

COCA COLA FEMSA SAB DE CV
Form 20-F
June 30, 2009

As filed with the Securities and Exchange Commission on June 30, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F
ANNUAL REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2008
Commission file number 1-12260**

Coca-Cola FEMSA, S.A.B. de C.V.
(Exact name of registrant as specified in its charter)

Not Applicable
(Translation of registrant's name into English)

United Mexican States
(Jurisdiction of incorporation or organization)

**Guillermo González Camarena No. 600
Centro de Ciudad Santa Fé
01210 México, D.F., México**
(Address of principal executive offices)

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Guillermo González Camarena No. 600
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(Name, telephone, e-mail and/or facsimile number and address of
company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 10 Series L Shares, without par value	New York Stock Exchange, Inc.
Series L Shares, without par value	New York Stock Exchange, Inc. (not for trading, for listing purposes only)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each class of capital or common stock as of December 31, 2008 was:

992,078,519	Series A Shares, without par value
583,545,678	Series D Shares, without par value
270,906,004	Series L Shares, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). N/A

Yes

No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

IFRS

Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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INTRODUCTION

References

Unless the context otherwise requires, the terms Coca-Cola FEMSA, our company, we, us and our are used in this annual report to refer to Coca-Cola FEMSA, S.A.B. de C.V. and its subsidiaries on a consolidated basis.

References herein to U.S. dollars, US\$, dollars or \$ are to the lawful currency of the United States of America. References herein to Mexican pesos or Ps. are to the lawful currency of Mexico.

Sparkling beverages as used in this annual report refers to beverages previously referred to as carbonated soft drinks. Still beverages refers to beverages previously referred to as non-carbonated beverages. Non-flavored waters, whether or not carbonated, are referred to as waters.

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 13.8320 to US\$ 1.00, the exchange rate for Mexican pesos on December 31, 2008, according to the U.S. Federal Reserve Board. On June 26, 2009, this exchange rate was Ps. 13.2425 to US\$ 1.00. See Item 3. Key Information Exchange Rate Information for information regarding exchange rates since January 1, 2004.

To the extent that estimates are contained in this annual report, we believe such estimates, which are based on internal data, are reliable. Amounts in this annual report are rounded, and the totals may therefore not precisely equal the sum of the numbers presented.

Sources

Certain information contained in this annual report has been computed based upon statistics prepared by the *Instituto Nacional de Estadística, Geografía e Informática* of Mexico, (the National Institute of Statistics, Geography and Information), the Federal Reserve Bank of New York, the U.S Federal Reserve Board, the *Banco de México* (the Central Bank of Mexico), the *Comisión Nacional Bancaria y de Valores* of Mexico (the National Banking and Securities Commission or the CNBV), local entities in each country and upon our estimates.

Forward-Looking Information

This annual report contains words such as believe, expect, anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including, but not limited to, effects on our company from changes in our relationship with The Coca-Cola Company, movements in the prices of raw materials, competition, significant developments in economic or political conditions in Latin America, particularly in Mexico, or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Item 1. Not Applicable**Item 2. Not Applicable****Item 3. Key Information****Selected Consolidated Financial Data**

This annual report includes (under Item 18) our audited consolidated balance sheets as of December 31, 2008 and 2007 and the related consolidated statements of income and changes in stockholders' equity for the years ended December 31, 2008, 2007 and 2006, the consolidated statement of cash flows for the year ended December 31, 2008 and consolidated statement of changes in financial position for the years ended December 31, 2007 and 2006. Our consolidated financial statements are prepared in accordance with Mexican Financial Reporting Standards, which we sometimes refer to as Mexican FRS. Mexican Financial Reporting Standards differ in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Notes 26 and 27 to our consolidated financial statements provide a description of the principal differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to us, together with reconciliation to U.S. GAAP of net income and stockholders' equity.

Through December 31, 2007, Mexican Financial Reporting Standards required us to recognize effects of inflation in our financial statements and reexpress financial statements from prior periods in constant pesos as of the end of the most recent period presented. For periods beginning in 2008, we adopted *Norma de Información Financiera* (NIF) B-10 Effects of Inflation under Mexican Financial Reporting Standards. Under this rule, the previous inflation accounting rules requiring us to reexpress prior years to reflect the impact of current period inflation no longer apply, unless the economic environment in which we operate qualifies as inflationary pursuant to Mexican Financial Reporting Standards. An environment is inflationary if the cumulative inflation equals or exceeds an aggregate of 26% over three consecutive years. As a result, we discontinued inflation accounting for our subsidiaries in Mexico, Guatemala, Panama, Colombia and Brazil. For the rest of our subsidiaries in Argentina, Venezuela, Costa Rica and Nicaragua, we continue applying inflationary accounting.

Pursuant to Mexican Financial Reporting Standards, the information presented in this annual report presents financial information for 2008 in nominal terms that has been presented in Mexican pesos, taking into account local inflation of each inflationary country and converting from local currency to Mexican pesos using the official exchange rate at the end of the period published by the local central bank of each inflationary country. For each non-inflationary country, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for stockholders' equity and the average exchange rate for the income statement. Our financial information for 2007 and 2006 is expressed in constant pesos as of December 31, 2007.

Pursuant to Mexican Financial Reporting Standards, in our consolidated financial statements and the selected financial information set forth below:

In inflationary economies, the figures are restated for inflation based on the local consumer price index.

In inflationary economies, gains and losses in purchasing power from holding monetary liabilities or assets are recognized in income in the Comprehensive financing result line in the income statement.

Financial statements are stated in Mexican pesos as of the end of 2007, except for 2008 figures, which are stated in nominal terms.

Beginning in 2008, as a result of discontinuing inflationary accounting for subsidiaries that operate in non-inflationary economic environments, the financial statements are no longer considered to be presented in a reporting currency that comprehensively includes the effects of price level changes; therefore, the effects of inflation generated beginning in 2008 result in a difference to be reconciled for U.S. GAAP purposes. For the years ended December 31, 2007 and 2006 the effects of inflation accounting under Mexican Financial Reporting Standards have not been reversed in the reconciliation to U.S. GAAP of net income and stockholders' equity. See Notes 26 and 27 to our consolidated financial statements.

Our non-Mexican subsidiaries maintain their accounting records in the currency and in accordance with accounting principles generally accepted in the country where they are located. For presentation in our consolidated financial statements, we adjust these accounting records into Mexican Financial Reporting Standards.

The following table presents selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including the notes thereto. The selected financial information contained herein is presented on a consolidated basis, and is not necessarily indicative of our financial position or results of operations at or for any future date or period. Certain figures for years prior to 2008 have been reclassified for comparison purposes to 2008 figures. See Note 4 to our consolidated financial statements for our significant accounting policies.

Year Ended December 31,

2008⁽¹⁾ 2008 2007 2006 2005 2004

(2008 in millions of Mexican pesos or millions of U.S. dollars, previous years in millions of constant Mexican pesos as of December 31, 2007, except share and per share data)

Income Statement Data:

Mexican FRS

Net sales	\$	5,962	Ps.	82,468	Ps.	68,969	Ps.	63,820	Ps.	59,181	Ps.	56,095
Total revenues		5,998		82,976		69,251		64,046		59,642		56,525
Cost of goods sold		3,173		43,895		35,876		33,740		30,553		29,069
Gross profit		2,825		39,081		33,375		30,306		29,089		27,456
Operating expenses		1,835		25,386		21,889		20,013		19,074		18,324
Income from operations		990		13,695		11,486		10,293		10,015		9,132
Net income for the year		422		5,826		7,103		5,497		5,022		6,460
Majority net income		405		5,598		6,908		5,292		4,895		6,429
Minority net income		17		228		195		205		127		31
Basic and diluted, net income per share ⁽²⁾		0.22		3.03		3.74		2.86		2.60		3.98

U.S. GAAP

Net sales	\$	5,827	Ps.	80,595	Ps.	68,969	Ps.	59,702	Ps.	53,809	Ps.	50,847
Total revenues		5,863		81,099		69,131		59,940		54,196		51,206
Income from operations ⁽³⁾		874		12,095		10,741		8,749		8,720		8,132
Net income for the year		403		5,571		6,765		5,104		4,809		6,397
Basic and diluted net income per share ⁽²⁾		0.22		3.02		3.66		2.76		2.60		3.98

Balance Sheet Data:

Mexican FRS

Total assets	\$	7,082	Ps.	97,958	Ps.	87,178	Ps.	80,427	Ps.	76,214	Ps.	77,214
Short-term debt		442		6,119		4,814		3,419		4,988		3,761
Long-term debt		900		12,455		14,102		16,799		16,952		24,343
Capital stock		225		3,116		3,116		3,116		3,116		3,116
Majority stockholders equity		4,042		55,913		49,140		42,979		38,030		34,457
Total stockholders equity		4,165		57,616		50,781		44,454		39,329		35,510

U.S. GAAP

Total assets	\$	7,083	Ps.	97,973	Ps.	88,582	Ps.	78,554	Ps.	73,174	Ps.	75,776
Short-term debt		442		6,119		4,814		3,289		4,780		3,650
Long-term debt		900		12,455		14,102		16,789		16,921		24,227
Capital stock		225		3,116		3,116		3,116		3,116		3,116
Total stockholders equity		3,959		54,761		49,472		41,770		36,439		32,652

Other Data:

Mexican FRS

Depreciation ⁽⁴⁾⁽⁵⁾	\$	183 Ps.	2,528 Ps.	2,050 Ps.	2,063 Ps.	1,967 Ps.	1,886
Capital expenditures ⁽⁶⁾		347	4,802	3,682	2,863	2,516	2,401

U.S. GAAP

Depreciation ⁽⁴⁾⁽⁵⁾⁽⁷⁾	\$	202 Ps.	2,661 Ps.	2,181 Ps.	1,921 Ps.	1,752 Ps.	1,531
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(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 13.8320 to US\$ 1.00 solely for the convenience of the reader.

