

## 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 of operations and financial position.***

Approximately 94% of our sales volume in 2004 was 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.

Under our bottler agreements, The Coca-Cola Company may unilaterally set the price for its concentrate. 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 expenses although it is 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 authorization 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. Two of our bottler agreements for Mexico, which together were responsible for almost half of our total sales for Mexico in 2004, expire in May 2005, and the remaining two expire in 2013, renewable in each case for ten-year terms. Our bottler agreements for Brazil expired in December 2004, and our bottler agreement for Colombia expires in April 2005. We are currently in the process of negotiating renewals of these agreements. Our remaining territories are governed by bottler agreements that expire after 2005 and 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, which may result in us taking actions contrary to the interest of our remaining shareholders.***

The Coca-Cola Company and FEMSA have significant influence on the conduct of our business. 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 all actions requiring approval by 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, which may result in us taking actions contrary to the interest of our remaining shareholders.

***We have significant transactions with affiliates, particularly The Coca-Cola Company and FEMSA, which create potential conflicts of interest and could result in less favorable terms to us.***

We engage in transactions with subsidiaries of both The Coca-Cola Company and FEMSA. 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, sales of finished products to a Mexican convenience store chain owned by FEMSA 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 US\$ 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 significantly increased our leverage as a result of the Panamco acquisition, which may adversely affect our business.***

In connection with the acquisition of Panamco, we incurred approximately Ps. 27,720 million of debt (including existing debt of Panamco). Our total indebtedness as of December 31, 2004 was Ps. 24,988 million, consisting of Ps. 21,716 million of long-term debt and Ps. 3,272 million of short-term debt. Our debt level is significantly higher than it had been prior to the acquisition. 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.

***Competition could adversely affect our financial performance.***

The beverage industry throughout Latin America is highly competitive. We face competition from other bottlers of soft drinks such as Pepsi products, 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 financial performance.

Our principal competitor in Mexico is The Pepsi Bottling Group, or PBG. PBG is the largest bottler of Pepsi products worldwide and competes with Coca-Cola trademark beverages. We have also experienced stronger competition in Mexico from lower priced soft drinks in larger, multiple serving packaging, resulting in lower average pricing. In Argentina and Brazil, we compete with Companhia de Bebidas das Américas, 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 and proprietary beers. (In September 2004, AmBev combined with Belgian brewer Interbrew N.V./S.A. to form InBev S.A., or InBev.) In each of our territories we compete with Pepsi bottlers with various other bottlers and distributors of nationally and regionally advertised soft drinks. In certain territories, we compete with producers of soft drink flavors that have a strong local presence.

***We may not be able to improve performance in the territories acquired in the Panamco acquisition.***

Through the acquisition of Panamco, we acquired 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 number of initiatives to improve profitability and reduce costs in these territories. Many of these territories are characterized by less favorable consumption patterns than those experienced in Mexico, stronger local competitors and challenging political, labor and economic climates. In addition, distribution and marketing practices in these territories differ from our historical practices. Several of these territories

have a lower level of “pre-sale” (a distribution method in which the sales and delivery functions are separated and trucks are loaded with the actual mix of products that retailers have previously ordered) as a percentage of total distribution than we were accustomed to having, and product offerings and packaging vary 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 future, which may adversely affect our sales growth and operating margins.

***A water shortage or a failure to maintain existing concessions could adversely 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 and/or federal 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 shortages 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 will not be terminated or will prove sufficient to meet our water supply needs.

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

Our most significant raw materials are concentrate, which we acquire from companies designated by The Coca-Cola Company, packaging materials and sweeteners. 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 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 which we operate, while the prices of certain materials used in the bottling of our products, mainly resin, ingots to make plastic bottles, finished plastic bottles and aluminum cans, 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. Our most significant packaging raw material costs arise from the purchase of resin and plastic ingots to make plastic bottles and from the purchase of finished plastic bottles, the prices of which are tied to crude oil prices. In Mexico, the prices that we paid for resin increased by more than 20% in U.S. dollars in 2004. 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, our sugar prices increased approximately 13% in 2004. In Venezuela, we have experienced sugar shortages that have adversely affected our operations. These shortages were due to the inability of the main sugar importers to access foreign currencies as a result of exchange controls in effect in that country.

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 sales and adversely affect our results of operations.

***Taxes on soft drinks could adversely 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,

financial condition, prospects and results of operations. In 2003, Mexico implemented a 20% excise tax on carbonated soft drinks produced with non-sugar sweetener. See “Item 8. Financial Information–Legal Proceedings.” Certain countries in Central America, Argentina and Brazil have also imposed taxes on carbonated soft drinks. See “Item 4. Information on the Company–Regulation–Taxation of Soft Drinks.” We cannot assure you that any governmental authority in any country where we operate will not impose or increase taxes on our products in the future.

