Buenos Aires from Complejo Industrial CAN S.A., referred to in this annual report as CICAN. In December 1996, The Coca-Cola Company sold CICAN to a group of bottlers that included Coca-Cola FEMSA de Buenos Aires. Under the terms of the shareholders' agreement among these bottlers, CICAN is managed as a joint venture. As of December 31, 2002, Coca-Cola FEMSA de Buenos Aires owned a 48.1% equity in CICAN.

We obtain water for our plant in Buenos Aires from Aguas Argentinas S.A., a private company responsible for managing the public water supply. We believe that this source provides an adequate supply of water to meet the needs for our Argentine operations. Praxair Argentina S.A. provides our requirements of carbon dioxide gas.

In Argentina, we principally use HFCS as sweetener in our products, although we may use sugar in the future. Aspartame, an artificial sweetener for diet sodas, is included in the concentrate of *Coca-Cola light* and *Sprite light*, which we purchase from The Coca-Cola Company.

The following table sets forth the average real price increase or decrease of HFCS as purchased from our suppliers over the course of each year:

Average Real Price increase (decrease) of HFCS in the Buenos Aires Territory

	2002	2001	2000	1999
Change over previous year	53.0%	8.9%	(7.4)%	(14.3)%

REGULATION

Price Controls. Prices of our products have been regulated by the Mexican government in the past. Prior to 1992, prices of carbonated soft drinks were regulated by the Mexican government. From 1992 to 1995, the industry was subject to voluntary price restraints. However, in response to the devaluation of the peso relative to the U.S. dollar in 1994 and 1995, the Mexican government adopted an economic recovery plan to control inflationary pressures in 1995. As part of this plan, the Mexican government encouraged the *Asociación Nacional de Productores de Refrescos y Aguas Carbonatadas, A.C.* (National Association of Bottlers) to engage in voluntary consultations with the Mexican government with respect to price increases for returnable presentations, limiting our ability to pass on increases in the prices of raw materials. Such voluntary consultations were terminated in 1996. We implemented strategic price increases during 2001 and 2002, and at the beginning of 2003 in the Mexican and Argentine territories.

Taxation of Soft Drinks. Taxation of soft drinks differs in Mexico and Argentina. In January 2002, the Mexican government imposed a 20% excise tax on soft drinks produced with HFCS that was suspended until September 2002. In January 1, 2003 the Mexican Government implemented a 20% excise tax on sparkling water and on carbonated soft drinks produced with non-sugar sweeteners. Moreover, soft drinks are subject to an economy-wide value-added tax of 15%. In Argentina, soft drinks are subject to an economy-wide value-added tax of 21%. Prior to 1996, cola soft drinks in Argentina were subject to an excise tax of 24%, which was lowered in April 1996 to 4.0%. From 1996 to December 31, 1999, the cola tax remained at 4%. On January 1, 2001, the Argentine government implemented a tax bill mandating that the cola tax be increased to 8% and that other flavored soft drinks and bottled water be taxed at 4%.

Water Supply Law. In Mexico, we purchase water directly from municipal water 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 *Ley de Aguas Nacionales de 1992* (the 1992 Water Law), and regulations issued thereunder, which created the *Comisión Nacional del Agua* (the National Water Commission). The National Water Commission is charged with 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 for five-, ten- or fifteen-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms

to be extended upon termination. The Mexican government is authorized to reduce the volume of ground or surface water granted for use by a concession by whatever volume of water is not used by the concessionaire for three 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 successfully negotiated with the Mexican government for the right to transfer the unneeded portion of rights 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. We believe that we are in compliance with the terms of our existing concessions.

Although we have not undertaken independent studies to confirm the sufficiency of the existing or future groundwater supply, we believe that our existing concessions satisfy our current water requirements in Mexico. We can give no assurances, however, that groundwater will be available in sufficient quantities to meet our future production needs.

We do not currently require a permit to obtain water in Argentina. Because our Alcorta plant does not use water from underground sources, no permit for water use is necessary. Instead, we obtain water for the Alcorta plant from Aguas Argentinas, a privately-owned concessionaire of the Argentine government. We can give no assurances, however, that water will be available in sufficient quantities to meet our future production needs.

Environmental Matters. Our operations in Mexico are subject to Mexican federal and state laws and regulations relating to the protection of the environment. The principal legislation is the federal *Ley General de Equilibrio Ecológico y Protección al Ambiente* (the General Law for Ecological Equilibrium and Environmental Protection, or the Environmental Law), which is enforced by the *Secretaría del Medio Ambiente, Recursos Naturales y Pesca* (the Ministry of the Environment, Natural Resources and Fisheries, or SEMARNAP). SEMARNAP 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 Environmental Law, rules have been

promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to air and water emissions and hazardous wastes and set forth standards for waste water discharge that apply to our operations. We are also subject to certain minimal restrictions on the operation of delivery trucks in Mexico City. We have implemented several programs designed to facilitate compliance with air, waste, noise, and energy standards established by current Mexican federal and state environmental laws, including a program that installs catalytic converters and liquid petroleum gas in delivery trucks for our operations in Mexico City. See "The Company—Product Distribution."