(2) For the year ended December 31, 2004, computed on the basis of 1,846.4 million shares outstanding, the weighted average shares outstanding during 2004 after giving effect to the rights offering that expired in September 2004. For the years ended December 31, 2008, 2007, 2006 and 2005, computed on the basis of 1,846.5 million shares outstanding.

(3) We include employee profit sharing as part of income from operations for purposes of U.S. GAAP.

(4) Excludes estimated breakage of bottles and cases and amortization of other assets. See the consolidated statement of cash flows for 2008 and the consolidated statement of changes in financial position for 2007 and 2006 included in our consolidated financial statements.

(5) Includes depreciation of coolers reclassified to property, plant and equipment during 2008. Figures for previous years have been restated for comparison purposes.

(6) Includes investments in property, plant and equipment, bottles and cases and deferred charges, net of the book value of disposed assets.

(7) Expressed in historical Mexican pesos.

Dividends and Dividend Policy

The following table sets forth the nominal amount in Mexican pesos of dividends declared and paid per share each year and the U.S. dollar amounts on a per share basis actually paid to holders of American Depositary Shares, which we refer to as ADSs, on each of the respective payment dates.

Fiscal Year with Respect to which Dividend was Declared	Date Dividend Paid	Mexican Pesos per Share (Nominal)	U.S. Dollars per Share⁽¹⁾
2004	May 4, 2005	0.336	0.031
2005	June 15, 2006	0.376	0.033
2006	May 15, 2007	0.438	0.041
2007	May 6, 2008	0.512	0.049
2008	April 13, 2009	0.727	0.054

(1) Expressed in U.S. dollars using the exchange rate applicable when the dividend was paid.

The declaration, amount and payment of dividends are subject to approval by holders of our Series A Shares and Series D Shares voting as a single class, generally upon the recommendation of our board of directors, and will depend upon our operating results, financial condition, capital requirements, general business conditions and the requirements of Mexican law. Accordingly, our historical dividend payments are not necessarily indicative of future dividends.

Holders of Series L Shares, including in the form of ADSs, are not entitled to vote on the declaration and payments of dividends.

Exchange Rate Information

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rate expressed in Mexican pesos per U.S. dollar.

<u>Period</u>	Exchange Rate							
	High		Low		Average⁽¹⁾		End of Period	
2004	Ps.	11.64	Ps.	10.81	Ps.	11.31	Ps.	11.15
2005		11.41		10.41		10.87		10.63
2006		11.46		10.43		10.90		10.80
2007		11.27		10.67		10.93		10.92
2008		13.94		9.92		11.21		13.83

Source: The Federal Reserve Bank of New York and U.S. Federal Reserve Board

(1) Average month-end rates.

	Exchange Rate					
	High		Low		End of Period	
2007:						
First Quarter	Ps.	11.18	Ps.	10.77	Ps.	11.04
Second Quarter		11.03		10.71		10.79
Third Quarter		11.27		10.73		10.93
Fourth Quarter		11.00		10.67		10.92
2008:						
First Quarter	Ps.	10.97	Ps.	10.63	Ps.	10.63
Second Quarter		10.60		10.27		10.30
Third Quarter		10.97		9.92		10.97
Fourth Quarter		13.94		10.97		13.83
December		13.83		13.09		13.83
2009:						
First Quarter	Ps.	15.41	Ps.	13.33	Ps.	14.21
January		14.33		13.33		14.33
February		15.09		14.09		15.09
March		15.41		14.02		14.21
April		13.89		13.05		13.80
May		13.82		12.88		13.18

Source: The Federal Reserve Bank of New York and the U.S. Federal Reserve Board

On June 26, 2009, the exchange rate was Ps. 13.24 to US\$ 1.00, according to the U.S. Federal Reserve Board.

We pay all cash dividends in Mexican pesos. As a result, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of our ADSs, which represent ten Series L Shares, on conversion by the depositary for our ADSs of cash dividends on the shares represented by such ADSs. In addition, fluctuations in the exchange rate between the Mexican peso and the U.S. dollar would affect the market price of our ADSs. The Mexican peso has devalued significantly since the fourth quarter of 2008 against the U.S. dollar.

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 98% of our sales volume in 2008 was derived from sales of *Coca-Cola* trademark beverages. In each of our territories, we produce, market and distribute *Coca-Cola* trademark beverages through standard bottler agreements. 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. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages over a three-year period in Brazil beginning in 2006 and in Mexico beginning in 2007. These increases have now been fully implemented in Brazil and will be fully implemented in Mexico during 2009. 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 sparkling beverages 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 sparkling beverage product or distributing other beverages without The Coca-Cola Company's authorization or consent. We may not transfer control of the bottler rights of any of our territories without the consent of The Coca-Cola Company.

We depend on The Coca-Cola Company to renew our bottler agreements. Our bottler agreements for Mexico expire in 2013 for two territories and 2015 for two other territories, renewable in each case for ten-year terms. Our bottler agreements for Guatemala, Costa Rica, Nicaragua, Panama (other beverages), Venezuela and Colombia expire on July 31, 2009, pursuant to letters of extension. These bottler agreements are renewable as agreed between the parties. Our bottler agreement for *Coca-Cola* trademark beverages for Panama has an indefinite term but may be terminated with six months prior written notice by either party. Our bottler agreement for Argentina expires in 2014. Our bottler agreement for Brazil expired in December 2004. We are operating under the terms of the existing Brazilian bottler agreement in the acquired territory of Refrigerantes Minas Gerais Ltda., or REMIL. For the expired agreements and the agreements expiring this year, we are currently in the process of negotiating renewals of our agreements on similar terms and conditions as the rest of the countries, and we and The Coca-Cola Company will continue operating under the terms of the existing agreements. See Item 4. Information on the Company Bottler Agreements. 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 case of material breach. 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 Fomento Económico Mexicano, S.A.B. de C.V., which we refer to as FEMSA, have significant influence on the conduct of our business. The Coca-Cola Company indirectly owns 31.6% of our outstanding capital stock, representing 37.0% 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 53.7% of our outstanding capital stock, representing 63.0% of our capital stock with full voting rights. FEMSA is

entitled to appoint 11 of our 18 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 may 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 main 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, sales and distribution agreements with Cervejarias Kaiser Brasil, or Cervejarias Kaiser, a Brazilian brewer, 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. We also have agreed to jointly develop still beverages and waters in our territories with The Coca-Cola Company and have entered into joint ventures and jointly acquired companies with The Coca-Cola Company. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. On May 8, 2009 we entered into an agreement to develop jointly with The Coca-Cola Company the *Crystal* trademark water products in Brazil. We completed this transaction on May 28, 2009. 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.

Competition could adversely affect our financial performance.

The beverage industry throughout Latin America is highly competitive. We face competition from other bottlers of sparkling beverages such as Pepsi products, and from producers of low cost beverages or B brands. We also compete against beverages other than sparkling beverages 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. Our main competition in the juice category in Mexico is Jumex, the largest juice producer in the country. In the water category, *Bonafont*, a water brand owned by Danone, is our main competition. We have also experienced stronger competition in Mexico from lower priced sparkling beverages in larger, multiple serving packaging. In Brazil and Argentina, we compete with Companhia de Bebidas das Américas, commonly referred to as Ambev, the largest brewer in Latin America and a subsidiary of InBev S.A., which sells Pepsi products in addition to a portfolio that includes local brands with flavors such as guaraná and proprietary beers. In each of our territories we compete with Pepsi bottlers and with various other bottlers and distributors of nationally and regionally advertised sparkling beverages.

Changes in consumer preference could reduce demand for some of our products.

The non-alcoholic beverage industry is rapidly evolving as a result of, among other things, changes in consumer preferences. Specifically, consumers are becoming increasingly more aware of and concerned about environmental and health issues. Concerns over the environmental impact of plastic may reduce the consumption of our products sold in plastic bottles or result in additional taxes that would adversely affect consumer demand. In addition, researchers, health advocates and dietary guidelines are encouraging consumers to reduce their consumption of certain types of beverages sweetened with sugar and high fructose corn syrup, which could reduce demand for certain of our products. A reduction in consumer demand would adversely affect our results of operations.

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

Water is an essential component of our products. 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 wells pursuant to concessions granted by the Mexican government. We obtain the vast majority of the water used in our sparkling beverage 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 some of 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 will prove sufficient to meet our water supply needs.

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

Our most significant raw materials are (1) concentrate, which we acquire from affiliates of The Coca-Cola Company, (2) packaging materials and (3) 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 in local currency, net of applicable taxes. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages over a three-year period in Brazil beginning in 2006 and in Mexico beginning in 2007. These increases have now been fully implemented in Brazil and will be fully implemented in Mexico during 2009. 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, including those used in the bottling of our products, mainly resin, ingots to make plastic bottles, finished plastic bottles, aluminum cans and high fructose corn syrup, 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 the country in which we operate, as was the case in 2008. See Item 4. Information on the Company The Company Raw Materials.

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 and global resin supply. The average prices that we paid for resin and plastic ingots in U.S. dollars in 2008 decreased significantly compared to 2007, although prices may increase in future periods. 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. Sweetener prices in Mexico decreased during 2008 as compared to the previous year. In Colombia, average sweetener prices paid during 2008 remained flat as compared to 2007. In the rest of our operations, sweetener prices for 2008 were higher as compared to 2007. Sugar prices in Brazil in recent periods have been volatile, mainly due to the increased demand for sugar cane for production of alternative fuels. Although sweetener prices in Brazil decreased during 2008, the average cost of sweetener was higher than in 2007. In Venezuela, we have experienced sugar shortages that have adversely affected our operations. These shortages were due to insufficient domestic production to meet demand and current restrictions on sugar imports.

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 goods sold and adversely affect our results of operations.

Taxes on sparkling beverages could adversely affect our business.

