

# Coca-Cola Femsa

ISIN CODE: MXP2861W1067

## Overall score 34/100

### Sector: Beverage Emerging Market

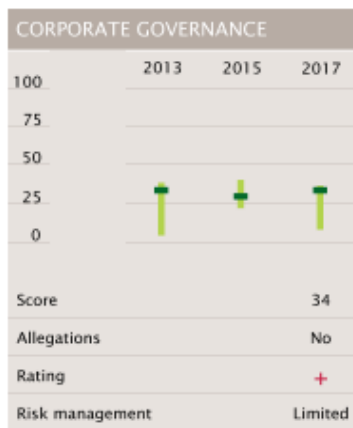
Companies in sector panel: 16

Information rate: 66% (Sector average: 48%)  
Company cooperation level: Partially responsive \*

## General information

Coca-Cola FEMSA, a franchise bottler based in Mexico, produces, markets, sells, and distributes Coca-Cola trademark beverages. In March 2017, the Company together with The Coca-Cola Company bought the Mexican, Brazilian, Colombian and Argentinian AdeS soy-based beverage business. In December 2016, the Company acquired Vonpar, a Brazilian Bottler of Coca-Cola Trademark products.

Main Economic Segment**	Turnover 2016
Sparkling Beverages	77.7 %
Water & Bulk Water	15.9 %
Still Beverages	6.4 %



■ Sector performance  
■ Company performance  
 Rating: min -- / max ++

### Key issues

Sound corporate governance is required to oversee a company's strategic direction, including the CSR strategy. Vigeo's framework has been adapted to capture the level of integration of CSR topics at Board-level, supplementing traditional signals on efficient governance practices. Directors are notably evaluated on their level of diversity and experience with operational, financial, and CSR topics (CGV1.1). The audit and internal controls system is examined regarding the efficiency and reach of its risk management (CGV2.1). Shareholders are expected to have fair voting rights and access to all relevant information on material CSR issues (CGV3.1). Executive remuneration is assessed for transparency and alignment with the interests of company's shareholders and other stakeholders (CGV4.1).

### Company performance

– Coca-Cola Femsa's performance in the Corporate Governance domain is limited in absolute terms, which is consistent with the previous review.  
 – The board of directors' diversity appears to be partial (as there are board members with experience in the Company's business areas and CSR issues), and its level of independence remains low (32%). The audit committee appears to have integrated some CSR issues into its functioning and oversight. Major shareholder voting rights restrictions have been identified. The Company continues to lack transparency regarding executive remuneration.

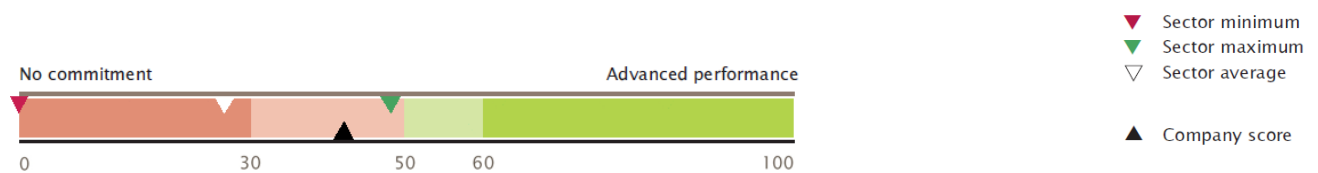
\* On a 4-level scale: proactive, responsive, partially responsive, not responsive  
 \*\* See detailed economic indicators in Selected financial data section  
 \*\*\* Based on the most recent Index at the date of publication

## Corporate Governance

Score : 34

### CGV1.1 Board of Directors

(score: 42, weight: 3)



#### [LISTED COMPANIES] Existence and independence of Nomination Committee

Information disclosed on this subject is insufficient or not relevant.

#### Independence of the Board Chairman

The roles of Chairman and CEO are separated, but the chairman is not considered independent.

#### Responsibility allocated over CSR issues

Information on the responsibilities allocated over CSR issues is insufficient.

#### Share of independent shareholder-elected Board members

*The Board is between 21 and 33% independent, which is less than the recommended level. Seven members of the 22-member Board are considered independent.*

#### Diversity of the skills and backgrounds of the Board

*The Board of Directors diversity appears to be partial:*

- Board members with demonstrated professional experience in the company's sector of activities: There are board members with experience in the beverage and consumer industries.
- Board members with demonstrated expertise on CSR issues: There are board members with experience regarding foundations, human resources, community and environmental aspects.

**Training and expertise provided to board members**

Information obtained from company and public sources regarding training provided to board members is insufficient.

**Regular election of Board members**

Board members are eligible for re-election following 1-year terms.

**Evaluation of Board's functioning and performance**

Information obtained from company and public sources regarding the evaluation of board functioning and performance is insufficient.

