Mexican government has not intervened to maintain the value of the Mexican peso against the U.S. dollar. The Mexican peso declined in 1998 as the foreign exchange markets experienced volatility as a result of the financial crises in Asia and Russia and the financial turmoil in countries such as Brazil and Venezuela. The Mexican peso remained relatively stable from 1999 until the fall of 2001. In late 2001 and early 2002, the Mexican peso appreciated considerably against the U.S. dollar and, more strongly, against other foreign currencies. From the second quarter of 2002 and until the end of 2003, the Mexican peso depreciated in value. In 2004 to date, the Mexican peso has appreciated in value and returned to its 2003 levels. We can make no assurance that the Mexican government will maintain its current policies with regard to the Mexican peso or that the Mexican peso will not further depreciate significantly in the future.

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. Fluctuations in the exchange rate between the Mexican peso and the U.S. dollar have affected the U.S. dollar equivalent of the Mexican peso price of our shares on the Mexican Stock Exchange and, consequently, have also affected the market price of our ADSs.



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## RISK FACTORS

### Risks Related to our Company

***Our business depends on our relationship with The Coca-Cola Company.***

Approximately 93.2% of our sales volumes in 2003 were derived from sales of *Coca-Cola* trademark beverages. We produce, market and distribute *Coca-Cola* trademark beverages through standard bottler agreements that cover all of our present territories. Through its rights under the bottler agreements and as a large shareholder, The Coca-Cola Company has the ability to exercise substantial influence over the conduct of our business. See “Item 4. Information on the Company—Bottler Agreements.” See “—The Coca-Cola Company and FEMSA have substantial influence on the conduct of our business.” Under our bottler agreements, The Coca-Cola Company may unilaterally set the price for its concentrate. Furthermore, in conjunction with The Coca-Cola Company, we prepare a three-year general business plan that is submitted to our board of directors for approval. The Coca-Cola Company may require that we demonstrate our financial ability to meet our plans and may terminate our rights to produce, market and distribute soft drinks in territories with respect to which such approval is withheld. The Coca-Cola Company also makes significant contributions to our marketing budget although they are not required to contribute a particular amount. In addition, we are prohibited from bottling any soft drink product or distributing other beverages without The Coca-Cola Company’s authority or consent. The Coca-Cola Company has the exclusive right to import and export *Coca-Cola* trademark beverages to and from our territories. We may not transfer control of the bottler rights of any of our territories without the consent of The Coca-Cola Company.

We depend on The Coca-Cola Company to renew our bottler agreements. Our bottler agreements for Mexico expire in 2005 and 2013, renewable in each case for ten-year terms. Our bottler agreements for Colombia, Brazil and Argentina expire in 2004, renewable in each case for five-year terms (except for Argentina, which is renewable for ten year terms). Our remaining territories are governed by bottler agreements that expire after 2005 that have similar renewal periods. There can be no assurances that The Coca-Cola Company will decide to renew any of these agreements. In addition, these agreements generally may be terminated in the event that we fail to comply with their terms. Non-renewal or 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, prospects and results of operations.

***The Coca-Cola Company and FEMSA have substantial influence on the conduct of our business.***

The Coca-Cola Company and Fomento Económico Mexicano, S.A. de C.V., a Mexican holding company with interests in the beverages sector and other related businesses that we refer to as FEMSA, have significant influence on the conduct of our business and together possess the ability to control our company. The Coca-Cola Company indirectly owns 39.6% of our outstanding capital stock, representing 46.4% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint four of our 18 directors and certain of our executive officers and, except under limited circumstances, has the power to veto significant decisions of our board of directors. FEMSA indirectly owns 45.7% of our outstanding capital stock, representing 53.6% of our capital stock with full voting rights. FEMSA is entitled to appoint 11 members of our board of directors and certain of our executive officers. The Coca-Cola Company and FEMSA together, or FEMSA acting alone in certain limited circumstances, thus 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, except in certain limited situations, 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, and they may cause us to take actions that are not in the interest of our remaining shareholders.

