| | | | |
|---|---|---|---|
| September | 10.35 | 9.96 | 10.21 |
| October | 10.22 | 9.95 | 10.15 |
| November | 10.34 | 10.09 | 10.15 |
| December | 10.43 | 10.10 | 10.43 |
| 2003: | | | |
| January | 10.98 | 10.32 | 10.90 |
| February | 11.06 | 10.77 | 11.03 |
| March | 11.24 | 10.66 | 10.78 |
| April | 10.77 | 10.31 | 10.31 |
| May | 10.42 | 10.11 | 10.34 |
| June [1] | 10.74 | 10.24 | 10.60 |

(1) From the period beginning June 1, 2003 until June 13, 2003.

Mexico has a free foreign exchange market and, since December 1994, the Mexican government has not intervened to maintain value of the peso against the U.S. dollar. The 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 peso remained relatively stable from 1999 until the fall of 2001. In late 2001 and early 2002, the peso appreciated considerably against the U.S. dollar and, more strongly, against other foreign currencies. From the second quarter of 2002 and until March 2003, however, the peso depreciated in value. We can make no assurance that the Mexican government will maintain its current policies with regard to the peso or that the peso will not further depreciate significantly in the future.

We pay all cash dividends in pesos. As a result, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of our American Depository Shares, which represent 10 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 peso and the U.S. dollar have affected the U.S. dollar equivalent of the peso price of our shares on the Mexican Stock Exchange and, consequently, have also affected the market price of our ADSs.



## RISK FACTORS

### Risks Related to our Company

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

Approximately 98% of our net sales in 2002 were derived from the distribution of Coca-Cola trademark beverages. We produce, market and distribute Coca-Cola trademark beverages through standard bottler agreements. These bottler agreements with The Coca-Cola Company cover all of our present territories. Through its rights under the bottler agreements, 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.”

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. We are prohibited from bottling any soft drink product 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. In addition, we may not transfer control of our bottling rights for a territory without the consent of The Coca-Cola Company.

We are dependent on The Coca-Cola Company to renew our bottler agreements. The two bottler agreements that cover our Mexican territories (other than those acquired from Panamco) will each expire in 2013 and the Buenos Aires bottler agreement will expire in 2004. These bottler agreements are automatically renewable for additional ten-year terms, unless either party gives notice of its intention not to renew the agreement within a specified time period. The bottler agreements covering Panamco’s Mexican subsidiaries have a ten-year term ending in 2005, while the Panamco bottler agreements in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Brazil have five-year terms. Our bottler agreements, and therefore our right to distribute Coca-Cola trademark beverages, are subject to termination by The Coca-Cola Company in the event of default by us or upon expiration. No assurance can be given that our bottler agreements will be renewed upon the expiration of their respective terms. Non-renewal of the bottler agreements would have a material adverse effect on our business, financial condition, prospects and results of operations. See "Item 4. Information on the Company—Bottler Agreements."

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

The cumulative effect of our relationships with The Coca-Cola Company and Fomento Económico Mexicano, S.A. de C.V., a Mexican beverage company commonly known as FEMSA, gives each of these corporations significant influence on the conduct of our business and gives them, together, the ability to control our company. The Coca-Cola Company indirectly owns 39.6% of our outstanding capital stock, representing 46.4% of the voting rights in our company. 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 the voting rights in our company. 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."

*We have incurred significant new indebtedness as a result of the Panamco acquisition.*

In connection with the acquisition of Panamco, we incurred approximately U.S.$2.5 billion of debt (including existing debt of Panamco). This new debt includes a bridge facility due in April 2004 in the amount of approximately U.S.$833 million. We now have significantly more indebtedness than we have had historically, and



we have agreed to certain covenants that impose restrictions on the conduct of our business. In connection with the refinancing of the bridge facility, we may be required to agree to additional restrictions or less favorable terms than we have obtained to date. 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 obtaining additional financing or completing refinancings on terms favorable to us. Because we have significant indebtedness in U.S. dollars and our sales are in a number of currencies other than U.S. dollars, our ability to service our indebtedness may be adversely affected by changes in exchange rates or interest rates or in economic conditions in the different countries in which we now operate, particularly Mexico.