In addition, we are subject to the *Ley Federal de Derechos* (the Federal Law of Governmental Fees). Adopted in January 1993, the law provides that plants located in Mexico City that use deep water wells to supply their water requirements must pay a fee to the city for the discharge of residual waste water to drainage. In 1995, municipal authorities began to test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by SEMARNAP. All of our bottling plants located in the Valley of Mexico Territory, as well as the Toluca plant, met these new standards in 2001, and as a result, we were not subject to additional fees. See "—Description of Property—Production Facilities."

Our Argentine operations are subject to Argentine federal and provincial laws and regulations relating to the protection of the environment. The most significant of these are regulations concerning waste water discharge, which are enforced by the *Secretaría de Recursos Naturales y Ambiente Humano* (the Ministry of Natural Resources and Human Environment) and the *Secretaría de Política Ambiental* (the Ministry of Environmental Policy) for the province of Buenos Aires. Our Alcorta plant meets waste water discharge standards and is in compliance with these standards.

We have expended, and may be required to expend in the future, funds for compliance with and remediation under local environmental laws and regulations. We do not believe that such costs will have a material adverse effect on our results of operations or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly more stringent in both Mexico and Argentina as well as in the new Panamco territories, to the extent that we cannot pass on to our customers the increased costs of compliance and remediation, such costs may have a material adverse effect on our future results of operations or financial condition.

Our acquisition of Panamco will subject us to a variety of regulations and taxes in countries where we have not historically conducted operations. See “Item 4. Information on the Company—The Company—The Panamco Acquisition.”

BOTTLER AGREEMENTS

Coca-Cola Bottler Agreements

Bottler agreements are the standard contracts that The Coca-Cola Company enters into with bottlers outside the United States for the sale of concentrates for certain Coca-Cola trademark beverages. We manufacture, package, distribute, and sell soft drink beverages and bottled water in our Mexican Territories under two Mexican bottler agreements we entered into with The Coca-Cola Company. We also manufacture, package, distribute, and sell soft drink beverages and bottled water in our Buenos Aires Territory under our Buenos Aires bottler agreement.

These bottler agreements provide that we will purchase our entire requirement of concentrates for Coca-Cola trademark beverages from The Coca-Cola Company and other authorized suppliers at prices, with 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. 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 retailers at our discretion, subject to the applicability of price restraints. 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 and plastic and fountain containers. See “—The Company—Sales.”

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 Mexico and Argentina. Our bottler agreements do not contain restrictions on The Coca-Cola Company’s ability to set the price of concentrates charged to bottlers and do not impose minimum marketing obligations on The Coca-Cola Company. The prices at which we purchase concentrates under the bottler agreements may vary materially from the prices we have historically paid, including during the periods covered by our financial information attached to this annual report. Under our bylaws and the shareholders agreement, however, an adverse action by The Coca-Cola Company under any of the bottler agreements may result in a suspension of certain veto rights of the directors, referred to in this annual report as Series D Directors, appointed by The Coca-Cola Company. This provides us with limited protection against The Coca-Cola Company’s ability to raise concentrate prices. 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 that event, we will have, under the supplemental agreements discussed below, the 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 or handling cola products other than those of The Coca-Cola Company, 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, or from acquiring or holding an interest in a party that engages in such activities. The bottler agreements also prohibit us from bottling any soft drink product except under the authority of, or with the consent of, The Coca-Cola Company. The bottler agreements also impose restrictions concerning the use of certain trademarks, authorized containers, packaging, and labeling of The Coca-Cola Company so as to conform to policies prescribed by The Coca-Cola Company. In particular, we are obligated to:

- Maintain such plant and equipment, staff, and distribution facilities as are 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 for these beverages 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 include the spending of advertising and other marketing funds;
- Maintain such sound financial capacity as may be reasonably necessary to assure performance by us and our affiliates 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.

In each of the past five years, The Coca-Cola Company has contributed approximately half of our advertising and marketing budget in the Mexican Territories and, since September 1994, approximately half of such budget in the Buenos Aires Territory. Although we believe that The Coca-Cola Company intends to continue to provide funds for advertising and marketing, it is not obligated to do so under the bottler agreements. 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.”