***We have significant transactions with affiliates, particularly The Coca-Cola Company and FEMSA, that create potential conflicts of interest.***

We engage in transactions with subsidiaries of both FEMSA and The Coca-Cola Company. Our transactions with FEMSA include supply agreements under which we purchase certain supplies and equipment, a service agreement under which a FEMSA subsidiary transports finished products from our production facilities to



distribution facilities in Mexico and a service agreement under which a FEMSA subsidiary provides administrative services to our company. In addition, we have entered into cooperative marketing arrangements with The Coca-Cola Company and FEMSA. We are a party to a number of bottler agreements with The Coca-Cola Company and have also entered into a credit agreement with The Coca-Cola Company pursuant to which we may borrow up to U.S.$250 million for working capital and other general corporate purposes. See “Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions” and “Item 4. Information on the Company—Bottler Agreements.” Transactions with affiliates may create the potential for conflicts of interest, which could result in terms less favorable to us than could be obtained from an unaffiliated third party.

***We have recently increased our leverage as a result of the Panamco acquisition.***

In connection with the acquisition of Panamco, we incurred approximately Ps.26,352 million of debt (including existing debt of Panamco). Our total indebtedness as of December 31, 2003 was Ps.29,004 million. Our debt level is now significantly higher than it has been historically. The increase in debt may reduce the amount of cash otherwise available to us to invest in our business or meet our obligations and may prevent us in the future from pursuing acquisitions and other opportunities that may present themselves to us or from obtaining additional financing or completing refinancings on terms favorable to us.

***We may not achieve expected operating efficiencies in the newly acquired territories.***

Through the acquisition of Panamco, we acquired new territories in Mexico as well as in the following countries in which we have not historically conducted operations: Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Brazil. Since the acquisition, we have undertaken a plan in the newly acquired territories to integrate our operations, to improve the utilization of assets across our territories and to implement the commercial strategies that we have historically applied in our territories in Mexico and Argentina. Conditions in these new territories are different from the conditions under which we have historically operated with less favorable consumption patterns than those experienced in Mexico and different and more challenging political and economic climates. In addition, distribution and marketing practices in our new territories differ from our historical practices. Several of these territories have a lower level of pre-sale as a percentage of total distribution than we are accustomed to having, and the product and presentation mix varies from territory to territory with customer preferences. There can be no assurance that our initiatives will reduce operating costs or maintain or improve sales in the near term or at all, which may adversely affect our sales growth and operating margins.

***Competition could affect our business.***

The beverage industry throughout Latin America is highly competitive. We face competition from other bottlers of soft drinks such as PepsiCo, Inc., which we refer to as PepsiCo, and from producers of low cost beverages or “B” brands. We also compete against beverages other than soft drinks such as water, fruit juice and sport drinks. Although competitive conditions are different in each of our territories, we compete principally in terms of price, packaging, consumer sale promotions, customer service and non-price retail incentives. 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 results of operations.

Our principal competitor in Mexico is The Pepsi Bottling Group, which we refer to as PBG. PBG is the largest Pepsi bottler worldwide and competes with *Coca-Cola* trademark beverages. We have also experienced stronger competition in Mexico from lower priced soft drinks in multi-serving presentations. In Argentina and Brazil, we compete against Companhia de Bebidas das Americas, commonly referred to as AmBev, the largest brewer in Latin America, which sells Pepsi products, in addition to a portfolio that includes local brands with flavors such as guaraná. In each of our territories we compete against bottlers of Pepsi with various other bottlers and distributors of nationally and regionally advertised soft drinks as well as complementary beverages such as water, juice and sports drinks. In certain territories, we also compete against soft drink flavors that have a strong local presence.



***A water shortage or a failure to maintain existing concessions could affect our business.***

Water is an essential component of soft drinks. We obtain water from various sources in our territories, including springs, wells, rivers and municipal water companies. In Mexico, we purchase water from municipal water companies and pump water from our own wells pursuant to concessions granted by the Mexican government. We obtain the vast majority of the water used in our soft drink production in Mexico pursuant to these concessions, which the Mexican government granted based on studies of the existing and projected groundwater supply. Our existing water concessions in Mexico may be terminated by governmental authorities under certain circumstances and their renewal depends on receiving necessary authorizations from municipal water authorities. See “Item 4. Information on the Company—Regulation—Water Supply Law.” In 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 shortage or changes in governmental regulations.

We cannot assure you that water will be available in sufficient quantities to meet our future production needs, or that our concessions and permits will not be terminated or prove sufficient to meet our water supply needs.

