetic exposure from derivatives), 5 per cent property and real estate and 31 per cent other investments. The objective is to hedge currency risk on developed non-GBP equity market exposures for 70 per cent, with USD currency risk on other investments hedged 100 per cent in the strategic investment mix.

### **Interest rate risk**

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans bond holdings.

In the Netherlands, interest rate risk is partly managed through fixed income investments. These investments match the liabilities for 23.4 per cent. In the UK, interest rate risk is partly managed through the use of a mixture of fixed income investments and interest rate swap instruments. These investments and instruments match the liabilities for 29.2 per cent.

### **Inflation risk**

Some of the pension obligations are linked to inflation. Higher inflation will lead to higher liabilities, although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation. The majority of the plan assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will increase the deficit.

HEINEKEN provides employees in the Netherlands with an average pay pension plan, whereby indexation of accrued benefits is conditional on the funded status of the pension fund. In the UK, inflation sensitivity is based on capped Consumer Price Inflation for deferred members and capped Retail Price Inflation for pensions in payment.

### **Life expectancy**

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflation linked increases result in higher sensitivity to changes in life expectancy.

## **Principal actuarial assumptions as at the balance sheet date**

Based on the significance of the Dutch and UK pension plans compared to the other plans, the table below only includes the major actuarial assumptions for those two plans as at 31 December:

| In per cent                     | The Netherlands |       | UK** |       |
|---------------------------------|-----------------|-------|------|-------|
|                                 | 2013            | 2012* | 2013 | 2012* |
| Discount rate as at 31 December | 3.6             | 3.0   | 4.6  | 4.4   |
| Future salary increases         | 2.0             | 2.0   |      |       |
| Future pension increases        | 1.4             | 1.0   | 3.2  | 2.9   |
| Medical cost trend rate         |                 |       |      |       |

\* Restated for the revised IAS 19.

\*\* The UK plan closed for future accrual leading to certain assumptions being equal to zero.

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For the other defined benefit plans the following actuarial assumptions apply at 31 December:

| In per cent                     | Other Western, Central<br>and Eastern Europe |         | The Americas |       | Africa<br>Middle East |       |
|---------------------------------|--|---------|--------------|-------|-----------------------|-------|
|                                 | 2013   | 2012*   | 2013         | 2012* | 2013                  | 2012* |
| Discount rate as at 31 December | 2.4-3.6                                      | 2.0-3.2 | 7.6          | 6.7   | 14.0                  | 14.0  |
| Future salary increases         | 1.0-3.5                                      | 1.0-3.5 | 3.9          | 3.8   | 9.2                   | 10.8  |
| Future pension increases        | 1.0-1.8                                      | 1.0-2.5 | 2.9          | 2.8   | 2.0                   |       |
| Medical cost trend rate         | 3.4-4.5                                      | 3.4-4.5 | 5.1          | 5.1   | 7.5                   | 10.0  |

\* Restated for the revised IAS 19.

Assumptions regarding future mortality rates are based on published statistics and mortality tables. For the Netherlands the rates are obtained from the AG-Prognosetafel 2012-2062, fully generational. Correction factors from TowersWatson are applied on these. For the UK the rates are obtained from the Continuous Mortality Investigation 2011 projection model.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 17 years.

HEINEKEN expects the 2014 contributions to be paid for the defined benefit plans to be in line with 2013.

**Sensitivity analysis**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

| 31 December 2013<br>In millions of EUR  | Present value of defined benefit obligation |                           |
|---|---|---------------------------|
|   | Increase in<br>assumption                   | Decrease in<br>assumption |
| Discount rate (0.5% movement)           | (560)                                       | 636                       |
| Future salary growth (0.25% movement)   | 14  | (22)                      |
| Future pension growth (0.25% movement)  | 236   | (225)                     |
| Medical cost trend rate (0.5% movement) | 4   | (3)                       |
| Life expectancy (1 year)                | 231   | (236)                     |

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

**29. Share-based payments Long-Term Variable Award**

As from 1 January 2005 HEINEKEN established a performance-based share plan (Long-Term Variable award; LTV) for the Executive Board. As from 1 January 2006 a similar plan was established for senior management. Under this LTV plan share rights are conditionally awarded to incumbents on an annual basis since 2010. The vesting of these rights is subject to the performance of Heineken N.V. on specific internal performance conditions and continued service over a three year period.

The performance conditions for LTV 2011-2013, LTV 2012-2014 and LTV 2013-2015 are the same for the Executive Board and senior management and comprise solely of internal financial measures, being Organic Gross Profit beia growth, Organic EBIT beia growth, Earnings Per Share (EPS) beia growth and Free Operating Cash Flow. For these plans, 100 per cent of the awarded share rights vest at target performance. At threshold performance, 50 per cent of the awarded share rights vest. At maximum performance 200 per cent of the awarded share rights vest for the Executive Board as well as senior managers contracted by the US, Mexico and Brazil, and 175 per cent vest for all other senior managers.

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The performance period for the aforementioned plans are:

| LTV  |      | Performance period start | Performance period end |
|------|------|--------------------------|------------------------|
| 2011 | 2013 | 1 January 2011           | 31 December 2013       |
| 2012 | 2014 | 1 January 2012           | 31 December 2014       |
| 2013 | 2015 | 1 January 2013           | 31 December 2015       |

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The vesting date for the Executive Board is within five business days, and for senior management the latest of 1 April and 20 business days after the publication of the annual results of 2013, 2014 and 2015 respectively.

As HEINEKEN will withhold the tax related to vesting on behalf of the individual employees, the number of Heineken N.V. shares to be received by the Executive Board and senior management will be a net number.

The annual share rights granted to the Executive Board and senior management are as follows:

| Grant date/employees entitled                     | Number* | Based on share price |
|---|---------|----------------------|
| Share rights granted to Executive Board in 2011   | 65,072  | 36.69                |
| Share rights granted to senior management in 2011 | 730,090 | 36.69                |
| Share rights granted to Executive Board in 2012   | 66,746  | 35.77                |
| Share rights granted to senior management in 2012 | 703,382 | 35.77                |
| Share rights granted to Executive Board in 2013   | 50,278  | 50.47                |
| Share rights granted to senior management in 2013 | 560,863 | 50.47                |

\* The number of shares is based on target performance.

The impact of the economic downturn on the pre-2014 performance has rendered the long-term variable awards over the performance periods 2012-2014 and 2013-2015 ineffective for post-2013 performance. Therefore, the effectiveness of these awards has been restored as stretching performance incentives for the years 2014-2015, by recalibrating the performance conditions for these plans. This has been done for the entire senior management population upon discretion by the Executive Board, and for the Executive Board upon discretion by the Supervisory Board. The performance conditions of the 2011-2013 plan were not recalibrated.

There was no incremental fair value of the underlying equity instruments granted. However due to the adjustment of the performance conditions the expected vesting of the outstanding awards has been revised accordingly. The fair value impact has been determined in accordance with the accounting policy for share based payments (Note 3k (v)).

As per existing agreements since 2005, LTV awards to the Executive Board fully vest upon retirement. Per decision by the Supervisory Board in 2013 it has been agreed for J.F.M.L. van Boxmeer that resignation will qualify as retirement for LTV awards over performance period 2013-2015 and beyond. This agreement is forfeited in case of dismissal by the Company for an urgent reason within the meaning of the law ( dringende reden ), or in case of dismissal for cause ( gegronde reden ) whereby the cause for dismissal concerns unsatisfactory functioning.