Our products are subject to certain 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. Certain countries in Central America, Brazil and Argentina impose taxes on sparkling beverages. See Item 4. Information on the Company Regulation Taxation of Sparkling Beverages. 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, health and antitrust. Regulations can also affect our ability to set prices for our products. See Item 4. Information of the Company Regulation. 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 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 sparkling beverages 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. See Item 8. Financial Information Legal Proceedings. 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 certain circumstances. They generally may elect three of our 18 directors and are only entitled to vote on specific matters, including certain changes in our corporate form, mergers involving our company when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of our shares and those matters that expressly require approval under the Mexican Securities Law. As a result, Series L shareholders 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, Transfer Restrictions and Certain Minority Rights.

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

Our shares are traded on the New York Stock Exchange (NYSE) in the form of ADSs. Holders of our shares in the form of ADSs may not 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.

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 do not provide a remedy for shareholders relating to violations of fiduciary duties, 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.

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, other than in connection with a public offering of newly issued shares or treasury stock, 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 United States Securities and Exchange Commission, or 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, as amended. 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 may decide not to 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.

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 territory. For the year ended December 31, 2008, 41% of our total revenues were attributable to Mexico. The Mexican economy is currently experiencing a downturn as a result of the impact of the global financial crisis on many emerging economies during the second half of last year. In the fourth quarter of 2008, Mexican gross domestic product, or GDP, contracted by approximately 1.7% year on year, and Banco de México expects GDP to contract by approximately 5% in 2009. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in Mexico. In addition, concerns and reactions relating to the recent outbreak of Influenza A (H1N1) may further adversely affect macroeconomic conditions in Mexico.

Prolonged periods of weak economic conditions in Mexico may have, and in the past have had, a negative effect on our company and 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 47.8% of our total debt as of December 31, 2008, 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. Since the second half of 2008 and continuing into 2009, the value of the Mexican peso relative to the U.S. dollar has fluctuated significantly. According to the U.S. Federal Reserve Board during 2008, the exchange rate registered a low of Ps. 9.9166 to US\$ 1.00 at August 5, 2008, and a high of Ps. 13.8320 to US\$ 1.00 at December 31, 2008. As of June 26, 2009, the exchange rate was Ps. 13.2425 to US\$ 1.00. See Key Information Exchange Rate Information and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.

We generally do not hedge our exposure to the U.S. dollar with respect to the Mexican peso and other currencies, other than with respect to our U.S. dollar-denominated debt obligations. 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. 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.

Mexican political events may significantly affect our operations. Presidential elections in Mexico occur every six years, and the most recent election occurred in July 2006. Elections in both houses of the Mexican Congress also occurred in July 2006, and although the Partido Acción Nacional won a plurality of the seats in the Mexican Congress in the election, no party succeeded in securing a majority in either chamber of the Mexican Congress. The absence of a clear majority by a single party is likely to continue even after the next *Cámara de Diputados* (House of Representatives) election in July 2009. This situation may result in government gridlock and political uncertainty. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results of operations.

Economic and political conditions in the other Latin American countries in which we operate may increasingly adversely affect our business.

In addition to Mexico, we conduct operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. Product sales and income from operations from our combined non-Mexican operations increased as a percentage of our consolidated product sales and income from operations from 42.8% and 29.5%, respectively, in 2005 to 59.1% and 50.9%, respectively, in 2008. We expect this trend to continue in future periods. As a consequence, our future results will be increasingly affected by the economic and political conditions in the countries, other than Mexico, where we conduct operations.

Consumer demand, preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic and political conditions in the other countries in which we operate. These conditions vary by country and may not be correlated to conditions in our Mexican operations. The International Monetary Fund, or IMF, reported that GDP growth slowed in the fourth quarter of 2008 in the countries in which we operate. For 2009, primarily as a result of global economic conditions and commodity prices, the IMF predicts GDP contraction in Mexico, Venezuela, Brazil and Argentina. The IMF has also predicted zero growth in Colombia and slow growth in Guatemala, Nicaragua, Costa Rica and Panama. In addition, Brazil and Colombia have a history of economic volatility and political instability. In Venezuela we face exchange rate risk as well as work stoppages and potential scarcity of raw materials. Deterioration in economic and political conditions in any of these countries would have an adverse effect on our financial position and results of operations.

Devaluation of the local currencies in countries other than Mexico against the U.S. dollar may increase our operating costs in these countries, and depreciation of the local currencies in these countries against the Mexican peso may negatively affect the results of operations for these countries as reported in our financial statements. In recent years, the value of the currency in the countries in which we operate has been relatively stable. Last year, the Mexican peso and currencies of other countries, specifically the Brazilian real and the Colombian peso, have depreciated relative to the U.S. dollar due to global volatility. The Brazilian real also depreciated relative to the Mexican peso. According to the U.S. Federal Reserve Board, during 2008, the Brazilian real depreciated from a low of 1.5580 Brazilian reais per U.S. dollar on August 1, 2008, to a high of 2.6187 Brazilian reais per U.S. dollar on December 5, 2008, and, according to the Central Bank of Brazil, depreciated from a low of 0.1542 Brazilian reais to Ps. 1.00 on July 2, 2008, to a high of 0.1981 Brazilian reais to Ps. 1.00 on October 8, 2008. On December 31, 2008, the exchange rate was 2.3130 Brazilian reais to US\$ 1.00 and 0.1693 Brazilian reais to Ps. 1.00. On June 26, 2009, the exchange rate was 1.9444 Brazilian reais to US\$ 1.00 and 0.1469 Brazilian reais to Ps. 1.00. According to the Central Bank of Colombia, the Colombian peso during 2008 also depreciated from a low of 1,652.41 Colombian pesos to US\$ 1.00 on July 19, 2008, to a high of 2,389.28 Colombian pesos to US\$ 1.00 on November 4, 2008. On December 31, 2008, the exchange rate was 2,243.59 Colombian pesos to US\$ 1.00. On June 26, 2009, the exchange rate was 2,188.50 Colombian pesos to US\$ 1.00. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rate Risk.

We have also operated under exchange controls in Venezuela since 2003 that affect our ability to remit dividends abroad or make payments other than in local currencies and that may increase the real price paid for raw materials purchased in local currency. Future currency devaluation or the imposition of exchange controls in any of these countries would have an adverse effect on our financial position and 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 2008. 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, part of the state of Minas Gerais and part of the state of Goiás.

Argentina Buenos Aires and surrounding areas.

Our company was organized on October 30, 1991 as a *sociedad anónima de capital variable* (a variable capital stock corporation) under the laws of Mexico with a duration of 99 years. On December 5, 2006, in response to amendments to the Mexican Securities Law, we became a *sociedad anónima bursátil de capital variable* (a variable capital listed stock corporation). Our legal name is Coca-Cola FEMSA, S.A.B. de C.V. 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.

The following is an overview of our operations by segment in 2008:

Operations by Segment Overview
Year Ended December 31, 2008⁽¹⁾

	Total	Percentage	Income	Percentage
	Revenues	of	from	of
		Total	Operations	Income
		Revenues		from
				Operations
Mexico	33,799	40.7%	6,715	49.0%
Latinentro ⁽²⁾	12,791	15.4%	2,370	17.3%
Venezuela	15,182	18.3%	1,289	9.5%
Mercosur ⁽³⁾	21,204	25.6%	3,321	24.2%
Consolidated	82,976	100%	13,695	100%

(1) Expressed in millions of Mexican pesos, except for percentages.

- (2) Includes Guatemala, Nicaragua, Costa Rica, Panama and Colombia.
- (3) Includes Brazil and Argentina.

Corporate History

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

In 1979, a subsidiary of FEMSA acquired certain sparkling beverage bottlers that are now a part of our company. At that time, the acquired bottlers had 13 Mexican distribution centers operating 701 distribution routes, and their production capacity was 83 million physical cases. In 1991, FEMSA transferred its ownership in the bottlers to FEMSA Refrescos, S.A. de C.V., the corporate predecessor to Coca-Cola FEMSA, S.A.B. de C.V.

In June 1993, a subsidiary of The Coca-Cola Company subscribed for 30% of our capital stock in the form of Series D Shares for US\$ 195 million. In September 1993, FEMSA sold Series L Shares that represented 19% of our capital stock to the public, and we listed these shares on the Mexican Stock Exchange and, in the form of ADSs, on the New York Stock Exchange. In a series of transactions between 1994 and 1997, we acquired territories in Argentina and additional territories in southern Mexico.

In May 2003, we acquired Panamerican Beverages, or Panamco, and began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central and the gulf regions of Mexico and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. As a result of the acquisition, the interest of The Coca-Cola Company in the capital stock of our company increased from 30% to 39.6% .

During August 2004, we conducted a rights offering to allow existing holders of our Series L Shares and ADSs to acquire newly-issued Series L Shares in the form of Series L Shares and ADSs, respectively, at the same price per share at which FEMSA and The Coca-Cola Company subscribed in connection with the Panamco acquisition. On March 8, 2006, our shareholders approved the non-cancellation of the 98,684,857 Series L Shares (equivalent to approximately 9.87 million ADSs, or over one-third of the outstanding Series L Shares) that were not subscribed for in the rights offering which were available for issuance at a price of no less than US\$ 2.216 per share or its equivalent in Mexican currency.

On November 3, 2006, FEMSA acquired, through a subsidiary, 148,000,000 of our Series D Shares from certain subsidiaries of The Coca-Cola Company representing 9.4% of the total outstanding voting shares and 8.0% of the total outstanding equity of Coca-Cola FEMSA, at a price of US\$ 2.888 per share for an aggregate amount of US\$ 427.4 million. With this purchase, FEMSA increased its ownership to 53.7% of our capital stock. Pursuant to our bylaws, the acquired shares were converted from Series D Shares to Series A Shares.

On November 8, 2007, Administración, S.A.P.I. de C.V., or Administración, a Mexican joint venture company owned directly or indirectly by us and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle. Subsequent to the initial acquisition of Jugos del Valle by Administración, we and The Coca-Cola Company invited all Mexican and Brazilian *Coca-Cola* bottlers to participate in a joint venture in the Mexican and Brazilian business, respectively, of Jugos del Valle on the same basic terms and conditions. In Mexico and Brazil, all of the *Coca-Cola* bottlers agreed to participate in the corresponding sale of the shares, which was completed during 2008. We hold an indirect stake of approximately 20% in each of the Mexican joint venture and the Brazilian joint venture. See Acquisitions Jugos del Valle Acquisition.