**Review of CSR issues at Board meeting**

Most of the relevant CSR issues for the company are discussed at Board level. The company reports to discuss its progress in sustainability strategy and risk topics in all of its board meetings. This would include the next topics:

- water
- Biodiversity
- Fundamental human rights
- Product safety

**Regularity of and attendance at Board meetings**

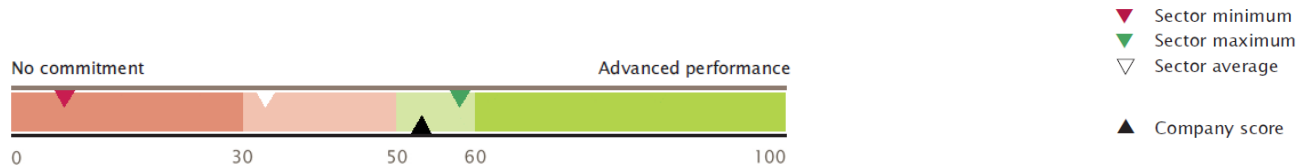
Regular meetings are held, and attendance rates are disclosed, but these are below 90%.  
Four Board meetings were held during the last fiscal (ending on December 31, 2016) year with an 80% attendance rate.

Name of Board member	Role	Executive	Non executive	Employee representative	Nomination	Audit	Remuneration	Former executive	> 9 years on Board	Stock options	Paid > 1/2 executive salary	Represent > 3% company's shares	Other	Independency
Jose Fernandez	Chairman of the board		X					X	X					
Carlos Salazar		X							X			X		
Miguel Padilla	Chief financial officer	X												
Javier Astaburuaga S			X											X
Federico Reyes			X					X	X			X		
Jhon Santa María	CEO	X												
Paulina Lagüera			X											X
Ricardo Guajardo			X					X						
Alfonso González			X			X								X
Enrique Hernández			X						X			X		
Luis Rubio			X											X
Daniel Servitje			X					X	X					
José Luis Cutrale			X					X	X					

Name of Board member	Role	Executive	Non executive	Employee representative	Nomination	Audit	Remuneration	Former executive	> 9 years on Board	Stock options	Paid > 1/2 executive salary	Represent > 3% company's shares	Other	Independence
José Reyes			X											X
Irial Finan			X						X			X		
Charles McTier			X			X		X						
Brian Smith			X											X
Bárbara Lagüera			X						X					
Herman Fleishman Cah			X					X						
José Canal	chairman of the Audit Committee		X			X			X					
Francisco Zambrano R			X			X		X	X					
Carlos Aldrete			X											X

## CGV2.1 Audit & Internal Controls

(score: 53, weight: 2)



### [LISTED COMPANIES] Existence and independence of Audit Committee

No executive is a member of the committee, but half or fewer are independent. One member of the four-member Audit Committee is considered independent.

### Skills and backgrounds of Audit Committee members

Members appear to have financial and/or audit experience and relevant operational experience.

### Operational and CSR risks covered by the company's internal controls system

The internal control system covers the standard issues related to financial, operational, and legal risks. In addition, the system covers some of the CSR risks inherent to the company's business operations.  
- Water: The internal control system covers the risk of water scarcity or failure to maintain the current water concessions.

### Role of the Audit Committee in overseeing internal and external controls

- The Audit Committee has a comprehensive role that includes:
- Oversee internal audit and internal controls
  - Review accounting policies and be responsible for updates
  - Nominate the statutory auditor
  - Oversee the work of the external auditor
  - Approve the type of audit and non-audit services provided and fees paid to the external auditor

**Management of the CSR risks** *Although the company has set up some measures, it has not gone beyond that to integrate CSR risks in its overall strategy.  
- Risk mapping: The company monitors the risk of water scarcity or failure to maintain the current water concessions.*

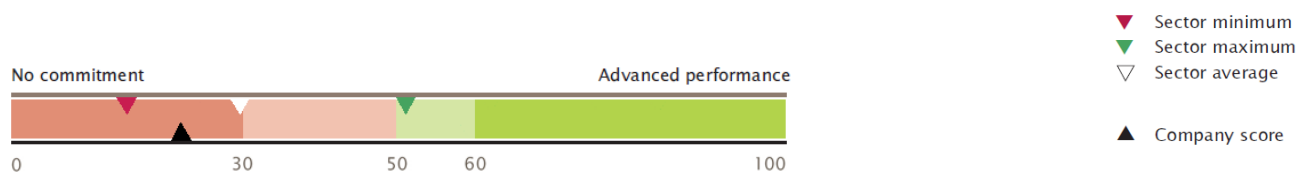
**Independence of the firm's external auditors** *The audit firm receives non-audit fees, but these represent only 25% or less of total fees.  
Non-audit fees represented 24.2% of total fees paid to Ernst & Young in 2016 (1.4 for 2015 fiscal year).*

**Inclusion of CSR issues in the company's reporting** *The company publishes significant CSR reporting on key material issues, with an independent third party assessment of the reliability of key performance indicators, with limited/moderate level of the assurance.  
The company publishes significant CSR reporting on key material issues, with an independent third party assessment of the reliability of key performance indicators, with limited level of the assurance.*