Based on internal performance it is expected that approximately 219,464 shares of the LTV 2011-2013 will vest in 2014 for senior management and Executive Board.

The number, as corrected for the expected performance for the various awards, and weighted average share price per share under the LTV of senior management and Executive Board are as follows:

|                               | Weighted average share price 2013 | Number of share rights 2013 | Weighted average share price 2012 | Number of share rights 2012 |
|-------------------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|
| Outstanding as at 1 January   | 35.42                             | 1,357,826                   | 29.14                             | 1,546,514                   |
| Granted during the year       | 50.47                             | 611,141                     | 35.77                             | 770,128                     |
| Forfeited during the year     | 40.52                             | (120,014)                   | 35.44                             | (99,391)                    |
| Vested during the year        | 33.27                             | (331,768)                   | 21.90                             | (615,967)                   |
| Performance adjustment        |                                   | (230,823)                   |                                   | (243,458)                   |
| Outstanding as at 31 December | <b>42.41</b>                      | <b>1,286,362</b>            | 35.42                             | 1,357,826                   |



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Under the extraordinary share plans for senior management 36,750 shares were granted and 9,942 (gross) shares vested. These extraordinary grants only have a service condition and vest between 1 and 5 years. The expenses relating to these expected additional grants are recognised in profit or loss during the vesting period. Expenses recognised in 2013 are EUR1.1 million (2012: EUR1.1 million, 2011: EUR0.4 million).

Matching shares, extraordinary shares and retention share awards granted to the Executive Board only are disclosed in note 35.

**Personnel expenses**

| In millions of EUR                             | Note | 2013 | 2012 | 2011 |
|--|------|------|------|------|
| Share rights granted in 2010                   |      |      | 5    | 5    |
| Share rights granted in 2011                   |      | (3)  | 2    | 1    |
| Share rights granted in 2012                   |      | 5    | 5    | 5    |
| Share rights granted in 2013                   |      | 8    |      |      |
| Total expense recognised as personnel expenses | 10   | 10   | 12   | 11   |

**30. Provisions**

| In millions of EUR                    | Note | Restructuring | Onerous contracts* | Other | Total* |
|---------------------------------------|------|---------------|--------------------|-------|--------|
| Balance as at 1 January 2013          |      | 138           | 36                 | 374   | 548    |
| Changes in consolidation              | 6    | (1)           |                    | (1)   | (2)    |
| Provisions made during the year       |      | 80            | 9                  | 51    | 140    |
| Provisions used during the year       |      | (41)          | (11)               | (21)  | (73)   |
| Provisions reversed during the year   |      | (12)          | (1)                | (34)  | (47)   |
| Effect of movements in exchange rates |      |               | (1)                | (31)  | (32)   |
| Unwinding of discounts                |      |               |                    | 4     | 4      |
| Balance as at 31 December 2013        |      | 164           | 32                 | 342   | 538    |
| Non-current                           |      | 75            | 22                 | 270   | 367    |
| Current                               |      | 89            | 10                 | 72    | 171    |

\* Restated for the finalisation of the purchase price allocation for APB.

**Restructuring**

The provision for restructuring of EUR164 million as at 31 December 2013 mainly relates to restructuring programmes in Spain and the UK.

**Other provisions**

Included are, amongst others, surety and guarantees provided EUR25 million (2012: EUR23 million) and litigation and claims EUR168 million (2012: EUR202 million).

**Table of Contents****31. Trade and other payables**

| In millions of EUR                         | Note | 2013         | 2012*        |
|--|------|--------------|--------------|
| Trade payables                             |      | 2,140        | 2,244        |
| Returnable packaging deposits              |      | 507          | 512          |
| Taxation and social security contributions |      | 804          | 764          |
| Dividend                                   |      | 36           | 47           |
| Interest                                   |      | 188          | 204          |
| Derivatives                                |      | 149          | 53           |
| Other payables                             |      | 260          | 299          |
| Accruals and deferred income               |      | 1,047        | 1,162        |
|  | 32   | <b>5,131</b> | <b>5,285</b> |

\* Restated for the finalisation of the purchase price allocation for APB.

**32. Financial risk management and financial instruments****Overview**

HEINEKEN has exposure to the following risks from its use of financial instruments, as they arise in the normal course of HEINEKEN's business:

Credit risk

Liquidity risk

Market risk.

This note presents information about HEINEKEN's exposure to each of the above risks, and it summarises HEINEKEN's policies and processes that are in place for measuring and managing risk, including those related to capital management. Further quantitative disclosures are included throughout these consolidated financial statements.

**Risk management framework**

The Executive Board, under the supervision of the Supervisory Board, has overall responsibility and sets rules for HEINEKEN's risk management and control systems. They are reviewed regularly to reflect changes in market conditions and HEINEKEN's activities. The Executive Board oversees the adequacy and functioning of the entire system of risk management and internal control, assisted by Group departments.

The Global Treasury function focuses primarily on the management of financial risk and financial resources. Some of the risk management strategies include the use of derivatives, primarily in the form of spot and forward exchange contracts and interest rate swaps, but options can be used as well. It is HEINEKEN policy that no speculative transactions are entered into.

**Credit risk**

Credit risk is the risk of financial loss to HEINEKEN if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from HEINEKEN's receivables from customers and investment securities.

Following the economic crisis, HEINEKEN placed particular focus on strengthening credit management and a Global Credit Policy was implemented. All local operations are required to comply with the principles contained within the Global policy and develop local credit management procedures accordingly. We annually review compliance with these procedures and continuous focus is placed on ensuring that adequate controls are in place to mitigate any identified risks in respect of both customer and supplier risk.

As at the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial instrument, including derivative financial instruments, in the consolidated statement of financial position.

#### **Loans to customers**

HEINEKEN's exposure to credit risk is mainly influenced by the individual characteristics of each customer. HEINEKEN's held-to-maturity investments includes loans to customers, issued based on a loan contract. Loans to customers are ideally secured by, amongst others, rights on property or intangible assets, such as the right to take possession of the premises of the customer. Interest rates calculated by HEINEKEN are at least based on the risk-free rate plus a margin, which takes into account the risk profile of the customer and value of security given.

HEINEKEN establishes an allowance for impairment of loans that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics.

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In a few countries the issuance of new loans is outsourced to third parties. In most cases, HEINEKEN issues sureties (guarantees) to the third party for the risk of default by the customer.

### **Trade and other receivables**

HEINEKEN's local management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Under the credit policies all customers requiring credit over a certain amount are reviewed and new customers are analysed individually for creditworthiness before HEINEKEN's standard payment and delivery terms and conditions are offered. HEINEKEN's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer and these limits are reviewed regularly. As a result of the deteriorating economic circumstances since 2008, certain purchase limits have been redefined. Customers that fail to meet HEINEKEN's benchmark creditworthiness may transact with HEINEKEN only on a prepayment basis.

In monitoring customer credit risk, customers are, on a country base, grouped according to their credit characteristics, including whether they are an individual or legal entity, which type of distribution channel they represent, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. Customers that are graded as high risk are placed on a restricted customer list, and future sales are made on a prepayment basis only with approval of Management.

HEINEKEN has multiple distribution models to deliver goods to end customers. Deliveries are done in some countries via own wholesalers, in other markets directly and in some others via third parties. As such distribution models are country specific and on consolidated level diverse, as such the results and the balance sheet items cannot be split between types of customers on a consolidated basis. The various distribution models are also not centrally managed or monitored.

