COCA COLA FEMSA SAB DE CV
Form 20-F
April 15, 2015
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As filed with the Securities and Exchange Commission on April 15, 2015.

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, 2014

Commission file number 1-12260

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

(Exact name of registrant as specified in its charter)

Not Applicable

(Translation of registrant s name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

Calle Mario Pani No. 100,

Santa Fe Cuajimalpa,

Cuajimalpa de Morelos,

05348, México, D.F., México

(Address of principal executive offices)

Roland Karig

Calle Mario Pani No. 100,

Santa Fe Cuajimalpa,

Cuajimalpa de Morelos,

05348 México, D.F., México

(52-55) 1519-5186/5121

krelations@kof.com.mx

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

address of company contact person)

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

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

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

None

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

None

The number of outstanding shares of each class of capital or common stock as of December 31, 2014 was:

992,078,519	Series A shares, without par value
583,545,678	Series D shares, without par value
497,298,032	Series L shares, without par value

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

x Yes ¨ No

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

¨ Yes x No

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

¨ Yes ¨ No

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

x Yes ¨ No

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

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

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

U.S. GAAP ¨ IFRS x Other ¨

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

¨ Item 17 ¨ Item 18

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

¨ Yes x No

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INTRODUCTION

References

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

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

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

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

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps.14.75 to US$1.00, the exchange rate for Mexican pesos on December 31, 2014, the last day in 2014 for which information is available, according to the U.S. Federal Reserve Board. On April 10, 2015, this exchange rate was Ps.15.17 to US$1.00. **See Item 3. Key Information Exchange Rate Information** for information regarding exchange rates since January 1, 2010.

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

Sources

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

Forward-Looking Information

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

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

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Item 3. Key Information

SELECTED CONSOLIDATED FINANCIAL DATA

We prepared our consolidated financial statements included in this annual report in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, or IASB, referred to herein as IFRS. Our date of transition to IFRS was January 1, 2011. Our consolidated financial statements as of and for the years ended December 31, 2012 and 2011 were our first set of financial statements prepared in accordance with IFRS. Based on our adoption and transition to IFRS, we have not prepared consolidated financial statements as of and for the year ended December 31, 2010 in accordance with IFRS and therefore are unable to present selected financial data for this year without unreasonable effort and expense.

This annual report includes (under Item 18) our audited consolidated statements of financial position as of December 31, 2014 and 2013 and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2014, 2013 and 2012.

Pursuant to IFRS, the information presented in this annual report presents financial information in nominal terms that has been presented in Mexican pesos, taking into account local inflation of each hyperinflationary economic environment and converting from functional 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. As of December 31, 2014, 2013, 2012 and 2011, Venezuela was the only country of the countries in which we operated with a hyperinflationary economic environment. For each non-hyperinflationary economic environment, functional currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for equity and the average exchange rate for the income statement. See Note 3 to our consolidated financial statements.

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

Except when specifically indicated, information in the annual report on Form 20-F is presented as of December 31, 2014 and does not give effect to any transaction subsequent to that date.

The following table presents selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements, including the notes thereto, and the information in **Item 5. Operating and Financial Review and Prospects.** The selected financial information contained herein is presented on a consolidated basis, and is not necessarily indicative of our financial position or results at or for any future date or period. See Note 3 to our consolidated financial statements for our significant accounting policies.

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	Year Ended December 31,				
	2014[(1)]	2014	2013[(2)]	2012[(3)]	2011[(4)]
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)				
Income Statement Data:					
Total revenues	US$ 9,987	Ps.147,298	Ps.156,011	Ps.147,739	Ps.123,224
Cost of goods sold	5,350	78,916	83,076	79,109	66,693
Gross profit	4,637	68,382	72,935	68,630	56,531
Administrative expenses	433	6,385	6,487	6,217	5,140
Selling expenses	2,743	40,465	44,828	40,223	32,093
Other income	68	1,001	478	545	685
Other expenses	79	1,159	1,101	1,497	2,060
Interest expenses	376	5,546	3,341	1,955	1,729
Interest income	26	379	654	424	616
Foreign exchange (loss) gain, net	(66)	(968)	(739)	272	61
(Loss) gain on monetary position for subsidiaries in hyperinflationary economies	(22)	(312)	(393)		61
Market value (gain) loss on financial instruments	(2)	(25)	(46)	(13)	138
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	1,014	14,952	17,224	19,992	16,794
Income taxes	262	3,861	5,731	6,274	5,667
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	(8)	(125)	289	180	86
Consolidated net income	744	10,966	11,782	13,898	11,213
Equity holders of the parent	715	10,542	11,543	13,333	10,662
Non-controlling interest	29	424	239	565	551
Consolidated net income	744	10,966	11,782	13,898	11,213
Ratio to Revenues (%)					
Gross margin	46.4	46.4	46.7	46.5	45.9
Net income margin	7.4	7.4	7.6	9.4	9.1

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	Year Ended December 31,					
		2014[1]	2014	2013[2]	2012[3]	2011[4]
	(in millions of Mexican pesos or millions of U.S. dollars, except ratio, share and per share data)					
Balance Sheet Data:						
Cash and cash equivalents	US$	879	Ps.12,958	Ps.15,306	Ps.23,222	Ps.11,843
Marketable securities					12	330
Accounts receivable, net, inventories, recoverable taxes, other current financial assets and other current assets		1,706	25,170	27,925	22,663	20,551
Total current assets		2,585	38,128	43,231	45,897	32,724
Investment in associates and joint ventures		1,175	17,326	16,767	5,352	3,656
Property, plant and equipment, net		3,426	50,527	51,785	42,517	38,102
Intangible assets, net		6,578	97,024	98,974	67,013	62,163
Deferred tax assets, other non-current financial assets and other non-current assets, net		634	9,361	5,908	5,324	5,093
Total assets		14,398	212,366	216,665	166,103	141,738
Bank loans and notes payable		20	301	495	4,194	638
Current portion of non-current debt		61	905	3,091	945	4,902
Interest payable		25	371	324	194	206
Suppliers, accounts payable, taxes payable and other current financial liabilities		1,820	26,826	28,488	24,217	20,029
Total current liabilities		1,926	28,403	32,398	29,550	25,775
Bank loans and notes payable		4,395	64,821	56,875	24,775	16,821
Post-employment and other non-current employee benefits, deferred tax liabilities, other non-current financial liabilities and provisions and other non-current liabilities		612	9,024	10,239	6,950	6,061
Total non-current liabilities		5,007	73,845	67,114	31,725	22,882
Total liabilities		6,933	102,248	99,512	61,275	48,657
Total equity		7,465	110,118	117,153	104,828	93,081
Equity attributable to equity holders of the parent[5]		7,167	105,717	113,111	101,649	90,028
Non-controlling interest in consolidated subsidiaries		298	4,401	4,042	3,179	3,053
Financial Ratios (%)						
Current[6]		1.34	1.34	1.33	1.55	1.27
Leverage[7]		0.93	0.93	0.85	0.58	0.52
Capitalization[8]		0.38	0.38	0.35	0.23	0.20
Coverage[9]		4.73	4.73	8.22	15.45	12.48
Share Data						
A Shares		992,078,519	992,078,519	992,078,519	992,078,519	992,078,519
D Shares		583,545,678	583,545,678	583,545,678	583,545,678	583,545,678
L Shares		497,298,032	497,298,032	497,298,032	454,920,107	409,829,732

Number of outstanding shares		2,072,922,229	2,072,922,229	2,072,922,229	2,030,544,304	1,985,453,929
Per Share Data						
Book Value[10]	US$	3.46	Ps.51.00	Ps.54.57	Ps.50.06	Ps.45.34
Earnings per share[11]		0.34	5.09	5.61	6.62	5.72
Ratio of Earnings to Fixed Charges[12]		3.40	3.40	5.71	9.81	8.09

(1) Translation to U.S. dollar amounts at an exchange rate of Ps.14.75 to US$1.00 solely for the convenience of the reader.

(2) Includes results of Coca-Cola FEMSA Philippines, Inc., or CCFPI (formerly Coca-Cola Bottlers Philippines, Inc.), from February 2013 using the equity method, results of Grupo Yoli, S.A. de C.V., or Grupo Yoli, from June 2013, Companhia Fluminense de Refrigerantes, or Companhia Fluminense, from September 2013 and Spaipa S.A. Industria Brasileira de Bebidas, or Spaipa, from November 2013. **See Item 4 Information on the Company The Company Corporate History.**

(3) Includes results of Grupo Fomento Queretano, S.A.P.I. de C.V., or Grupo Fomento Queretano, from May 2012. **See Item 4 Information on the Company The Company Corporate History.**

(4) Includes results of Administradora de Acciones del Noreste, S.A.P.I. de C.V., or Grupo Tampico, from October 2011 and from Corporación de los Angeles, S.A. de C.V., or Grupo CIMSA, from December 2011. **See Item 4 Information on the Company The Company Corporate History.**

(5) We translated our results of operations in Venezuela for the full year ended December 31, 2014 into our reporting currency, the Mexican peso, using the SICAD II exchange rate of 49.99 bolivars to US$1.00, which was the exchange rate in effect as of such date. As a result, we recognized a reduction in equity of Ps.11,836 million as of December 31, 2014. **See Item 5. Operating and Financial Review and Prospects General Recent Developments in the Venezuelan Exchange Control Regime.**

(6) Computed by dividing Total current assets by Total current liabilities.

(7) Computed by dividing Total liabilities by Total equity.

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(8) Computed by adding Current bank loans and notes payable, Current portion of non-current debt and Non-current bank loans and notes payable, and dividing such sum by the sum of Total equity and Non-current bank loans and notes payable.

(9) Computed by dividing Net cash flows from operating activities by the difference between Interest expense and Interest income.

(10) Based on 2,072.92 million, 2,072.92 million, 2,030.54 million and 1,985.45 million ordinary shares as of December 31, 2014, 2013, 2012 and 2011, respectively.

(11) Computed of the basis of the weighted average number of shares outstanding during the period: 2,072.92 million, 2,056.20 million, 2,015.14 million and 1,865.55 million in 2014, 2013, 2012 and 2011, respectively.

(12) Exhibit 7.2 to this annual report on Form 20-F includes a calculation of Ratio of Earnings to Fixed Charges.

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DIVIDENDS AND DIVIDEND POLICY

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

Fiscal Year with Respect to which Dividend was Declared	Date Dividend Paid or To Be Paid	Mexican Pesos per Share (Nominal)	U.S. Dollars per Share(1)
2011	May 30, 2012	2.770	0.121
2012(2)	May 2, 2013	1.450	0.119
	November 5, 2013	1.450	0.119
2013(3)	May 2, 2014	1.450	0.111
	November 5, 2014	1.450	0.111
2014(4)	May 5, 2015	1.540	(5)
	November 3, 2015	1.550	(5)

(1) Expressed in U.S. dollars using the exchange rate applicable when the dividend was paid.

(2) The dividend payment for the fiscal year 2012 was divided into two equal payments.

(3) The dividend payment for the fiscal year 2013 was divided into two equal payments.

(4) The dividend payment for the fiscal year 2014 has been divided into two payments.

(5) Since dividends for 2014 have not been paid at the time of this annual report, the U.S. dollar per share amount has not been determined.

The declaration, amount and payment of dividends are subject to approval by a simple majority of the shareholders up to an amount equivalent to 20% of the preceding years retained earnings and by a majority of the shareholders of each of the Series A and Series D shares voting together as a single class above 20% of the preceding years retained earnings, generally upon the recommendation of our board of directors, and will depend upon our results, financial condition, capital requirements, general business conditions and the requirements of Mexican law. Accordingly, our historical dividend payments are not necessarily indicative of future dividends.

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

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

Effective as of January 1, 2014, under Mexican income tax law, dividends, either in cash or in kind, paid to individuals that are Mexican residents, and to individuals and companies that are non-Mexican residents, on our shares, including our Series L shares and our Series L shares represented by ADSs, are subject to a 10.0% Mexican withholding tax. **See Item 10. Additional Information Taxation Mexican Taxation.**

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EXCHANGE RATE INFORMATION

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

Period	Exchange Rate			
	High	Low	Average(1)	End of Period
2010	13.19	12.16	12.64	12.38
2011	14.25	11.51	12.43	13.95
2012	14.37	12.63	13.14	12.96
2013	13.43	11.98	12.76	13.10
2014	14.79	12.85	13.30	14.75

Source: U.S. Federal Reserve Board.

(1) Average month-end rates.

	Exchange Rate		
	High	Low	End of Period
2013:			
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
2014:			
First Quarter	13.51	13.00	13.06
Second Quarter	13.14	12.85	12.97
Third Quarter	13.48	12.93	13.43
Fourth Quarter	14.79	13.39	14.75
October	13.57	13.39	13.48
November	13.92	13.54	13.92
December	14.79	13.94	14.75
2015:			
January	15.01	14.56	15.01
February	15.10	14.75	14.94
March	15.58	14.93	15.25

Source: U.S. Federal Reserve Board.

On April 10, 2015, the exchange rate was Ps.15.17 to US$1.00, according to the U.S. Federal Reserve Board.

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RISK FACTORS

Risks Related to Our Company

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

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

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

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

We depend on The Coca-Cola Company to continue with our bottler agreements. All of our bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew the applicable agreement. In addition, these agreements generally may be terminated in the case of material breach. **See Item 4. Information on the Company Bottler Agreements.** Termination would prevent us from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on our business, financial condition, results and prospects.

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

The Coca-Cola Company and Fomento Económico Mexicano, S.A.B. de C.V., which we refer to as FEMSA, have substantial influence on the conduct of our business. As of April 10, 2015, The Coca-Cola Company indirectly owned 28.1% of our outstanding capital stock, representing 37.0% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint five of our maximum of 21 directors and the vote of at least two of them is required to approve certain actions by our board of directors. As of April 10, 2015, FEMSA indirectly owned 47.9% of our outstanding capital stock, representing 63.0% of our capital stock with full voting rights. FEMSA is entitled to appoint 13 of our maximum of 21 directors and all of our executive officers. The Coca-Cola Company and FEMSA together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval by our board of directors, and FEMSA and The Coca-Cola Company together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval of our shareholders. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.** The interests of The Coca-Cola Company and FEMSA may be different from the interests of our remaining shareholders, which may result in us taking actions contrary to the interests of our remaining shareholders.

Changes in consumer preference and public concern about health related issues could reduce demand for some of our 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 we operate 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 our 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 our 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 our products which would adversely affect our results. We are currently undertaking a number of strategic initiatives and specific actions to address these concerns. **See Item 4. The Company Business Strategy.**

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Competition could adversely affect our financial performance.