***Increases in the prices of raw materials may increase our cost of sales and may affect our results of operations.***

Our most significant raw materials are concentrate, which we acquire from companies designated by The Coca-Cola Company, sweeteners and packaging materials. Prices for concentrate are determined by The Coca-Cola Company pursuant to our bottler agreements as a percentage of the weighted average retail price, net of applicable taxes. The prices for our remaining raw materials are driven by market prices and local availability as well as the imposition of import duties and import restrictions and fluctuations in exchange rates. We are also required to use only 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 which we operate, while the prices of certain materials used in the bottling of our products, mainly aluminum cans and plastic bottles, 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 any country in which we operate, particularly against the Mexican peso. See “Item 4. Information on the Company—The Company—Raw Materials.”

After concentrate, packaging and sweeteners constitute the largest portion of our raw material costs. 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 Mexico, sugar prices increased approximately 8% in 2003, and our ability to substitute other sweeteners has been limited by the imposition of a 20% excise tax on carbonated soft drinks produced with non-sugar sweeteners. In Venezuela, there was a shortage of sugar during the second half of 2003 due to the inability of the main sugar importers to access foreign currencies as a result of the exchange controls implemented at the beginning of 2003.

We cannot assure you that our raw material prices will not increase in the future. Increases in the prices of raw materials will increase our cost of sales and adversely affect our results of operations.

***Taxes on soft drinks could affect our business.***

Our products are subject to excise and value-added taxes in many of the countries in which we operate. The imposition of new taxes or increases in taxes on our products may have a material adverse effect on our business, prospects, financial conditions and results of operations. Mexico recently implemented a 20% excise tax on carbonated soft drinks produced with non-sugar sweetener. Certain countries in Central America, Argentina and Brazil have also imposed taxes on our products. See “Item 4. Information on the Company—Regulation—Taxation of Soft Drinks.” We can give no assurance that any governmental authority in any country where we operate will not impose or increase any such taxes in the future.

***Regulatory developments may have an effect on 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 environment, labor, taxes and antitrust. The adoption of new laws or regulations in the



countries in which we operate may increase our operating costs or impose restrictions on our operations. In particular, environmental standards became more stringent recently in several of the countries in which we operate, and we are in the process of complying with these new standards.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which we operate. The imposition of these restrictions may have an adverse effect on our results of operations and financial position. Although Mexican bottlers have been free to set prices for carbonated soft drinks without governmental intervention since January 1996, such prices were once subject to statutory price controls and, later, to voluntary price restraints, which effectively limited our ability to increase prices in the Mexican market without governmental consent. See “Item 4. Information on the Company—Regulation—Price Controls.” We can give no assurance that governmental authorities in any country where we operate will not impose voluntary price restraints or statutory price controls.

**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 limited circumstances. They generally may elect three of our 18 directors and are only entitled to vote on specific matters, including changes in our corporate form, certain mergers involving our company and the cancellation of the registration of our shares. See “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders” and “Item 10. Additional Information—Bylaws—Voting Rights.” In addition, we can give no assurance that holders of our ADSs will receive notice of shareholders’ meetings from The Bank of New York, the depositary for our ADSs, with sufficient time to enable holders to return voting instructions to the depositary in a timely manner.

***Holders of ADSs are not entitled to attend shareholders’ meetings and they may only vote through the depositary.***

Under Mexican law, a shareholder is required to deposit its shares with a Mexican custodian in order to attend a shareholders’ meeting. A holder of ADSs will not be able to meet this requirement, and accordingly is not entitled to attend shareholders’ meetings. A holder of ADSs is entitled to instruct the ADS depositary as to how to vote the shares represented by ADSs, in accordance with procedures provided for in the deposit agreement, but a holder of ADSs will not be able to vote its shares directly at a shareholders’ meeting or to appoint a proxy to do so.

***Holders of our ADSs may not be able to participate in any future preemptive rights offerings and as a result may be subject to a dilution of their equity interests.***

Our Series L Shares are traded on the New York Stock Exchange in the form of ADSs. Under Mexican law, if we issue new shares for cash as a part of a capital increase, we must generally 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. We may not legally offer or sell shares to holders of our ADSs in the United States pursuant to any preemptive rights offering (or otherwise) unless (i) we file a registration statement with the U.S. Securities and Exchange Commission, which we refer to as the SEC, with respect to that future issuance of shares or (ii) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933. In addition, under current Mexican law, sales by the ADS depositary of preemptive rights and distribution of the proceeds from such sales to ADS holders are not possible. See “Item 10. Additional Information—Bylaws—Preemptive Rights.”

At the time of any 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 ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement. If we do not file a registration statement with the SEC, our ADS holders in the United States may not be able to participate in any preemptive rights offering and their equity interest would be diluted proportionately.