HEINEKEN establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The components of this allowance are a specific loss component and a collective loss component.

### **Advances to customers**

Advances to customers relate to an upfront cash-discount to customers. The advances are amortised over the term of the contract as a reduction of revenue.

In monitoring customer credit risk, refer to the paragraph above relating to trade and other receivables.

### **Investments**

HEINEKEN limits its exposure to credit risk by only investing available cash balances in liquid securities and only with counterparties that have a credit rating of at least single A or equivalent for short-term transactions and AA- for long-term transactions. HEINEKEN actively monitors these credit ratings.

### **Guarantees**

HEINEKEN's policy is to avoid issuing guarantees where possible unless this leads to substantial benefits for HEINEKEN. In cases where HEINEKEN does provide guarantees, such as to banks for loans (to third parties), HEINEKEN aims to receive security from the third party.

Heineken N.V. has issued a joint and several liability statement to the provisions of Section 403, Part 9, Book 2 of the Dutch Civil Code with respect to legal entities established in the Netherlands.

### **Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In millions of EUR

Note **2013** 2012



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|  |    |              |              |
|--|----|--------------|--------------|
| Loans to customers   | 17 | 203          | 368          |
| Indemnification receivable                                 | 17 | 113          | 136          |
| Other long-term receivables                                | 17 | 128          | 148          |
| Held-to-maturity investments                               | 17 | 4            | 4            |
| Available-for-sale investments                             | 17 | 247          | 327          |
| Non-current derivatives                                    | 17 | 67           | 116          |
| Investments held for trading                               | 17 | 11           | 11           |
| Trade and other receivables, excluding current derivatives | 20 | 2,382        | 2,500        |
| Current derivatives  | 20 | 45           | 37           |
| Cash and cash equivalents                                  | 21 | 1,290        | 1,037        |
|  |    | <b>4,490</b> | <b>4,684</b> |

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The maximum exposure to credit risk for trade and other receivables (excluding current derivatives) at the reporting date by geographic region was:

| In millions of EUR         | 2013         | 2012         |
|----------------------------|--------------|--------------|
| Western Europe             | 956          | 978          |
| Central and Eastern Europe | 466          | 502          |
| The Americas               | 428          | 225          |
| Africa Middle East         | 237          | 448          |
| Asia Pacific               | 178          | 214          |
| Head Office/eliminations   | 117          | 133          |
|                            | <b>2,382</b> | <b>2,500</b> |

**Impairment losses**

The ageing of trade and other receivables (excluding current derivatives) at the reporting date was:

| In millions of EUR     | Gross 2013   | Impairment 2013 | Gross 2012   | Impairment 2012 |
|------------------------|--------------|-----------------|--------------|-----------------|
| Not past due           | 2,016        | (83)            | 2,052        | (49)            |
| Past due 0 - 30 days   | 281          | (15)            | 323          | (14)            |
| Past due 31 - 120 days | 191          | (33)            | 213          | (67)            |
| More than 120 days     | 312          | (287)           | 373          | (331)           |
|                        | <b>2,800</b> | <b>(418)</b>    | <b>2,961</b> | <b>(461)</b>    |

The movement in the allowance for impairment in respect of trade and other receivables (excluding current derivatives) during the year was as follows:

| In millions of EUR                    | 2013       | 2012       |
|---------------------------------------|------------|------------|
| Balance as at 1 January               | 461        | 478        |
| Changes in consolidation              | (3)        | 1          |
| Impairment loss recognised            | 66         | 104        |
| Allowance used                        | (66)       | (60)       |
| Allowance released                    | (32)       | (66)       |
| Effect of movements in exchange rates | (8)        | 4          |
| Balance as at 31 December             | <b>418</b> | <b>461</b> |

The movement in the allowance for impairment in respect of loans during the year was as follows:

| In millions of EUR                    | 2013       | 2012       |
|---------------------------------------|------------|------------|
| Balance as at 1 January               | 158        | 170        |
| Changes in consolidation              | 3          |            |
| Impairment loss recognised            |            | 38         |
| Allowance used                        | 5          |            |
| Allowance released                    | (14)       | (53)       |
| Effect of movements in exchange rates | (2)        | 3          |
| Balance as at 31 December             | <b>150</b> | <b>158</b> |



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Impairment losses recognised for trade and other receivables (excluding current derivatives) and loans are part of the other non-cash items in the consolidated statement of cash flows.

The net release in the allowance of EUR14 million (2012: EUR15 million) in respect of loans and the income statement impact of EUR34 million (2012: EUR38 million) in respect of trade receivables (excluding current derivatives) were included in expenses for raw materials, consumables and services.

The allowance accounts in respect of trade and other receivables and held-to-maturity investments are used to record impairment losses, unless HEINEKEN is satisfied that no recovery of the amount owing is possible, at that point the amount considered irrecoverable is written off against the financial asset.

### **Liquidity risk**

Liquidity risk is the risk that HEINEKEN will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. HEINEKEN's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to HEINEKEN's reputation.

Recent times have proven the credit markets situation could be such that it is difficult to generate capital to finance long-term growth of HEINEKEN. Although currently the situation is more stable, HEINEKEN has a clear focus on ensuring sufficient access to capital markets to finance long-term growth and to refinance maturing debt obligations. Financing strategies are under continuous evaluation. In addition, HEINEKEN focuses on a further fine-tuning of the maturity profile of its long-term debts with its forecasted operating cash flows. Strong cost and cash management and controls over investment proposals are in place to ensure effective and efficient allocation of financial resources.

**Table of Contents****Contractual maturities**

The following are the contractual maturities of non-derivative financial liabilities and derivative financial assets and liabilities, including interest payments and excluding the impact of netting agreements:

| In millions of EUR  | Carrying amount | Contractual cash flows | Less than 1 year | 1-2 years      | 2-5 years      | 2013 More than 5 years |
|---|-----------------|------------------------|------------------|----------------|----------------|------------------------|
| <b>Financial liabilities</b>  |                 |                        |                  |                |                |                        |
| Interest-bearing liabilities  | (12,170)        | (16,212)               | (4,340)          | (1,477)        | (3,691)        | (6,704)                |
| Non-interest-bearing liabilities  | (9)             | (9)                    | (2)              | (2)            | (2)            | (3)                    |
| Trade and other payables, excluding interest, dividends and derivatives | (4,752)         | (4,752)                | (4,752)          |                |                |                        |
| <b>Derivative financial assets and (liabilities)</b>                    |                 |                        |                  |                |                |                        |
| Interest rate swaps used for hedge accounting, net                      | (86)            | (32)                   | (84)             | 40             | 12             |                        |
| Forward exchange contracts used for hedge accounting, net               | 35              | 36                     | 34               | 2              |                |                        |
| Commodity derivatives used for hedge accounting, net                    | (26)            | (26)                   | (24)             | (2)            |                |                        |
| Derivatives not used for hedge accounting, net                          | (7)             | (7)                    | (7)              |                |                |                        |
|   | <b>(17,015)</b> | <b>(21,002)</b>        | <b>(9,175)</b>   | <b>(1,439)</b> | <b>(3,681)</b> | <b>(6,707)</b>         |

The total carrying amount and contractual cash flows of derivatives are included in trade and other receivables (note 20), other investments (note 17) and trade and other payables (note 31) and non-current non-interest bearing liabilities (note 25).