*We may fail to realize the contemplated benefits from integrating Panamco's Mexican operations.*

We expect to realize benefits from the Panamco acquisition by integrating the Mexican operations of both companies. Our ability to realize any benefits, however, depends on our success in applying our operational practices and integrating the organizational structures of the two operations. We may fail or be delayed in realizing any operational benefit from this integration, and we may need to invest significant capital and resources in the acquired business or incur other costs in order to achieve this integration.

*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, prospects, financial conditions and results of operations. 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.

*Voluntary price restraints or statutory price controls would limit our ability to increase prices and may have an adverse effect on our results.*

Voluntary price restraints or statutory price controls in any of the countries in which we operate may have a material adverse effect on our business, prospects, financial conditions and results of operations.

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.

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

We use high fructose corn syrup, referred to in this annual report as HFCS, and sugar as sweeteners in our products. In 2002, we converted our Mexican bottling facilities to sugar-cane based production following the imposition of a 20% excise tax on carbonated soft drinks sweetened with HFCS. In addition, the prices of certain materials used in the bottling of our products, including aluminum cans, plastic bottles, bottle closures (both steel and plastic), other packaging materials and HFCS, are quoted in U.S. dollars 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."

Increases in the price of raw materials, including increases that may occur as a result of import duties, import restrictions or fluctuations in exchange rates, will increase our cost of sales and adversely affect net earnings to the extent we are unable to increase our sales prices. We cannot assure you that our raw materials prices will not increase in the future.

*A water shortage 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 approximately 90% and 100%, respectively, of the water used in our soft drink production in the Valley of Mexico and the Southeast of Mexico Territory pursuant to these concessions, which the Mexican government granted based on studies of the existing and projected groundwater supply. Our existing water concessions may be terminated by the Mexican government under certain circumstances. See "Item 4. Information on the Company—Regulation—Water Supply Law."

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 by governments in any such territory or prove sufficient to meet our water supply needs.

*A shortage of key materials used in the production of our products could adversely affect our business.*

Pursuant to the bottler agreements with The Coca-Cola Company, we are required to purchase concentrate exclusively from The Coca-Cola Company. In addition, we must purchase other supplies, including containers, closures, cases, cartons and other packages and labels, only from manufacturers approved by The Coca-Cola Company. See "Item 4. Information on the Company—The Company—Raw Materials." Access to these materials could be adversely affected by strikes, weather conditions, exchange controls, governmental controls, or national emergency situations. Any shortage of these materials could adversely affect our business, results of operations, prospects, or financial condition.

*Competition from other bottlers could adversely affect our business.*

The beverage industries in the Mexican and Buenos Aires Territories, as well as in many of the Panamco territories, are highly competitive. Our principal competitor in the Mexican Territories is The Pepsi Bottling Group, referred to in this annual report as PBG, the largest bottler worldwide of PepsiCo, Inc. Our principal competitor in Buenos Aires is Buenos Aires Embotelladora S.A., referred to in this annual report as BAESA, a large PepsiCo bottler. Companhia de Bebidas das Amers, commonly referred to as AmBev, the largest brewer in Latin America, has recently acquired an important stake of BAESA. In addition, in each of our territories we compete with various other bottlers and distributors of nationally and regionally advertised soft drinks. We face increased competition in many of our territories from producers of low cost beverages, commonly referred to as "B" brands. Our ability to maintain existing prices or implement price increases depends to a great extent on competitive conditions and the effect of such prices on sales volume. Price discounting has been a means of maintaining or increasing sales volume share in our territories. This may have an adverse effect on our results of operations. Although we believe that we are well positioned to meet our objective of maintaining or increasing our sales volume at satisfactory price levels in the various territories in which we compete, competition is likely to continue or intensify, particularly after the acquisitions of Pepsi Gemex, S.A. de C.V. by PBG and BAESA by AmBev. We can give no assurance that we can meet our objective of increased sales volume or that price discounting will not continue to have an adverse effect on our results of operations.

