

Regulatory Matters

Competition Legislation

The *Ley Federal de Competencia Económica* (Federal Economic Competition Law or Mexican Competition Law) became effective on June 22, 1993. The Mexican Competition Law and the *Reglamento de la Ley Federal de Competencia Económica* (Regulations under the Mexican Competition Law), effective as of October 13, 2007, regulate monopolies and monopolistic practices and require Mexican government approval of certain mergers and acquisitions. The Mexican Competition Law subjects the activities of certain Mexican companies, including us, to regulatory scrutiny. In addition, the Regulations under the Mexican Competition Law prohibit members of any trade association from reaching any agreement relating to the price of their products. Management believes that we are currently in compliance in all material respects with Mexican competition legislation.

In Mexico and in some of the other countries in which we operate, we are involved in different ongoing competition related proceedings. We believe that the outcome of these proceedings will not have a material adverse effect on our financial position or results of operations. See “Item 8. Financial Information—Legal Proceedings—Coca-Cola FEMSA—Antitrust Matters.”

Taxation of Sparkling Beverages

All the countries in which Coca-Cola FEMSA operates, except for Panama, impose a value-added tax on the sale of sparkling beverages, with a rate of 16% in Mexico beginning in January 2010 (15% through the end of 2009), 12% in Guatemala, 15% in Nicaragua, 13% in Costa Rica, 16% in Colombia (applied only to the first sale in supply chain), 12% in Venezuela (beginning in April 2009), 17% (Mato Grosso do Sul) and 18% (São Paulo and Minas Gerais) in Brazil, and 21% in Argentina. In addition, several of the countries in which Coca-Cola FEMSA operates impose the following excise or other taxes:

- Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.28 as of December 31, 2009) per liter of sparkling beverage.
- Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, a 5% excise tax on local brands, a 10% tax on foreign brands and a 14% tax on mixers, and another specific tax on non-alcoholic beverages of 14.39 colones (Ps. 0.33 as of December 31, 2009) for every 250 ml.
- Nicaragua imposes a 9% tax on consumption, and municipalities impose a 1% tax on Coca-Cola FEMSA’s Nicaraguan gross income.
- Panama imposes a 5% tax based on the cost of goods produced.
- Brazil imposes an average production tax of 4.9% and an average sales tax of 7.8%, both assessed by the federal government. Most of these taxes are fixed, based on average retail prices in each state where the company operates (VAT) or fixed by the federal government (excise and sales tax).
- Argentina imposes an excise tax on sparkling beverages containing less than 5% lemon juice or less than 10% fruit juice of 8.7%, and an excise tax on flavored sparkling beverage with 10% or more fruit juice and on sparkling water of 4.2%, although this excise tax is not applicable to certain of Coca-Cola FEMSA’s products.

Environmental Matters

In all of the countries where we operate, our businesses are subject to federal and state laws and regulations relating to the protection of the environment.

Mexico

In Mexico, the principal legislation is the *Ley General del Equilibrio Ecológico y la Protección al Ambiente* (Federal General Law for Ecological Equilibrium and Environmental Protection or the Mexican Environmental Law) and the *Ley General para la Prevención y Gestión Integral de los Residuos* (General Law for the Prevention and Integral Management of Waste), which are enforced by the *Secretaría de Medio Ambiente y Recursos Naturales* (Ministry of the Environment and Natural Resources or SEMARNAT). SEMARNAT can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to temporarily close non-complying facilities. Under the Mexican 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 “–Coca-Cola FEMSA–Product Distribution.”

In addition, we are subject to the *Ley de Aguas Nacionales* (the National Water Law), enforced by the *Comisión Nacional del Agua* (the Mexican National Water Commission), or CONAGUA. Adopted in December 1992, the law provides that plants in Mexico 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. Pursuant to this law, certain local authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by CONAGUA. All of Coca-Cola FEMSA’s bottler plants located in Mexico City, as well as the Toluca plant, met these standards as of 2001.