| In millions of EUR  | Carrying amount | Contractual cash flows | Less than 1 year | 1-2 years      | 2-5 years      | 2012 More than 5 years |
|---|-----------------|------------------------|------------------|----------------|----------------|------------------------|
| <b>Financial liabilities</b>  |                 |                        |                  |                |                |                        |
| Interest-bearing liabilities  | (13,360)        | (15,900)               | (2,683)          | (2,277)        | (4,192)        | (6,748)                |
| Non-interest-bearing liabilities  | (21)            | (47)                   | (8)              | (22)           | (13)           | (4)                    |
| Trade and other payables, excluding interest, dividends and derivatives | (4,969)         | (4,969)                | (4,969)          |                |                |                        |
| <b>Derivative financial assets and (liabilities)</b>                    |                 |                        |                  |                |                |                        |
| Interest rate swaps used for hedge accounting, net                      | 12              | 46                     | 33               | (114)          | 85             | 42                     |
| Forward exchange contracts used for hedge accounting, net               | 10              | 7                      | 4                | 3              |                |                        |
| Commodity derivatives used for hedge accounting, net                    | (22)            | (21)                   | (20)             | (1)            |                |                        |
| Derivatives not used for hedge accounting, net                          | (11)            | (17)                   | (16)             | (1)            |                |                        |
|   | <b>(18,361)</b> | <b>(20,901)</b>        | <b>(7,659)</b>   | <b>(2,412)</b> | <b>(4,120)</b> | <b>(6,710)</b>         |

The total carrying amount and contractual cash flows of derivatives are included in trade and other receivables (note 20), other investments (note 17), trade and other payables (note 31) and non-current non-interest-bearing liabilities (note 25).

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### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect HEINEKEN's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

HEINEKEN uses derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. Generally, HEINEKEN seeks to apply hedge accounting or make use of natural hedges in order to minimise the effects of foreign currency fluctuations in profit or loss.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, commodity swaps, spot and forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules approved and monitored by the Executive Board.

### **Foreign currency risk**

HEINEKEN is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of HEINEKEN entities. The main currencies that give rise to this risk are the US dollar, euro and British pound.

In managing foreign currency risk, HEINEKEN aims to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in foreign exchange rates would have an impact on profit.

HEINEKEN hedges up to 90 per cent of its mainly intra-HEINEKEN US dollar cash flows on the basis of rolling cash flow forecasts in respect to forecasted sales and purchases. Cash flows in other foreign currencies are also hedged on the basis of rolling cash flow forecasts. HEINEKEN mainly uses forward exchange contracts to hedge its foreign currency risk. The majority of the forward exchange contracts have maturities of less than one year after the balance sheet date.

The Company has a clear policy on hedging transactional exchange risks, which postpones the impact on financial results. Translation exchange risks are hedged to a limited extent, as the underlying currency positions are generally considered to be long-term in nature. The result of the net investment hedging is recognised in the translation reserve as can be seen in the consolidated statement of comprehensive income.

It is HEINEKEN's policy to provide intra-HEINEKEN financing in the functional currency of subsidiaries where possible to prevent foreign currency exposure on subsidiary level. The resulting exposure at Group level is hedged by means of forward exchange contracts. Intra-HEINEKEN financing in foreign currencies is mainly in British pounds, US dollars, Swiss franc and Polish zloty. In some cases HEINEKEN elects to treat intra-HEINEKEN financing with a permanent character as equity and does not hedge the foreign currency exposure.

The principal amounts of HEINEKEN's British pound, Nigerian naira, Singapore dollar, Polish zloty and Mexican peso bank loans and bond issues are used to hedge local operations, which generate cash flows that have the same respective functional currencies. Corresponding interest on these borrowings is also denominated in currencies that match the cash flows generated by the underlying operations of HEINEKEN. This provides an economic hedge without derivatives being entered into.

In respect of other monetary assets and liabilities denominated in currencies other than the functional currencies of the Company and the various foreign operations, HEINEKEN ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

**Table of Contents****Exposure to foreign currency risk**

HEINEKEN's transactional exposure to the British pound, US dollar and euro was as follows based on notional amounts. The euro column relates to transactional exposure to the euro within subsidiaries which are reporting in other currencies.

| In millions                                    | EUR            | GBP          | 2013<br>USD    | EUR     | GBP   | 2012<br>USD |
|--|----------------|--------------|----------------|---------|-------|-------------|
| <b>Financial Assets</b>                        |                |              |                |         |       |             |
| Trade and other receivables                    | 15             |              | 37             | 12      |       | 10          |
| Cash and cash equivalents                      | 90             |              | 158            | 72      |       | 92          |
| Intragroup assets                              | 12             | 461          | 4,556          | 10      | 455   | 4,788       |
| <b>Financial Liabilities</b>                   |                |              |                |         |       |             |
| Interest bearing borrowings                    | (12)           | (855)        | (6,183)        | (6)     | (858) | (6,285)     |
| Non-interest-bearing liabilities               | (13)           |              | (3)            | (1)     |       | (61)        |
| Trade and other payables                       | (105)          | (1)          | (124)          | (74)    |       | (33)        |
| Intragroup liabilities                         | (414)          | (3)          | (282)          | (298)   |       | (715)       |
| Gross balance sheet exposure                   | <b>(427)</b>   | <b>(398)</b> | <b>(1,841)</b> | (285)   | (403) | (2,204)     |
| Estimated forecast sales next year             | 167            |              | 1,408          | 71      | 10    | 1,476       |
| Estimated forecast purchases next year         | (1,559)        | (10)         | (1,533)        | (780)   | (1)   | (1,360)     |
| Gross exposure                                 | <b>(1,819)</b> | <b>(408)</b> | <b>(1,966)</b> | (994)   | (394) | (2,088)     |
| Net notional amount forward exchange contracts | (373)          | 397          | 1,533          | (507)   | 483   | 1,216       |
| Net exposure                                   | <b>(2,192)</b> | <b>(11)</b>  | <b>(433)</b>   | (1,501) | 89    | (872)       |
| <b>Sensitivity analysis</b>                    |                |              |                |         |       |             |
| Equity   | 9              |              | 15             | 11      | 7     | 36          |
| Profit or loss                                 | (1)            |              | (6)            |         | (1)   | (3)         |

Included in the US dollar amounts are intra-HEINEKEN cash flows. Within the net notional amount forward exchange contracts, the cross-currency interest rate swaps of Heineken UK form the largest component.

**Sensitivity analysis**

A 10 per cent strengthening of the euro against the British pound and US dollar or, in case of the euro, a strengthening of the euro against all other currencies as at 31 December would have impacted the value of financial assets and liabilities recorded on Balance sheet and would have therefore increased (decreased) equity and profit by the amounts shown above. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for 2012.

A 10 per cent weakening of the euro against the British pound and US dollar or, in case of the euro, a weakening of the euro against all other currencies as at 31 December would have had the equal but opposite effect on the basis that all other variables remain constant.

**Interest rate risk**

In managing interest rate risk, HEINEKEN aims to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit.

HEINEKEN opts for a mix of fixed and variable interest rates in its financing operations, combined with the use of interest rate instruments. Currently HEINEKEN's interest rate position is more weighted towards fixed rather than floating. Interest rate instruments that can be used are interest rate swaps, forward rate agreements, caps and floors.

Swap maturity follows the maturity of the related loans and borrowings which have swap rates for the fixed leg ranging from 3.6 to 7.3 per cent (2012: from 1.0 to 8.1 per cent).