*We now conduct business in countries throughout Latin America in which we have not previously operated and that present different or greater country risk than Mexico or Argentina.*

As a result of the Panamco acquisition, we have expanded our geographic reach from Mexico and Argentina to include Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Brazil. Many of these countries present different or greater country risk than Mexico and Argentina. We have not previously conducted business in Panamco’s territories. We now face competitive pressures that are different than those we have historically faced. In Brazil, we compete against both AmBev, a Brazilian company with a portfolio of brands that includes Pepsi and local brands with flavors such as guaraná, and “B” brands or “Tubainas,” which are small, local producers of low cost flavored soft drinks that represent an important portion of the soft drink market. In addition, distribution and marketing practices in some of these territories differ from our historical practices. Several of Panamco’s territories have a lower level of pre-sale as a percentage of total distribution than we are accustomed to having in our territories, and the product and presentation mix varies from territory to territory with customer preferences. We may have to adapt our marketing and distribution strategies to effectively compete. Our inability to compete effectively may have an adverse effect on our future operating results.



*Our compliance with environmental regulations could result in material adverse effects on our results of operations or financial condition.*

Environmental laws and regulations and their enforcement are becoming increasingly more stringent in many countries in Latin America. Such costs may have a material adverse effect on our future results of operations or financial condition.

**Risks Related to Our Controlling Shareholders and Capital Structure**

*A significant percentage of our outstanding capital stock and all of the voting rights are held by FEMSA and The Coca-Cola Company, which effectively control the management of our company and whose interests may differ from those of our other shareholders.*

The Coca-Cola Company indirectly owns 39.6% of our outstanding capital stock, representing 46.4% of the voting rights in our company, and FEMSA indirectly owns 45.7% of our outstanding capital stock, representing 53.6% of the voting rights in our company. Consequently, FEMSA acting alone or both The Coca-Cola Company and FEMSA acting together have the power to elect a majority of the members of our board of directors and play a significant or controlling role in the outcome of substantially all matters to be decided by our shareholders. The interests of The Coca-Cola Company and FEMSA may differ from those of our other shareholders. See “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders” and “Item 10. Additional Information—Bylaws—Voting Rights.”

*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, such as 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 notices of shareholder meetings from The Bank of New York, the depositary for our ADSs, with sufficient time to enable such holders to return voting instructions to the depositary in a timely manner.

*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 equity interest.*

Our 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, 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 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 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 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.



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*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 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.

*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.

*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 our 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. See "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions." Transactions with affiliates may create the potential for conflicts of interest.

*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 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.

*Our bylaws restrict the ability of non-Mexican shareholders to invoke the protection of their governments with respect to their rights as shareholders.*

As required by Mexican law, our bylaws provide that non-Mexican shareholders shall be considered as Mexican in respect of their ownership interests in our company and shall be deemed to have agreed not to invoke the protection of their governments in certain circumstances. Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of his own government by asking such government to interpose a diplomatic claim against the Mexican government with respect to the shareholder's rights as a shareholder, but is not deemed to have waived any other rights it may have, including any rights under the U.S. securities laws, with respect to its investment in our company. If you invoke such governmental protection in violation of this agreement, your shares could be forfeited to the Mexican government.

*Developments in other emerging market countries may affect prices of our ADSs.*

As is the case with respect to securities of issuers from other emerging markets, the market value of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an



adverse effect on the market value of securities of Mexican issuers. In recent years, prices of both Mexican debt securities and Mexican equity securities dropped substantially as a result of developments in Russia, Asia and Brazil. There can be no assurance that the market value of the ADSs and Series L Shares would not be adversely affected by events elsewhere, especially in emerging market countries.

*Exchange rate fluctuations may affect the value of our securities.*

Fluctuations in the exchange rate between the peso and the U.S. dollar will affect the U.S. dollar value of an investment in our equity securities and of dividend and other distribution payments on those securities. See "—Key Information—Exchange Rates."

**Risks Related to Mexico and 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 division. As a result, our business may be significantly affected by the general condition of the Mexican economy and/or the rate of inflation.