Coca-Cola FEMSA’s Mexican operations established a partnership with The Coca-Cola Company and ALPLA, a supplier of plastic bottles to Coca-Cola FEMSA in Mexico, to create *Industria Mexicana de Reciclaje* (IMER), a PET recycling facility located in Toluca, Mexico. This facility started operations in 2005 and has a recycling capacity of 25,000 metric tons per year from which 15,000 metric tons can be re-used in PET bottles for food packaging purposes. Coca-Cola FEMSA has also continued contributing funds to a nationwide recycling company, *Ecología y Compromiso Empresarial* (Environmentally Committed Companies). In addition, Coca-Cola FEMSA’s plants located in Toluca, Reyes, Cuautitlán, Apizaco, San Cristobal, Morelia, Ixtacomitan and Coatepec have received a *Certificado de Industria Limpia* (Certificate of Clean Industry).

As part of our environmental protection and sustainability strategies, some of our subsidiaries have entered into a wind power supply agreement with Energía Alterna Istmeña S. de R.L. de C.V. to receive electrical energy supply at Coca-Cola FEMSA and FEMSA Cerveza’s plants, as well as at many OXXO stores. The wind farm will be entirely financed by the supplier, it will be located in the state of Oaxaca and it is expected to have an output of 220 megawatts. We anticipate that the wind power supply will begin in 2011.

Also, as part of Coca-Cola FEMSA’s environmental protection and sustainability strategies, in December 2009, some of its affiliates, jointly with other third parties, entered into a generation and wind energy supply agreement with a subsidiary of GAMESA Energía, S.A. to supply energy to a plant in Toluca, Mexico, owned by Coca-Cola FEMSA’s subsidiary, Propimex, S.A. de C.V. The plant, which is located in La Ventosa, Oaxaca, is expected to generate approximately 100 thousand megawatt hours annually. The energy supply services began in April 2010.

Central America

Coca-Cola FEMSA’s Central American operations are subject to several federal and state laws and regulations relating to the protection of the environment, which have been enacted in the last ten years, as awareness has increased in this region about the protection of the environment and the disposal of dangerous and toxic materials as well as water usage. In some countries in Central America, Coca-Cola FEMSA is in the process of bringing its operations into compliance with new environmental laws on the timeline established by the relevant regulatory authorities. Coca-Cola FEMSA’s Costa Rica and Panama operations have participated in a joint effort

along with the local division of The Coca-Cola Company called *Misión Planeta* (Mission Planet) for the collection and recycling of non-returnable plastic bottles.

Colombia

Coca-Cola FEMSA's Colombian operations are subject to several Colombian federal, state and municipal laws and regulations related to the protection of the environment and the disposal of treated water and toxic and dangerous materials. These laws include the control of atmospheric emissions, noise emissions, disposal of treated water and strict limitations on the use of chlorofluorocarbons. Coca-Cola FEMSA is also engaged in nationwide campaigns for the collection and recycling of glass and plastic bottles as well as reforestation programs. Coca-Cola FEMSA has received a "*Certificación Ambiental Fase IV*" (Phase IV Environmental Certificate) for each of its Colombian plants.

Venezuela

Coca-Cola FEMSA's Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the *Ley Orgánica del Ambiente* (Organic Environmental Law), the *Ley Sobre Sustancias, Materiales y Desechos Peligrosos* (Substance, Material and Dangerous Waste Law), the *Ley Penal del Ambiente* (Criminal Environment Law) and the *Ley de Aguas* (Water Law). Since the enactment of the Organic Environmental Law in 1995, Coca-Cola FEMSA's Venezuelan subsidiary has presented the proper authorities with plans to bring their production facilities and distribution centers into compliance with the law, which mainly consist of building or expanding the capacity of water treatment plants in Coca-Cola FEMSA's bottling facilities. Even though Coca-Cola FEMSA has had to adjust some of the originally proposed timelines due to construction delays, in 2009, Coca-Cola FEMSA completed the construction and received all the required permits to operate a new water treatment plant in its bottling facility located in the city of Barcelona. At the end of 2009, Coca-Cola FEMSA also agreed with the relevant authorities to construct a water treatment plant in its Valencia plant within the next 18 months. Coca-Cola FEMSA expects to complete the water treatment plant projects in the rest of its bottling facilities during the first half of 2011. Coca-Cola FEMSA is also in process of obtaining the ISO 14000 certification for all of its plants in Venezuela.