**Table of Contents****Interest rate risk Profile**

At the reporting date the interest rate profile of HEINEKEN's interest-bearing financial instruments was as follows:

| In millions of EUR               | 2013            | 2012            |
|----------------------------------|-----------------|-----------------|
| <b>Fixed rate instruments</b>    |                 |                 |
| Financial assets                 | 96              | 97              |
| Financial liabilities            | (11,017)        | (11,133)        |
| Net interest rate swaps          | 471             | (9)             |
|                                  | <b>(10,450)</b> | <b>(11,045)</b> |
| <b>Variable rate instruments</b> |                 |                 |
| Financial assets                 | 1,488           | 1,430           |
| Financial liabilities            | (1,153)         | (2,054)         |
| Net interest rate swaps          | (471)           | 9               |
|                                  | <b>(136)</b>    | <b>(615)</b>    |

**Fair value sensitivity analysis for fixed rate instruments**

HEINEKEN applies hedge accounting on certain fixed rate financial liabilities. The fair value movements on these liabilities and hedge accounting instruments are recognised in profit or loss. The change in fair value on these liabilities was EUR58 million negative in 2013 (2012: EUR30 million negative), which was offset by the change in fair value of the hedge accounting instruments, which was EUR46 million (2012: EUR18 million).

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below (after tax).

| In millions of EUR                   | 100 bp increase | Profit or loss<br>100 bp<br>decrease | 100 bp increase | Equity<br>100 bp decrease |
|--------------------------------------|-----------------|--------------------------------------|-----------------|---------------------------|
| <b>31 December 2013</b>              |                 |                                      |                 |                           |
| Instruments designated at fair value | 5               | (5)                                  | 5               | (5)                       |
| Interest rate swaps                  | (4)             | 4                                    | (3)             | 3                         |
| Fair value sensitivity (net)         | <b>1</b>        | <b>(1)</b>                           | <b>2</b>        | <b>(2)</b>                |
| <b>31 December 2012</b>              |                 |                                      |                 |                           |
| Instruments designated at fair value | 11              | (11)                                 | 20              | (20)                      |
| Interest rate swaps                  | (6)             | 6                                    | (9)             | 9                         |
| Fair value sensitivity (net)         | <b>5</b>        | <b>(5)</b>                           | <b>11</b>       | <b>(11)</b>               |

As part of the acquisition of Scottish & Newcastle in 2008, HEINEKEN took over a portfolio of euro floating-to-fixed interest rate swaps of which currently EUR300 million is still outstanding. Although interest rate risk is hedged economically, it is not possible to apply hedge accounting on this portfolio. A movement in interest rates will therefore lead to a fair value movement in the profit or loss under the other net financing income/(expenses). Any related non-cash income or expenses in our profit or loss are expected to reverse over time.



**Table of Contents****Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates constantly applied during the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below (after tax). This analysis assumes that all other variables, in particular foreign currency rates remain constant and excludes any possible change in fair value of derivatives at period-end because of a change in interest rates. The analysis is performed on the same basis as for 2012.

| In millions of EUR          | 100 bp increase | Profit or loss<br>100 bp<br>decrease | 100 bp increase | Equity<br>100 bp<br>decrease |
|-----------------------------|-----------------|--------------------------------------|-----------------|------------------------------|
| <b>31 December 2013</b>     |                 |                                      |                 |                              |
| Variable rate instruments   | 3               | (3)                                  | 3               | (3)                          |
| Net interest rate swaps     | (4)             | 4                                    | (4)             | 4                            |
| Cash flow sensitivity (net) | <b>(1)</b>      | <b>1</b>                             | <b>(1)</b>      | <b>1</b>                     |
| <b>31 December 2012</b>     |                 |                                      |                 |                              |
| Variable rate instruments   | (4)             | 4                                    | (4)             | 4                            |
| Net interest rate swaps     |                 |                                      |                 |                              |
| Cash flow sensitivity (net) | (4)             | 4                                    | (4)             | 4                            |

**Commodity price risk**

Commodity price risk is the risk that changes in commodity prices will affect HEINEKEN's income. The objective of commodity price risk management is to manage and control commodity risk exposures within acceptable parameters, whilst optimising the return on risk. The main commodity exposure relates to the purchase of cans, glass bottles, malt and utilities. Commodity price risk is in principle addressed by negotiating fixed prices in supplier contracts with various contract durations. So far, commodity hedging with financial counterparties by the Company is limited to the incidental sale of surplus CO2 emission rights, aluminium hedging and to a limited extent gas hedging, which are done in accordance with risk policies. HEINEKEN does not enter into commodity contracts other than to meet HEINEKEN's expected usage and sale requirements. As at 31 December 2013, the market value of commodity swaps was EUR26 million negative (2012: EUR22 million negative).

**Cash flow hedges**

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges, are expected to occur.

| In millions of EUR                 | Carrying amount | Expected cash flows | Less than 1 year | 1-2 years | 2-5 years | 2013<br>More than 5 years |
|------------------------------------|-----------------|---------------------|------------------|-----------|-----------|---------------------------|
| <b>Interest rate swaps:</b>        |                 |                     |                  |           |           |                           |
| Assets                             | 63              | 1,607               | 79               | 561       | 967       |                           |
| Liabilities                        | (45)            | (1,543)             | (79)             | (509)     | (955)     |                           |
| <b>Forward exchange contracts:</b> |                 |                     |                  |           |           |                           |
| Assets                             | 39              | 643                 | 530              | 113       |           |                           |
| Liabilities                        | (4)             | (607)               | (496)            | (111)     |           |                           |
| <b>Commodity derivatives:</b>      |                 |                     |                  |           |           |                           |
| Assets                             |                 |                     |                  |           |           |                           |
| Liabilities                        | (26)            | (26)                | (24)             | (2)       |           |                           |
|                                    | <b>27</b>       | <b>74</b>           | <b>10</b>        | <b>52</b> | <b>12</b> |                           |

The periods in which the cash flows associated with forward exchange contracts that are cash flow hedges are expected to impact profit or loss is on average two months earlier than the occurrence of the cash flows as in the above table.



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| In millions of EUR                 | Carrying amount | Expected cash flows | Less than 1 year | 1-2 years | 2-5 years | 2012<br>More than 5 years |
|------------------------------------|-----------------|---------------------|------------------|-----------|-----------|---------------------------|
| <b>Interest rate swaps:</b>        |                 |                     |                  |           |           |                           |
| Assets                             | 96              | 1,752               | 85               | 82        | 696       | 889                       |
| Liabilities                        | (26)            | (1,632)             | (89)             | (79)      | (617)     | (847)                     |
| <b>Forward exchange contracts:</b> |                 |                     |                  |           |           |                           |
| Assets                             | 28              | 1,296               | 1,150            | 146       |           |                           |
| Liabilities                        | (16)            | (1,288)             | (1,145)          | (143)     |           |                           |
| <b>Commodity derivatives:</b>      |                 |                     |                  |           |           |                           |
| Assets                             | 1               | 1                   | 1                |           |           |                           |
| Liabilities                        | (23)            | (23)                | (22)             | (1)       |           |                           |
|                                    | 60              | 106                 | (20)             | 5         | 79        | 42                        |

**Fair value hedges/net investment hedges**

The following table indicates the periods in which the cash flows associated with derivatives that are fair value hedges or net investment hedges are expected to occur.