Our two bottler agreements covering the Mexican Territories have terms of ten years and will each expire in June, 2013. The Buenos Aires bottler agreement has a term of ten years and will expire in September, 2004. The bottler agreements are automatically renewable for ten-year terms, subject to non-renewal by either party (with notice to the other party). The bottler agreements are subject to termination by The Coca-Cola Company in the event of default by us. The event of default provisions limiting the change in ownership or control of our company and the assignment or transfer of the bottler agreements 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, and are independent of similar rights set forth in the shareholders agreement. These provisions may prevent changes in our principal shareholders (as discussed below), including mergers or acquisitions involving sales or dispositions of our capital stock, without the consent of The Coca-Cola Company. See “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders —The Shareholders Agreement.”

In connection with our bottler agreements, we also entered into a tradename licensing agreement with the Coca-Cola Company on June 21, 1993, pursuant to which we are authorized to use certain trademark names of the Coca-Cola Company. The agreement has an indefinite term, but is terminated if we cease to manufacture, market, sell and distribute Coca-Cola products pursuant to the bottler agreements or if the shareholders agreement is terminated. The Coca-Cola Company also has the right to terminate the license agreement if we use its trademark names in a manner not authorized by the bottler agreements.

We entered into two supplemental agreements with The Coca-Cola Company on June 21, 1993 and September 1, 1994, which together clarify and expand certain provisions of our bottler agreements. Among other things, the supplemental agreements:

- Specify that we have a right of first refusal with respect to the production and distribution of certain new trademark products of The Coca-Cola Company in the territories;
- Detail the calculation of certain payments upon the occurrence of certain breaches;
- Describe certain rights of first negotiation and first refusal of The Coca-Cola Company upon termination of any of the bottler agreements;
- Set forth procedural details for notification and communication relating to specific provisions of the bottler agreements; and
- Provide that The Coca-Cola Company may authorize other distributors of fountain within the territories and will reimburse us for documented costs relating to enforcement actions to protect certain trademarks of The Coca-Cola Company.

The arrangements between The Coca-Cola Company and the Panamco bottling territories are also governed by bottler agreements. These agreements have different expiration dates and provide The Coca-Cola Company with rights and protections that are similar to those provided to it under our bottler agreements. The bottler agreements

covering Panamco's Mexican territories have ten-year terms ending in 2005. The Panamco bottler agreements in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Brazil have five-year terms.

Mundet Bottler Agreements

On November 2, 2001, we entered into two franchise bottling agreements with Promotora de Marcas Nacionales, an indirect subsidiary of FEMSA, under which we became the sole franchisee for the production, bottling, distribution and sale of Mundet brands in the Valley of Mexico and most of our Southeast of Mexico Territory. Each franchise agreement has a term of ten years and will expire in November, 2011. Both agreements are renewable for ten-year terms, subject to non-renewal by either party with notice to the other party. Other terms and conditions of the franchise agreements are similar to the current arrangements that we have entered into with The Coca-Cola Company for the bottling and distribution of Coca-Cola trademark soft drink beverages.

DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

The following tables summarize the value of our properties at December 31, 2002.

Total Asset Value Summary
At December 31, 2002

	Book Value	
	(millions of pesos)	(% of total)
Mexican Territorios	Ps.15,062.1	93.1%
Buenos Aires Territory	1,110.4	6.9%
Total	Ps.16,172.5	100.0%

Property, Plant and Equipment Summary
At December 31, 2002

	Book Value	
	(millions of pesos)	(% of total)
Valley of Mexico Territory	Ps. 4,385.3	62.9%
Southeast of Mexico Territory	1,803.5	25.9%
Buenos Aires Territory	780.0	11.2%
Total	Ps. 6,969.1	100.0%

Production Facilities

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

- Increasing the annual capacity of our bottling plants;
- Installing clarification facilities to process different types of sweeteners;
- Installing plastic bottle-blowing equipment and can presentation capacity;
- Modifying equipment to increase flexibility to produce different presentations, including swing lines that can bottle both non-returnable and returnable presentations; and
- Closing obsolete production facilities.

Mexican Territories. As of December 31, 2002, we owned four bottling plants in the Valley of Mexico Territory with a combined total installed annual capacity of 598.0 million unit cases and a capacity utilization of

63%. In the Southeast of Mexico Territory, we operated four bottling plants with a combined total installed annual capacity of 142.3 million unit cases and with capacity utilization of 73%.

As part of our objective to rationalize bottling capacity, we closed four plants in the Mexican Territories during 2000 and 2001. We have compensated for the installed capacity of the closed plants by increasing production at our other bottling facilities in the Mexican Territories. In November 2001, we completed the second phase of our project to increase the