**Stakeholders' feedback** *A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral  
As of 07/2017, Coca-Cola Femsa did not appear to be involved in any controversy related to this sustainability driver*

### CGV3.1 Shareholders

(score: 22, weight: 2)



**Nonexistence of voting rights restrictions** *Major voting rights restrictions have been identified.  
Holders of Series L shares, may elect up to three of the 21 directors and are only entitled to vote on specific matters, including certain changes to the corporate form, mergers involving the company when Coca-Cola Femsa is the merged entity or when the principal corporate purpose of the merged entity is not related to corporate purpose of the company. In addition, holders of ADSs, that are listed in New York Stock Exchange, may not be able to vote and may not receive notice of shareholder meetings in sufficient time to enable such holders to return voting instructions to the American Depositary Shares in a timely manner.*

**Safeguards on transactions with major shareholder(s)** *No safeguards appear to be in place, which might raise concerns with regard to the fairness of any such transaction.  
The company reports that Coca-Cola Company and FEMSA have substantial influence on the conduct of the company business, which may result in taking actions contrary to the interests of remaining shareholders.*

**Ability to add items to the agenda of the AGM and to convene an EGM** *No major restrictions have been identified.*

**Access to voting at General Meetings** *There are no major restrictions on shareholders' ability to vote, however there is no possibility of voting through online services.*

**Ability to vote on relevant issues in separate resolutions at AGM**

Information obtained from company and public sources, regarding which items are customarily put to a vote at the AGM, is insufficient.

**Presentation of CSR strategy to shareholders and investors**

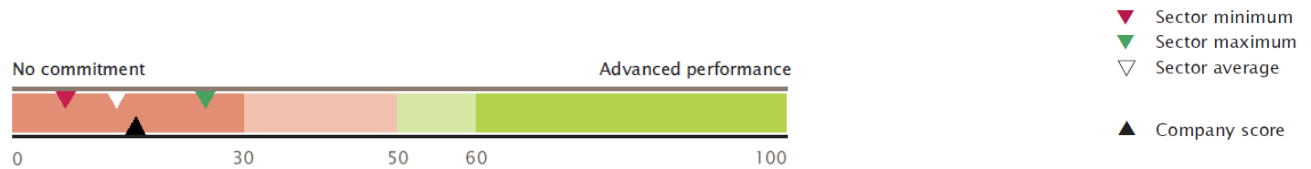
Information disclosed from the entity and public sources regarding the presentation of CSR strategy to shareholders and investors is insufficient.

**Stakeholders' feedback**

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral  
*As of 07/2017, Coca-Cola Femsa did not appear to be involved in any controversy related to this sustainability driver*

**CGV4.1 Executive Remuneration**

(score: 16, weight: 2)



**[LISTED COMPANIES] Existence and independence of Remuneration Committee**

No executive is a member of the committee, but half or fewer are independent.  
*The company has put in place " Corporate Practices Committee" that approves the CEO and relevant officers' compensation. One member of the four-member Corporate Practices Committee is considered independent. Of note, There are two board members that are not board directors.*

**Disclosure of senior executives' individual remuneration**

*Executive remuneration is disclosed, but on a collective rather than on an individual basis.*

**Link between Short Term Incentive Plans and the performance of the company**

*Bonuses are linked to predetermined and disclosed economic or operational performance indicators. However the actual quantified targets are not disclosed. The quantitative objectives represent approximately 50% of the bonus and are based on the Economic Value Added ("EVA") methodology.*

**Link between the main Long Term Incentive Plan and the performance of the company**

*Long-term incentives are linked to performance conditions, but quantified targets are not disclosed. The company has a stock incentive plan for the benefit of its executive officers based on the Economic Value Added methodology (EVA).*

**Link between variable remuneration and CSR performance of the company**

*There is no disclosure on the links between variable remuneration of executive and the CSR performance of the company. Of note, the company reports that this information is confidential but that it considers business objectives and CSR performance.*

---

**Severance pay for senior executives**

Information obtained from company and public sources regarding severance pay for senior executives is insufficient.

---

**Evolution of CEO-to-employee compensation ratio**

Information obtained from company and public sources regarding the compensation of CEO and the average employee salary is insufficient.

---

**Stakeholders' feedback**

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral  
*As of 07/2017, Coca-Cola Femsa did not appear to be involved in any controversy related to this sustainability driver*

---

## Contacts

Analyst : Guillermo Gutierrez • guillermo.gutierrez@vigeo.com  
Sector Lead: Sarah Cherrat • sarah.cherrat@vigeo.com

---

## Disclaimer

### Copyright Vigeo 2017

Reproduction of this document in whole or in part is prohibited without the express written authorization of Vigeo and is protected by the provision of the French Intellectual Property Code.

The information in this document results from the application of Vigeo's Equitics methodology and is based on sources which Vigeo believes to be reliable. However, the accuracy, completeness and up-to-dateness of this report are not guaranteed, and Vigeo shall under no circumstances be responsible for the strategy choices, management decisions and, more generally, decisions of any nature taken by the reader in reliance upon the information contained in this document.