| In millions of EUR                 | Carrying amount | Expected cash flows | Less than 1 year | 1-2 years   | 2-5 years | 2013<br>More than 5 years |
|------------------------------------|-----------------|---------------------|------------------|-------------|-----------|---------------------------|
| <b>Interest rate swaps:</b>        |                 |                     |                  |             |           |                           |
| Assets                             |                 | 547                 | 325              | 222         |           |                           |
| Liabilities                        | (104)           | (642)               | (408)            | (234)       |           |                           |
| <b>Forward exchange contracts:</b> |                 |                     |                  |             |           |                           |
| Assets                             |                 |                     |                  |             |           |                           |
| Liabilities                        |                 |                     |                  |             |           |                           |
|                                    | <b>(104)</b>    | <b>(95)</b>         | <b>(83)</b>      | <b>(12)</b> |           |                           |

| In millions of EUR                 | Carrying amount | Expected cash flows | Less than 1 year | 1-2 years | 2-5 years | 2012<br>More than 5 years |
|------------------------------------|-----------------|---------------------|------------------|-----------|-----------|---------------------------|
| <b>Interest rate swaps:</b>        |                 |                     |                  |           |           |                           |
| Assets                             | 19              | 780                 | 48               | 492       | 240       |                           |
| Liabilities                        | (77)            | (849)               | (6)              | (609)     | (234)     |                           |
| <b>Forward exchange contracts:</b> |                 |                     |                  |           |           |                           |
| Assets                             |                 | 181                 | 181              |           |           |                           |
| Liabilities                        | (2)             | (183)               | (183)            |           |           |                           |
|                                    | (60)            | (71)                | 40               | (117)     | 6         |                           |

**Table of Contents****Capital management**

There were no major changes in HEINEKEN's approach to capital management during the year. The Executive Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of business and acquisitions. Capital is herein defined as equity attributable to equity holders of the Company (total equity minus non-controlling interests).

HEINEKEN is not subject to externally imposed capital requirements other than the legal reserves explained in note 22. Shares are purchased to meet the requirements of the share-based payment awards as further explained in note 29.

**Fair values**

The fair values of financial assets and liabilities that differ from the carrying amounts shown in the statement of financial position are as follows:

| In millions of EUR                 | Carrying amount<br>2013 | Fair value<br>2013 | Carrying amount<br>2012 | Fair value<br>2012 |
|------------------------------------|-------------------------|--------------------|-------------------------|--------------------|
| Bank loans                         | (711)                   | (711)              | (2,002)                 | (2,002)            |
| Unsecured bond issues              | (8,987)                 | (8,951)            | (8,806)                 | (9,126)            |
| Finance lease liabilities          | (9)                     | (9)                | (38)                    | (38)               |
| Other interest-bearing liabilities | (1,742)                 | (1,742)            | (1,840)                 | (1,840)            |

**Basis for determining fair values**

The significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above are discussed in note 4.

**Fair value hierarchy**

The tables below present the financial instruments accounted for at fair value by level of the following fair value measurement hierarchy:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

| 31 December 2013                   | Level 1    | Level 2      | Level 3   |
|------------------------------------|------------|--------------|-----------|
| Available-for-sale investments     | 134        | 68           | 45        |
| Non-current derivative assets      |            | 67           |           |
| Current derivative assets          |            | 45           |           |
| Investments held for trading       | 11         |              |           |
|                                    | <b>145</b> | <b>180</b>   | <b>45</b> |
| Non-current derivative liabilities |            | (47)         |           |
| Current derivative liabilities     |            | (149)        |           |
|                                    |            | <b>(196)</b> |           |



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| 31 December 2012                   | Level 1 | Level 2 | Level 3 |
|------------------------------------|---------|---------|---------|
| Available-for-sale investments     | 131     | 62      | 134     |
| Non-current derivative assets      |         | 116     |         |
| Current derivative assets          |         | 37      |         |
| Investments held for trading       | 11      |         |         |
|                                    | 142     | 215     | 134     |
| Non-current derivative liabilities |         | 111     |         |
| Current derivative liabilities     |         | 53      |         |
|                                    |         | 164     |         |

There were no transfers between level 1 and level 2 of the fair value hierarchy during the period ended 31 December 2013.

*Level 2*

HEINEKEN determines level 2 fair values for over-the-counter securities based on broker quotes. The fair values of simple over-the-counter derivative financial instruments are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where available.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates. These calculations are tested for reasonableness by comparing the outcome of the internal valuation with the valuation received from the counterparty. Fair values reflect the credit risk of the instrument and include adjustments to take into account the credit risk of HEINEKEN and counterparty when appropriate.

*Level 3*

Details of the determination of level 3 fair value measurements as at 31 December are set out below

| In millions of EUR  | 2013 | 2012 |
|---|------|------|
| Available-for-sale investments based on level 3                 |      |      |
| Balance as at 1 January   | 134  | 183  |
| Fair value adjustments recognised in other comprehensive income | 8    | 1    |
| Disposals   | (1)  | (50) |
| Transfers   | (96) |      |
| Balance as at 31 December                                       | 45   | 134  |

The fair values for the level 3 available for sale investments are based on the financial performance of the investments and the market multiples of comparable equity securities.

**Table of Contents****33. Off-balance sheet commitments**

| In millions of EUR                    | <b>Total<br/>2013</b> | Less than 1<br>year | 1-5 years    | More than<br>5 years | Total 2012 |
|---------------------------------------|-----------------------|---------------------|--------------|----------------------|------------|
| Lease & operational lease commitments | 701                   | 191                 | 330          | 180                  | 618        |
| Property, plant & equipment ordered   | 160                   | 124                 | 36           |                      | 136        |
| Raw materials purchase contracts      | 4,526                 | 1,731               | 2,119        | 676                  | 3,806      |
| Other off-balance sheet obligations   | 2,279                 | 569                 | 1,307        | 403                  | 2,139      |
| Off-balance sheet obligations         | <b>7,666</b>          | <b>2,615</b>        | <b>3,792</b> | <b>1,259</b>         | 6,699      |
| Undrawn committed bank facilities     | <b>2,397</b>          | <b>49</b>           | <b>2,348</b> |                      | 1,832      |

HEINEKEN leases buildings, cars and equipment in the ordinary course of business.

Raw material contracts include long-term purchase contracts with suppliers in which prices are fixed or will be agreed based upon predefined price formulas. These contracts mainly relate to malt, bottles and cans.

During the year ended 31 December 2013 EUR282 million (2012: EUR265 million, 2011: EUR241 million) was recognised as an expense in profit or loss in respect of operating leases and rent.

Other off-balance sheet obligations mainly include distribution, rental, service and sponsorship contracts.

Committed bank facilities are credit facilities on which a commitment fee is paid as compensation for the bank's requirement to reserve capital. The bank is legally obliged to provide the facility under the terms and conditions of the agreement.

**34. Contingencies****Brazil**

As part of the acquisition of the beer operations of FEMSA in 2010, HEINEKEN inherited existing legal proceedings with labour unions, tax authorities and other parties of its, now wholly-owned, subsidiaries Cervejarias Kaiser Brasil and Cervejarias Kaiser Nordeste (jointly, Heineken Brasil). The proceedings have arisen in the ordinary course of business and are common to the current economic and legal environment of Brazil. The proceedings have partly been provided for, see note 30. The contingent amount being claimed against Heineken Brasil resulting from such proceedings as at 31 December 2013 is EUR564 million. Such contingencies were classified by legal counsel as less than probable but more than remote of being settled against Heineken Brasil. However, HEINEKEN believes that the ultimate resolution of such legal proceedings will not have a material adverse effect on its consolidated financial position or result of operations. HEINEKEN does not expect any significant liability to arise from these contingencies. A significant part of the aforementioned contingencies (EUR308 million) is tax related and qualifies for indemnification by FEMSA, see note 17.