Mexico has experienced a prolonged period of slow growth since 2001 primarily as a result of the downturn in the U.S. economy. In 2001, Mexico's gross domestic product, or GDP, contracted by 0.3%, while inflation reached 4.4%. In 2002, GDP grew by 0.9% and inflation reached 5.7%. For 2003, the Mexican government has estimated that GDP growth will be 3.0% and inflation is expected to be 3.0%, though these estimates may not prove to be accurate.

If the Mexican economy falls into a recession or if inflation and interest rates increase significantly, demand for soft drink beverages may decrease as consumers find it more difficult to pay for our products or demand may 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 preserve our profit margins by reducing costs and expenses and our profits margins may suffer as a result. This could have a material adverse effect on our financial condition and results of operations.

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

Declines in the value of the peso relative to other currencies, in particular the U.S. dollar, increase our interest costs in pesos relative to our indebtedness and result in foreign exchange losses that could adversely affect our ability to meet our interest and principal obligations under our indebtedness. As of December 31, 2002, all of our indebtedness was denominated in U.S. dollars, and we may in the future incur additional non-peso-denominated indebtedness. The value of the peso has been subject to significant fluctuations with respect to the U.S. dollar in the past and may be subject to significant fluctuations in the future. For example, from January 1, 1995 to March 31, 1996, the Mexican peso depreciated 50.8% to Ps.7.5375 per U.S. dollar and fluctuated from a high, relative to the U.S. dollar, of Ps.5.00 to a low, relative to the U.S. dollar, of Ps.8.14. In 2002 and the beginning of 2003, the peso significantly fluctuated in value relative to the U.S. dollar from Ps.9.0 to Ps.11.24.

Furthermore, severe devaluation or depreciation of the peso may also result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our indebtedness.

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 pesos into U.S. dollars or to transfer other currencies out of Mexico, the government could institute restrictive exchange rate policies in the future. To the extent that there are currency fluctuations, they are likely to continue to have an effect on our financial condition, results of operations and cash flows in future periods.



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*Political events in Mexico could affect Mexican economic policy and our operations.*

Mexican political events may also significantly affect our operations and the performance of Mexican securities, including our securities. In the Mexican national elections held on July 2, 2000, Vicente Fox of the Partido Acción Nacional (National Action Party) or PAN won the presidency. His victory ended more than 70 years of presidential rule by the Partido Revolucionario Institucional (Institutional Revolutionary Party) or PRI. Neither the PRI nor the PAN succeeded in securing a majority in the Mexican Congress or Senate.

President Fox assumed office on December 1, 2000. While the transition from the previous administration was smooth, President Fox has since encountered strong opposition to some of his proposed reforms in both Congress and the Senate, where opposition parties such as the PRI and the Partido de la Revolución Democratica (Democratic Revolution Party), or PRD, have frequently joined forces to block PAN initiatives. Such legislative gridlock could slow down the progress of reforms in Mexico and could have a material adverse effect on our business, financial condition, prospects and results of operations.

*Developments in Argentina may adversely affect our business.*

In recent years, Argentina has faced significant economic and political instability, including a contracting economy, a drastic currency devaluation, high unemployment, the introduction of exchange controls and social unrest. After a series of failed governments, Nestor Kischner was appointed president of Argentina in May 2003. It is premature to predict the way in which the new government will seek to address the economic crisis. The Argentine crisis has had, and continues to have, a material adverse effect on our operations. We have experienced declining net sales in Argentina since 1998. In 2001, we recognized a loss generated by the devaluation of the Argentine peso against the U.S. dollar against our original investment in Argentina, and in 2002 we impaired a substantial portion of the goodwill generated by the acquisition of our Argentine operations. We can give no assurance that future developments in the Argentine economic policies and political environment will not have a material adverse effect on our business, financial condition, prospects and results of operations.