***It may be difficult to enforce civil liabilities against us or our directors, officers and controlling persons.***

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

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

Under Mexican law, the protections afforded to minority shareholders are different from those in the United States. In particular, the law concerning fiduciary duties of directors is not well developed, there is no procedure for class actions or shareholder derivative actions and there are different procedural requirements for bringing shareholder lawsuits. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholders than it would be for shareholders of a U.S. company.

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

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

We are a Mexican corporation, and our Mexican operations are our single most important geographic segment. In the past, Mexico has experienced both prolonged periods of weak economic conditions and dramatic deteriorations in economic conditions that have had a negative impact on our company. There can be no assurances that such conditions will not return or that such conditions will not have a material adverse effect on our financial condition and results of operations.

Our business may be significantly affected by the general condition of the Mexican economy, the rate of inflation and interest rates. Decreases in the growth rate of the Mexican economy, periods of negative growth, and increases in inflation or interest rates may result in lower demand for soft drink beverages, lower real pricing or a shift to lower margin products or lower margin presentations. Because a large percentage of our costs are fixed costs, we may not be able to reduce costs and expenses, and our profit margins may suffer as a result. In addition, an increase in interest rates in Mexico would increase the cost to us of variable rate, Mexican peso-denominated funding and have an adverse effect on our financial position and results of operations.

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

A depreciation of the Mexican peso relative to the U.S. dollar would increase the cost to us of a portion of our raw materials, the price of which is paid in or determined with reference to U.S. dollars and debt obligations denominated in U.S. dollars and thereby may negatively affect our net results. A severe devaluation or depreciation of the Mexican peso may also result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar indebtedness or obligations in other currencies. While the Mexican government does not currently restrict, and for many years 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. To the extent that there are currency fluctuations, they are likely to have an effect on our financial condition, results of operations and cash flows in future periods.

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

Mexican political events may also significantly affect our operations. In the Mexican national elections held on July 2, 2000, Vicente Fox of the *Partido Acción Nacional* (the National Action Party) or PAN, won the



presidency. Although his victory ended more than 70 years of presidential rule by the *Partido Revolucionario Institucional* (the Institutional Revolutionary Party) or PRI, neither the PRI nor the PAN succeeded in securing a majority in the Mexican congress. In elections in 2003, the PAN lost additional seats in the Mexican congress and state governships. The resulting legislative gridlock has impeded the progress of reforms in Mexico, which may adversely affect economic conditions in Mexico or our results of operations. During 2004, there will be elections for governors in ten of 32 states and for local congresses in 14 states.

***Developments in other Latin American countries in which we operate may affect our business.***

In addition to Mexico, we conduct operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. These countries expose us to different or greater country risk than Mexico. For many of these countries, operating results in recent years have been adversely affected by deteriorating macroeconomic and political conditions. In Venezuela and Argentina, significant economic and political instability, including a contracting economy, a drastic currency devaluation, high unemployment, the introduction of exchange controls and social unrest have resulted in higher production costs and declining net sales. In Colombia, we have experienced limited disruptions in production and distribution as a result of political instability.

Our future results may be significantly affected by the general economic and financial conditions in the countries where we operate, by the devaluation of the local currency, inflation or interest rates or by political developments or changes in law. Devaluation of the local currency against the U.S. dollar may increase the operating costs in that country, and a depreciation against the Mexican peso may negatively affect the results of that country as reported in our Mexican GAAP financial statements. In addition, some of these countries may impose exchange controls that could impact our ability to purchase raw materials in foreign currencies and the ability of the subsidiaries in these countries to remit dividends abroad or make payments other than in local currencies, as is currently the case in Venezuela under regulations imposed in January 2003. As a result of these potential risks, we may experience lower demand, lower real pricing or increases in costs, which may negatively impact our results of operations.



## Item 4. Information on the Company

### THE COMPANY

**Overview**

We are the largest *Coca-Cola* bottler in Latin America, with our territories representing approximately 40% of *Coca-Cola* sales volumes in Latin America, and the second largest bottler of *Coca-Cola* trademark beverages in the world, calculated in each case by sales volume in unit cases sold in our territories in 2003. We operate in the following territories:

- Mexico – a substantial portion of central Mexico (including Mexico City) and southeast Mexico (including the Gulf region).
- Central America – Guatemala City and surrounding areas, Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).
- Colombia – most of the country.