As is customary in Brazil, Heineken Brasil has been requested by the tax authorities to collateralise tax contingencies currently in litigation amounting to EUR296 million by either pledging fixed assets or entering into available lines of credit which cover such contingencies.

**Guarantees**

| In millions of EUR                               | <b>Total 2013</b> | Less than 1<br>year | 1-5 years  | More than<br>5 years | Total 2012 |
|--|-------------------|---------------------|------------|----------------------|------------|
| Guarantees to banks for loans (to third parties) | 280               | 191                 | 72         | 17                   | 300        |
| Other guarantees                                 | 423               | 122                 | 258        | 43                   | 358        |
| Guarantees                                       | <b>703</b>        | <b>313</b>          | <b>330</b> | <b>60</b>            | 658        |

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Guarantees to banks for loans relate to loans to customers, which are given to external parties in the ordinary course of business of HEINEKEN. HEINEKEN provides guarantees to the banks to cover the risk related to these loans.

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**Table of Contents****35. Related parties****Identification of related parties**

HEINEKEN has a related party relationship with its associates and joint ventures (refer to note 16), Heineken Holding N.V., Heineken pension funds (refer to note 28), Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), employees (refer to note 25) and with its key management personnel (Executive Board and the Supervisory Board).

**Key management remuneration**

| In millions of EUR | 2013        | 2012       | 2011       |
|--------------------|-------------|------------|------------|
| Executive Board    | 10.0        | 6.8        | 7.5        |
| Supervisory Board  | 0.9         | 0.9        | 0.9        |
| <b>Total</b>       | <b>10.9</b> | <b>7.7</b> | <b>8.4</b> |

**Executive Board**

The remuneration of the members of the Executive Board comprises of a fixed component and a variable component. The variable component is made up of a Short-Term Variable pay and a Long-Term Variable award. The Short-Term Variable pay is based on financial and operational measures and on individual leadership measures as set by the Supervisory Board. It is partly paid out in shares that are blocked for a period of five calendar years. After the five calendar years HEINEKEN will match the blocked shares 1:1 which we refer to as the matching share entitlement. For the Long-Term Variable award see note 29.

As at 31 December 2013, J.F.M.L. van Boxmeer held 97,829 Company shares and D.R. Hooft Graafland 49,962. (2012: J.F.M.L. van Boxmeer 48,641 and D.R. Hooft Graafland 25,109 shares). D.R. Hooft Graafland held 3,052 shares of Heineken Holding N.V. as at 31 December 2013 (2012: 3,052 shares).

| In thousands of EUR                     | 2013                 |                      | Total        |
|---|----------------------|----------------------|--------------|
|   | J.F.M.L. van Boxmeer | D.R. Hooft Graafland |              |
| Fixed Salary                            | 1,150                | 650                  | 1,800        |
| Short-Term Variable Pay                 | 1,127                | 455                  | 1,582        |
| Matching Share Entitlement <sup>1</sup> | 564                  | 228                  | 792          |
| Long-Term Variable award <sup>2</sup>   | 475                  | 227                  | 702          |
| APB Bonus and Retention                 | 3,039                | 1,300                | 4,339        |
| Pension Plan                            | 470                  | 277                  | 747          |
| <b>Total<sup>3</sup></b>                | <b>6,825</b>         | <b>3,137</b>         | <b>9,962</b> |

| In thousands of EUR                     | 2012                 |                      | Total        |
|---|----------------------|----------------------|--------------|
|   | J.F.M.L. van Boxmeer | D.R. Hooft Graafland |              |
| Fixed Salary                            | 1,050                | 650                  | 1,700        |
| Short-Term Variable Pay                 | 1,361                | 602                  | 1,963        |
| Matching Share Entitlement <sup>1</sup> | 681                  | 301                  | 982          |
| Long-Term Variable award <sup>2</sup>   | 912                  | 477                  | 1,389        |
| APB Bonus and Retention                 |                      |                      |              |
| Pension Plan                            | 496                  | 318                  | 814          |
| <b>Total<sup>3</sup></b>                | <b>4,500</b>         | <b>2,348</b>         | <b>6,848</b> |



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| In thousands of EUR                     | 2011                    |                          | Total |
|---|-------------------------|--------------------------|-------|
|   | J.F.M.L. van<br>Boxmeer | D.R. Hoofst<br>Graafland |       |
| Fixed Salary                            | 1,050                   | 650                      | 1,700 |
| Short-Term Variable Pay                 | 1,764                   | 780                      | 2,544 |
| Matching Share Entitlement <sup>1</sup> | 882                     | 390                      | 1,272 |
| Long-Term Variable award <sup>2</sup>   | 669                     | 355                      | 1,024 |
| APB Bonus and Retention                 |                         |                          |       |
| Pension Plan                            | 590                     | 399                      | 989   |
| Total                                   | 4,955                   | 2,574                    | 7,529 |

<sup>1</sup> The matching share entitlement for 2011 is based on 2011 performance. The matching share entitlement for 2012 is based on 2012 performance. The matching share entitlement for 2013 is based on 2013 performance. The granted matching shares vest immediately and as such EUR792 (in thousands) was recognised in the 2013 income statement (2012: EUR982 thousand, 2011: EUR1,272 thousand).

<sup>2</sup> The remuneration reported as part of LTV is based on IFRS accounting policies and does not reflect the value of vested performance shares.

<sup>3</sup> The Dutch government has introduced an additional tax levy of 16 per cent over 2012 and 2013 taxable income above EUR150 thousand, as a liability for the employer. This tax levy related to remuneration over 2013 for the Executive Board is EUR1,529 (in thousands) and is not included in the tables above (2012: EUR754 thousand).

To recognise the excellent achievements of the CEO and CFO in the successful acquisition of Asia Pacific Breweries Limited, the CEO and CFO were rewarded with an extraordinary share award to the value of their 2012 base salary plus short-term variable pay opportunity at target level, amounting to EUR2.52 million for the CEO (45,893 shares gross) and EUR1.3 million for the CFO (23,675 shares gross). The share awards were granted against the closing share price of 54.91 net of taxes (i.e. after deduction of withholding tax due on the full gross award). In accordance with best practice provision II.2.5 of the Dutch Corporate Governance Code, the awarded Heineken N.V. shares will remain blocked for a period of five years, also in case of resignation during that period. Clawback provisions apply to these awards.

To foster the intended re-appointment of the CEO and to ensure the CEO is retained for HEINEKEN for a number of years ahead, the Supervisory Board decided to grant a retention share award to the CEO. This retention share award was granted immediately after the close of the 2013 Annual General Meeting, to the value of EUR1.5 million (27,317 shares gross), against the closing share price of that day. After two years the share award will vest and will be converted into Heineken N.V. shares, provided the CEO is still in service at that time. After vesting, a three year holding restriction will apply to these shares also in case of resignation during that period, to align with shareholder interests.

This retention share award will be forfeited in case of dismissal by the Company for an urgent reason within the meaning of the law ( dringende reden ), or in case of dismissal for cause ( gegronde reden ) whereby the cause for dismissal concerns unsatisfactory functioning of the CEO. In addition, revision and clawback provisions apply to this award.