Brazil

FEMSA Cerveza and Coca-Cola FEMSA's Brazilian operations are subject to several federal, state and municipal laws and regulations related to the protection of the environment. Among the most relevant laws and regulations are those dealing with the emission of toxic and dangerous gases, disposal of solid waste and disposal of wastewater, which impose penalties, such as fines, facility closures or criminal charges depending upon the level of non-compliance.

Coca-Cola FEMSA's production plant located in Jundiaí has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by the law. The plant has been certified for the (i) ISO 9001 since March 1995; (ii) ISO 14001 since March 1997; (iii) norm OHSAS 18001 since 2005; and iv) ISO 22000 since 2007. FEMSA Cerveza's other plants and Coca-Cola FEMSA's Brazilian operations are also ISO 9001, ISO 14001 and OHSAS 18001 certified.

In Brazil it is necessary to obtain concessions from the government to cast drainage. Coca-Cola FEMSA's plants in Brazil have been granted this concession, except Mogi das Cruzes, where it has timely begun the process of obtaining one. Coca-Cola FEMSA is in the process of expanding the capacity of its water treatment plant in its Jundiaí facility, which is expected to be completed in 2010.

In Brazil, a municipal regulation of the City of São Paulo, implemented pursuant to Law 13.316/2002, came into effect in May 2008. This regulation requires Coca-Cola FEMSA to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the municipality; such percentage increases each year. As of May 2009, it was required to collect for recycling 50% of the PET bottles sold in the City of São Paulo and by May 2010, it is required to collect 75% of PET bottles for recycling and 90% in May 2011. Currently, Coca-Cola FEMSA is not able to collect the entire volume required of the PET bottles it sold in City of São Paulo for recycling.

If Coca-Cola FEMSA does not meet the requirements of this regulation, which are more onerous than those imposed by the countries with the highest recycling standards, it could be fined and be subject to other sanctions, such as the suspension of operations in any of its plants and/or distribution centers located in the City of São Paulo. In May 2008, Coca-Cola FEMSA, together with other bottlers in São Paulo, through the *Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas* (Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR), filed a motion requesting a court to overturn this regulation on the basis of impossibility of compliance. Through ABIR, Coca-Cola FEMSA is negotiating the reduction of recycling percentages and more reasonable timelines for compliance. In addition, in November 2009 in response to a requirement of the municipal authority request for Coca-Cola FEMSA to demonstrate the destination of the PET bottles sold in São Paulo, it filed a motion showing all of its recycling programs and requesting a more practical timeline to comply with the requirements of the law. Coca-Cola FEMSA is currently awaiting resolution of both of these matters.

Argentina

Coca-Cola FEMSA's Argentine operations are subject to 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 Ambiente y Desarrollo Sustentable* (Ministry of Natural Resources and Sustainable Development) and the *Organismo Provincial para el Desarrollo Sostenible* (Provincial Organization for Sustainable Development) for the province of Buenos Aires. Coca-Cola FEMSA's Alcorta plant is in compliance with environmental standards and has been certified for ISO 14001:2004 for the plants and operative units in Buenos Aires.

For all of Coca-Cola FEMSA's plant operations, Coca-Cola FEMSA employs two environmental management systems: (i) *Sistema Integral de Calidad* (Integral Quality System or SICKOF) and (ii) *Sistema de Administracion Ambiental* (Environmental Administration System or EKOSYSTEM). We do not believe that Coca-Cola FEMSA's business activities pose a material risk to the environment, and we believe that Coca-Cola FEMSA is in material compliance with all applicable laws and regulations.

Coca-Cola FEMSA has expended, and may be required to expend in the future, funds for compliance with and remediation under local environmental laws and regulations. Currently, we do not believe that such costs will have a material adverse effect on Coca-Cola FEMSA's results of operations, or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly more stringent in Coca-Cola FEMSA's territories, and there is increased awareness by local authorities of higher environmental standards in the countries where it operates, changes in current regulations may result in an increase in costs, which may have an adverse effect on Coca-Cola FEMSA's future results of operations or financial condition. Coca-Cola FEMSA's management is not aware of any significant pending regulatory changes that would require a significant amount of additional remedial capital expenditures.

Other regulations

In December 2009, the Venezuelan government issued a decree requiring a reduction in energy consumption by at least 20% for industrial companies whose consumption is greater than two megawatts per hour and to submit an energy-usage reduction plan. Some of Coca-Cola FEMSA's bottling operations in Venezuela outside of Caracas met this threshold and it submitted a plan, which included the purchase of generators for its plants. In January 2010, the Venezuelan government subsequently implemented power cuts and other measures for all industries in Caracas whose consumption was above 35 kilowatts per hour. All of Coca-Cola FEMSA's bottling and distribution centers as well as administrative offices in Caracas met this threshold.

In January 2010, the Venezuelan government amended the *Ley para la Defensa y Acceso a las Personas a los Bienes y Servicios* (Access to Goods and Services Defense Law). Any violation by a company that produces, distributes and sells goods and services could lead to, among other consequences, fines, penalties or the confiscation of the assets used to produce, distribute and sell these goods without compensation. Although we believe Coca-Cola FEMSA is in compliance with this law, consumer protection laws in Venezuela are subject to continuing review and changes, and any such changes could lead to an adverse impact on Coca-Cola FEMSA.

Water Supply Law

Coca-Cola FEMSA and FEMSA Cerveza purchase water in Mexico directly from municipal water companies and pump water from wells and rivers 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* (1992 Water Law), and regulations issued thereunder, which created the *Comisión Nacional del Agua* (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 two consecutive years. However, because the current concessions for each of Coca-Cola FEMSA and FEMSA Cerveza's plants in Mexico do not match each plant's projected needs for water in future years, we successfully negotiated with the Mexican government the right to transfer the unused volume under concessions from certain plants to other plants anticipating greater water usage in the future. These concessions may be terminated if, among other things, we use more water than permitted or we fail to pay required concession-related fees and do not cure such situations in a timely manner.

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.

In Argentina, a state water company provides water to Coca-Cola FEMSA's Alcorta plant on a limited basis; however, we believe the authorized amount meets Coca-Cola FEMSA's requirements for this plant. Water is pumped from Coca-Cola FEMSA's own wells in its Monte Grande plant in Argentina, without the need for any specific permit or license.

In Brazil, we buy water directly from municipal utility companies and pump water from our own wells or rivers (Mogi das Cruzes and FEMSA Cerveza's plants) pursuant to concessions granted by the Brazilian government for each plant. According to the Brazilian Constitution, water is considered an asset of common use and may only be exploited for the national interest, by Brazilians or companies incorporated under Brazilian law. Dealers and users have the responsibility for any damage to the environment. The exploitation and use of water is regulated by the *Código de Mineração* (Code of Mining, Decree Law n°. 227/67), by the *Código de Águas Minerais* (Mineral Water Code, Decree Law n°. 7841/45), the National Water Resources Policy (Law n°. 9433/97) and by regulations issued thereunder. Companies that exploit water are supervised by the *Departamento Nacional de Produção Mineira-DNPM* (National Department of Mineral Production) and the National Water Agency in connection with sanitary, federal health agencies, as well as state and municipal authorities. In Coca-Cola FEMSA's Jundá and Belo Horizonte plants, we do not exploit mineral water. In the Mogi das Cruzes and Campo Grande plants, we have all the necessary permits related to the exploitation of mineral water.

In Colombia, in addition to natural spring water, Coca-Cola FEMSA acquires water directly from its own wells and from local public companies. Coca-Cola FEMSA is required to have a specific concession to exploit water from natural sources. Water use is regulated by law no. 9 of 1979 and decrees no. 1594 of 1984 and no. 2811 of 1974. The National Institute of National Resources supervises companies that exploit water.

In Nicaragua and Costa Rica, Coca-Cola FEMSA owns and exploits its own water wells granted through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in Coca-Cola FEMSA's own plants. In Panama, Coca-Cola FEMSA acquires water from a state water company. In Venezuela, Coca-Cola FEMSA uses private wells in addition to water provided by the municipalities, and Coca-Cola FEMSA has taken the appropriate actions, including actions to comply with water regulations, to have water supply available from these sources.

We cannot assure you that water will be available in sufficient quantities to meet our future production needs, that we will be able to maintain our current concessions or that additional regulations relating to water use will not be adopted in the future in our territories. We believe that we are in material compliance with the terms of our existing water concessions and that we are in compliance with all relevant water regulations.