*We now conduct business in countries throughout Latin America in which we have not previously operated and that present different or greater country risk than Mexico or Argentina.*

As a result of the Panamco acquisition, we have expanded our geographic reach from Mexico and Argentina to include Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Brazil. Many of these countries present different or greater country risk than Mexico or Argentina. Panamco’s operating results in recent years have been adversely affected by deteriorating macroeconomic and political conditions in some of these countries, particularly in Venezuela where a national labor strike effectively halted production and distribution during the months of December 2002 and January 2003. 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 and high interest rates, or by political developments or changes in law. 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.

**Item 4. Information on the Company**

**THE COMPANY**

We are the largest Coca-Cola bottler in Latin America, representing approximately 40% of Coca-Cola volumes in Latin America, and the second largest bottler of Coca-Cola products in the world, as measured by sales volume in unit cases sold in 2002. We operate in Mexico (a substantial part of central Mexico, including Mexico City and Southeast Mexico), Guatemala (Guatemala City and surrounding areas), Nicaragua (nationwide), Costa Rica (nationwide), Panama (nationwide), Colombia (most of the country), Venezuela (nationwide), Brazil (greater São Paulo, Campinas, Santos and part of Mato Grosso do Sul) and Argentina (Federal Capital and surrounding areas, referred to in this annual report, as Gran Buenos Aires).

Our principal shareholder is Compañía Internacional de Bebidas, S.A. de C.V., referred to in this annual report as CIBSA, a wholly owned subsidiary of FEMSA. FEMSA traces its origins to Cervecería Cuauhtémoc, Mexico’s first brewery, which was founded in 1890 by four Monterrey businessmen, Isaac Garza, Francisco G. Sada, José A. Muguerza, and José M. Schneider. FEMSA is still controlled by descendants of the founders of Cervecería Cuauhtémoc.

We were established in October 30, 1991 as a *sociedad anónima de capital variable* organized under the laws of Mexico. 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 http://www.cocacola-femsa.com.mx.

**Corporate History**

In 1979, Grupo Industrial Emprex, S.A. de C.V., referred to in this annual report as Emprex, acquired certain soft drink bottling subsidiaries that are now a part of our company. At that time, the acquired subsidiaries had thirteen Mexican distribution centers operating 701 distribution routes, and production capacity of the acquired subsidiaries was 83 million physical cases.

In October 1991, Emprex transferred the shares of its operating subsidiaries engaged in the soft drink business, not including sparkling water operations, to FEMSA Refrescos, S.A. de C.V., the subholding company that became our company. A portion of Emprex’s shares was contributed to the sub-holding company and the remaining shares were sold to the sub-holding company in exchange for a note payable to Emprex.

Effective May 1993, Impulsora de Mercados, S.A. de C.V., referred to in this annual report as Impulsora, a wholly owned subsidiary of Emprex, made a contribution of capital of Ps.645.7 million (in nominal 1993 pesos, approximately U.S.$206.5 million) to our company in return for 90,250,000 Series L Shares (before the 3 to 1 split effected on January 9, 1998). Emprex made an additional contribution of capital in the amount of Ps.11.6 million (in nominal 1993 pesos, approximately U.S.$3.7 million) in exchange for 11,128,980 Series A Shares (before the 3 to 1 split effected on January 9, 1998) as of that date. We used the proceeds of these transactions to retire a portion of our outstanding debt obligations to Emprex, as well as the debt owed by our subsidiaries to Emprex.

Consistent with our goals of maximizing long-term profitability and growth and enhancing our competitive position, Emprex agreed to the subscription of 30% of our capital stock by The Inmex Corporation, referred to in this annual report as Inmex, an indirect subsidiary of The Coca-Cola Company. In June, 1993, Inmex subscribed to 142,500,000 Series D Shares (before the 3 to 1 split effected on January 9, 1998) for $195 million. We repaid the remainder of our debt obligations to Emprex in June 1993 with the proceeds of this transaction. See “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders—The Shareholders Agreement.”

In September 1993, we listed our Series L Shares on the Mexican Stock Exchange and our ADSs on The New York Stock Exchange, Inc. and Impulsora sold its Series L shares to the public.

In a series of transactions between 1994 and 1997, we acquired 100% of KOFBA from The Coca-Cola Export Corporation, a subsidiary of The Coca-Cola Company. We expanded our Argentine operations in