***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 environment, labor, taxation 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 which, in turn, may adversely affect our financial condition, business and results of operations. 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 new standards. Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on our future results of operations or financial condition.

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 in the future 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 had been subject to statutory price controls and 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 cannot assure that governmental authorities in any country where we operate will not impose statutory price controls or voluntary price restraints in the future.

Our operations have from time to time been subject to investigations and proceedings by antitrust authorities and litigation relating to alleged anticompetitive practices. We cannot assure you that these investigations and proceedings will not have an adverse effect on our results of operations or financial condition.

***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. As a result, these holders will not be able to influence our business or operations. See “Item 7. Major Shareholders and Related Party Transactions–Major Shareholders” and “Item 10. Additional Information–Bylaws–Voting Rights.”

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

Our shares are traded on the New York Stock Exchange in the form of ADSs. We cannot assure that holders of our shares in the form of ADSs will receive notice of shareholders meetings from our ADS depository in sufficient time to enable such holders to return voting instructions to the ADS depository in a timely manner.

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

Under applicable Mexican law, if we issue new shares for cash as a part of a capital increase, 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. We may not legally 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 SEC with respect to that future issuance of shares or (2) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933. At the time of

any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, as well as the benefits of preemptive rights to holders of our shares in the form of ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

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

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

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

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

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

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

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

#### **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. For the year ended December 31, 2004, 57% of our net sales were attributable to Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our company. We cannot assume that such conditions will not return or that such conditions will not have a material adverse effect on our results of operations and financial condition.

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

would increase the cost to us of variable rate, Mexican peso-denominated funding, which constituted approximately 73% of our total debt as of December 31, 2004, 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 adversely 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 the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and thereby may negatively affect our financial position and results of operations. We generally do not hedge our exposure to the U.S. dollar with respect to the Mexican peso and other currencies. 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-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, as it has done in the past. Currency fluctuations may have an adverse effect on our financial condition, results of operations and cash flows in future periods.

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

Political events in Mexico may significantly affect our operations. In the Mexican federal 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 and 2004, the PAN lost additional seats in the Mexican congress and state governorships. The resulting legislative gridlock, which is expected to continue at least until the Mexican presidential elections in 2006, has impeded the progress of structural reforms in Mexico, which may adversely affect economic conditions in Mexico, and consequently, our results of operations.

***Developments in other Latin American countries in which we operate may adversely 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, results of operations 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 profitability for us. In Colombia and Venezuela, we have experienced limited disruptions in production and distribution.

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. Net sales increased in our non-Mexican territories at a relatively higher rate than in our Mexican territories in 2004 as compared to prior periods, resulting in a greater contribution to our results of operations from these territories, which also have a lower operating margin. This trend may continue in the future. Devaluation of the local currencies against the U.S. dollar may increase our operating costs in these countries, and depreciation against the Mexican peso may negatively affect the results of operations for these countries 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 bottler of Coca-Cola trademark beverages in Latin America, and the second largest in the world, calculated in each case by sales volume in 2004. 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 (Guatemala City and surrounding areas), Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).
- Colombia – most of the country.
- Venezuela – nationwide.
- Brazil – the area of greater São Paulo, Campinas, Santos, the state of Mato Grosso do Sul and part of the state of Goias.
- Argentina – Buenos Aires and surrounding areas.

Our company was established on October 30, 1991 as a *sociedad anónima de capital variable* (a variable capital stock corporation), organized under the laws of Mexico and has a duration of 99 years. Our principal executive offices are located at Guillermo González Camarena No. 600, Col. Centro de Ciudad Santa Fé, Delegación Álvaro Obregón, México, D.F., 01210, México. Our telephone number at this location is (52-55) 5081-5100. Our website is [www.coca-colafemsa.com](http://www.coca-colafemsa.com).

The following is an overview of our operations by segment in 2004:

**Operations by Segment—Overview**  
**Year Ended December 31, 2004<sup>(1)</sup>**

	<b>Total Revenues</b>	<b>Percentage of Total Revenues</b>	<b>Income from Operations</b>	<b>Percentage of Income from Operations</b>
Mexico	Ps. 26,658	57.3%	Ps. 5,519	72.7%
Central America	3,459	7.4	419	5.5
Colombia	4,066	8.7	433	5.7
Venezuela	4,776	10.3	375	5.0
Brazil	5,137	11.0	458	6.0
Argentina	2,451	5.3	383	5.1

(1) Expressed in millions of Mexican pesos, except for percentages. The sums of the financial data for each of our segments and percentages with respect thereto differ from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation, and certain non-operating assets and activities, including corporate services.

**Corporate History**

We are a subsidiary of FEMSA, which also owns both the second largest brewer and the largest convenience store chain in Mexico.