On May 30, 2008, we entered into a purchase agreement with The Coca-Cola Company to acquire its wholly owned bottling franchise located in the state of Minas Gerais, REMIL, in Brazil, and we paid a purchase price of US\$ 364.1 million in June 2008. We consolidate REMIL in our financial statements as of June 1, 2008.

On December 21, 2007 and on May 30, 2008, we sold most of our proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to us by The Coca-Cola Company pursuant to our existing bottler agreements. The December 21, 2007 transaction was valued at US\$ 48 million and the May 30, 2008 transaction was valued at US\$ 16 million. Both of these transactions were conducted on an arm's length basis. Revenues from the sale of proprietary brands in which we have a significant continuing involvement (i.e., will continue to produce and sell)

are deferred and amortized against the related costs of future sales over the period of the sales arrangement.

In July 2008, we acquired the *Agua De Los Angeles* jug water business in the valley of Mexico from Grupo Embotellador CIMSА, S.A. de C.V., one of the Coca-Cola bottling franchises in Mexico, for a purchase price of US\$ 18.3 million. The brands remain with The Coca-Cola Company.

In February 2009, we acquired with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, a subsidiary of SABMiller. We acquired the production assets and the distribution territory, and The Coca-Cola Company obtained the *Brisa* brand. We and The Coca-Cola Company equally shared in paying the purchase price of US\$ 92 million. The parties also agreed to an arrangement, pursuant to which Bavaria will continue to produce, sell and distribute *Brisa* for a transition period.

On May 8, 2009 we entered into an agreement to develop jointly with The Coca-Cola Company the *Crystal* trademark water products in Brazil. We completed this transaction on May 28, 2009.

As of March 31, 2009, FEMSA indirectly owned Series A Shares equal to 53.7% of our capital stock (63% of our capital stock with full voting rights), and The Coca-Cola Company indirectly owned Series D Shares equal to 31.6% of the capital stock of our company (37% of our capital stock with full voting rights). Series L Shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange, constitute the remaining 14.7% of our capital stock.

Business Strategy

We are the largest bottler of *Coca-Cola* trademark beverages in Latin America in terms of total sales volume in 2008, with operations in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. While our corporate headquarters are in Mexico City, we have established divisional headquarters in the following three regions:

Mexico with headquarters in Mexico City;

Latincentro (covering territories in Guatemala, Nicaragua, Costa Rica, Panama, Colombia and Venezuela) with headquarters in San José, Costa Rica; and

Mercosur (covering territories in Brazil and Argentina) with headquarters in São Paulo, Brazil.

We seek to provide our shareholders with an attractive return on their investment by increasing our profitability. The key factors in achieving increased revenues and profitability are (1) implementing multi-segmentation strategies in our major markets to target distinct market clusters divided by consumption occasion, competitive intensity and socioeconomic levels; (2) implementing well-planned product, packaging and pricing strategies through channel distribution; (3) driving product innovation along our different product categories and (4) achieving operational efficiencies throughout our company. To achieve these goals we continue our efforts in:

working with The Coca-Cola Company to develop a business model to continue exploring new lines of beverages, extend existing product lines, participate in new beverage lines and effectively advertise and market our products;

developing and expanding our still beverage portfolio through strategic acquisitions and by entering into joint ventures with The Coca-Cola Company;

implementing packaging strategies designed to increase consumer demand for our products and to build a strong returnable base for the *Coca-Cola* brand selectively;

replicating our best practices throughout the whole value chain;

rationalizing and adapting our organizational and asset structure in order to be in a better position to respond to a changing competitive environment;

strengthening our selling capabilities and go-to-market strategies, including pre-sale, conventional selling and hybrid routes, in order to get closer to our clients and help them satisfy the beverage needs of consumers;

expanding our bottled water strategy, in conjunction with The Coca-Cola Company through innovation and selective acquisitions to maximize its profitability across our market territories;

committing to building a multi-cultural collaborative team, from top to bottom; and

seeking to expand our geographical footprint.

We seek to increase per capita consumption of our products in the territories in which we operate. To that end, our marketing teams continuously develop sales strategies tailored to the different characteristics of our various territories and channels. We continue to develop our product portfolio to better meet market demand and maintain our overall profitability. To stimulate and respond to consumer demand, we continue to introduce new products and new presentations. See Product and Packaging Mix. We also seek to increase placement of coolers, including promotional displays, in retail outlets in order to showcase and promote our products. In addition, because we view our relationship with The Coca-Cola Company as integral to our business strategy, we use market information systems and strategies developed with The Coca-Cola Company to improve our coordination with the worldwide marketing efforts of The Coca-Cola Company. See Marketing Channel Marketing.

We seek to rationalize our manufacturing and distribution capacity to improve the efficiency of our operations. In 2003 and 2004, as part of the integration process from our acquisition of Panamco, we closed several under-utilized manufacturing centers and shifted distribution activities to other existing facilities. In 2005, 2006 and 2007, we closed additional distribution centers. In 2008, we also closed a distribution facility serving our Mexican operations. See

Description of Property, Plant and Equipment.

In each of our facilities, we seek to increase productivity in our facilities through infrastructure and process reengineering for improved asset utilization. Our capital expenditure program includes investments in production and distribution facilities, bottles, cases, coolers and information systems. We believe that this program will allow us to maintain our capacity and flexibility to innovate and to respond to consumer demand for our products.

Finally, we focus on management quality as a key element of our growth strategies and remain committed to fostering the development of quality management at all levels. Both FEMSA and The Coca-Cola Company provide us with managerial experience. To build upon these skills, we also offer management training programs designed to enhance our executives' abilities and exchange experiences, know-how and talent among an increasing number of multinational executives from our new and existing territories.

Our Territories

The following map shows our territories, giving estimates in each case of the population to which we offer products, the number of retailers of our beverages and the per capita consumption of our sparkling beverages:

Per capita consumption data for a territory is determined by dividing sparkling beverage sales volume within the territory (in bottles, cans, and fountain containers) by the estimated population within such territory, and is expressed on the basis of the number of eight-ounce servings of our products consumed annually per capita. In evaluating the development of local volume sales in our territories and to determine product potential, we and The Coca-Cola Company measure, among other factors, the per capita consumption of our sparkling beverages.

Our Products

We produce, market and distribute *Coca-Cola* trademark beverages and brands licensed from FEMSA. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters, and still beverages (including juice drinks, teas and isotonic). On December 21, 2007 and on May 30, 2008, we sold most of our proprietary brands to The Coca-Cola Company. The following table sets forth our main brands as of March 31, 2009:

<i>Colas:</i>	<u>Mexico</u>	<u>Central America</u>	<u>Colombia</u>	<u>Venezuela</u>	<u>Brazil</u>	<u>Argentina</u>
<i>Coca-Cola</i>	√	√	√	√	√	√
<i>Coca-Cola light</i>	√	√	√	√	√	√
<i>Coca-Cola Zero</i>	√	√	√	√	√	√
 <i>Flavored sparkling beverages:</i>	 <u>Mexico</u>	 <u>Central America</u>	 <u>Colombia</u>	 <u>Venezuela</u>	 <u>Brazil</u>	 <u>Argentina</u>
<i>Aquarius Fresh</i>					√	
<i>Chinotto</i>				√		
<i>Crush</i>			√			√
<i>Fanta</i>	√	√			√	√
<i>Fresca</i>	√	√				
<i>Frescolita</i>		√		√		
<i>Hit</i>				√		
<i>Kuat</i>					√	
<i>Lift</i>	√	√				
<i>Mundet⁽¹⁾</i>	√					
<i>Quatro</i>			√			√
<i>Simba</i>					√	
<i>Sprite</i>	√	√	√		√	√
 <i>Water:</i>	 <u>Mexico</u>	 <u>Central America</u>	 <u>Colombia</u>	 <u>Venezuela</u>	 <u>Brazil</u>	 <u>Argentina</u>
<i>Alpina</i>		√				
<i>Brisa</i>			√	√		

<i>Ciel</i>	√				
<i>Crystal</i>					√
<i>Manantial</i>			√	√	
<i>Nevada</i>				√	
<i>Santa Clara</i> ⁽²⁾			√	√	

<i>Other Categories:</i>	<u>Mexico</u>	<u>Central America</u>	<u>Colombia</u>	<u>Venezuela</u>	<u>Brazil</u>	<u>Argentina</u>
<i>Dasani</i> ⁽³⁾		√	√			√
<i>Hi-C</i> ⁽⁴⁾		√				√
<i>Jugos del Valle</i> ⁽⁴⁾	√	√	√		√	
<i>Nestea</i>	√	√		√	√	
<i>Powerade</i> ⁽⁵⁾	√	√	√	√		

-
- (1) Brand licensed from FEMSA.
 - (2) Proprietary brand.
 - (3) Flavored water. In Argentina, also as still water.
 - (4) Juice based drink.
 - (5) Isotonic.

Sales Overview

We measure total sales volume in terms of unit cases. Unit case refers to 192 ounces of finished beverage product (24 eight-ounce servings) and, when applied to fountain syrup, powders and concentrate, refers to the volume of fountain syrup, powders and concentrate that is required to produce 192 ounces of finished beverage product. The following table illustrates our historical sales volume for each of our territories.

	Sales Volume		
	Year Ended December 31,		
	2008	2007	2006
	(millions of unit cases)		
Mexico	1,149.0	1,110.4	1,070.7
Central America ⁽¹⁾	132.6	128.1	120.3
Colombia	197.9	197.8	190.9
Venezuela	206.7	209.0	182.6
Brazil ⁽²⁾	370.6	296.1	268.7
Argentina	186.0	179.4	164.9
Combined Volume	2,242.8	2,120.8	1,998.1

(1) Includes Guatemala, Nicaragua, Costa Rica and Panama.