**Supervisory Board**

The individual members of the Supervisory Board received the following remuneration:

| In thousands of EUR          | 2013 | 2012 | 2011 |
|------------------------------|------|------|------|
| G.J. Wijers**                | 133  | 52   |      |
| C.J.A. van Lede***           | 51   | 160  | 160  |
| J.A. Fernández Carbajal      | 85   | 85   | 85   |
| M. Das                       | 85   | 85   | 85   |
| M.R. de Carvalho             | 135  | 135  | 135  |
| J.M. Hessels*                |      | 23   | 75   |
| J.M. de Jong                 | 80   | 80   | 80   |
| A.M. Fentener van Vlissingen | 83   | 80   | 80   |
| M.E. Minnick                 | 77   | 70   | 70   |
| V.C.O.B.J. Navarre           | 72   | 75   | 75   |
| J.G. Astaburuaga Sanjinés    | 75   | 75   | 75   |

H. Scheffers\*\*\*\*  
Total

|            |     |     |
|------------|-----|-----|
| 51         |     |     |
| <b>927</b> | 920 | 920 |

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\* Stepped down as at 19 April 2012

\*\* Appointed as at 19 April 2012, appointed as chairman at 25 April 2013

\*\*\* Stepped down as at 25 April 2013

\*\*\*\* Appointed as at 25 April 2013

M.R. de Carvalho held 100,008 shares of Heineken N.V. as at 31 December 2013 (2012: 8 shares ). As at 31 December 2013 and 2012, the Supervisory Board members did not hold any of the Company's bonds or option rights. M.R. de Carvalho held 100,008 ordinary shares of Heineken Holding N.V. as at 31 December 2013 (2012: C.J.A. van Lede 2,656 and M.R. de Carvalho 8 ordinary shares).

**Other related party transactions**

| In millions of EUR                              | Transaction value |            |            | Balance outstanding as at 31 December |            |            |
|---|-------------------|------------|------------|---------------------------------------|------------|------------|
|   | 2013              | 2012       | 2011       | 2013                                  | 2012       | 2011       |
| <b>Sale of products, services and royalties</b> |                   |            |            |                                       |            |            |
| To associates and joint ventures                | 70                | 107        | 98         | 26                                    | 31         | 35         |
| To FEMSA  | 699               | 649        | 572        | 129                                   | 114        | 77         |
|   | <b>769</b>        | <b>756</b> | <b>670</b> | <b>155</b>                            | <b>145</b> | <b>112</b> |
| <b>Raw materials, consumables and services</b>  |                   |            |            |                                       |            |            |
| Goods for resale - joint ventures               |                   |            | 2          |                                       |            |            |
| Other expenses - joint ventures                 |                   |            |            |                                       |            |            |
| Other expenses FEMSA                            | 142               | 175        | 128        | 25                                    | 27         | 13         |
|   | <b>142</b>        | <b>175</b> | <b>130</b> | <b>25</b>                             | <b>27</b>  | <b>13</b>  |

**Table of Contents****Heineken Holding N.V.**

In 2013, an amount of EUR757,719 (2012: EUR694,065, 2011: EUR586,942) was paid to Heineken Holding N.V. for management services for HEINEKEN.

This payment is based on an agreement of 1977 as amended in 2001, providing that Heineken N.V. reimburses Heineken Holding N.V. for its costs. Best practice provision III.6.4 of the Dutch Corporate Governance Code of 10 December 2008 has been observed in this regard.

**FEMSA**

As consideration for HEINEKEN's acquisition of the beer operations of Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), FEMSA, became a major shareholder of Heineken N.V. Therefore, several existing contracts between FEMSA and former FEMSA-owned companies acquired by HEINEKEN have become related-party contracts. The total revenue amount related to these related-party relationships amounted to EUR672 million.

**36. HEINEKEN entities****Control of HEINEKEN**

The shares and options of the Company are traded on Euronext Amsterdam, where the Company is included in the main AEX index. Heineken Holding N.V. Amsterdam has an interest of 50.005 per cent in the issued capital of the Company. The financial statements of the Company are included in the consolidated financial statements of Heineken Holding N.V.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued with respect to legal entities established in the Netherlands. The list of the legal entities for which the declaration has been issued is disclosed in the Heineken N.V. stand-alone financial statements.

Pursuant to the provisions of Article 17 (1) of the Republic of Ireland Companies (Amendment) Act 1986, the Company issued irrevocable guarantees in respect of the financial year from 1 January 2013 up to and including 31 December 2013 in respect of the liabilities referred to in Article 5(c)(ii) of the Republic of Ireland Companies (Amendment) Act 1986 of the wholly owned subsidiary companies Heineken Ireland Limited, Heineken Ireland Sales Limited, West Cork Bottling Limited, Western Beverages Limited, Beamish & Crawford Limited and Nash Beverages Limited.

**Significant subsidiaries**

Set out below are HEINEKEN's significant subsidiaries at 31 December 2013. The subsidiaries as listed below are held by the Company and the proportion of ownership interests held equals to the proportion of the voting rights held by HEINEKEN. The country of incorporation or registration is also their principal place of business.

We disclose fewer entities than in previous years due to the change of the significance criteria used for the purpose of this disclosure. There were no significant changes to the HEINEKEN structure and ownership interests except those disclosed in Note 6.

|  | Country of incorporation | % of ownership |       |
|--|--------------------------|----------------|-------|
|  |                          | 2013           | 2012  |
| Heineken International B.V.                | The Netherlands          | 100%           | 100%  |
| Heineken Brouwerijen B.V.                  | The Netherlands          | 100%           | 100%  |
| Heineken Nederland B.V.                    | The Netherlands          | 100%           | 100%  |
| Cuauhtémoc Moctezuma Holding, S.A. de C.V. | Mexico                   | 100%           | 100%  |
| Cervejarias Kaiser Brasil S.A.             | Brazil                   | 100%           | 100%  |
| Heineken France S.A.S.                     | France                   | 100%           | 100%  |
| Nigerian Breweries Plc.                    | Nigeria                  | 54.1%          | 54.1% |
| Heineken USA Inc.                          | United States            | 100%           | 100%  |
| Heineken UK Ltd                            | United Kingdom           | 100%           | 100%  |

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|                               |           |       |       |
|-------------------------------|-----------|-------|-------|
| Heineken España S.A.          | Spain     | 99.4% | 98.7% |
| Heineken Italia S.p.A.        | Italy     | 100%  | 100%  |
| Brau Union AG                 | Austria   | 100%  | 100%  |
| Brau Union Österreich AG      | Austria   | 100%  | 100%  |
| Grupa Zywiec S.A.             | Poland    | 65.2% | 61.9% |
| LLC Heineken Breweries        | Russia    | 100%  | 100%  |
| Heineken Asia Pacific Pte Ltd | Singapore | 100%  | 98.7% |

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**37. Subsequent events**

**New Financing**

On 30 January 2014, HEINEKEN issued 15.5 year Notes for an amount of EUR200 million with a coupon of 3.5 per cent under the EMTN programme.

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**Executive and Supervisory Board statement**

The members of the Supervisory Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101 paragraph 2 Civil Code.

The members of the Executive Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101 paragraph 2 Civil Code and Article 5:25c paragraph 2 sub c Financial Markets Supervision Act.

Amsterdam, 11 February 2014

Executive Board

Supervisory Board

Van Boxmeer

Wijers

Hooft Graafland

Fernández Carbajal

Das

de Carvalho

De Jong

Fentener van Vlissingen

Minnick

Navarre

Astaburuaga Sanjinés

Scheffers

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