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

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

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

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

Water supply in the São Paulo region has been recently affected by low rainfall, which has affected the main water reservoir that serves the greater São Paulo area (Cantareira). Although our Jundiaí plant does not obtain water from this water reservoir, water shortages or changes in governmental regulations aimed at rationalizing water in the region could affect our water supply in our Jundiaí plant.

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

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

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

Our most significant packaging raw material costs arise from the purchase of resin and plastic preforms to make plastic bottles and from the purchase of finished plastic bottles, the prices of which are related to crude oil prices and global resin supply. The average prices that we paid for resin and plastic preforms in U.S. dollars in 2014, as compared to 2013 were lower in Mexico, Central America, Colombia and Argentina, remained flat in Venezuela and were higher in Brazil. We cannot assure you that prices will not increase in future periods. During 2014, average sweetener prices in Mexico, Brazil and Argentina were lower as compared to 2013, remained flat in Colombia and Nicaragua and were higher in Venezuela, Costa Rica and Panama. From 2010 through 2014, international sugar prices were volatile due to various factors, including shifting demands, availability and climate issues affecting production and distribution. In all of the countries in which we operate, other than Brazil, sugar prices are subject to local regulations and other barriers to market entry that cause us to pay in excess of international market prices. **See Item 4. Information on the Company The Company Raw Materials.** We cannot assure you that our raw material prices will not further increase in the future. Increases in the prices of raw materials would increase our cost of goods sold and adversely affect our financial performance.

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Taxes could adversely affect our business.

The countries in which we operate may adopt new tax laws or modify existing tax laws to increase taxes applicable to our business or products. Our products are subject to certain taxes in many of the countries in which we operate, such as certain countries in Central America, Mexico, Brazil, Venezuela and Argentina, which impose taxes on sparkling beverages. **See Item 4. Information on the Company Regulation Taxation of Sparkling Beverages.** The imposition of new taxes or increases in existing taxes, or changes in the interpretation of tax laws and regulation by tax authorities, may have a material adverse effect on our business, financial condition, prospects and results.

Tax legislation in some of the countries in which we operate have recently been subject to major changes. **See Item 4. Information on the Company Regulation Recent Tax Reforms.** We cannot assure you that these reforms or other reforms adopted by governments in the countries in which we operate will not have a material adverse effect in our business, financial condition and results of operation.

Regulatory developments may adversely affect our business.

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

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which we operate. Currently, there are no price controls on our products in any of the territories in which we have operations, except for those in Argentina, where authorities directly supervise five of our products sold through supermarkets as a measure to control inflation, and Venezuela, where the government has imposed price controls on certain products, including bottled water, and has recently imposed a limit on profits earned on the sale of goods, including our products, seeking to maintain price stability of, and equal access to, goods and services. If we exceed such limit on profits, we may be forced to reduce the prices of our products in Venezuela, which would in turn adversely affect our 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 us. 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 our products, which could have a negative effect on our results of operations. The imposition of these restrictions or voluntary price restraints in other territories may have an adverse effect on our results and financial position. **See Item 4. Information on the Company Regulation Price Controls.** We cannot assure you that governmental authorities in any country where we operate will not impose statutory price controls or that we will not need to implement voluntary price restraints in the future.

Unfavorable results of legal proceedings could have an adverse effect on our results or financial condition.

Our 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. We have also been subject to investigations and proceedings on environmental and labor matters. We cannot assure you that these investigations and proceedings will not have an adverse effect on our results or financial condition. **See Item 8. Financial Information Legal Proceedings.**

Weather conditions may adversely affect our results.

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

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We may not be able to successfully integrate our recent acquisitions and achieve the operational efficiencies and/or expected synergies.

We have and we may continue to acquire bottling operations and other businesses. A key element to achieve the benefits and expected synergies of our recent and future acquisitions and/or mergers is to integrate the operation of acquired or merged businesses into our operations in a timely and effective manner. We 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 our operating structure. We cannot assure you that these efforts will be successful or completed as expected by us, and our business, results and financial condition could be adversely affected if we are unable to do so.

Risks Related to the Series L shares and the ADSs

Holders of our Series L shares have limited voting rights.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to the Countries in Which We Operate

Adverse economic conditions in the countries in which we operate may adversely affect our financial condition and results.

We are a Mexican corporation and our Mexican operations are our single most important geographic territory. We also conduct an important part of our operations in Brazil. For the year ended December 31, 2014, more than 70% of our total revenues were attributable to Mexico and Brazil. In addition to Mexico and Brazil, we conduct operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, and Argentina. Our results are affected by the economic and political conditions in the countries where we conduct operations. Some of these economies continue to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect these economies. Deterioration or prolonged periods of weak economic conditions in the countries where we conduct operations may have, and in the past have had, a negative effect on our company and a material adverse effect on our results and financial condition.

Our business may also be significantly affected by the interest rates, inflation rates and exchange rates of the currencies of the countries 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. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk.** In addition, an increase in interest rates would increase the cost to us of variable rate funding, which constituted approximately 31% of our total debt as of December 31, 2014, which would have an adverse effect on our financial position. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.**

Consumer demand, preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic and political conditions in the countries in which we operate. These conditions vary by country and may not be correlated. In Venezuela, for example, we continue to face exchange rate risk as well as scarcity of and restrictions on importing raw materials.

Depreciation of the local currencies of the countries in which we operate relative to the U.S. dollar could adversely affect our financial condition and results.

Depreciation of local currencies relative to the U.S. dollar increases the cost to us of some of the raw materials we acquire, the price of which may be paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and may therefore negatively affect our results, financial position and equity. In addition, depreciation of local currencies of the countries in which we operate relative to the U.S. dollar may also potentially increase inflation rates in such countries. Significant fluctuations of local currencies relative to the U.S. dollar have occurred in the past and may continue in the future, negatively affecting our results. **See Item 3. Key Information Exchange Rate Information** and **Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.**

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

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currency. We have historically used the official exchange rate (currently 6.30 bolivars to US$1.00) in our Venezuelan operations. Nonetheless, since the beginning of 2014, the Venezuelan government announced a series of changes to the Venezuelan exchange control regime.

In January 2014, the Venezuelan government announced an exchange rate determined by the state-run system known as the *Sistema Complementario de Administración de Divisas*, or SICAD. In March 2014, the Venezuelan government announced a new law that authorized an alternative method of exchanging Venezuelan bolivars to U.S. dollars known as SICAD II. In February 2015, the Venezuelan government announced that it was replacing SICAD II with a new market-based exchange rate determined by the system known as the *Sistema Marginal de Divisas*, or SIMADI. The SICAD determines the exchange rates based on limited periodic sales of U.S. dollars through auctions in which only entities authorized by the Venezuelan government may participate, while SIMADI determines the exchange rates based on supply and demand of U.S. dollars, in which participation does not require authorization by the Venezuelan government. The SICAD and SIMADI exchange rates in effect as of April 10, 2015, were 12.00 and 193.51 bolivars per US$1.00, respectively.

We translated our results of operations in Venezuela for the full year ended December 31, 2014 into our reporting currency, the Mexican peso, using the SICAD II exchange rate of 49.99 bolivars to US$1.00, which was the exchange rate in effect as of such date. As a result, we recognized a reduction in equity of Ps.11,836 million as of December 31, 2014 and as of such date, our foreign direct investment in Venezuela was Ps.4,015 million. This reduction adversely affected our financial results in the amount of Ps.1,895 million and our financial position for the year ended December 31, 2014.

Based upon our specific facts and circumstances, we anticipate using the SIMADI exchange rate to translate our future results of operations in Venezuela into our reporting currency, the Mexican peso, commencing with our results for the first quarter of 2015. This translation effect will further adversely affect our results of operations and financial position. The Venezuelan government may announce further changes to the exchange rate system in the future. To the extent a higher exchange rate is applied to our investment in Venezuela in future periods as a result of changes to existing regulations, subsequently adopted regulations or otherwise, we could be required to further reduce the amount of our foreign direct investment in Venezuela and our results of operations in Venezuela and financial condition would be further adversely affected. More generally, future currency devaluations or the imposition of exchange controls in any of the countries in which we operate may potentially increase our operating costs, which could have an adverse effect on our financial position and results of operations.

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

Political and social events in the countries in which we operate may significantly affect our operations.

Political and social events in the countries in which we operate, as well as changes in governmental policies may have an adverse effect on our business, results of operations and financial condition. In recent years, some of the governments in the countries in which we operate have implemented and may continue to implement significant changes in laws, public policy and/or regulations that could affect the political and social conditions in these countries. Any such changes may have an adverse effect on our business, results of operations and financial condition. We cannot assure you that political or social developments in any of the countries in which we operate, such as the election of new administrations, political disagreements, civil disturbances and the rise in violence and perception of violence, over which we have no control, will not have a corresponding adverse effect on the local or global markets or on our business, results of operations and financial condition.

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Item 4. Information on the Company

THE COMPANY

Overview

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

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

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

Colombia most of the country.

Venezuela nationwide.

Brazil 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.

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

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

The following is an overview of our operations by consolidated reporting segment in 2014.

Operations by Consolidated Reporting Segment Overview

Year Ended December 31, 2014

	Total Revenues (millions of Mexican pesos)	Percentage of Total Revenues	Gross Profit (millions of Mexican pesos)	Percentage of Gross Profit
Mexico and Central America[1]	71,965	48.9%	36,453	53.3%
South America[2] (excluding Venezuela)	66,367	45.0%	27,372	40.0%
Venezuela	8,966	6.1%	4,557	6.7%

Consolidated	147,298	100.0%	68,382	100.0%

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

(2) Includes Colombia, Brazil and Argentina.

Corporate History

We are a subsidiary of FEMSA, a leading company that also participates 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. FEMSA also participates in the retail industry through FEMSA Comercio, operating various small-format chain stores including OXXO, the largest and fastest-growing chain of stores in the Americas. Additionally, through its strategic businesses, FEMSA provides logistics, point-of-sale refrigeration solutions and plastics solutions to FEMSA s business units and third-party clients.

We commenced operations in 1979, when a subsidiary of FEMSA acquired certain sparkling beverage bottlers. In 1991, FEMSA transferred its ownership in the bottlers to FEMSA Refrescos, S.A. de C.V., our corporate predecessor. In June 1993, a subsidiary of The Coca-Cola Company subscribed for 30% of our capital stock in the form of Series D shares. In September 1993, FEMSA sold Series L shares that represented 19.0% of our capital stock to the public, and we listed these shares on the Mexican Stock Exchange and, in the form of ADSs, on the New York Stock Exchange.

In a series of transactions since 1994, we have acquired new territories, brands and other businesses which today comprise our business. In May 2003, we acquired Panamerican Beverages Inc., or Panamco, and began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central and gulf regions of Mexico and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. In November 2006, FEMSA acquired 148,000,000 of our Series D shares from certain subsidiaries of The Coca-Cola Company, which increased FEMSA s ownership to 53.7%. In November 2007, we acquired together with The Coca-Cola Company 100% of the shares of capital stock of Jugos del Valle, S.A.P.I. de C.V., or Jugos del Valle. In 2008, we, The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and Brazilian operations, respectively, of Jugos del Valle. In December 2007 and May 2008, we sold most of our proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to us by The Coca-Cola Company pursuant to our bottler agreements. In May 2008, we entered into a transaction with The Coca-Cola Company to acquire its wholly owned bottling franchise Refrigerantes Minas Gerais, Ltda., or REMIL, located in the State of Minas Gerais in Brazil. In July 2008, we acquired the Agua De Los Angeles bulk water business in the Valley of Mexico (Mexico City and surrounding areas) from Grupo Embotellador CIMSA, S.A. de C.V., at the time one of the Coca-Cola bottling franchises in Mexico. The trademarks remain with The Coca-Cola Company. We subsequently merged Agua De Los Angeles into our bulk water business under the *Ciel* brand. In February 2009, we acquired together with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, S.A., a subsidiary of SABMiller plc. We acquired the production assets and the distribution territory, and The Coca-Cola Company acquired the *Brisa* brand. In May 2009, we entered into an agreement to manufacture, distribute and sell the *Crystal* trademark water products in Brazil jointly with The Coca-Cola Company. In August 2010, we 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 March 2011, we acquired together with The Coca-Cola Company, Grupo Industrias Lacteas, S.A. (also known as Estrella Azul), a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. In October 2011, we merged with Grupo Tampico, one of the largest family-owned *Coca-Cola* bottlers in Mexico in terms of sales volume, with operations in the states of Tamaulipas, San Luis Potosí, and Veracruz, as well as in parts of the states of Hidalgo, Puebla and Queretaro. In December 2011, we merged 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. As part of our merger with Grupo CIMSA, we also acquired a 13.2% equity interest in Promotora Industrial Azucarera, S.A de C.V., or PIASA.

In May 2012, we merged 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. As part of our merger with Grupo Fomento Queretano, we also acquired an additional 12.9% equity interest in PIASA. In August 2012, we acquired, through Jugos del Valle, an indirect participation in Santa Clara Mercantil de Pachuca, S.A. de C.V., or Santa Clara, a producer of milk and dairy products in Mexico.

In January 2013, we acquired together with The Coca-Cola Company a 51% non-controlling majority stake in CCFPI in an all-cash transaction. In May 2013, we merged with Grupo Yoli, one of the oldest family-owned Coca-Cola bottlers in Mexico, with operations mainly in the state of Guerrero, as well as in parts of the state of Oaxaca. As part of our merger with Grupo Yoli, we also acquired an additional 10.1% equity interest in PIASA, for a total ownership of 36.3%. In August 2013, we acquired Companhia Fluminense, a family owned franchise that operates in parts of the states of São Paulo, Minas Gerais and Rio de Janeiro in Brazil. As part of our acquisition of Companhia Fluminense, we also acquired an additional 1.2% equity interest in Leão Alimentos. In October 2013, we acquired 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. As part of our acquisition of Spaipa, we also acquired an additional 5.8% equity interest in Leão Alimentos, for a total ownership as of April 10, 2015 of 24.4%, and a 50.0% stake in Fountain Água Mineral Ltda., a joint venture to develop the water category together with The Coca-Cola Company.

For further information, **see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions The Coca-Cola Company.**

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Capital Stock

As of April 10, 2015, FEMSA indirectly owned Series A shares equal to 47.9% of our capital stock (63.0% of our capital stock with full voting rights). As of April 10, 2015, The Coca-Cola Company indirectly owned Series D shares equal to 28.1% of the capital stock of our company (37.0% of our capital stock with full voting rights). Series L shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange, constitute the remaining 24.0% of our capital stock.