(2) Excludes beer sales volume. As of June 2008, includes sales from REMIL.

Product and Packaging Mix

Our most important brand is *Coca-Cola* and its line extensions, *Coca-Cola light*, *Coca-Cola Zero* and *Coca-Cola light caffeine free*, which together accounted for 62.5% of total sales volume in 2008. *Ciel* (including bulk presentations and volumes from Agua De Los Angeles), *Fanta*, *Sprite*, *Lift* and *Fresca*, our next largest brands in consecutive order, accounted for 10.7%, 5.7%, 2.8%, 1.5% and 1.3%, respectively, of total sales volume in 2008. We use the term line extensions to refer to the different flavors in which we offer our brands. We produce, market and distribute *Coca-Cola* trademark beverages in each of our territories in containers authorized by The Coca-Cola Company, which consist of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles made of polyethylene terephthalate, which we refer to as PET.

We use the term presentation to refer to the packaging unit in which we sell our products. Presentation sizes for our *Coca-Cola* trademark beverages range from a 6.5 -ounce personal size to a 3-liter multiple serving size. For all of our products excluding water, we consider a multiple serving size as equal to or larger than 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. We offer both returnable and non-returnable presentations, which allow us to offer different combinations of convenience and price to implement revenue management strategies and to target specific distribution channels and population segments in our territories. In addition, we sell some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which we refer to as fountain. We also sell bottled water products in bulk sizes, which refer to presentations equal to or larger than 5 liters, which have a much lower average price per unit case than our other beverage products.

Our core brands are principally the *Coca-Cola* trademark beverages. We sell certain of these brands or their line extensions at a premium in some of our territories, in which case we refer to them as premium brands. We also sell certain other brands at a lower price per ounce, which we refer to as value protection brands.

The characteristics of our territories are very diverse. Central Mexico and our territories in Argentina are densely populated and have a large number of competing sparkling beverages brands as compared to the rest of our territories. Brazil is densely populated but has lower per capita consumption of sparkling beverage products as compared to Mexico. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower per capita consumption of sparkling beverages. In

Venezuela, per capita consumption of our products has remained stable mainly due to short-term operating disruptions over the past few years.

The following discussion analyzes our product and packaging mix by segment. The volume data presented is for the years 2008, 2007 and 2006.

Mexico. Our product portfolio consists of *Coca-Cola* trademark beverages, and since 2001 has included *Mundet* trademark beverages. In 2007, as part of our efforts to strengthen the *Coca-Cola* brand we launched *Coca-Cola Zero*, a line extension of the *Coca-Cola* brand. Sparkling beverage per capita consumption of our products in our Mexican territories in 2008 was 411 eight-ounce servings.

The following table highlights historical sales volume and mix in Mexico for our products:

	Year Ended December 31,		
	2008	2007	2006
Product Sales Volume	(millions of unit cases)		
Total	1,149.0	1,110.4	1,070.7
% Growth	3.5%	3.7%	4.5%
Unit Case Volume Mix by Category	(in percentages)		
Sparkling beverages	75.4%	78.3%	79.6%
Water ⁽¹⁾	21.6	20.7	19.5
Still beverages	3.0	1.0	0.9
Total	100.0%	100.0%	100.0%

(1) Includes jug volume.

In 2008, our most popular sparkling beverage presentations were the 2.5 -liter returnable plastic bottle, the 0.6 -liter non-returnable plastic bottle and the 2.5 -liter non-returnable plastic bottle, which together accounted for 62.1% of total sparkling beverage sales volume in Mexico. Multiple serving presentations represented 64.4% of total sparkling beverages sales volume in Mexico in 2008, a 1.3% increase compared to 2007. Our commercial strategies seek to foster consumption in single serving presentations while maintaining multiple serving volumes. In 2008, our sparkling beverages decreased as a percentage of our total sales volume from 78.9% in 2007 to 75.9% in 2008, mainly due to the introduction of the *Jugos del Valle* line of products and the Agua De Los Angeles jug water business.

Total sales volume reached 1,149.0 million unit cases in 2008, an increase of 3.5% compared to 1,110.4 million unit cases in 2007. Sparkling beverages sales volume remained stable as compared to 2007. The still beverage category accounted for approximately 60% of the total incremental volumes during the year. Still beverage growth was mainly driven by the introduction of the *Jugos del Valle* line of products, especially *Valle Frut*.

Central America. Our product sales in Central America consist predominantly of *Coca-Cola* trademark beverages. Sparkling beverages per capita consumption in Central America of our products was 151 eight-ounce servings in 2008.

The following table highlights historical total sales volume and sales volume mix in Central America:

	Year Ended December 31,		
	2008	2007	2006
Product Sales Volume	(millions of unit cases)		
Total	132.6	128.1	120.3
% Growth	3.5%	6.5%	10.0%
Unit Case Volume Mix by Category	(in percentages)		
Sparkling beverages	88.8%	89.7%	90.9%
Water	4.2	4.3	4.4
Still beverages	7.0	6.0	4.7
Total	100.0%	100.0%	100.0%

In 2008, multiple serving presentations represented 54.1% of total sparkling beverage sales volume in Central America, compared with 51.8% in 2007.

Total sales volume was 132.6 million unit cases in 2008, increasing 3.5% compared to 128.1 million in 2007. Sparkling beverages accounted for more than 65% of our total incremental volume and still beverages represented the majority of the balance.

Colombia. Our product portfolio in Colombia consists mainly of *Coca-Cola* trademark beverages. Sparkling beverages per capita consumption of our products in Colombia during 2008 was 89 eight-ounce servings.

The following table highlights historical total sales volume and sales volume mix in Colombia:

	Year Ended December 31,		
	2008	2007	2006
Product Sales Volume	(millions of unit cases)		
Total	197.9	197.8	190.9
% Growth	0.0%	3.6%	6.2%
Unit Case Volume Mix by Category	(in percentages)		
Sparkling beverages	87.1%	87.6%	87.9%
Water ⁽¹⁾	10.0	11.0	10.9
Still beverages	2.9	1.4	1.2
Total	100.0%	100.0%	100.0%

(1) Includes jug volume.

In 2008, multiple serving presentations represented 55.4% of total sparkling beverages sales volume in Colombia. In 2008, as part of our efforts to strengthen the *Coca-Cola* brand, we launched *Coca-Cola Zero*, a line extension of the *Coca-Cola* brand.

Total sales volume was 197.9 million unit cases in 2008, remaining stable as compared to 197.8 million in 2007, driven by still beverages volume growth, due to the introduction of *Jugos del Valle* line of products, which compensated for a slight decline in sparkling beverages.

Venezuela. Our product portfolio in Venezuela consists predominantly of *Coca-Cola* trademark beverages. Sparkling beverages per capita consumption of our products in Venezuela during 2008 was 161 eight-ounce servings.

The following table highlights historical total sales volume and sales volume mix in Venezuela:

	Year Ended December 31,		
	2008	2007	2006
Product Sales Volume	(millions of unit cases)		
Total	206.7	209.0	182.6
% Growth	(1.1%)	14.5%	5.9%
Unit Case Volume Mix by Category	(in percentages)		
Sparkling beverages	91.3%	90.4%	87.7%
Water	5.8	5.7	7.5
Still beverages	2.9	3.9	4.8
Total	100.0%	100.0%	100.0%

During 2008 we continued facing periodic operating difficulties that prevented us from producing and distributing enough supply. We have implemented a product portfolio rationalization strategy to minimize the impact of these disruptions. As a consequence, our sparkling beverage sales volume remained flat for the year.

In 2008, multiple serving presentations represented 75.3% of total sparkling beverages sales volume in Venezuela. Total sales volume was 206.7 million unit cases in 2008, a slight decrease of 1.1% compared to 209.0 million in 2007, mainly caused by operating disruptions we faced during the year.

Brazil. Our product portfolio in Brazil consists mainly of *Coca-Cola* trademark beverages and the *Kaiser* beer brand, which we sell and distribute on behalf of FEMSA. Sparkling beverage per capita consumption of our products in Brazil during 2008 was 213 eight-ounce servings.

The following table highlights historical total sales volume and sales volume mix in Brazil, not including beer:

	Year Ended December 31,		
	2008	2007	2006
Product Sales Volume	(millions of unit cases)		
Total	370.6	296.1	268.7
% Growth	25.2%	10.2%	6.4%
Unit Case Volume Mix by Category	(in percentages)		
Sparkling beverages	92.0%	91.7%	91.7%
Water	5.7	6.7	7.3
Still beverages	2.3	1.6	1.0
Total	100.0%	100.0%	100.0%

Beginning in June 2008, we integrated REMIL's franchise into our existing Brazilian operations. REMIL contributed 66.1 million unit cases of beverages to our sales volume during this seven-month period.

Total sales volume was 370.6 million unit cases in 2008, an increase of 25.2% compared to 296.1 million in 2007. Excluding REMIL, total sales volume increased 2.8%, of which sparkling beverages accounted for more than 80% of this growth during the year. In 2008, as part of our efforts to strengthen the still beverage category we launched *I-9*, a new hydro-tonic product enriched with minerals.

We sell and distribute the *Kaiser* brands of beer in our territories in Brazil. In January 2006, FEMSA acquired an indirect controlling stake in Cervejarias Kaiser. We continue to distribute the *Kaiser* beer portfolio and to assume the sales function in São Paulo, Brazil, consistent with the arrangements in place prior to 2004.

Beginning with the second quarter of 2005, we ceased including beer that we distribute in Brazil in our sales volumes.

Argentina. Our product portfolio in Argentina consists exclusively of *Coca-Cola* trademark beverages. Sparkling beverages per capita consumption of our products in Argentina during 2008 was 375 eight-ounce servings.

The following table highlights historical total sales volume and sales volume mix in Argentina:

	Year Ended December 31,		
	2008	2007	2006
Product Sales Volume	(millions of unit cases)		
Total	186.0	179.4	164.9
% Growth	3.7%	8.8%	9.8%
Unit Case Volume Mix by Category	(in percentages)		
Sparkling beverages	95.0%	96.2%	96.6%
Water	1.3	1.0	1.2
Still beverages	3.7	2.8	2.2
Total	100.0%	100.0%	100.0%

Returnable packaging accounted for 27.1% of total sales volume in Argentina in 2008 as compared to 25.2% in the previous year. In 2008, in our continued effort to develop the still water category, we launched *Aquarius*, a flavored water.

Total sales volume reached 186.0 million unit cases in 2008, an increase of 3.7% compared with 179.4 million in 2007. The majority of the volume growth came from our returnable presentations, which represented over 75% of the sales volume increase, and from growth of still beverages. In 2008, multiple serving presentations, as a percentage of sparkling beverage volume, remained flat at 84.3% .

Acquisitions

Jugos del Valle. On October 10, 2007, Administración, a Mexican joint venture company owned directly or indirectly by us and The Coca-Cola Company, launched a public tender offer to buy 100% of the outstanding capital stock of Jugos del Valle, for approximately US\$ 370 million in cash, equivalent to a price of US\$ 6.3409 per share, assuming liabilities of approximately US\$ 86 million.

On November 8, 2007, Administración, upon the expiration of the public tender offer, acquired 100% of the shares of capital stock of Jugos del Valle. This transaction was approved by the Mexican regulatory authorities and was carried out in Mexico. Jugos del Valle produces and sells fruit juices, beverages and other fruit derivatives. It is based in Mexico but markets its products internationally, particularly in Brazil and the United States of America.

Subsequent to the initial acquisition of Jugos del Valle by Administración, we and The Coca-Cola Company invited all Mexican and Brazilian *Coca-Cola* bottlers to participate in a joint venture in the Mexican and Brazilian business, respectively, of Jugos del Valle on the same basic terms and conditions. In Mexico and Brazil, all of the

Coca-Cola bottlers agreed to participate in the corresponding sale of the shares, which was completed during 2008. We hold an indirect stake of approximately 20% in each of the Mexican joint venture and the Brazilian joint venture.

The business of Jugos del Valle in the United States of America was acquired by The Coca-Cola Company.

Beginning in February 2008, we started to distribute *Jugos del Valle* brand juice-based beverages in our Mexican operations and gradually incorporated Jugos del Valle's juice-based products into some of our operations in the Latincentro and Mercosur divisions during the year. As a result, volume, average price per unit case, cost of goods sold and operating expenses related to these products are recorded in our consolidated results and results for the Mexico, Latincentro and Mercosur divisions.

REMIL. On May 30, 2008, we entered into a purchase agreement with The Coca-Cola Company to acquire its wholly owned bottling franchise located in the state of Minas Gerais (REMIL) in Brazil. We paid a purchase price of US\$ 364.1 million in June 2008.

Agua De Los Angeles. In July 2008, we acquired the *Agua De Los Angeles* jug water operation in the valley of Mexico for a purchase price of US\$ 18.3 million and we subsequently started to merge this business into our current jug water business under the *Ciel* brand.

Brisa. In February 2009, we acquired with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, a subsidiary of SABMiller. We acquired the production assets and the distribution territory, and The Coca-Cola Company obtained the *Brisa* brand. We and The Coca-Cola Company equally shared in paying the purchase price of US\$ 92 million. The parties also agreed to an arrangement, pursuant to which Bavaria will continue to produce, sell and distribute *Brisa* for a transition period. Brisa sold 47 million unit cases during 2008 in Colombia.

Seasonality

Sales of our products are seasonal, as our sales levels generally increase during the summer months of each country and during the Christmas holiday season. In Mexico, Central America, Colombia and Venezuela, we typically achieve our highest sales during the summer months of April through September as well as during the Christmas holidays in December. In Brazil and Argentina, our highest sales levels occur during the summer months of October through March and the Christmas holidays in December.

Marketing

Our company, in conjunction with The Coca-Cola Company, has developed a sophisticated marketing strategy to promote the sale and consumption of our products. We rely extensively on advertising, sales promotions and non-price related retailer incentive programs designed by local affiliates of The Coca-Cola Company to target the particular preferences of our consumers. Our marketing expenses in 2008, net of contributions by The Coca-Cola Company, were Ps. 2,376 million. The Coca-Cola Company contributed an additional Ps. 1,995 million in 2008, which includes contributions for coolers. Through the use of advanced information technology, we have collected customer and consumer information that allow us to tailor our marketing strategies to the types of customers located in each of our territories and to meet the specific needs of the various markets we serve.

Retailer Incentive Programs. Incentive programs include providing retailers with commercial coolers for the display and cooling of beverage products and for point-of-sale display materials. We seek, in particular, to increase cooler distribution among retailers to increase the visibility and consumption of our products and to ensure that they are sold at the proper temperature. Sales promotions include sponsorship of community activities, sporting, cultural and social events, and consumer sales promotions such as contests, sweepstakes and product giveaways.

Advertising. We advertise in all major communications media. We focus our advertising efforts on increasing brand recognition by consumers and improving our customer relations. National advertising campaigns are designed and proposed by The Coca-Cola Company's local affiliates, with our input at the local or regional level.

Channel Marketing. In order to provide more dynamic and specialized marketing of our products, our strategy is to classify our markets and develop targeted efforts for each consumer segment or distribution channel. Our principal channels are small retailers, on-premise consumption such as restaurants and bars, supermarkets and third party distributors. Presence in these channels entails a comprehensive and detailed analysis of the purchasing patterns and preferences of various groups of beverage consumers in each of the different types of locations or distribution channels. In response to this analysis, we tailor our product, price, packaging and distribution strategies to meet the

particular needs of and exploit the potential of each channel.

We believe that the implementation of our channel marketing strategy also enables us to respond to competitive initiatives with channel-specific responses as opposed to market-wide responses. This focused response capability isolates the effects of competitive pressure in a specific channel, thereby avoiding costlier market-wide responses. Our channel marketing activities are facilitated by our management information systems. We have invested significantly in creating these systems, including in hand-held computers to support the gathering of product, consumer and delivery information for most of our sales routes in Mexico and Argentina and selectively in other territories.

Multi-segmentation. We have been implementing a multi-segmentation strategy in the majority of our markets. This strategy consists of the implementation of different product/price/package portfolios by market cluster or group. These clusters are defined based on consumption occasion, competitive intensity and socioeconomic levels, rather than solely on the types of distribution channels. We have developed a market intelligence system that we refer to as the right-execution-daily system (RED), which has allowed us to implement this strategy. This system provides the data required to target specific consumer segments and channels and allows us to collect and analyze the data required to tailor our product, package, price and distribution strategies to fit different consumer needs.

Product Distribution

The following table provides an overview of our product distribution centers and the retailers to which we sell our products:

Product Distribution Summary as of December 31, 2008

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Distribution Centers	83	28	32	33	27	5
Retailers (in thousands) ⁽¹⁾	612	102	365	159	197	82

⁽¹⁾ Estimated.

We continuously evaluate our distribution model in order to fit with the local dynamics of the market place. We are currently analyzing the way we go to market, recognizing different service needs from our customers, while looking for a more efficient distribution model. As part of this strategy, we are rolling out a variety of new distribution models throughout our territories looking for improvements in our distribution network.

We use two main sales methods depending on market and geographic conditions: (1) the traditional or conventional truck route system, in which the person in charge of the delivery makes immediate sales from inventory available on the truck and (2) the pre-sale system, which separates the sales and delivery functions and allows sales personnel to sell products prior to delivery and trucks to be loaded with the mix of products that retailers have previously ordered, thereby increasing distribution efficiency. We have also begun to use a hybrid distribution system in some of our territories, where the same truck holds product available for immediate sale and product previously ordered through the pre-sale system. As part of the pre-sale system, sales personnel also provide merchandising services during retailer visits, which we believe enhance the presentation of our products at the point of sale. We believe that service visits to retailers and frequency of deliveries are essential elements in an effective selling and distribution system for our products. In certain areas, we also make sales through third party wholesalers of our products. The vast majority of our sales are on a cash basis.

Our distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to our fleet of trucks, we distribute our products in certain locations through a fleet of electric carts and hand-trucks in order to comply with local environmental and traffic regulations. We generally retain third parties to transport our finished products from the bottling plants to the distribution centers.

Mexico. We contract with a subsidiary of FEMSA for the transportation of finished products to our distribution centers from our Mexican production facilities. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. From the distribution centers, we then distribute our finished products to retailers through our own fleet of trucks. During 2008, we closed one of our 84 distribution centers in our Mexican operations.

In Mexico, we sell a majority of our beverages at small retail stores to customers who take the beverages home or elsewhere for consumption. We also sell products through the on-premise consumption segment, supermarkets and others. The on-premise consumption segment consists of sales through sidewalk stands, restaurants, bars and various types of dispensing machines as well as sales through point-of-sale programs in concert halls, auditoriums and theaters.

Territories other than Mexico. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. At the end of 2008, we operated 28 distribution centers in our Central American territories, 32 in Colombia, 33 in Venezuela, 27 in Brazil and five in Argentina.

In most of our territories, an important part of our total sales volume is sold through small retailers, with low supermarket penetration. In contrast, in Brazil we sold approximately 22% of our total sales volume through supermarkets in 2008. Also in Brazil, the delivery of our finished products to customers is completed by a third party, while we maintain control over the selling function. In designated zones in Brazil, third-party distributors purchase our products at a discount from the wholesale price and resell the products to retailers.

Competition

Although we believe that our products enjoy wider recognition and greater consumer loyalty than those of our principal competitors, the sparkling beverages market in the territories in which we operate are highly competitive. Our principal competitors are local bottlers of Pepsi and other bottlers and distributors of national and regional sparkling beverage brands. We face increased competition in many of our territories from producers of low price beverages, commonly referred to as B brands. A number of our competitors in Central America, Venezuela, Brazil and Argentina offer both sparkling beverages and beer, which may enable them to achieve distribution efficiencies.