Business Strategy

We operate with a large geographic footprint in Latin America. In January 2015, we restructured our operations under four new divisions: (1) Mexico (covering certain territories in Mexico); (2) Latin America (covering certain territories in Guatemala, and all of Nicaragua, Costa Rica and Panama, 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, we have created a more flexible structure to execute our strategies and continue with our track record of growth. We have also aligned our business strategies more efficiently, ensuring a faster introduction of new products and categories, and a more rapid and effective design and deployment of commercial models.

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

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

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

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

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

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

- replicating our best practices throughout the value chain;

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

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

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

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

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

In early 2015, we redesigned our corporate structure to strengthen the core functions of our organization. Through this restructuring we created specialized departments, focused on our supply chain, commercial, and IT innovation areas (*centros de excelencia*). These departments not only enable centralized collaboration and knowledge sharing, but also drive standards of excellence and best practices in our key strategic capabilities. Our priorities include enhanced manufacturing efficiency, improved distribution and logistics, and cutting-edge IT-enabled commercial innovation.

We focus on management quality as a key element of our growth strategy and remain committed to fostering the development of quality management at all levels. Our Strategic Talent Management Model is designed to enable us to reach our full potential by developing the capabilities of our employees and executives. This holistic model works to build the skills necessary for our employees and executives to reach their maximum potential, while contributing to the achievement of our short- and long-term objectives. To support this capability development model, our board of directors has allocated a portion of our yearly operating budget to fund these management training programs.

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

In our company we are conscious that weight issues and obesity are worldwide health problems, which need a collective effort for their solution. We believe that neither beverages nor any other product by itself is the direct cause of these problems, as they are complicated issues related to dietary habits and physical activity. However, as industry leaders, we would like to be a part of the solution. That is why we are committed to find, together with public and private institutions of the countries in which we operate, a comprehensive solution to this problem. Through innovation, we have developed new products and expanded the availability of low or zero calorie beverages as well as bottled water. Approximately 40% of our brands are calorie free or low- or non-caloric beverages. In addition, we inform our consumers through front labeling on nutrient composition and caloric content of our beverages. We have been pioneers in the introduction of the Guideline Daily Amounts (GDA), and we perform responsible advertising practices and marketing. We voluntarily adhere to national and international codes of conduct in advertising and marketing, specifically when targeting children of less than 12 years of age, achieving full compliance with all such codes in all of the countries in which we operate. Moreover, we actively promote exercise, proper nutrition and healthy habits to promote an energetic balance, demonstrating our commitment to encourage physical activity among consumers. In general, more than 515,000 people benefited from our company s health and physical activity programs, and more than 6 million people through physical activity events where we had brand presence during 2014.

At Coca-Cola FEMSA, we pledge to continue working to innovate and take measures to help people lead active and healthy lifestyles.

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CCFPI Joint Venture

On January 25, 2013, as part of our efforts to expand our geographic reach, we acquired a 51% non-controlling majority stake in CCFPI. We currently manage 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. As of December 31, 2014, our investment under the equity method in CCFPI was Ps.9,021 million. See Notes 9 and 25 to our consolidated financial statements. Our product portfolio in the Philippines consists of *Coca-Cola* trademark beverages and our total sales volume in 2014 reached 513 million unit cases. The operations of CCFPI are comprised of 19 production plants and serve close to 853,242 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.

Our Territories

The following map shows our territories, giving estimates in each case of the population to which we offer products, the number of retailers of our beverages and the per capita consumption of our beverages as of December 31, 2014:

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

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Our Products

We produce, market, sell and distribute *Coca-Cola* trademark beverages. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters and still beverages (including juice drinks, coffee, teas, milk, value-added dairy and isotonic drinks). The following table sets forth our main brands as of December 31, 2014:

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

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

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

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Other Categories:	Mexico and Central America(1)	South America(2)	Venezuela
Cepita(4)		ü	
Del Prado(5)	ü		
Estrella Azul(6)	ü		
FUZE Tea	ü		ü
Hi-C(7)	ü	ü	
Santa Clara(8)	ü		
Jugos del Valle(4)	ü	ü	ü
Matte Leão(9)		ü	
Powerade(10)	ü	ü	ü
Valle Frut(11)	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, value-added dairy and coffee.

(9) Ready to drink tea.

(10) Isotonic drinks.

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

Sales Overview

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

	Year Ended December 31,		
	2014	2013(1)	2012(2)
	(millions of unit cases)		
Mexico and Central America			
Mexico	1,754.9	1,798.0	1,720.3
Central America(3)	163.6	155.6	151.2
South America (excluding Venezuela)			
Colombia	298.4	275.7	255.8
Brazil(4)	733.5	525.2	494.2
Argentina	225.8	227.1	217.0
Venezuela	241.1	222.9	207.7
Consolidated Volume	3,417.3	3,204.6	3,046.2

(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 Guatemala, Nicaragua, Costa Rica and Panama.

(4) Excludes beer sales volume.

Product and Packaging Mix

Out of the more than 116 brands and line extensions of beverages that we sell and distribute, our most important brand, *Coca-Cola*, together with its line extensions, *Coca-Cola Light*, *Coca-Cola Life* and *Coca-Cola Zero,* accounted for 61.0% of total sales volume in 2014. Our next largest brands, *Ciel* (a water brand from Mexico and its line extensions), *Fanta* (and its line extensions), *Sprite* (and its line extensions) and *ValleFrut* (and its line extensions) accounted for 11.6%, 5.1%, 2.8% and 2.7%, respectively, of total sales volume in 2014. We use the term line extensions to refer to the different flavors in which we offer our brands. We produce, market, sell and distribute *Coca-Cola* trademark beverages in each of our territories in containers authorized by The Coca-Cola Company, which consist of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles mainly made of polyethylene terephthalate, which we refer to as PET.

We use the term presentation to refer to the packaging unit in which we sell our products. Presentation sizes for our *Coca-Cola* trademark beverages range from a 6.5-ounce personal size to a 3-liter multiple serving size. For all of our products excluding water, we consider a multiple serving size as equal to, or larger than, 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. We offer both returnable and non-returnable presentations, which allow us to offer portfolio alternatives based on convenience and affordability to implement revenue management strategies and to target specific distribution channels and population segments in our territories. In addition, we sell some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which we refer to as fountain. We also sell bottled water products in bulk sizes, which refer to presentations equal to or larger than 5.0 liters, which have a much lower average price per unit case than our other beverage products.

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

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The following discussion analyzes our product and packaging mix by consolidated reporting segment. The volume data presented is for the years 2014, 2013 and 2012.

Mexico and Central America. Our product portfolio consists of *Coca-Cola* trademark beverages, including the *Jugos del Valle* line of juice-based beverages. Per capita consumption of our beverage products in Mexico and Central America was 607.5 and 189.1 eight-ounce servings, respectively, in 2014.

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

	Year Ended December 31,		
	2014	2013(1)	2012(2)
Total Sales Volume			
Total (millions of unit cases)	1,918.5	1,953.6	1,871.5
Growth (%)	(1.8)	4.4	23.9
	(in percentages)		
Unit Case Volume Mix by Category			
Sparkling beverages	73.2	73.1	73.0
Water(3)	21.3	21.2	21.4
Still beverages	5.5	5.7	5.6
Total	100.0	100.0	100.0

(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.

(3) Includes bulk water volumes.

In 2014, multiple serving presentations represented 64.5% of total sparkling beverages sales volume in Mexico, a 170 basis points decrease compared to 2013; and 54.7% of total sparkling beverages sales volume in Central America, a 16 basis points decrease compared to 2013. Our strategy is to foster consumption of single serve presentations while maintaining multiple serving volumes. In 2014, returnable packaging, as a percentage of total sparkling beverage sales volume accounted for 37.9% in Mexico, a 290 basis points increase as compared to 2013; and 34.8% in Central America, a 1,160 basis points increase as compared to 2013.

In 2014, our sparkling beverages volume as a percentage of total sales volume in our Mexico and Central America division increased marginally to 73.2% as compared with 2013.

Total sales volume in our Mexico and Central America division (including Grupo Yoli) reached 1,918.5 million unit cases in 2014, a decrease of 1.8% compared to 1,953.6 million unit cases in 2013. The sales volume for our sparkling beverage category decreased 1.6%, mainly driven by the impact of price increase to compensate the excise tax to sweetened beverages. Our bottled water portfolio, excluding bulk water, grew 4.2%, mainly driven by the performance of the *Ciel* brand in Mexico. Our still beverage category decreased 5.5% mainly due to the performance of the Jugos del Valle portfolio in the division. Organically, excluding the non-comparable effect of Grupo Yoli in 2014, total sales volume for Mexico and Central America division reached 1,878.9 million unit cases in 2014, a decrease of 3.8% as compared to 2013. On the same basis, our sparkling beverage category decreased 3.9%, our bottled water portfolio, excluding bulk water, remained flat, and our still beverage category decreased 7.1%.

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. 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, our sparkling beverages volume as a percentage of total sales volume in our Mexico and Central America division (including Grupo Fomento Queretano and Grupo Yoli) increased marginally to 73.1% as compared with 2012.

Total sales volume in our 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 integration of Grupo Fomento Queretano and Grupo Yoli in Mexico contributed 89.3 million unit cases in 2013 of which sparkling beverages were 72.2%, water was 9.9%, bulk water was 13.4% and still beverages were 4.5%. Excluding the integration of these territories, volume decreased 0.4% to 1,864.2 million unit cases. Organically, our bottled water portfolio grew 5.1%, mainly driven by the performance of the *Ciel* brand in Mexico. On the same basis, our 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.

South America (Excluding Venezuela). Our 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 *Heineken* beer brands, including *Kaiser* beer brands, in Brazil, which we sell and distribute.

During 2013, as part of our efforts to foster sparkling beverage per capita consumption in Brazil, we 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. During 2014, in an effort to increase sales in our still beverage portfolio in the region, we reinforced our *Jugos del Valle* line of business and *Powerade* brand. Per capita consumption of our beverages in Colombia, Brazil and Argentina was 152.7, 244.2 and 470.4 eight-ounce servings, respectively, in 2014.

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

	Year Ended December 31,		
	2014	**2013(1)**	**2012**
Total Sales Volume			
Total (millions of unit cases)	1,257.7	1,028.1	967.0
Growth (%)	22.6	6.3	2.0
		(in percentages)	
Unit Case Volume Mix by Category			
Sparkling beverages	84.1	84.1	84.9
Water(2)	9.7	10.1	10.0
Still beverages	6.2	5.8	5.1
Total	100.0	100.0	100.0

(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 our South America division, excluding Venezuela, increased 22.6% to 1,257.7 million unit cases in 2014 as compared to 2013, as a result of stronger sales volumes in our recently integrated territories in Brazil and better volume performance in Colombia. The still beverage category grew 31.8%, mainly driven by the Jugos del Valle line of business in Colombia and Brazil and the performance of *FUZE tea* and *Leão tea* in the division. Our sparkling portfolio increased 22.6% mainly driven by the performance of the *Coca-Cola* brand and other core products in our operations. Our bottled water portfolio, including bulk water, increased 16.9% driven by performance of the *Bonaqua* brand in Argentina and the *Crystal* brand in Brazil. Organically, excluding the non-comparable effect of Companhia Fluminense and Spaipa in 2014, total sales volume in South America division excluding Venezuela, increased 3.7% as compared to 2013. On the same basis, our still beverage category grew 15.3% mainly driven by the Jugos del Valle line of business in the region, our bottled water portfolio, including bulk water, increased 6.9% mainly driven by the performance of the *Crystal* brand in Brazil, and our sparkling beverage category increased 2.5%.

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In 2014, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 32.0% in Colombia, a decrease of 520 basis points as compared to 2013; 19.7% in Argentina, a decrease of 230 basis points and 15.5% in Brazil a 50 basis points decrease compared to 2013. In 2014, multiple serving presentations represented 69.8%, 85.3% and 75.0% of total sparkling beverages sales volume in Colombia, Argentina and Brazil, respectively.

Total sales volume in our 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 our Brazilian territories. These effects compensated for an organic volume decline in Brazil. Organically, 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. Our 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 320 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.

We continue to distribute and sell the *Heineken* beer portfolio, including *Kaiser* beer brands, in our Brazilian territories through the 20-year term, consistent with the arrangements in place since 2006 with Cervejarias Kaiser, a subsidiary of the Heineken Group. Beginning in the second quarter of 2005, we ceased including beer that we distribute in Brazil in our reported sales volumes.

Venezuela. Our product portfolio in Venezuela consists of *Coca-Cola* trademark beverages. Per capita consumption of our beverages in Venezuela during 2014 was 190.0 eight-ounce servings. At the end of 2011, we launched *Del Valle Fresh*, an orangeade, in Venezuela, which contributed significantly to incremental volume growth in this country during 2012. During 2014, our *Powerade* brand in the country contributed to our sales growth in the still beverage category.

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

	Year Ended December 31,		
	2014	**2013**	**2012**
Total Sales Volume			
Total (millions of unit cases)	241.1	222.9	207.7
Growth (%)	8.2	7.3	9.4
		(in percentages)	
Unit Case Volume Mix by Category			
Sparkling beverages	85.7	85.6	87.9
Water(1)	6.5	6.9	5.6
Still beverages	7.8	7.5	6.5
Total	100.0	100.0	100.0

(1) Includes bulk water volume.

We have implemented a product portfolio rationalization strategy that allows us 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, we experience operating disruptions due to prolonged negotiations of collective bargaining agreements.

Despite these difficulties, total sales volume increased 8.2% to 241.1 million unit cases in 2014, as compared to 222.9 million unit cases in 2013. The sales volume in the sparkling beverage category grew 8.3%, driven by the strong performance of the *Coca-Cola* brand, which grew 15.3%. The bottled water business, including bulk water, grew 1.6% mainly driven by the *Nevada* brand. The still beverage category increased 10.8%, due to the performance of the *Del Valle Fresh* orangeade and *Powerade* brand.

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In 2014, multiple serving presentations represented 81.9% of total sparkling beverages sales volume in Venezuela, a 100 basis points increase as compared to 2013. In 2014, returnable presentations represented 6.9% of total sparkling beverages sales volume in Venezuela, a 20 basis points increase as compared to 2013.

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, an 80 basis points decrease compared to 2012.

Seasonality

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

Marketing

We, in conjunction with The Coca-Cola Company, have developed a marketing strategy to promote the sale and consumption of our products. We rely extensively on advertising, sales promotions and retailer support programs to target the particular preferences of our consumers. Our consolidated marketing expenses in 2014, net of contributions by The Coca-Cola Company, were Ps.3,488 million. The Coca-Cola Company contributed an additional Ps.4,118 million in 2014, which mainly includes contributions for coolers, bottles and cases. Through the use of advanced information technology, we have collected customer and consumer information that allow us to tailor our marketing strategies to target different types of customers located in each of our territories and to meet the specific needs of the various markets we serve.

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 our clients plans for success. Increasing both cooler coverage and the number of cooler doors among our retailers is important to ensure that our wide variety of products are properly displayed, while strengthening our merchandising capacity in the traditional sales channel to significantly improve our point-of-sale execution.

Advertising. We advertise in all major communications media. We focus our advertising efforts on increasing brand recognition by consumers and improving our customer relations. National advertising campaigns are designed and proposed by The Coca-Cola Company s local affiliates in the countries in which we operate, with our input at the local or regional level. Point-of-sale merchandising and advertising efforts are proposed and implemented by us, with a focus on increasing our connection with customers and consumers.

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

Multi-Segmentation. We have implemented a multi-segmentation strategy in all of our 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. We continue transforming our commercial models to focus on our customers value potential using a value-based segmentation approach to capture the industry s potential. We started the rollout of this new model in our Mexico, Central America, Colombia and Brazil operations in 2009. As of the end of 2014, we have covered the totality of the volumes in every operation except for Venezuela (where we have partially covered the volumes) and the recently integrated franchises of Companhia Fluminense and Spaipa in Brazil.

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We believe that the implementation of these strategies described above also enables us to respond to competitive initiatives with channel-specific responses as opposed to market-wide responses. In addition, it allows us to be more efficient in the way we go to market and invest our marketing resources in those segments that could provide a higher return. Our marketing, segmentation and distribution activities are facilitated by our management information systems. We have invested significantly in creating these systems, including in hand-held computers to support the gathering of product, consumer and delivery information for most of our sales routes throughout our territories.

Product Sales and Distribution

The following table provides an overview of our distribution centers and the retailers to which we sell our products:

	As of December 31, 2014		
	Mexico and Central America(1)	South America(2)	Venezuela
Distribution centers	176	66	33
Retailers(3)	955,383	814,864	181,605

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

(2) Includes Colombia, Brazil and Argentina.

(3) Estimated.

We continuously evaluate our distribution model in order to fit with the local dynamics of the marketplace and analyze the way we go to market, recognizing different service needs from our customers, while looking for a more efficient distribution model. As part of this strategy, we are rolling out a variety of new distribution models throughout our territories looking for improvements in our distribution network.

We use 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 our products.

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

Our distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to our fleet of trucks, we distribute our products in certain locations through electric carts and hand-trucks in order to comply with local environmental and traffic regulations. In some of our territories, we retain third parties to transport our finished products from the bottling plants to the distribution centers.

Mexico. We contract a subsidiary of FEMSA for the transportation of finished products to our distribution centers from our production facilities. **See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.** From the distribution centers, we then distribute our finished products to retailers through our own fleet of trucks.

In Mexico, we sell a majority of our beverages at small retail stores to consumers who may take the beverages for consumption at home or elsewhere. We also sell 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, we sold 33% of our total sales volume through modern distribution channels in 2014. Also in Brazil, we distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors, while we maintain control over the selling function. In designated zones in Brazil, third-party distributors purchase our products at a discount from the wholesale price and resell the products to retailers.

Territories other than Mexico and Brazil. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. In most of our territories, an important part of our total sales volume is sold through small retailers, with low supermarket penetration.

Competition

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

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

Mexico and Central America. Our principal competitors in Mexico are bottlers of *Pepsi* products, whose territories overlap but are not co-extensive with our own. We compete 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. Our main competition in the juice category in Mexico is Grupo Jumex. In the water category, *Bonafont*, a water brand owned by Grupo Danone, is our main competition. In addition, we compete with *Cadbury Schweppes* in sparkling beverages and with other national and regional brands in our 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 our Central America region, our main competitors are *Pepsi* and *Big Cola* bottlers. In Guatemala and Nicaragua, we compete with a joint venture between AmBev and The Central American Bottler Corporation. In Costa Rica, our principal competitor is Florida Bebidas S.A., subsidiary of Florida Ice and Farm Co. In Panama, our main competitor is Cervecería Nacional, S.A. We also face competition from B brands offering multiple serving size presentations in some Central American countries.

South America (excluding Venezuela). Our 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. We also compete 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, we compete against AmBev, a Brazilian company with a portfolio of brands that includes *Pepsi*, local brands with flavors such as guaraná, and proprietary beer brands. We also compete against B brands or Tubainas, which are small, local producers of low-cost flavored sparkling beverages that represent a significant portion of the sparkling beverage market.

In Argentina, our main competitor is Buenos Aires Embotellador S.A. (BAESA), a Pepsi bottler, which is owned by Argentina s principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In addition, we compete 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, our 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. We also compete with the producers of *Big Cola* in part of this country.

Raw Materials

Pursuant to our bottler agreements, we are authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and we are required to purchase in all of our 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 *Coca-Cola* trademark beverages are determined as a percentage of the weighted average retail price in local currency net of applicable taxes. Although The Coca-Cola Company has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with The Coca-Cola Company.

In the past, The Coca-Cola Company has increased concentrate prices for *Coca-Cola* trademark beverages in some of the countries in which we operate. In 2014, the Coca-Cola Company informed us that it will gradually increase concentrate prices for certain *Coca-Cola* trademark beverages over a five year period in Costa Rica and Panama beginning in 2014. Based on our estimates, we currently do not expect this increase will have a material adverse effect in our results of operation. Most recently, it also informed us that it will gradually increase concentrate prices for flavored water over a four year period in Mexico beginning in April 2015. The Coca-Cola Company may unilaterally increase concentrate prices again in the future and we may not be successful in negotiating or implementing measures to mitigate the negative effect this may have in the prices of our products or our results. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders Cooperation Framework with The Coca-Cola Company.**

In addition to concentrate, we purchase 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 our beverages. Our bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company, including affiliates of FEMSA. Prices for packaging materials and HFCS historically have been determined with reference to the U.S. dollar, although the local currency equivalent in a particular country is subject to price volatility in accordance with changes in exchange rates. Our most significant packaging raw material costs arise from the purchase of resin, plastic preforms to make plastic bottles and finished plastic bottles, which we obtain from international and local producers. The prices of these materials are related to crude oil prices and global resin supply. In recent years we have experienced volatility in the prices we pay for these materials. Across our territories, our average price for resin in U.S. dollars decreased 4.6% in 2014 as compared to 2013.

Under our agreements with The Coca-Cola Company, we may use raw or refined sugar or HFCS as sweeteners in our products. Sugar prices in all of the countries in which we operate, other than Brazil, are subject to local regulations and other barriers to market entry that cause us to pay in excess of international market prices for sugar in certain countries. In recent years, international sugar prices experienced significant volatility. Across our territories, our average price for sugar in U.S. dollars decreased approximately 1.7% in 2014 as compared to 2013.

We categorize water as a raw material in our business. We obtain water for the production of some of our natural spring water products, such as *Manantial* in Colombia and *Crystal* in Brazil, from spring water pursuant to concessions granted. None of the materials or supplies that we use is presently in short supply, although the supply of specific materials could be adversely affected by strikes, weather conditions, governmental controls, national emergency situations, water shortages or the failure to maintain our existing water concessions.

Mexico and Central America. In Mexico, we purchase our returnable plastic bottles from Graham Packaging México, S.A. de C.V., known as Graham, which is the exclusive supplier of returnable plastic bottles for The Coca-Cola Company and its bottlers in Mexico. We mainly purchase 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 us.

We purchase all our cans from Fábricas de Monterrey, S.A. de C.V., or FAMOSA, and Envases Universales de México, S.A.P.I. de C.V., through Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of *Coca-Cola* bottlers, in which, as of April 10, 2015, we held a 35.0% equity interest. We mainly purchase our 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., or Glass & Silice.

We purchase sugar from, among other suppliers, PIASA and Beta San Miguel, S.A. de C.V., both sugar cane producers in which, as of April 10, 2015, we held an approximate 36.3% and 2.7% equity interest, respectively. We purchase HFCS from Ingredion México, S.A. de C.V., Almidones Mexicanos, S.A. de C.V., known as Almex and Cargill de México, S.A. de C.V.

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Sugar prices in Mexico are subject to local regulations and other barriers to market entry that cause us to pay higher prices than those paid in the international market. As a result, prices in Mexico have no correlation to international market prices. In 2014, sugar prices in Mexico decreased approximately 7.0% as compared to 2013.

In Central America, the majority of our raw materials such as glass and plastic bottles are purchased from several local suppliers. We purchase all of our cans from PROMESA. Sugar is available from suppliers that represent several local producers. In Costa Rica, we acquire plastic non-returnable bottles from Alpla C.R. S.A., and in Nicaragua we acquire such plastic bottles from Alpla Nicaragua, S.A.

South America (excluding Venezuela). In Colombia, we use sugar as a sweetener in most of our products, which we buy from several domestic sources. We purchase plastic bottles from Amcor Rigid Plastics de Colombia, S.A. and Tapón Corona de Colombia S.A. We have historically purchased all our glass bottles from Peldar O-I; however, we have engaged new suppliers and have recently acquired glass bottles from Al Tajir and Frigoglass in both cases from the United Arab Emirates. We purchase all our cans from Crown Colombiana, S.A., which are only available through this local supplier. Grupo Ardila Lulle, owners of our competitor Postobón, own a minority equity interest in Peldar O-I and Crown Colombiana, S.A.

Sugar is available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil decreased approximately 4.1% as compared to 2013. **See Item 11. Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk.** We purchase glass bottles, plastic bottles and cans from several domestic and international suppliers.

In Argentina, we mainly use HFCS that we purchase from several different local suppliers as a sweetener in our products. We purchase glass bottles, plastic cases and other raw materials from several domestic sources. We purchase plastic preforms, as well as returnable plastic bottles, at competitive prices from Andina Empaques S.A., a local subsidiary of Embotelladora Andina, S.A., a Coca-Cola bottler with operations in Chile, Argentina, Brazil and Paraguay, and other local suppliers. We also acquire plastic preforms from Alpla Avellaneda, S.A. and other suppliers.

Venezuela. In Venezuela, we use sugar as a sweetener in most of our products, which we purchase mainly from the local market. Since 2003, from time to time, we have 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, we did not experience any disruptions during 2014 with respect to access to sufficient sugar supply. However, we cannot assure you that we will not experience disruptions in our ability to meet our sugar requirements in the future should the Venezuelan government impose restrictive measures. We buy glass bottles from one local supplier, Productos de Vidrio, S.A., the only supplier authorized by The Coca-Cola Company. We acquire most of our plastic non-returnable bottles from Alpla de Venezuela, S.A. and most of our aluminum cans from a local producer, Dominguez Continental, C.A.

Under current regulations promulgated by the Venezuelan authorities, our ability and that of our suppliers to import some of the raw materials and other supplies used in our 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.

Regulation

We are subject to different regulations in each of the territories in which we operate. The adoption of new laws or regulations in the countries in which we operate may increase our operating costs, our liabilities or impose restrictions on our operations which, in turn, may adversely affect our financial condition, business and results. Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on our future results or financial condition.

Price Controls

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which we operate. Currently, there are no price controls on our products in any of the territories in which we have operations, except for those in Argentina, where authorities directly supervise five of our products sold through supermarkets as a measure to control inflation, and Venezuela, where the government has imposed price controls on certain products, including bottled water. In addition, in January 2014, the Venezuelan government passed the Fair Prices Law (*Ley Orgánica de Precios Justos*), which was amended in November 2014 mainly to increase applicable fines and penalties. This law substitutes both the Access to Goods and Services Defense Law (*Ley para la Defensa y Acceso a las Personas a los Bienes y Servicios*) and the Fair Costs and Prices Law (*Ley de Costos y Precios Justos*), which have both been repealed. The purpose of this law is to establish regulations and administrative processes to impose a limit on profits earned on the sale of goods, including our products, seeking to maintain price stability of, and equal access to, goods and services.

This law imposes an obligation to manufacturing companies to label products with the fair or maximum sales price for each product. We are currently in the process of implementing the necessary procedures and expect to be in compliance with this requirement by the imposed deadline. This 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. We cannot assure you that we will be in compliance at all times with these laws based on changes, market dynamics in these two countries and the lack of clarity of certain basic aspects of the applicable law in Venezuela. Any such changes and potential violations may have an adverse impact on our business. **See Item 3. Key Information Risk Factors *Regulatory developments may adversely affect our business*.**

Taxation of Sparkling Beverages

All the countries in which we operate, except for Panama, impose a value-added tax on the sale of sparkling beverages, with a rate of 16% in Mexico, 12% in Guatemala, 15% in Nicaragua, 16.2% 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. The state of Rio de Janeiro also charges an additional 1% as a contribution to a poverty eradication fund. In Brazil the value-added tax is grossed-up and added, along with federal sales tax, at the taxable basis. In addition, we are responsible for charging and collecting the value-added tax from each of our retailers in Brazil, based on average retail prices for each state where we operate, defined primarily through a survey conducted by the government of each state, which in 2014 represented an average taxation of approximately 9.4 % over net sales. In addition, several of the countries in which we operate impose the following excise or other taxes:

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

- Guatemala imposes an excise tax of 0.18 cents in local currency (Ps.0.3489 as of December 31, 2014) per liter of sparkling beverage.

- Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, currently assessed at 18.35 colones (Ps.0.4955 as of December 31, 2014) per 250 ml, and an excise tax currently assessed at 6.373 colones (approximately Ps.0.174 as of December 31, 2014) per 250 ml.

- Nicaragua imposes a 9.0% tax on consumption, and municipalities impose a 1.0% tax on our Nicaraguan gross income.

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

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

- Brazil assesses an average production tax of approximately 4.8% and an average sales tax of approximately 8.8% over net sales. These taxes are fixed by the federal government based on national average retail prices obtained through surveys. 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 we are responsible for charging and collecting these taxes from each of our retailers. Beginning on May 1, 2015, these federal taxes will be applied based on the price sold, as detailed in our invoices, instead of an average retail price combined with a fixed tax rate and multiplier per presentation. Based on this new calculation, we expect production tax will range between 3.2% and 4.0% and sales tax will range between 8.3% and 11.7%.

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.

Recent Tax Reforms

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 and HFCS, at the rate of Ps.1.00 per liter. Moreover, similar to other affected entities in the industry, we have filed constitutional challenges (*amparos*) against this special tax. We cannot assure you that these measures will have the desired effect or that we will prevail in our *amparos*. In addition, the tax reform in Mexico, as applicable to us, confirmed the income tax rate of 30.0%, eliminated the corporate flat tax (IETU), imposed a withholding tax at a rate of 10.0% on the payment of dividends, an income tax rate of 10.0% on capital gains from the sale of shares traded in the stock exchange by individuals that are Mexican residents and a withholding tax at a rate of 10.0% on capital gains from the sale of shares traded in the stock exchange by individuals and companies that are non-Mexican residents, limited the total compensation of income tax paid or retained on dividends paid outside of Mexico and limited the total amount that can be deducted for income tax purposes from exempt payments to employees.

On January 1, 2015, a general tax reform became effective in Colombia. This reform included the imposition of a new temporary tax on net equity through 2017 to Colombian residents and non-residents who own property in Colombia directly or indirectly through branches or permanent establishments. The relevant taxable base will be determined annually based on a formula. For net equity that exceeds 5.0 billion Colombian pesos (approximately US$2.1 million) the rate will be 1.15% in 2015, 1.00% in 2016 and 0.40% in 2017. In addition, the tax reform in Colombia imposed that the supplementary income tax at a rate of 9.0% as contributions to social programs, which was previously scheduled to decrease to 8% by 2015, will remain indefinitely. Additionally, this tax reform included the imposition of a temporary contribution to social programs at a rate of 5%, 6%, 8% and 9% for the years 2015, 2016, 2017 and 2018, respectively. Finally, this reform establishes an income tax deduction of 2% of value-added tax paid in the acquisition or import of hard assets, such as tangible and amortizable assets that are not sold or transferred in the ordinary course of business and that are used for the production of goods or services.

In Guatemala, the income tax rate for 2014 was 28.0% and it decreased for 2015 to 25.0%, as scheduled.

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

In 2013, the government of Argentina imposed a withholding tax at a rate of 10.0% 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 in Costa Rica will be subject to withholding tax at a rate of 15.0%.

Water Supply

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

In Brazil, we buy 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 Code of Mining, Decree Law No. 227/67 (*Código de Mineração*), the Mineral Water Code, Decree Law No. 7841/45 (*Código de Águas Minerais*), the National Water Resources Policy (Law No. 9433/97) and by regulations issued thereunder. The companies that exploit water are supervised by the National Department of Mineral Production (*Departamento Nacional de Produção Mineiral* DNPM) and the National Water Agency in connection with federal health agencies, as well as state and municipal authorities. In the Jundiaí, Marília, Curitiba, Maringá, Porto Real and Belo Horizonte plants, we do not exploit spring water. In the Mogi das Cruzes, Bauru and Campo Grande plants, we have all the necessary permits for the exploitation of spring water.

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In Argentina, a state water company provides water to our Alcorta plant on a limited basis; however, we believe the authorized amount meets our requirements for this plant. In our Monte Grande plant in Argentina, we pump water from our own wells, in accordance with Law No. 25.688.

In Colombia, in addition to natural spring water, we obtain water directly from our own wells and from utility companies. We are required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by Law No. 9 of 1979 and Decrees No. 2811 of 1974 and No. 3930 of 2010. In addition, on February 6, 2012, Colombia promulgated Decree No. 303, which requires us to apply for water concessions. The Ministry of Environment and Sustainable Development and Regional Autonomous Corporations supervises companies that use water as a raw material for their businesses.

In Nicaragua, the use of water is regulated by the National Water Law (*Ley General de Aguas Nacionales*), and we obtain water directly from our own wells. In Costa Rica, the use of water is regulated by the Water Law (*Ley de Aguas*). In both of these countries, we own and exploit our own water wells granted to us through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in our own plants. In Panama, we acquire water from a state water company, and the use of water is regulated by the Panama Use of Water Regulation (*Reglamento de Uso de Aguas de Panamá*).

In Venezuela, we use private wells in addition to water provided by the municipalities, and we have taken the appropriate actions, including actions to comply with water regulations, to have water supply available from these sources, regulated by the Water Law (*Ley de Aguas*).

In addition, we obtain water for the production of some of our natural spring water products, such as *Manantial* in Colombia and *Crystal* in Brazil, from spring water pursuant to concessions granted. **See Regulation Water Supply.**

We cannot assure 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 we are in material compliance with the terms of our existing water concessions and that we are in compliance with all relevant water regulations currently in place. **See Item 3. Key Information Risk Factors** ***Water shortages or any failure to maintain existing concessions could adversely affect our business.***

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. In Mexico, the principal legislation is the Federal General Law for Ecological Equilibrium and Environmental Protection (*Ley General de Equilibrio Ecológico y Protección al Ambiente*, or the Mexican Environmental Law), and the General Law for the Prevention and Integral Management of Waste (*Ley General para la Prevención y Gestión Integral de los Residuos*) which are enforced by the Ministry of the Environment and Natural Resources (*Secretaría del Medio Ambiente y Recursos Naturales,* or SEMARNAT). SEMARNAT can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to close non-complying facilities. Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to 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 minor 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. **See The Company Product Sales and Distribution.**

In addition, we are subject to the 1992 Water Law, enforced by the Mexican National Water Commission. 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 Mexican National Water Commission; in case of non-compliance with the law, penalties may be imposed, including closures. All of our bottling plants located in Mexico have met these standards. In addition, our plants in Apizaco and San Cristóbal are certified with ISO 14001. **See Description of Property, Plant and Equipment.**

In our Mexican operations, we established a partnership with The Coca-Cola Company and Alpla, our supplier of plastic bottles in Mexico, to create Industria Mexicana de Reciclaje (IMER), a PET recycling facility located in Toluca, Mexico. This facility began operations in 2005 and has a recycling capacity of approximately 25,000 metric tons per year from which 15,000 metric tons can be re-used in PET bottles for food packaging purposes. We have also continued contributing funds to a nationwide recycling company, ECOCE, or Environmentally Committed

Companies (*Ecología y Compromiso Empresarial*). In addition, our plants located in Toluca, Reyes, Cuautitlán, Apizaco, San Cristobal, Morelia, Ixtacomitan, Coatepec, Poza Rica, Pacífico, Ojuelos and Cuernavaca have received or are in the process of receiving a Certificate of Clean Industry (*Certificado de Industria Limpia*).

As part of our environmental protection and sustainability strategies, in December 2009, we, jointly with strategic partners, entered into a wind energy supply agreement with a Mexican subsidiary of the Spanish wind farm developer, GAMESA Energía, S.A., or GAMESA, to supply green energy to our bottling facility in Toluca, Mexico, owned by our subsidiary, Propimex, S. de R.L. de C.V., or Propimex, and to some of our suppliers of PET bottles. In 2010, GAMESA sold its interest in its Mexican subsidiary that owned the wind farm, to Iberdrola Renovables México, S.A. de C.V. The wind farm, which is located in La Ventosa, Oaxaca, generates approximately 100,000 megawatt hours annually. During 2013 and 2014, this wind farm provided us with approximately 81,000 and 90,000 megawatt hours, respectively.

Additionally, we have entered into 20-year wind power supply agreements with two suppliers to receive clean energy for use at our production and distribution facilities throughout Mexico: (a) Energía Eólica del Sur, S.A.P.I. de C.V. (formerly known as Mareña Renovables Wind Power Farm) with a 396,000 megawatt installed capacity wind farm in Oaxaca, Mexico, which is expected to begin operations in 2017; and (b) Enel Green Power with a 100,000 megawatt installed capacity wind farm in San Luis Potosi, Mexico, which is expected to begin operations in the first quarter of 2017. In 2014, five of our manufacturing plants received a total of 30,000 gigawatt from renewable energy sources such as biomass and bagasse cogeneration from the PIASA Tres Valles sugar mill.

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

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

Our Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the Organic Environmental Law (*Ley Orgánica del Ambiente*), the Substance, Material and Dangerous Waste Law (*Ley Sobre Sustancias, Materiales y Desechos Peligrosos*), the Criminal Environmental Law (*Ley Penal del Ambiente*) and the Water Law (*Ley de Aguas*). Since the enactment of the Organic Environmental Law in 1995, our Venezuelan subsidiary has presented the corresponding authorities plans to have our production facilities and distribution centers comply with applicable laws, which mainly consist of building or expanding the capacity of water treatment plants in our bottling facilities. We currently have water treatment plants in our bottling facilities located in the cities of Barcelona, Valencia and in our Antimano bottling plant in Caracas, and we are concluding the construction and expansion of our current water treatment plant in our bottling facility in Maracaibo, which we expect to commence to operate in the fourth quarter of 2015. In addition, in December 2010, the Venezuelan government approved the Comprehensive Waste Management Law (*Ley Integral de Gestión de la Basura*), which regulates solid waste management and which may be applicable to manufacturers of products for mass consumption. We are currently waiting for the regulations of this law to be issued by the Venezuelan government, which will establish its full scope.

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

Our production plant located in Jundiaí has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by the law. The plant of Jundiaí has been certified for GAO-Q and GAO-E. In addition, the plants of Jundiaí, Mogi das Cruzes, Campo Grande, Marília, Maringá, Curitiba and Bauru have been certified for (i) ISO 9001: 2008; (ii) ISO 14001: 2004 and; (iii) norm OHSAS 18001: 2007. In 2012, the Jundiaí, Campo Grande, Bauru, Marília, Curitiba, Maringá, Porto Real and Mogi das Cruzes plants were certified in standard FSSC22000.

In May 2008, a municipal regulation of the City of São Paulo, implemented pursuant to Law 13.316/2002, came into effect requiring us to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the City of São Paulo. Beginning in May 2011, we were required to collect for recycling 90% of PET bottles sold. Currently, we are not able to collect the entire required volume of PET bottles we sell in the City of São Paulo for recycling. Since we do 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, we could be fined and be subject to other sanctions, such as the suspension of operations in any of our plants and/or distribution centers located in the City of São Paulo. In May 2008, when the law came into effect, we and other bottlers in the City of São Paulo, through the Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR (*Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas*), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In addition, in November 2009, in response to a municipal authority request for us to demonstrate the destination of the PET bottles sold in São Paulo, we filed a motion presenting all of our recycling programs and requesting a more practical timeline to comply with the requirements of the law. In October 2010, the municipal authority of São Paulo levied a fine on our Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps.1.4 million as of December 31, 2014) on the grounds that the report submitted by our Brazilian operating subsidiary did not comply with the 75% proper disposal requirement for the period from May 2008 to May 2010. We filed an appeal against this fine, which was denied by the municipal authority in May 2013. This resolution is final and non-appealable and, therefore, the administrative stage is closed. In July 2012, the State Appellate Court of São Paulo rendered a decision admitting an interlocutory appeal filed on behalf of ABIR suspending the fines and other sanctions to ABIR s associated companies, including our Brazilian subsidiary, for alleged noncompliance with the recycling municipal regulation up to the final resolution of the lawsuit. We are currently awaiting final resolution of the lawsuit filed on behalf of ABIR. We cannot assure you that these measures will have the desired effect or that we will prevail in our judicial challenge.

In August 2010, Law No. 12.305/2010 established the Brazilian National Solid Waste Policy. This policy is based on the principle of shared responsibility between the government, companies and the public, and provides for the post-consumption return of products to companies and requires public authorities to implement waste management programs. This law is regulated by Federal Decree No. 7.404/2010, and was published in December 2010. In response to the Brazilian National Solid Waste Policy, in December 2012, a proposal was provided to the Ministry of the Environment by almost 30 associations involved in the packaging sector, including ABIR in its capacity as representative for The Coca-Cola Company, our Brazilian subsidiary and other bottlers. The agreement proposed creating a coalition to implement systems for reverse logistics packaging non-dangerous waste that make up the dry fraction of municipal solid waste or equivalent. The goal of the proposal is to create methodologies for sustainable development, and improve the management of solid waste by increasing recycling rates and decreasing incorrect disposal in order to protect the environment, society and the economy. We are currently awaiting a final resolution from the Ministry of Environment, which we expect to receive during 2015.

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

For all of our plant operations, we employ the following environmental management system Environmental Administration System, or EKOSYSTEM (*Sistema de Administración Ambiental*) that is contained within the Integral Quality System or SICKOF (*Sistema Integral de Calidad*).

We have spent, and may be required to spend 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 our results or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly stringent in our territories, and there is increased recognition by local authorities of the need for higher environmental standards in the countries where we operate, changes in current regulations may result in an increase in costs, which may have an adverse effect on our future results or financial condition. We are not aware of any significant pending regulatory changes that would require a significant amount of additional remedial capital expenditures.

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

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Other Regulations

In December 2009, the Venezuelan government issued a decree requiring a reduction in energy consumption by at least 20.0% for industrial companies whose consumption is greater than two megawatts per hour and to submit an energy-usage reduction plan. Since some of our bottling operations in Venezuela outside of Caracas met this threshold, we submitted a plan, which included the purchase of generators for our plants. We have installed electrical generators in our Antimano, Barcelona, Maracaibo and Valencia bottling facilities to mitigate any such risks and filed the respective energy-usage reduction plans with the authorities. In addition, since January 2010, the Venezuelan government has implemented power cuts and other measures for all industries in Caracas whose consumption is above 35 kilowatts per hour and continues to do so.

In August 2010, the Mexican government approved a decree which regulated the sale of food and beverages by elementary and middle schools. In May 2014, the decree was replaced by a new decree that establishes mandatory guidelines applicable to the entire national education system (from elementary school through college). According to the decree, the sale of specific sparkling beverages and still beverages that contain sugar or HFCS by schools is prohibited. Schools are still allowed to sell water and certain still beverages, such as juices and juice-based beverages, that comply with the guidelines established in such decree. We cannot assure you that the Mexican government will not further restrict sales of other of our products by such schools. These restrictions and any further restrictions could have an adverse impact on our results of operations.

In January 2012, the Costa Rican government approved a decree which regulates the sale of food and beverages in public schools. The decree came into effect in 2012. According to the decree, the sale of specific sparkling beverages and still beverages that contain sugar, syrup or HFCS in any type of presentation in schools is prohibited. We are still allowed to sell water and certain still beverages in schools. In December 2014, the Costa Rican government announced that it will be stricter in the enforcement of this decree. Although we are in compliance with this law, we cannot assure you that the Costa Rican government will not further restrict sales of other of our products in schools in the future; these restrictions and any further restrictions could have an adverse impact on our results of operations.

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

In November 2014, the Venezuelan government amended the Foreign Investment Law. As part of the amendments made, the law now provides that at least 75% of the value of foreign investment must be comprised of assets located in Venezuela, which may include equipment, supplies or other goods or tangible assets required at the early stages of operations. By the end of the first fiscal year after commencement of operations in Venezuela, investors will be authorized to repatriate up to 80% of the profits derived from their investment. Any profits not otherwise repatriated in a fiscal year, may be accumulated and be repatriated the following fiscal year, together with profits generated during such year. In the event of liquidation, a company may repatriate up to 85% of the value of the foreign investment. Currently, the scope of this law is not entirely clear with respect to the liquidation process.

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 our products from our 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. We are currently in compliance with this law as we follow all these requirements.

In June 2014, the Brazilian government issued Law No. 12,997 (Law of Motorcycle Drivers), which imposes a risk premium of 30% of the base salary payable to all employees who drive motorcycles in their job. This risk premium became enforceable in October 2014, when the related rules and regulations were issued by the Ministry of Labor and Employment. We believe that these rules and regulations were unduly issued by such Ministry since it did not comply with all the essential requirements established in Law No. 12,997. In November 2014, we, in conjunction with other bottlers of the Coca-Cola system in Brazil and through the ABIR, filed an action against the Ministry of Labor and Employment to suspend the effects of such law. ABIR s associated companies, including our Brazilian subsidiary, were issued a preliminary injunction suspending the effects of the law and exempting us from paying the risk premium. We cannot assure you that the Brazilian government will not appeal the injunction with the competent courts in Brazil in order to restore the effects of Law No. 12,997.

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In June 2013, following a comprehensive amendment to the Mexican Constitution, a new antitrust authority with autonomy was created: the Federal Antitrust Commission (*Comisión Federal de Competencia Económica*, or COFECE). As a result of these amendments, new antitrust and telecommunications specialized courts were created and commenced hearing cases in August 2013. In July 2014, a new federal antitrust law came into effect based on the amended constitutional provisions. As part of these amendments, two new relative monopolistic practices were included: reductions in margins between prices to access essential raw materials and end-user prices of such raw materials and limitation or restriction on access to essential raw materials or supplies. Furthermore, the ability to close a merger or acquisition without antitrust clearance from the COFECE was eliminated. The regular waiting period for authorization has been extended to 60 business days. 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 or our inorganic growth plans.

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

Bottler Agreements

Coca-Cola Bottler Agreements

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers. Pursuant to our bottler agreements, we are authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and we are required to purchase in all of our 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.

These bottler agreements also provide that we will purchase our 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 *Coca-Cola* trademark beverages are determined as a percentage of the weighted average retail price in local currency, net of applicable taxes. Although the price multipliers used to calculate the cost of concentrate and the currency of payment, among other terms, are set by The Coca-Cola Company at its sole discretion, we set the price of products sold to customers at our discretion, subject to the applicability of price restraints imposed by authorities in certain territories. We have the exclusive right to distribute *Coca-Cola* trademark beverages for sale in our territories in authorized containers of the nature prescribed by the bottler agreements and currently used by our company. 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 us 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 our exclusive right to distribute *Coca-Cola* trademark beverages in our territories, The Coca-Cola Company reserves the right to import and export *Coca-Cola* trademark beverages to and from each of our territories. Our bottler agreements do not contain restrictions on The Coca-Cola Company s ability to set the price of concentrates charged to our subsidiaries and do not impose minimum marketing obligations on The Coca-Cola Company. The prices at which we purchase concentrate under the bottler agreements may vary materially from the prices we have historically paid. However, under our bylaws and the shareholders agreement among The Coca-Cola Company and certain of its subsidiaries and FEMSA, 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 us with limited protection against The Coca-Cola Company s ability to raise concentrate prices to the extent that such increase is deemed detrimental to us pursuant to such shareholder agreement and our bylaws. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.**

The Coca-Cola Company has the ability, at its sole discretion, to reformulate any of the *Coca-Cola* trademark beverages and to discontinue any of the *Coca-Cola* trademark beverages, subject to certain limitations, so long as all *Coca-Cola* trademark beverages are not discontinued. The Coca-Cola Company may also introduce new beverages in our territories in which case we have a right of first refusal with respect to the manufacturing, packaging, distribution and sale of such new beverages subject to the same obligations as then exist with respect to the *Coca-Cola* trademark beverages under the bottler agreements. The bottler agreements prohibit us from producing, bottling or handling beverages other than *Coca-Cola* trademark beverages, or other products or packages that would imitate, infringe upon, or cause confusion with the products, trade dress, containers or trademarks of The Coca-Cola Company, except under the authority of, or with the consent of, The Coca-Cola Company. The bottler agreements also prohibit us from acquiring or holding an interest in a party that engages in such restricted activities. The bottler agreements impose restrictions concerning the use

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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, we are 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 our bottler agreements and in sufficient quantities to satisfy fully the demand in our 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 us and our subsidiaries of our obligations to The Coca-Cola Company; and
- submit annually to The Coca-Cola Company our marketing, management, promotional and advertising plans for the ensuing year.

The Coca-Cola Company contributed a significant portion of our total marketing expenses in our territories during 2014 and has reiterated its intention to continue providing such support as part of our cooperation framework. Although we believe that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement** and **Item 7. Major Shareholders and Related Party Transactions Major Shareholders Cooperation Framework with The Coca-Cola Company.**

We have separate bottler agreements with The Coca-Cola Company for each of the territories in which we operate, 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, 2014, we had:

- nine bottler agreements in Mexico: (i) the agreements for the Valley of Mexico, which are up for renewal in April 2016 and June 2023, (ii) the agreements for the Central territory, which are up for renewal in May 2015 (three agreements) and July 2016, (iii) the agreement for the Northeast territory, which is up for renewal in May 2015, (iv) the agreement for the Bajio territory, which is up for renewal in May 2015, and (v) the agreement for the Southeast territory, which is up for renewal in June 2023;
- four bottler agreements in Brazil, which are up for renewal in October 2017 (two agreements) and April 2024 (two agreements).
- one bottler agreement in each of Argentina, which is up for renewal in September 2024, Colombia, which is up for renewal in June 2024; Venezuela, which is up for renewal in August 2016; Guatemala, which is up for renewal in March 2025; Costa Rica, which is up for renewal in September 2017; Nicaragua, which is up for renewal in May 2016 and Panama, which is up for renewal in November 2024.

The bottler agreements are subject to termination by The Coca-Cola Company in the event of default by us. The default provisions include limitations on the change in ownership or control of our company 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 our company independently of other rights set forth in the shareholders agreement. These provisions may prevent changes in our principal shareholders, including mergers or acquisitions involving sales or dispositions of our capital stock, which will involve an effective change of control, without the consent of The Coca-Cola Company. **See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.**

We have also entered into tradename license agreements with The Coca-Cola Company pursuant to which we are authorized to use certain trademark names of The Coca-Cola Company with our corporate name. These agreements have a ten-year term and are automatically renewed for ten-year terms, but are terminated if we cease 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 we use its trademark names in a manner not authorized by the bottler agreements.

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DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

Over the past several years, we made significant capital investments to modernize our facilities and improve operating efficiency and productivity, including:

- increasing the annual capacity of our bottling plants by installing new production lines;
- installing clarification facilities to process different types of sweeteners;
- installing plastic bottle-blowing equipment;
- modifying equipment to increase flexibility to produce different presentations, including faster sanitation and changeover times on production lines; and
- closing obsolete production facilities.

In 2013, we began the construction of a production plant in Tocancipá, Colombia, which was completed and began operations in February 2015. This project required an investment of 382 billion Colombian pesos (approximately US$194 million). We expect the plant will generate approximately 800 direct and indirect jobs. Certain permits are currently in process of being obtained, and we expect to obtain these pending permits during 2015. We are currently operating with water provided by the municipality, as an alternative source. The plant is located on a parcel of land 298,000 square meters in size, and it is expected that by the end of 2015, the annual production capacity will be approximately 730 million liters of sparkling beverages (or approximately 130 million unit cases), representing an increase of approximately 24% as compared to the current installed capacity of our plants in Colombia.

In 2012, we began the construction of a production plant in Minas Gerais, Brazil, which was completed and began operations in November 2014. This project required an investment of 584 million Brazilian reais (equivalent to approximately US$260 million). We expect the plant will generate approximately 700 direct and indirect jobs. The plant is located on a parcel of land 320,000 square meters in size, and it is expected that by the end of 2015 the annual production capacity will be approximately 1.2 billion liters of sparkling beverages (or approximately 200 million unit cases), representing an increase of approximately 62% as compared to the current installed capacity of our plant in Belo Horizonte, Brazil.

See **Item 5. Operating and Financial Review and Prospects Capital Expenditures.**

As of December 31, 2014, we owned 45 bottling plants company-wide. By country, as of such date, we had seventeen bottling facilities in Mexico, five in Central America, seven in Colombia, four in Venezuela, ten in Brazil and two in Argentina.

As of December 31, 2014, we operated 275 distribution centers, approximately 52% of which were in our Mexican territories. As of such date, we owned more than 85% of these distribution centers and leased the remainder. **See The Company Product Sales and Distribution.**

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 2014, 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. and ACE Seguros, S.A.; 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.

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The table below summarizes by country principal use, installed capacity and percentage utilization of our production facilities:

Bottling Facility Summary

As of December 31, 2014

Country	Installed Capacity (thousands of unit cases)	Utilization[1] (%)
Mexico	2,939,936	58%
Guatemala	45,500	69%
Nicaragua	67,700	68%
Costa Rica	81,200	56%
Panama	56,700	57%
Colombia	532,616	56%
Venezuela	275,542	86%
Brazil	1,044,932	67%
Argentina	340,397	65%

(1) Annualized rate.

The table below summarizes by country plant location and facility area of our production facilities:

Bottling Facility by Location

As of December 31, 2014

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	San Cristóbal de las Casas, Chiapas	45
	Cuautitlán, Estado de México	35
	Los Reyes la Paz, Estado de México	50
	Toluca, Estado de México	317
	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
	Cayaco, Acapulco	104
Guatemala	Guatemala City	46
Nicaragua	Managua	54
Costa Rica	Calle Blancos, San José	52
	Coronado, San José	14

Panama	Panama City	29
Colombia	Barranquilla	37
	Bogotá, DC	105
	Bucaramanga	26
	Cali	76
	Manantial, Cundinamarca	67
	Tocancipá	298
	Medellín	47
Venezuela	Antímano	15
	Barcelona	141
	Maracaibo	68
	Valencia	100
Brazil	Campo Grande	36
	Jundiaí	191
	Mogi das Cruzes	119
	Belo Horizonte	73
	Porto Real	108
	Maringá	160
	Marilia	159
	Curitiba	119
	Baurú	39
	Itabirito	320
Argentina	Alcorta, Buenos Aires	73
	Monte Grande, Buenos Aires	32

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SIGNIFICANT SUBSIDIARIES

The table below sets forth all of our direct and indirect significant subsidiaries and the percentage of equity of each subsidiary we owned directly or indirectly as of December 31, 2014:

Name of Company	Jurisdiction of Incorporation	Percentage Owned	Description
Propimex, S. de R.L. de C.V.	Mexico	100.0%	Manufacturer and distributor of bottled beverages.
Controladora Interamericana de Bebidas, S. de R.L. de C.V.	Mexico	100.0%	Holding company of manufacturers and distributors of beverages.
Spal Industria Brasileira de Bebidas, S.A.	Brazil	96.1%	Manufacturer and distributor of bottled beverages.
Distribuidora y Manufacturera del Valle de México, S. de R.L. de C.V.	Mexico	100.0%	Manufacturer and distributor of bottled beverages.
Servicios Refresqueros del Golfo, S. de R.L. de C.V.	Mexico	100.0%	Manufacturer and distributor of bottled beverages.

Item 4.A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

General

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

Average Price Per Unit Case. We use average price per unit case to analyze average pricing trends in the different territories in which we operate. We calculate average price per unit case by dividing net sales by total sales volume. Sales of beer in Brazil, which are not included in our sales volumes, are excluded from this calculation.

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 year ended December 31, 2014, more than 70% of our total revenues were attributable to Mexico and Brazil. In addition to Mexico and Brazil, we also conduct operations in Central America (including Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Argentina.

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.

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Recent Developments in the Venezuelan Exchange Control Regime. We have historically used the official exchange rate (currently 6.30 bolivars to US$1.00) in our Venezuelan operations. Nonetheless, since the beginning of 2014, the Venezuelan government announced a series of changes to the Venezuelan exchange control regime. In January 2014, the Venezuelan government announced an exchange rate determined by the state-run system known as SICAD. In March 2014, the Venezuelan government announced a new law that authorized an alternative method of exchanging Venezuelan bolivars to U.S. dollars known as SICAD II. In February 2015, the Venezuelan government announced that it was replacing SICAD II with a new market-based exchange rate determined by the system known as SIMADI. The SICAD determines the exchange rates based on limited periodic sales of U.S. dollars through auctions in which only entities authorized by the Venezuelan government may participate, while SIMADI determines the exchange rates based on supply and demand of U.S. dollars, in which participation does not require authorization by the Venezuelan government. The SICAD and SIMADI exchange rates in effect as of April 10, 2015, were 12.00 and 193.51 bolivars per US$1.00, respectively.

We translated our results of operations in Venezuela for the full year ended December 31, 2014 into our reporting currency, the Mexican peso, using the SICAD II exchange rate of 49.99 bolivars to US$1.00, which was the exchange rate in effect as of such date. As a result, we recognized a reduction in equity of Ps.11,836 million as of December 31, 2014 and as of such date, our foreign direct investment in Venezuela was Ps.4,015 million. This reduction adversely affected our financial results in the amount of Ps.1,895 million and our financial position for the year ended December 31, 2014. Based upon our specific facts and circumstances, we anticipate using the SIMADI exchange rate to translate our future results of operations in Venezuela into our reporting currency, the Mexican peso, commencing with our results for the first quarter of 2015. This translation effect will further adversely affect our results of operations and financial position.

The Venezuelan government has established that imports of certain of our raw materials into Venezuela qualify as transactions that may be settled using the official exchange rate of 6.30 bolivars per US$1.00. To the extent that imports of these raw materials continue to be so qualified, we will continue to account for these transactions using the official exchange rate. However, we will continue to monitor any changes that may affect the applicable exchange rate that we use to settle imports of our raw materials into Venezuela.

Critical Accounting Judgments and Estimates

In the application of our accounting policies, 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 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.

For a description of all of our critical accounting judgments and estimates, see note 2.3 to our consolidated financial statements.

New Accounting Pronouncements

For a description of the new IFRS and amendments to IFRS adopted during 2014, see note 2.4 to our consolidated financial statements.

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Results

The following table sets forth our consolidated income statements for the years ended December 31, 2014, 2013 and 2012.

		Year Ended December 31,		
	2014[1]	2014	2013[2]	2012[3]
	(in millions of Mexican pesos or millions of U.S. dollars, except per share data)			
Revenues:				
Net sales	US$ 9,963	Ps.146,948	Ps.155,175	Ps.146,907
Other operating revenues	24	350	836	832
Total revenues	9,987	147,298	156,011	147,739
Cost of goods sold	5,350	78,916	83,076	79,109
Gross profit	4,637	68,382	72,935	68,630
Costs and expenses:				
Administrative expenses	433	6,385	6,487	6,217
Selling expenses	2,743	40,465	44,828	40,223
Other income	68	1,001	478	545
Other expenses	79	1,159	1,101	1,497
Interest expenses	376	5,546	3,341	1,955
Interest income	26	379	654	424
Foreign exchange (loss) gain, net	(66)	(968)	(739)	272
Loss on monetary position for subsidiaries in hyperinflationary economies	22	312	393	
Market value gain on financial instruments	2	25	46	13
Income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method	1,014	14,952	17,224	19,992
Income taxes	262	3,861	5,731	6,274
Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes	(8)	(125)	289	180
Consolidated net income	744	10,966	11,782	13,898
Equity holders of the parent	715	10,542	11,543	13,333
Non-controlling interest	29	424	239	565
Consolidated net income	744	10,966	11,782	13,898
Net equity holders of the parent (U.S. dollars and Mexican pesos):				
Earnings per share[4]	0.34	5.09	5.61	6.62

(1) Translation to U.S. dollar amounts at an exchange rate of Ps.14.75 to US$1.00 solely for the convenience of the reader.

(2) Includes results of CCFPI from February 2013 using the equity method, results of Grupo Yoli from June 2013, Companhia Fluminense from September 2013 and Spaipa from November 2013. **See Item 4 Information on the Company The Company Corporate History.**

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

(4) Computed of the basis of the weighted average number of shares outstanding during the period: 2,072.92 million, 2,056.20 million and 2,015.14 million in 2014, 2013 and 2012, respectively.

Operations by Consolidated Reporting Segment

The following table sets forth certain financial information for each of our consolidated reporting segments for the years ended December 31, 2014, 2013 and 2012. See Note 25 to our consolidated financial statements for additional information about all of our consolidated reporting segments.

	Year Ended December 31,		
	2014	2013	2012
	(in millions of Mexican pesos)		
Total revenues			
Mexico and Central America[(1)]	71,965	70,679	66,141
South America (excluding Venezuela)[(2)]	66,367	53,774	54,821
Venezuela	8,966	31,558	26,777
Gross profit			
Mexico and Central America[(1)]	36,453	34,941	31,643
South America (excluding Venezuela)[(2)]	27,372	22,374	23,667
Venezuela	4,557	15,620	13,320

(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.

Results for the Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

Consolidated Results

Total Revenues. Our reported consolidated total revenues decreased 5.6% to Ps.147,298 million in 2014, as compared to 2013, mainly due to the negative translation effect resulting from the use of the SICAD II exchange rate to translate the results of our Venezuelan operations to Mexican pesos. Excluding the non-comparable effects of Companhia Fluminense and Spaipa in Brazil and Grupo Yoli in Mexico, total revenues were Ps.134,088 in 2014, a decrease of 14.1% with respect to 2013. On a currency neutral basis and excluding the non-comparable effects of Companhia Fluminense, Spaipa and Grupo Yoli in 2014, total revenues grew 24.7%, driven by average price per unit case increases in most of our territories, and volume growth in Brazil, Colombia, Venezuela and Central America.

Total sales volume increased 6.6% to 3,417.3 million unit cases in 2014, as compared to 2013. Excluding the integration of Grupo Yoli in Mexico and Companhia Fluminense and Spaipa in Brazil, volumes declined 0.7% to 3,182.8 million unit cases in 2014. This decrease was mainly due to a volume decline in our Mexican operation as a result of price increases implemented to offset the effect of the recently imposed excise tax on sweetened beverages. On the same basis, our bottled water portfolio grew 5.0%, mainly driven by the performance of the *Crystal* brand in Brazil, the *Aquarius* and *Bonaqua* brands in Argentina, the *Nevada* brand in Venezuela and the *Manantial* brand in Colombia. The still beverage category grew 1.9%, mainly driven by the performance of the *Jugos del Valle* line of business in Colombia, Venezuela and Brazil, and the *Powerade* brand across most of our territories. These increases partially compensated for the performance of our sparkling beverage category, which declined 0.9%, driven by the volume decline in our Mexican operations and a 3.5% volume decline in our bulk water business.

Consolidated average price per unit case decreased 13.2%, reaching Ps.40.92 in 2014, as compared to Ps.47.15 in 2013. This decline was driven by the negative translation effect in the results of our Venezuelan operations discussed above. In local currency, average price per unit case increased in all of our territories, except for Colombia.

Gross Profit. Our reported gross profit decreased 6.2% to Ps.68,382 million in 2014, as compared to 2013, mainly due to the negative translation effect in the results of our Venezuelan operations discussed above. In local currency, lower sweetener and PET prices in most of our operations were offset by the depreciation of the average exchange rate of the Argentine peso, the Brazilian real, the Colombian peso and the Mexican peso as applied to our U.S. dollar-denominated raw material costs. Reported gross margin reached 46.4% in 2014.

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

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues decreased 110 basis points to 31.8% in 2014 as compared to 2013. Administrative and selling expenses in absolute terms decreased 8.7%, mainly as a result of the lower contribution of our Venezuelan operations driven by the negative translation effect discussed above. In local currency, operating expenses decreased as a percentage of revenues in most of our territories, despite the continued marketing investments to support our marketplace execution and bolster our returnable packaging base across our operations, higher labor costs in Venezuela and Argentina and higher freight costs in Brazil and Venezuela.

In 2014, we reported other operating expenses of Ps.548 million. These expenses were mainly driven by (i) an operating currency fluctuation effect in Venezuela recorded during the second quarter of 2014, (ii) an operating currency fluctuation effect across our territories in the fourth quarter of 2014, (iii) restructuring charges mainly in our Mexican operations and (iv) a loss on the sale of certain fixed assets.

Comprehensive Financing Result. 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 our Venezuelan operations, as the only hyperinflationary country in which we operate. 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.

Our comprehensive financing result in 2014 recorded an expense of Ps.6,422 million as compared to an expense of Ps.3,773 million in 2013. 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. Income taxes decreased to Ps.3,861 million, from Ps.5,731 million in 2013. In 2014, income taxes, as a percentage of income before income taxes and share of the profit of associates and joint ventures accounted for using the equity method, were 25.8% as compared to 33.3% in 2013. The lower effective tax rate registered during 2014 was mainly driven by (i) a smaller contribution from our Venezuelan subsidiary (resulting from the use of the SICAD II rate for translation purposes) which carries a higher effective tax rate, (ii) the inflationary tax effects in Venezuela, and (iii) a one-time benefit related to the settlement of certain contingent tax liabilities under the tax amnesty program offered by the Brazilian tax authorities, which was registered during the third quarter of 2014.

Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes. In 2014, we reported a loss of Ps.125 million in share of the profit of associates and joint ventures accounted for using the equity method, net of taxes, mainly due to an equity method loss of CCFPI, which was partially compensated by an equity method gain from our non-carbonated joint ventures in Mexico and Brazil.

On January 25, 2013, as part of our efforts to expand our geographic reach, we acquired a 51% non-controlling majority stake in CCFPI. We currently recognize the results of CCFPI in our financial statements using the equity method. In 2014, we recognized an equity loss of Ps.334 million regarding our economic interest in CCFPI. We reported our equity method investment in CCFPI as a separate reporting segment. For further information see Notes 9 and 25 to our consolidated financial statements.

Net Controlling Interest Income (Equity holders of the parent). Our consolidated net controlling interest income decreased 8.7% to Ps.10,542 million in 2014, as compared to 2013, mainly as a result of the lower contribution of our Venezuelan operations driven by the negative translation effect discussed above. Earnings per share in 2014 were Ps.5.09 (Ps.50.86 per ADS) computed on the basis of 2,072.9 million outstanding shares (each ADS represents 10 Series L shares) as of December 31, 2014.

Results by Consolidated Reporting Segment

Mexico and Central America

Total Revenues. Reported total revenues from our Mexico and Central America division increased 1.8% to Ps.71,965 million in 2014, as compared to 2013, driven by the integration of Grupo Yoli in our Mexican operations. Excluding the non-comparable effect of Grupo Yoli in Mexico in 2014, total revenues decreased 0.5% as a result of a volume decline in Mexico related to price increases implemented to offset the effect of the recently imposed excise tax on sweetened beverages. On a currency neutral basis and excluding the non-comparable effect of Grupo Yoli in Mexico in 2014, total revenues in the division decreased 0.6%.

Total sales volume decreased 1.8% to 1,918.5 million unit cases in 2014, as compared to 2013. Excluding the non-comparable effect of Grupo Yoli in Mexico in 2014, total volume decreased 3.8%. On the same basis, a 4.6% volume contraction in Mexico was partially compensated by a 5.1% volume increase in Central America, mainly driven by growth in Nicaragua and Guatemala. Our bottled water portfolio, including bulk water, decreased 2.7%. Our sparkling beverage category and our still beverage category decreased 3.9% and 6.9%, respectively.

Total sales volume in Mexico decreased 2.4% to 1,754.9 million unit cases in 2014, as compared to 1,798.0 million unit cases in 2013. Excluding the non-comparable effect of Grupo Yoli in Mexico, total volume decreased 4.6% to 1,715.2 million unit cases. The volume contraction in our Mexican operation was driven by the price increase implemented in the country as a result of the excise tax on sweetened beverages. On the same basis, sales volume of our sparkling beverage category, our bottled water portfolio, our bulk water business and our still beverage category decreased 4.8%, 2.3%, 3.2% and 8.8%, respectively.

Total sales volume in Central America increased 5.1% to 163.6 million unit cases in 2014, as compared to 155.6 million unit cases in 2013. The sales volume in our sparkling beverage category grew 5.0%, mainly driven by the strong performance of the *Coca-Cola* brand in Guatemala and Nicaragua, which grew 8.9% and 7.1%, respectively. Sales volume in the still beverage category increased 3.9%, due to the performance of the *Powerade* brand in Guatemala and Panama and the *Hi-C* brand in Nicaragua. The bottled water business, including bulk water, grew 11.4%, mainly driven by the performance of the *Alpina* and *Dasani* brands.

Gross Profit. Our reported gross profit increased 4.3% to Ps.36,453 million in 2014, as compared to 2013. Lower sweetener and PET prices in the division were partially offset by the depreciation of the average exchange rate of most of our division s currencies as applied to our U.S. dollar-denominated raw material costs. Reported gross margin reached 50.7% in 2014, an increase of 122 basis points as compared with the previous year.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues increased 30 basis points to 33.4% in 2014, as compared with the same period in 2013. Administrative and selling expenses in absolute terms increased 2.9% as compared to 2013. Excluding the non-comparable effect of Grupo Yoli in 2014, administrative and selling expenses remained flat as compared to 2013 due to a tight expense control.

South America (excluding Venezuela)

Total Revenues. Reported total revenues were Ps.66,367 million in 2014, an increase of 23.4% as compared to 2013, mainly due to the integration of the new territories in Brazil, average price per unit case increases in local currency in Argentina and Brazil, and volume growth in Colombia and Brazil (excluding Companhia Fluminense and Spaipa). Excluding beer, which accounted for Ps.7,117.7 million during 2014, total revenues increased 17.8% as compared to 2013. Excluding the non-comparable effect of Companhia Fluminense and Spaipa in 2014, total revenues increased 1.8%.

Total sales volume in our South America division, excluding Venezuela, increased 22.3% to 1,257.7 million unit cases in 2014 as compared to 2013, as a result of growth in Brazil and Colombia, which compensated for a volume decline in Argentina. Excluding the non-comparable effect of Companhia Fluminense and Spaipa in 2014, volumes increased 3.5% as compared to 2013. On the same basis, the still beverage portfolio grew 15.5%, mainly driven by the *Jugos del Valle* line of business in Colombia and Brazil and the performance of the *Powerade* brand in Argentina and Colombia. Our bottled water portfolio, including bulk water, increased 7.7% mainly driven by the *Crystal* brand in Brazil and the *Aquarius* and *Bonaqua* brands in Argentina. The sparkling beverage portfolio increased 2.1% as compared to 2013.

Total sales volume in Colombia increased 8.2% to 298.4 million unit cases in 2014, as compared to 275.7 million unit cases in 2013. The sales volume in the sparkling beverage category grew 8.1%, mainly driven by a 7.2% increase of the *Coca-Cola* brand. Sales volume in the still beverage category increased 34.8%, mainly driven by the performance of the *Del Valle Fresh* and *FUZE tea* brands. The bottled water business, including bulk water, decreased 2.2% mainly driven by the performance of the *Brisa* brand.

Total sales volume in Argentina decreased 0.6% to 225.7 million unit cases in 2014, as compared to 227.1 million unit cases in 2013. Sales volume in the sparkling beverage category decreased 2.5%. The bottled water business, including bulk water, increased 18.3%, driven by the *Aquarius* and *Bonaqua* brands. Sales volume in the still beverage category grew 7.5%, driven by the performance of the *Powerade* brand.

Total sales volume in Brazil increased 39.7% to 733.5 million unit cases in 2014, as compared to 525.2 million unit cases in 2013. Excluding the non-comparable effect of Companhia Fluminense and Spaipa in 2014, volume grew 2.7% to 539.5 million unit cases in 2014. On the same basis, sales volume in the bottled water business, including bulk water, increased 18.7%. Sales volume in the still beverage category increased 2.7%, mainly due to the performance of the *Jugos del Valle* line of business, and our sparkling beverage category increased 1.6%.

Gross Profit. Gross profit reached Ps.27,372 million, an increase of 22.3% in 2014, as compared to 2013. In local currency, cost of goods sold increased as a result of the depreciation of the average exchange rate of the Argentine peso, the Brazilian real and the Colombian peso as applied to our U.S. dollar-denominated raw material costs, which were partially compensated by lower PET prices in Colombia and Argentina, and lower sweetener prices in Argentina and Brazil. Reported gross margin reached 41.2% in 2014.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues decreased 110 basis points to 29.3% in 2014, as compared to 2013. Administrative and selling expenses in absolute terms increased 18.9%, mainly as a result of the integration of the new franchises in Brazil. Excluding the non-comparable effect of Companhia Fluminense and Spaipa in Brazil in 2014, administrative and selling expenses remained flat as compared to 2013, despite continued marketing investments to support our marketplace execution and bolster our returnable packaging base in Brazil, higher labor costs in Argentina and higher freight costs in Brazil.

Venezuela

Total Revenues. Total revenues in Venezuela reached Ps.8,966 million in 2014, a decrease of 71.6% as compared to 2013, mainly due to the negative translation effect resulting from the use of the SICAD II exchange rate to translate the results of our Venezuelan operations to Mexican pesos. Average price per unit case was Ps.37.18 in 2014, a decrease of 73.7% as compared to 2013. On a currency neutral basis, our revenues in Venezuela increased by 100.3%.

Total sales volume increased 8.2% to 241.1 million unit cases in 2014, as compared to 222.9 million unit cases in 2013. The sales volume in the sparkling beverage category grew 8.4%, driven by the strong performance of the *Coca-Cola* brand, which grew 15.9%. The bottled water business, including bulk water, grew 1.5%. The still beverage category increased 12.0%, due to the performance of the *Del Valle Fresh* orangeade, *Powerade* and *Kapo*.

Gross Profit. Gross profit was Ps.4,557 million, a decrease of 70.8% in 2014, as compared to 2013, as a result of the negative translation effect in the results of our Venezuelan operations discussed above. In local currency, cost of goods sold increased as a result of higher sugar prices. Reported gross margin reached 50.8% in 2014, an increase of 132 basis points as compared with the previous year.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues decreased 150 basis points to 35.1% in 2014, as compared to 2013. Administrative and selling expenses in absolute terms decreased 72.7% as compared to 2013, mainly as a result of the negative translation effect in the results of our Venezuelan operations discussed above. In local currency, administrative and selling expenses growth exceeded inflation growth as a consequence of higher labor and freight costs in the country.

Results for the Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

Consolidated Results

Total Revenues. Consolidated total revenues increased 5.6% to Ps.156,011 million in 2013, as compared to 2012. Revenue growth of 6.9% in our Mexico and Central America division, including the integration of Grupo Fomento Queretano and Grupo Yoli in our Mexican operations, coupled with a 4.6% growth in our South America division (including Venezuela), including the integration of Spaipa and Companhia Fluminense in Brazil, compensated for the negative translation effect generated by the devaluation of the currencies in our 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.

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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 our Mexican operations and Spaipa and Companhia Fluminense in our 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 our territories. In addition and excluding the newly integrated territories, our bottled water portfolio grew 5.3%, driven by the performance of *Ciel, Bonaqua*, and *Brisa* brands. These increases compensated for flat volumes in our sparkling beverage category and a 2.2% decrease in our 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 our territories mainly driven by price increases implemented during the year.

Gross Profit. 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 our 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 our U.S. dollar-denominated raw material costs. Reported gross margin reached 46.7%, an increase of 20 basis points as compared to 2012.

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

Administrative and Selling Expenses. 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 our Mexican operations and Spaipa and Companhia Fluminense in our Brazilian operations. In addition, administrative and selling expenses grew as a consequence of higher labor and freight costs in our South America division and continued marketing investments to support our marketplace execution and bolster our returnable packaging base across our territories.

Comprehensive Financing Result. Our comprehensive financing result 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. Income taxes decreased to Ps.5,731 million in 2013, from Ps.6,274 million in 2012. In 2013, income 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 our Brazilian subsidiary.

Share of the profit of associates and joint ventures accounted for using the equity method, net of taxes. In 2013, we reported a gain of Ps.289 million in share of the profit of associates and joint ventures accounted for using the equity method, net of taxes mainly due to the effect of CCFPI, Jugos del Valle in Mexico and Leão Alimentos in Brazil in our equity method calculation.

In 2013, we recognized equity income of Ps.108 million regarding our economic interest in CCFPI. We reported our equity method investment in CCFPI as a separate reporting segment. For further information see Notes 9 and 25 to our consolidated financial statements.

Net Controlling Interest Income (Equity holders of the parent). Our 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 ADS) computed on the basis of 2,056.0 million shares outstanding (each ADS represents 10 Series L shares) as of December 31, 2013.

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Results by Consolidated Reporting Segment

Mexico and Central America

Total Revenues. Reported total revenues from our Mexico and Central America division increased 6.9% to Ps.70,679 million in 2013, as compared to 2012, mainly supported by the integration of Grupo Fomento Queretano and Grupo Yoli in our Mexican operations. Excluding the integration of Grupo Fomento Queretano and Grupo Yoli in Mexico, total revenues grew 1.8%. On a currency neutral basis and excluding the recently integrated territories in Mexico, total revenues in the division increased 2.3%.

Total sales volume increased 4.4% to 1,953.6 million unit cases in 2013, as compared to 2012. Excluding the integration of Grupo Fomento Queretano and Grupo Yoli, our bottled water portfolio grew 5.1%, mainly driven by the performance of the *Ciel* brand in Mexico. Our 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.

Total sales volume in Mexico increased 4.5% to 1,798.0 million unit cases in 2013, as compared to 1,720.3 million unit cases in 2012. Excluding the non-comparable effect of Grupo Fomento Queretano and Grupo Yoli, volumes declined 0.7% to 1,708.7 million unit cases. On the same basis, our bottled water portfolio grew 4.8%, mainly driven by the performance of the *Ciel* brand. Sales volume in the still beverage category increased 2.3%, due to the performance of *Powerade*, the *Jugos del Valle* line of business and *FUZE tea*. These increases partially compensated for a 0.6% decrease in our sparkling beverage category and a 3.5% decline in the bulk water business.

Total sales volume in Central America increased 2.9% to 155.6 million unit cases in 2013, as compared to 151.2 million unit cases in 2012. The sales volume in the sparkling beverage category grew 1.5%, mainly driven by the strong performance of the *Coca-Cola* brand in Guatemala and Panama, which grew 4.6% and 5.3%, respectively. Sales volume in the still beverage category increased 12.1%, due to the performance of *Del Valle Fresh*, *FUZE tea* and the Estrella Azul portfolio. The bottled water business, including bulk water, grew 8.3% mainly driven by the performance of the *Alpina* and *Dasani* brands.

Gross Profit. Our reported gross profit increased 10.4% to Ps.34,941 million in 2013, as compared to 2012. Cost of goods sold increased 3.6%, mainly as a result of lower sugar prices in the division in combination with the average appreciation of the Mexican peso as applied to our U.S. dollar-denominated raw material costs. Reported gross margin reached 49.4% in 2013, an expansion of 160 basis points as compared with the previous year.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues increased 140 basis points to 33.1% in 2013, as compared with the same period in 2012. Administrative and selling expenses increased as a result of the integration of Grupo Fomento Queretano and Grupo Yoli in Mexico and continued investments in marketing across the division. Administrative and selling expenses in absolute terms increased 11.4% as compared to 2012.

South America (excluding Venezuela)

Total Revenues. Reported total revenues were Ps.53,774 million in 2013, a decrease of 1.9% as compared to 2012. The negative translation effect resulting from the devaluation of the Argentine peso, the Brazilian real and the Colombian peso compensated for the results of the recently integrated franchises of Companhia Fluminense and Spaipa in Brazil during the second half of the year. Excluding beer, which accounted for Ps.4,093 million during 2013, and the effect of integrating Spaipa and Companhia Fluminense in our Brazilian operations, revenues decreased 2.3% to Ps.49,681 million. On a currency neutral basis and excluding the non-comparable effect of Companhia Fluminense and Spaipa in Brazil, total revenues increased 6.0%, mainly due to average price per unit case increases in Argentina and Brazil, and volume growth in Colombia and Argentina which more than compensated for the decrease in average price per unit case in Colombia.

Total sales volume in our 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, which compensated for a 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. Our 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.

Total sales volume in Colombia increased 7.8% to 275.7 million unit cases in 2013, as compared to 255.8 million unit cases in 2012. The sales volume in the sparkling beverage category grew 5.4%, mainly driven by a 7.0% volume increase of the *Coca-Cola* brand. Sales volume in the still beverage category increased 33.9%, mainly driven by *Del Valle Fresh* and *FUZE tea*. The bottled water business, including bulk water, grew 8.0% mainly driven by the *Brisa* brand.

Total sales volume in Argentina increased 4.7% to 227.1 million unit cases in 2013, as compared to 217.0 million unit cases in 2012. The sparkling beverage category grew 3.6%, mainly driven by the performance of *Coca-Cola*, *Sprite* and *Fanta*. The bottled water business, including bulk water, grew 18.4%, driven by the *Bonaqua* brand. Sales volume in the still beverage category increased 6.3%, driven by the launch of *FUZE* tea and the *Cepita* juice brand.

Total sales volume in Brazil increased 6.3% to 525.2 million unit cases in 2013, as compared to 494.2 million unit cases in 2012. Excluding the integration of Companhia Fluminense and Spaipa volumes decreased 5.9%. On the same basis sales volume in the still beverage category increased 3.8%, due to the performance of the *Jugos del Valle* line of business. The sales volume in the sparkling beverage category decreased 6.2% and the bottled water business, including bulk water, decreased 8.9%.

Gross Profit. Gross profit reached Ps.22,374 million, a decrease of 5.5% in 2013, as compared to 2012, as a result of the negative translation effect generated by the devaluation of the Argentine peso, the Brazilian real and the Colombian peso during the year. In local currency, cost of goods sold increased as a result of the depreciation of the average exchange rate of the Argentine peso, the Brazilian real and the Colombian peso as applied to our U.S. dollar-denominated raw material costs. This increase was partially compensated by lower PET prices in Brazil and lower sweetener prices in the division. Reported gross margin reached 41.6% in 2013.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues increased 160 basis points to 30.5% in 2013, as compared to 2012, mainly as a result of higher labor and freight costs in Brazil and Argentina, in combination with increased marketing investments to reinforce our execution in the marketplace, widen our cooler coverage and broaden our returnable base availability across the division, excluding Venezuela. Administrative and selling expenses in absolute terms increased 3.7% as compared to 2012.

Venezuela

Total Revenues. Total revenues in Venezuela reached Ps.31,558 million in 2013, an increase of 17.9% as compared to 2012. Average price per unit case was Ps.141.36 in 2013, an increase of 9.7% as compared to 2012, despite the devaluation of the Venezuelan bolivar. On a currency neutral basis, our revenues in Venezuela increased by 71.8%.

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*.

Gross Profit. Gross profit was Ps.15,620 million in 2013, an increase of 17.3% as compared to 2012. Cost of goods sold increased 18.4%. Lower sweetener and PET prices during the year compensated for the devaluation of the Venezuelan bolivar as applied to our U.S. dollar-denominated raw material costs. Reported gross margin decreased to 49.5% in 2013, as compared to 49.7% in 2012.

Administrative and Selling Expenses. Administrative and selling expenses as a percentage of total revenues increased 60 basis points to 36.6% in 2013, as compared to 2012, mainly as a result of higher labor costs in the country. Administrative and selling expenses in absolute terms increased 19.6% as compared to 2012.

Liquidity and Capital Resources

Liquidity. The principal source of our liquidity is cash generated from operations. A significant majority of our sales are on a cash basis with the remainder on a short-term credit basis. We have traditionally been able to rely on cash generated from operations to fund our working capital requirements and our capital expenditures. Our working capital benefits from the fact that most of our sales are made on a cash basis, while we generally pay our suppliers on credit. In recent periods, we have mainly used cash generated from operations to fund acquisitions. We have also used a combination of borrowings from Mexican and international banks and bond issuances in the Mexican and international capital markets.

Our total indebtedness was Ps.66,027 million as of December 31, 2014, as compared to Ps.60,461 million as of December 31, 2013. Short-term debt and long-term debt were Ps.1,206 million and Ps.64,821 million, respectively, as of December 31, 2014, as compared to Ps.3,586 million and Ps.56,875 million, respectively, as of December 31, 2013.

Total debt increased Ps.5,566 million in 2014, compared to year end 2013. Net debt increased Ps.7,914 million in 2014 mainly as a result of the lower cash balance that derived from the negative translation effect in the results of our Venezuelan operations discussed above. We had cash outflows in 2014 resulting from dividend payments and the prepayment of outstanding bank debt. As of December 31, 2014, our cash and cash equivalents were Ps.12,958 million, as compared to Ps.15,306 million as of December 31, 2013. As of December 31, 2014, our cash and cash equivalents were comprised of 64% U.S. dollars, 9% Mexican pesos, 11% Brazilian reais, 11% Venezuelan bolivars, 2% Argentine pesos, 2% Colombian pesos and 1% Costa Rican colones. As of March 31, 2015, our cash and cash equivalents balance, including restricted cash, was Ps.12,781 million including US$519 million denominated in U.S. dollars. We believe that these funds, in addition to the cash generated by our operations, are sufficient to meet our operating requirements.

Any further changes in the Venezuelan exchange control regime, and future currency devaluations or the imposition of exchange controls in any of the countries in which we have operations could have an adverse effect on our financial position and liquidity.

As part of our financing policy, we expect to continue to finance our liquidity needs with cash. Nonetheless, as a result of regulations in certain countries in which we operate, it may not be beneficial or, as in the case of exchange controls in Venezuela, practicable for us to remit cash generated in local operations to fund cash requirements in other countries. Exchange controls like those in Venezuela may also increase the real price of remitting cash to fund debt requirements in other countries. In the event that cash in these countries is not sufficient to fund future working capital requirements and capital expenditures, we may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In addition, our 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 we may finance our working capital and capital expenditure needs with short-term or other borrowings.

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

Sources and Uses of Cash. The following table summarizes the sources and uses of cash for the years in the periods ended December 31, 2014, 2013 and 2012, from our consolidated statements of changes in cash flows:

	Year Ended December 31,		
	2014	2013	2012
	(in millions of Mexican pesos)		
Net cash flows from operating activities	24,406	22,097	23,650
Net cash flows used in investing activities(1)	(11,137)	(49,481)	(10,989)
Net cash flows (used in) / from financing activities	(11,350)	23,506	60
Dividends paid	(6,030)	(6,002)	(5,733)

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

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Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2014:

	As of December 31, 2014 (in millions of Mexican pesos)				
	Maturity less than 1 year	Maturity 1 3 years	Maturity 4 5 years	Maturity in excess of 5 years	Total
Debt[1]					
Mexican pesos	Ps.	Ps.2,473	Ps.	Ps.9,988	Ps.12,461
U.S. dollars	30	21,625	7,322	21,903	50,880
Brazilian reais	22	136	87	72	317
Colombian pesos	492	277			769
Argentine pesos	442	400			842
Capital Leases					
Brazilian reais	220	448	61	31	760
Interest Payments on Debt[2]					
Mexican pesos	708	1,887	1,233	1,076	4,904
U.S. dollars	1,731	5,124	2,351	12,122	21,328
Brazilian reais	44	75	17	8	144
Colombian pesos	28	16			44
Argentine pesos	187	51			238
Cross Currency and Interest Rate Swaps					
Mexican pesos to U.S. dollars[3]			681		681
Brazilian reais to U.S. dollars[4]		6	2,321		2,327
Forwards					
U.S. dollars to Mexican pesos[5]	127				127
U.S. dollars to Brazilian reais[6]	71				71
U.S. dollars to Colombian pesos[7]	72				72
U.S. dollars to Argentine pesos[8]	(16)				(16)
Collar Options					
U.S. dollars to Mexican pesos[9]	35				35
U.S. dollars to Colombian pesos[10]	21				