Recently, price discounting and packaging have joined consumer sales promotions, customer service and non-price retailer incentives as the primary means of competition among sparkling beverage bottlers. We compete by seeking to offer products at an attractive price in the different segments in our markets and by building on the value of our brands. We believe that the introduction of new products and new presentations has been a significant competitive technique that allows us to increase demand for our products, provide different options to consumers and increase new consumption opportunities. See Sales Overview.

Mexico. Our principal competitors in Mexico are bottlers of Pepsi products, whose territories overlap but are not co-extensive with our own. In central Mexico we compete with a subsidiary of PBG, the largest bottler of Pepsi products globally, and Grupo Embotelladores Unidos, S.A.B. de C.V., the Pepsi bottler in central and southeast Mexico. Our main competition in the juice category in Mexico is Jumex, the largest juice producer in the country. In the water category, *Bonafont*, a water brand owned by Danone, is our main competition. In addition, we compete with Cadbury Schweppes and with other national and regional brands in our Mexican territories. We also compete with low price producers that mainly offer multiple serving size presentations in the sparkling and still beverage industry.

Central America. In the countries that comprise our Central America region, our main competitors are Pepsi bottlers. In Guatemala and Nicaragua, we compete against a joint venture between AmBev and The Central American Bottler Corporation. In Costa Rica, our principal competitor is Embotelladora Centroamericana, S.A., and in Panama, our main competitor is Refrescos Nacionales, S.A. We also face competition from low price producers offering multiple serving size presentations in some Central American countries.

Colombia. Our principal competitor in Colombia is Postobón S.A., which we refer to as Postobón, a well-established local bottler that sells flavored sparkling beverages, some of which have a wide consumption preference, such as *manzana Postobón* (apple Postobón), which is the second most popular category in the Colombian sparkling beverage industry in terms of total sales volume, and that also sells Pepsi products. Postobón is a vertically integrated producer, the owners of which hold other significant commercial interests in Colombia. We also compete with low price producers, such as Big Cola, that mainly offer multiple serving size presentations in the sparkling and still beverage industry.

Venezuela. In Venezuela, our main competitor is Pepsi-Cola Venezuela, C.A., a joint venture formed between PepsiCo and Empresas Polar, S.A., the leading beer distributor in the country. We also compete with the producers of *Kola Real* in part of the country.

Brazil. In Brazil, we compete against AmBev, a Brazilian company with a portfolio of brands that includes Pepsi, local brands with flavors such as guaraná, and proprietary beers. We also compete against B brands or Tubainas, which are small, local producers of low-cost flavored sparkling beverages in multiple serving presentations that represent an important portion of the sparkling beverage market.

Argentina. In Argentina, our main competitor is Buenos Aires Embotellador (BAESA), a Pepsi bottler, which is owned by Argentina's principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In addition, we compete with a number of competitors offering generic, low priced sparkling beverages as well as many other generic products and private label proprietary supermarket brands.

Raw Materials

Pursuant to the bottler agreements with The Coca-Cola Company, we are required to purchase concentrate, including aspartame, an artificial sweetener used in low-calorie sparkling beverages, for all *Coca-Cola* trademark beverages from companies designated by The Coca-Cola Company. The price of concentrate for all *Coca-Cola* trademark beverages is a percentage of the average price we charge to our retailers in local currency net of applicable taxes. Although The Coca-Cola Company has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with The Coca-Cola Company.

In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages over a three-year period in Brazil beginning in 2006 and in Mexico beginning in 2007. These increases have now been fully implemented in Brazil and will be fully implemented in Mexico during 2009. As part of the new cooperation framework that we arrived at with The Coca-Cola Company at the end of 2006, The Coca-Cola Company will provide a relevant portion of the funds derived from the concentrate increase to marketing support of the sparkling and still beverages portfolio. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders New Cooperation Framework with The Coca-Cola Company.

In addition to concentrate, we purchase sweeteners, carbon dioxide, resin and ingots to make plastic bottles, finished plastic and glass bottles, cans, closures and fountain containers, as well as other packaging materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for the sparkling beverage. Our bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these

materials may be purchased only from suppliers approved by The Coca-Cola Company. Prices for packaging materials and high fructose corn syrup historically have been determined with reference to the U.S. dollar, although the local currency equivalent in a particular country is subject to price volatility in accordance with changes in exchange rates. Our most significant packaging raw material costs arise from the purchase of resin, plastic ingots to make plastic bottles and finished plastic bottles, which we obtain from international and local producers. The prices of these materials are tied to crude oil prices and global resin supply. In recent years we have experienced volatility in the prices we pay for these materials. Across our territories, our average price for resin in U.S. dollars decreased significantly during 2008.

Under our agreements with The Coca-Cola Company, we may use raw or refined sugar or high fructose corn syrup as sweeteners in our products. 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 certain countries. We have experienced sugar price volatility in our territories as a result of changes in local conditions, regulations and the stronger correlation to oil prices recently due to the use of sugar to produce alternative fuels.

None of the materials or supplies that we use is presently in short supply, although the supply of specific materials could be adversely affected by strikes, weather conditions, governmental controls or national emergency situations.

Mexico. We purchase our returnable plastic bottles from Continental PET Technologies de México, S.A. de C.V., a subsidiary of Continental Can, Inc., which has been the exclusive supplier of returnable plastic bottles to The Coca-Cola Company and its bottlers in Mexico. We also mainly purchase resin from Arteva Specialties, S. de R.L. de C.V. and Industrias Voridian, S.A. de C.V., which ALPLA Fábrica de Plásticos, S.A. de C.V., known as ALPLA, manufactures into non-returnable plastic bottles for us.

We mainly purchase sugar from Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of *Coca-Cola* bottlers, in which we hold a 5.0% equity interest. These purchases are regularly made under one-year agreements between PROMESA and each bottler subsidiary for the sale of sugar at a price that is determined monthly based on the cost of sugar to PROMESA. We also purchase sugar from Beta San Miguel, S.A. de C.V., a sugar cane producer in which we hold a 2.54% equity interest.

Imported sugar is subject to import duties, the amount of which is set by the Mexican government. As a result, sugar prices in Mexico are in excess of international market prices for sugar. In 2008, sugar prices decreased compared to 2007.

Central America. The majority of our raw materials such as glass and plastic bottles and cans are purchased from several local suppliers. Sugar is available from one supplier in each country. Local sugar prices, in certain countries that comprised the region, are significantly higher than international market prices and our ability to import sugar or high fructose corn syrup is limited.

Colombia. We use sugar as a sweetener in our products, which we buy from several domestic sources. We purchase pre-formed ingots from Amcor and Tapón Corona de Colombia S.A. We purchase all our glass bottles and cans from a supplier in which our competitor Postobón owns a 40% equity interest. Glass bottles and cans are available only from this one local source.

Venezuela. We use sugar as a sweetener in our products, which we purchase mainly from the local market. Since 2003, we have experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permissions to import. However, we were able to meet our sugar requirements through imports. We buy glass bottles from one supplier, Productos de Vidrio, S.A., a local supplier, but there are other alternative suppliers authorized by The Coca-Cola Company. We have several supplier options for plastic non-returnable bottles but we acquire most of our requirements from ALPLA de Venezuela, S.A.

Brazil. Sugar is widely available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil in recent periods have been volatile, mainly due to the increased demand for sugar cane for production of alternative fuels, and our average acquisition cost for sugar in 2008 increased. See

Item 11. Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk. We purchase glass bottles, plastic bottles and cans from several domestic and international suppliers.

Argentina. In Argentina, we mainly use high fructose corn syrup from several different local suppliers as a sweetener in our products instead of sugar. We purchase glass bottles, plastic cases and other raw materials from several domestic sources. We purchase pre-formed plastic ingots, as well as returnable plastic bottles, at competitive prices from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina S.A., a Coca-Cola bottler with operations in Argentina, Chile and Brazil, and other local suppliers. We produce our own can presentations and juice-based products for distribution to customers in Buenos Aires.

REGULATION

Price Controls. At present, there are no price controls on our products in any of the territories in which we have operations, except for Argentina, where authorities directly supervise certain products sold through supermarkets in order to keep inflation under control. In Mexico, although bottlers have been free to set prices for sparkling beverages 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. Voluntary price restraints or statutory price controls also have been imposed historically in several of the countries in which we operate, including Mexico, Colombia, Venezuela, Brazil and Argentina. The imposition of price controls in the future may limit our ability to set prices and adversely affect our results of operations.

Taxation of Sparkling Beverages. All the countries in which we operate, except for Panama, impose a value-added tax on the sale of sparkling beverages, with a rate of 15% in Mexico, 12% in Guatemala, 15% in Nicaragua, 13% in Costa Rica, 16% in Colombia, 12% in Venezuela (starting April 2009), 17% (Mato Grosso do Sul and Minas Gerais) in Brazil and 21% in Argentina and 18% (São Paulo). In addition, several of the countries in which we operate impose the following excise or other taxes:

Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.31 as of December 31, 2008) 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 14.08 colones (Ps. 2.94 as of December 31, 2008) for every 250 ml.

Nicaragua imposes a 9% tax on consumption, and municipalities impose a 1% tax on our Nicaraguan gross income.

Panama imposes a 5% tax based on the cost of goods produced.

Brazil imposes an average production tax of 8.16% and an average sales tax of 4.88%, 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 colas and on flavored sparkling beverage 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 mineral water of 4.2%, although this excise tax is not applicable to certain of our products.

Business Flat Tax (IETU). On September 14, 2007, the Mexican Senate approved the 2008 Fiscal Reform Bill, which was approved by the President and subsequently published in the *Diario Oficial* (Official Gazette) on October 1, 2007. The most notable change in the Fiscal Reform relates to the introduction of a flat tax in Mexico. The IETU replaced the Tax on Assets and functions similar to an alternative minimum corporate income tax, except that any amounts paid are not creditable against future income tax payments. Taxpayers will be subject to the higher of the IETU or income tax computed under the Mexican Income Tax Law. The IETU will apply to individuals and corporations, including permanent establishments of foreign entities in Mexico, at a rate of 17.5% after 2009. The rate for 2008 was 16.5% and is 17% for 2009. The IETU is calculated on a cash-flow basis, whereby the tax base is determined by reducing cash proceeds with certain deductions and credits. In the case of income derived from

export sales, where cash on the receivable has not been collected within 12 months, income will be deemed received at the end of this 12-month period. The IETU became effective on January 1, 2008.

Water Supply Law. In Mexico, we purchase water directly from municipal water companies and pump water from our own wells pursuant to a concession 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 two 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 the right to transfer the unused volume 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 and do not cure such situations on 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 Brazil, we buy water directly from municipal utility companies, and we also pump water from our own wells or rivers (Mogi das Cruzes plant) 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 can only be exploited for the national interest, by Brazilians or companies formed 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 No. 227/67), the *Código de Águas Minerais* (Mineral Water Code, Decree Law No. 7841/45), the National Water Resources Policy (Law No. 9433 / 97) and by regulations issued thereunder. The companies that exploit water are supervised by the *Departamento Nacional de Produção Mineral - DNPM* (National Department of Mineral Production) and the National Water Agency in connection with federal health agencies, as well as state and municipal authorities. In the Jundiá 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, we acquire water directly from our own wells and from aqueducts, and we are required to have a specific license to exploit water from private wells. Water use is regulated by resolution No. 1154 of 1997 and decree No. 4742 of 2005. The National Institute of National Resources supervises companies that exploit water.

In Nicaragua and Costa Rica, we own and exploit our own private water wells. In Costa Rica we require a specific permit granted by the environmental authorities to exploit private wells. In Venezuela, we use private wells as well as water provided by the respective municipality, and we have taken the appropriate actions to have water supply available from these sources. In the remainder of our territories, we obtain water from governmental agencies or municipalities.

We can give no assurances 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 we are in compliance with the terms of our existing water concessions and that we are in compliance with all relevant water regulations

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. In Mexico, the principal legislation is the *Ley*

General de Equilibrio Ecológico y Protección al Ambiente (the 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* (the General Law for the Prevention and Integral Management of Waste) which are enforced by the *Secretaría del Medio Ambiente y Recursos Naturales* (the 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 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 The Company Product Distribution.

In addition, we are subject to the *Ley Federal de Derechos* (the Federal Law of Governmental Fees), also enforced by SEMARNAT. 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, certain 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 SEMARNAT. All of our bottler plants located in Mexico City, as well as the Toluca plant, met these new standards as of 2001. See Description of Property, Plant and Equipment.

In our Mexican operations, we established a partnership with The Coca-Cola Company and ALPLA, a supplier of plastic bottles to us 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. We have also continued contributing funds to a nationwide recycling company, ECOCE, or *Ecología y Compromiso Empresarial* (Environmentally Committed Companies). In addition, our plants located in Toluca, Reyes, Cuautitlan, Apizaco, San Cristobal, Morelia, Ixtacomitan and Coatepec have received a *Certificado de Industria Limpia* (Certificate of Clean Industry).

Our 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, we are in the process of bringing our operations into compliance with new environmental laws. Also, our Costa Rica and Panama operations have participated in a joint effort along with the local division of The Coca-Cola Company, *Misión Planeta* (Mission Planet), for the collection and recycling of non-returnable plastic bottles.

Our 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. We are also engaged in nationwide campaigns for the collection and recycling of glass and plastic bottles. For our plants in Colombia, we have obtained the *Certificación Ambiental Fase IV* (Phase IV Environmental Certificate).

Our 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* (the Organic Environmental Law), the *Ley Sobre Sustancias, Materiales y Desechos Peligrosos* (the Substance, Material and Dangerous Waste Law), the *Ley Penal del Ambiente* (the Criminal Environment Law) and the *Ley de Aguas* (the Water Law). Since the enactment of the Organic Environmental Law in 1995, our Venezuelan subsidiary has presented the proper authorities with plans to bring our production facilities and distribution centers into compliance with the law. While the laws provide certain grace periods for compliance with the new environmental standards, we have had to adjust some of the originally proposed timelines presented to the authorities because of delays in the completion of some of these projects. We are in process of obtaining the ISO 14000 certification for all of our plants in Venezuela.

Our 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 and disposal of wastewater, which impose penalties, such as fines, facility closures or criminal charges depending upon the level of non-compliance. Our 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 (i) ISO 9001 since March 1995; (ii) ISO 14001 since March 1997; (iii) norm OHSAS 18001 since 2005; and (iv) ISO 22000 since 2007. In Brazil it is also necessary to obtain concessions from the government to cast drainage. All of our plants in Brazil have been granted this concession, except Mogi das Cruzes, but we are in the process of obtaining one.

Our 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* (the Ministry of Natural Resources and Sustainable Development) and the *Organismo Provincial para el Desarrollo Sostenible* (the Provincial Organization for Sustainable Development) for the province of Buenos Aires. Our Alcorta plant is in compliance with environmental standards and we have been certified for ISO 14001: 2004 for the plants and operative units in Buenos Aires.

For all of our plant operations, we employ an environmental management system: the *Sistema de Administración Ambiental* (Environmental Administration System, or EKOSYSTEM) that is contained within the *Sistema Integral de Calidad* (Integral Quality System or SICKOF). We do not believe that our business activities pose a material risk to the environment, and we believe that we are in material compliance with all applicable environmental laws and regulations.

We have 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 our results of operations or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly stringent in our territories, and there is increased awareness by local authorities of higher environmental standards in the countries where we operate, changes in current regulations may result in an increase in costs, which may have an adverse effect on our future results of operations or financial condition. Management is not aware of any pending regulatory changes that would require a significant amount of additional remedial capital expenditures.

BOTTLER AGREEMENTS

Coca-Cola Bottler Agreements

Bottler agreements are the standard agreements for each territory 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 sparkling beverages and bottled water under a separate bottler agreement for each of our territories.

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, 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. Concentrate prices are determined as a percentage of the weighted average retail price in local currency, net of applicable taxes. 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.

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 each of our territories. Our bottler agreements do not contain restrictions on The Coca-Cola Company's ability to set the price of concentrates charged to our subsidiaries 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. However, under our bylaws and the shareholders agreement among The Coca-Cola Company and certain of its subsidiaries and certain subsidiaries of FEMSA, 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 appointed by The Coca-Cola Company. This provides us with limited protection against The Coca-Cola Company's ability to raise concentrate prices to the extent that such increase is deemed detrimental to us pursuant to the shareholder agreement and the bylaws. 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 which case we have a 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 sparkling beverage product except under the authority of, or with the consent of, The Coca-Cola Company. The bottler agreements 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 plant and equipment, staff and distribution facilities 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 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 includes the investment in advertising and marketing plans;

maintain a 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.

The Coca-Cola Company contributed a significant portion of our total marketing expenses in our territories during 2008, a period in which we also contributed to The Coca-Cola Company's marketing expenses and has reiterated its intention to continue providing such support as part of our new cooperation framework. Although we believe that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. 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 and Item 7. Major Shareholders and Related Party Transactions Major Shareholders New Cooperation Framework with The Coca-Cola Company.

We have separate bottler agreements with The Coca-Cola Company for each of the territories in which we operate. Some of these bottler agreements renew automatically unless one of the parties gives prior notice that it does not wish to renew the agreement, while others require an agreement between the parties or require us to give notice electing to renew the agreement.

Our bottler agreements for Mexico expire in 2013 for two territories and 2015 for two other territories, renewable in each case for ten-year terms. Our bottler agreements for Guatemala, Costa Rica, Nicaragua, Panama (other beverages), Venezuela and Colombia expire on July 31, 2009, pursuant to letters of extension. These bottler agreements are renewable as agreed between the parties. Our bottler agreement for *Coca-Cola* trademark beverages for Panama has an indefinite term but may be terminated with six months prior written notice by either party. Our bottler agreement for Argentina expires in 2014. Our bottler agreement for Brazil expired in December 2004. We are operating under the terms of the existing Brazilian bottler agreement in the acquired territory of Refrigerantes Minas Gerais Ltda., or REMIL. For the expired agreements and the agreements expiring this year, we are currently in the process of negotiating renewals of our agreements on similar terms and conditions as the rest of the countries, and we and The Coca-Cola Company will continue operating under the terms of the existing agreements.

The bottler agreements are subject to termination by The Coca-Cola Company in the event of default by us. The default provisions include limitations on the change in ownership or control of our company and the assignment or transfer of the bottler agreements and 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 independently of similar rights set forth in the shareholders agreement. These provisions may prevent changes in our principal shareholders, including mergers or acquisitions involving sales or dispositions of our capital stock, which will involve an effective change of control, without the consent of The Coca-Cola Company. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.

We have also entered into tradename licensing agreements with The Coca-Cola Company pursuant to which we are authorized to use certain trademark names of The Coca-Cola Company. These agreements have an indefinite term, but are terminated if we cease to manufacture, market, sell and distribute *Coca-Cola* trademark 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.

DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

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 bottler plants by installing new production lines;
- 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.

See Item 5. Operating and Financial Review and Prospects Capital Expenditures.

As of December 31, 2008, we owned thirty-one bottling plants company wide. By country, we have ten bottling facilities in Mexico, five in Central America, six in Colombia, four in Venezuela, four in Brazil and two in Argentina.

Since the Panamco acquisition in May 2003, we consolidated 24 of our plants into existing facilities including six plants in Mexico, one in Central America, eleven in Colombia, five in Venezuela and one in Brazil. Since 2003, we have increased our productivity measured in unit cases sold by our remaining plants by more than 150% company-wide as of December 31, 2008.

As of December 31, 2008 we operated 208 distribution centers, almost 40% of which were in our Mexican territories. We own more than 88% of these distribution centers and lease the remainder. See The Company Product Distribution.

We maintain an all risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disaster, including hurricane, hail, earthquake and damages caused by human acts, including explosion, fire, vandalism, riot and losses incurred in connection with goods in transit. In addition, we maintain an all risk liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker.