COCA COLA FEMSA SA DE CV
Form 20-F
April 05, 2004

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, 2003

Commission file number 1-12260

Coca-Cola FEMSA, S.A. 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)

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)
8.95% Notes due November 1, 2006	New York Stock Exchange, Inc.

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, 2003 was:

844,078,519	Series A Shares, without par value
731,545,678	Series D Shares, without par value
270,750,000	Series L Shares, without par value

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.

|X| Yes |_| No

Indicate by check mark which financial statement item the registrant has elected to follow.

|_| Item 17 |X| Item 18

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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. de C.V. and its subsidiaries on a consolidated basis.

References herein to U.S. dollars, U.S.$, 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.

Soft drink as used in this annual report refers generally to non-alcoholic beverages, including those carbonated or containing natural or artificial flavors and sweeteners.

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.11.235 to U.S.$1.00, the exchange rate quoted by dealers to us for the settlement of obligations in foreign currencies on December 31, 2003. On December 31, 2003 and on March 15, 2004, the noon buying rates for Mexican pesos as published by the Federal Reserve Bank of New York were Ps.11.242 to U.S.$1.00 and Ps.10.975 to U.S.$1.00, respectively. See Item 3. Key Information Exchange Rate Information for information regarding exchange rates since January 1, 1999.

To the extent estimates are contained in this annual report, we believe that 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, *Banco de México* (the 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.

Presentation of Panamco

We acquired Corporación Interamericana de Bebidas, S.A. de C.V., formerly known as Panamerican Beverages, Inc., and which we refer to as Panamco, on May 6, 2003. Unless otherwise indicated, our consolidated financial statements include Panamco only from May 2003. As a result, our consolidated financial statements for the

year ended and as of December 31, 2003 are not comparable to prior periods. These financial statements will also not be comparable to subsequent periods, as Panamco is only included in our consolidated financial statements for eight months of 2003. Through our acquisition of Panamco, we acquired additional territories in Mexico, which are reported as part of our Mexico segment, as well as territories in Central America, Colombia, Venezuela and Brazil, each of which is reported as a separate segment. We did not acquire any additional territories in Argentina, the segment information for which is fully comparable to prior periods.

Item 1. Not Applicable

Item 2. Not Applicable

Item 3. Key Information

Selected Financial Data

This annual report includes (under Item 18) our audited consolidated balance sheets as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in stockholders equity and changes in financial position for the years ended December 31, 2003, 2002 and 2001. Our consolidated financial statements are prepared in accordance with Mexican GAAP. Mexican GAAP differs in certain significant respects from U.S. GAAP. Notes 25 and 26 to our consolidated financial statements provide a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to us, together with a reconciliation to U.S. GAAP of net income, stockholders equity and certain other selected financial data.

Pursuant to Mexican GAAP, in our financial statements and the selected financial information set forth below:

- nonmonetary assets (including plant, property and equipment of local origin) and stockholders equity are restated for inflation based on the local consumer price index, property, plant and equipment of foreign origin are restated based on the exchange rate and inflation in the country of origin and converted into Mexican pesos using the prevailing exchange rate at the balance sheet date;
- gains and losses in purchasing power from holding monetary liabilities or assets are recognized in income; and

all financial statements are restated in constant Mexican pesos as of December 31, 2003.

The effects of inflation accounting under Mexican GAAP have not been reversed in the reconciliation to U.S. GAAP of net income and stockholders equity. See Note 25 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 GAAP, apply the inflation factors of the local country to restate to the purchasing power of the local currency at the end of the most recent period for which financial results are being reported, and translate the resulting amounts into Mexican pesos using the exchange rate at the end of the most recent period.

Under Mexican GAAP, Panamco is included in our consolidated financial statements from May 2003 and is not included for periods prior to such date. As a result, our consolidated financial statements for the year ended and as of December 31, 2003 are not comparable to prior periods.

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.

	Year Ended December31,					
	2003[(1)(2)]	2003[(1)]	2002	2001	2000	1999
	(millions of U.S. dollars or constant Mexican pesos at December 31, 2003, except per share data)					
Income Statement Data:						
Mexican GAAP						
Net sales	$ 3,158.6	Ps. 35,486.8	Ps. 18,518.6	Ps. 17,636.5	Ps. 16,979.0	Ps. 15,205.9
Total revenues	3,180.2	35,729.4	18,667.5	17,771.6	17,052.7	15,253.9
Cost of sales	1,600.4	17,980.3	8,680.8	8,255.8	8,300.8	7,942.5
Gross profit	1,579.8	17,749.1	9,986.8	9,515.8	8,751.9	7,311.4
Operating expenses	982.5	11,038.7	5,319.3	5,351.0	5,405.5	4,819.9
Goodwill amortization	-	-	40.6	108.3	116.1	125.7
Income from operations	597.3	6,710.4	4,626.8	4,056.5	3,230.3	2,365.8
Net income	207.6	2,332.0	2,660.8	2,325.9	1,427.3	1,068.2
Majority net income	205.8	2,311.8	2,660.8	2,325.9	1,427.3	1,068.2
Majority income per share[(3)]	0.12	1.36	1.87	1.63	1.00	0.75
U.S. GAAP						
Net sales	$ 3,158.6	Ps. 35,486.8	Ps. 18,187.7	Ps. 17,273.5	Ps. 16,604.0	Ps. 16,791.0
Total revenues	3,180.2	35,729.4	18,320.6	19,237.2	19,030.4	17,755.0
Income from operations [(4)]	562.8	6,322.8	4,388.1	3,941.0	3,277.6	2,421.2
Net income	204.6	2,298.4	2,624.4	2,392.1	1,604.7	1,223.8
Net income per share [(3)]	0.12	1.35	1.84	1.68	1.13	0.86
Balance Sheet Data:						
Mexican GAAP						
Total assets	$ 5,466.8	Ps. 61,419.8	Ps. 17,086.7	Ps. 15,116.8	Ps. 12,920.4	Ps. 12,040.4
Long-term debt	2,315.2	26,011.0	3,296.0	3,066.7	3,365.0	3,584.5
Capital stock	236.4	2,655.5	2,463.9	2,463.9	2,463.9	2,463.9
Majority stockholders equity	2,016.3	22,653.1	9,668.1	8,163.2	6,210.4	5,676.8
Total stockholders equity	2,030.8	22,816.6	9,668.1	8,163.2	6,210.4	5,676.8

U.S. GAAP						
Total assets	$ 5,473.6	Ps. 61,496.1	Ps. 17,154.1	Ps. 15,764.8	Ps. 15,133.7	Ps. 14,358.4
Long-term debt	2,315.2	26,011.0	3,296.0	3,066.7	3,368.6	3,593.4
Capital stock	236.4	2,655.5	2,463.9	2,463.9	2,463.9	2,463.9
Total stockholders equity	1,962.5	22,048.9	9,294.4	8,208.5	7,441.3	6,322.1
Other Data:						
Mexican GAAP						
Depreciation[5]	$ 86.1	Ps. 967.5	Ps. 572.2	Ps. 638.3	Ps. 698.0	Ps. 587.8
Capital expenditures	170.0	1,910.4	1,409.7	865.3	966.8	1,817.7
U.S. GAAP						
Depreciation[5]	$ 85.9	Ps . 965.6	Ps. 555.9	Ps. 716.1	Ps. 809.2	Ps. 710.8
Capital expenditures	170.0	1,910.4	1,394.3	1,001.7	1,088.6	1,146.7

(1) Includes the new territories acquired in the Panamco acquisition from May 2003.

(2) Translation to U.S. dollar amounts at an exchange rate of Ps.11.235 to U.S.$1.00 solely for the convenience of the reader.

(3) For the years ended December 31, 1999 through December 31, 2002, computed on the basis of 1,425 million shares outstanding. For the year ended December 31, 2003, computed on the basis of 1,704.3 million shares outstanding, the weighted average shares outstanding during 2003 after giving effect to the capital increase in May 2003 in connection with the Panamco acquisition.

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

(5) Excludes breakage of bottles and cases (Ps.273.6 million in 2003) and amortization of other assets, and pension and seniority premiums (Ps.755.1 million in 2003). See the consolidated statements of changes in financial position included in our consolidated financial statements.

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.

Date Dividend Paid	Fiscal Year with Respect to which Dividend was Declared	Mexican pesos per Share (nominal)	U.S. dollars per Share
June 28, 2000	1999	0.153	0.015
March 28, 2001	2000	0.212	0.023
May 9, 2002	2001	0.394	0.042
March 14, 2003	2002[1]	0.0	0.0
March 9, 2004[2]	2003[3]	0.282	

(1) Dividends were not declared for fiscal year 2002.

(2) Date of dividend declaration.

(3) Because dividends for 2003 have not been paid at the time of this annual report, the U.S. dollar per share amount has not been determined.

The declaration, amount and payment of dividends are subject to approval by holders of our Series A shares and our 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.

Holders of Series L shares, including in the form of ADSs, are not entitled to vote on the declaration and payment of dividends. We have historically paid dividends although we decided not to pay a dividend for the year 2002. Accordingly, our historical dividend payments are not necessarily indicative of future dividends.

Exchange Rate Information

The following tables set forth, for the periods indicated, the high, low, average and period end noon buying rates of the Federal Reserve Bank of New York, expressed in Mexican pesos per U.S. dollar. The rates have not been restated in constant currency units.

	Exchange Rate			
	High	Low	Average(1)	Period End
1999	10.60	9.24	9.56	9.48
2000	10.09	9.18	9.47	9.62
2001	9.97	8.95	9.34	9.16
2002	10.43	9.00	9.66	10.43
2003	11.41	10.11	10.79	11.24

(1) Average month-end rates.

	Exchange Rate		
	High	Low	Period End
2003:			
September	11.04	10.77	11.00
October	11.32	10.97	11.06
November	11.40	10.98	11.40
December	11.41	11.17	11.24
2004:			
January	11.10	10.81	11.01
February	11.25	10.91	11.06
March(1)	11.05	10.92	10.98

(1) From the period beginning March 1 until March 15, 2004.

Mexico has a free foreign exchange market and, since December 1994, the Mexican government has not intervened to maintain the value of the Mexican peso against the U.S. dollar. The Mexican peso declined in 1998 as the foreign exchange markets experienced volatility as a result of the financial crises in Asia and Russia and the financial turmoil in countries such as Brazil and Venezuela. The Mexican peso remained relatively stable from 1999 until the fall of 2001. In late 2001 and early 2002, the Mexican peso appreciated considerably against the U.S. dollar and, more strongly, against other foreign currencies. From the second quarter of 2002 and until the end of 2003, the Mexican peso depreciated in value. In 2004 to date, the Mexican peso has appreciated in value and returned to its 2003 levels. We can make no assurance that the Mexican government will maintain its current policies with regard to the Mexican peso or that the Mexican peso will not further depreciate significantly in the future.

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. Fluctuations in the exchange rate between the Mexican peso and the U.S. dollar have affected the U.S. dollar equivalent of the Mexican peso price of our shares on the Mexican Stock Exchange and, consequently, have also affected the market price of our ADSs.

RISK FACTORS

Risks Related to our Company

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

Approximately 93.2% of our sales volumes in 2003 were derived from sales of *Coca-Cola* trademark beverages. We produce, market and distribute *Coca-Cola* trademark beverages through standard bottler agreements that cover all of our present territories. Through its rights under the bottler agreements and as a large shareholder, The Coca-Cola Company has the ability to exercise substantial influence over the conduct of our business. See Item 4. Information on the Company Bottler Agreements. See The Coca-Cola Company and FEMSA have substantial influence on the conduct of our business. Under our bottler agreements, The Coca-Cola Company may unilaterally set the price for its concentrate. Furthermore, in conjunction with The Coca-Cola Company, we prepare a three-year general business plan that is submitted to our board of directors for approval. The Coca-Cola Company may require that we demonstrate our financial ability to meet our plans and may terminate our rights to produce, market and distribute soft drinks in territories with respect to which such approval is withheld. The Coca-Cola Company also makes significant contributions to our marketing budget although they are not required to contribute a particular amount. In addition, we are prohibited from bottling any soft drink product or distributing other beverages without The Coca-Cola Company s authority or consent. The Coca-Cola Company has the exclusive right to import and export *Coca-Cola* trademark beverages to and from our territories. We may not transfer control of the bottler rights of any of our territories without the consent of The Coca-Cola Company.

We depend on The Coca-Cola Company to renew our bottler agreements. Our bottler agreements for Mexico expire in 2005 and 2013, renewable in each case for ten-year terms. Our bottler agreements for Colombia, Brazil and Argentina expire in 2004, renewable in each case for five-year terms (except for Argentina, which is renewable for ten year terms). Our remaining territories are governed by bottler agreements that expire after 2005 that have similar renewal periods. There can be no assurances that The Coca-Cola Company will decide to renew any of these agreements. In addition, these agreements generally may be terminated in the event that we fail to comply with their terms. Non-renewal or termination would prevent us from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on our business, financial condition, prospects and results of operations.

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

The Coca-Cola Company and Fomento Económico Mexicano, S.A. de C.V., a Mexican holding company with interests in the beverages sector and other related businesses that we refer to as FEMSA, have significant influence on the conduct of our business and together possess the ability to control our company. The Coca-Cola Company indirectly owns 39.6% of our outstanding capital stock, representing 46.4% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint four of our 18 directors and certain of our executive officers and, except under limited circumstances, has the power to veto significant decisions of our board of directors. FEMSA indirectly owns 45.7% of our outstanding capital stock, representing 53.6% of our capital stock with full voting rights. FEMSA is entitled to appoint 11 members of our board of directors and certain of our executive officers. The Coca-Cola Company and FEMSA together, or FEMSA acting alone in certain limited circumstances, thus have the power to determine the outcome of all actions requiring approval by our board of directors, and FEMSA and The Coca-Cola Company together, except in certain limited situations, have the power to determine the outcome of all actions requiring approval of our shareholders. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement. The interests of The Coca-Cola Company and FEMSA may be different from the interests of our remaining shareholders, and they may cause us to take actions that are not in the interest of our remaining shareholders.

We have significant transactions with affiliates, particularly The Coca-Cola Company and FEMSA, that create potential conflicts of interest.

We engage in transactions with subsidiaries of both FEMSA and The Coca-Cola Company. Our transactions with FEMSA include supply agreements under which we purchase certain supplies and equipment, a service agreement under which a FEMSA subsidiary transports finished products from our production facilities to

distribution facilities in Mexico and a service agreement under which a FEMSA subsidiary provides administrative services to our company. In addition, we have entered into cooperative marketing arrangements with The Coca-Cola Company and FEMSA. We are a party to a number of bottler agreements with The Coca-Cola Company and have also entered into a credit agreement with The Coca-Cola Company pursuant to which we may borrow up to U.S.$250 million for working capital and other general corporate purposes. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions and Item 4. Information on the Company Bottler Agreements. Transactions with affiliates may create the potential for conflicts of interest, which could result in terms less favorable to us than could be obtained from an unaffiliated third party.

We have recently increased our leverage as a result of the Panamco acquisition.

In connection with the acquisition of Panamco, we incurred approximately Ps.26,352 million of debt (including existing debt of Panamco). Our total indebtedness as of December 31, 2003 was Ps.29,004 million. Our debt level is now significantly higher than it has been historically. The increase in debt may reduce the amount of cash otherwise available to us to invest in our business or meet our obligations and may prevent us in the future from pursuing acquisitions and other opportunities that may present themselves to us or from obtaining additional financing or completing refinancings on terms favorable to us.

We may not achieve expected operating efficiencies in the newly acquired territories.

Through the acquisition of Panamco, we acquired new territories in Mexico as well as in the following countries in which we have not historically conducted operations: Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Brazil. Since the acquisition, we have undertaken a plan in the newly acquired territories to integrate our operations, to improve the utilization of assets across our territories and to implement the commercial strategies that we have historically applied in our territories in Mexico and Argentina. Conditions in these new territories are different from the conditions under which we have historically operated with less favorable consumption patterns than those experienced in Mexico and different and more challenging political and economic climates. In addition, distribution and marketing practices in our new territories differ from our historical practices. Several of these territories have a lower level of pre-sale as a percentage of total distribution than we are accustomed to having, and the product and presentation mix varies from territory to territory with customer preferences. There can be no assurance that our initiatives will reduce operating costs or maintain or improve sales in the near term or at all, which may adversely affect our sales growth and operating margins.

Competition could affect our business.

The beverage industry throughout Latin America is highly competitive. We face competition from other bottlers of soft drinks such as PepsiCo, Inc., which we refer to as PepsiCo, and from producers of low cost beverages or B brands. We also compete against beverages other than soft drinks such as water, fruit juice and sport drinks. Although competitive conditions are different in each of our territories, we compete principally in terms of price, packaging, consumer sale promotions, customer service and non-price retail incentives. There can be no assurances that we will be able to avoid lower pricing as a result of competitive pressure. Lower pricing, changes made in response to competition and changes in consumer preferences may have an adverse effect on our results of operations.

Our principal competitor in Mexico is The Pepsi Bottling Group, which we refer to as PBG. PBG is the largest Pepsi bottler worldwide and competes with *Coca-Cola* trademark beverages. We have also experienced stronger competition in Mexico from lower priced soft drinks in multi-serving presentations. In Argentina and Brazil, we compete against Companhia de Bebidas das Americas, commonly referred to as AmBev, the largest brewer in Latin America, which sells Pepsi products, in addition to a portfolio that includes local brands with flavors such as guaraná. In each of our territories we compete against bottlers of Pepsi with various other bottlers and distributors of nationally and regionally advertised soft drinks as well as complementary beverages such as water, juice and sports drinks. In certain territories, we also compete against soft drink flavors that have a strong local presence.

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

Water is an essential component of soft drinks. We obtain water from various sources in our territories, including springs, wells, rivers and municipal water companies. In Mexico, we purchase water from municipal water companies and pump water from our own wells pursuant to concessions granted by the Mexican government. We obtain the vast majority of the water used in our soft drink production in Mexico pursuant to these concessions, which the Mexican government granted based on studies of the existing and projected groundwater supply. Our existing water concessions in Mexico may be terminated by governmental authorities under certain circumstances and their renewal depends on receiving necessary authorizations from municipal water authorities. See Item 4. Information on the Company Regulation Water Supply Law. In our other territories, our existing water supply may not be sufficient to meet our future production needs and the available water supply may be adversely affected by shortage or changes in governmental regulations.

We cannot assure you that water will be available in sufficient quantities to meet our future production needs, or that our concessions and permits will not be terminated or prove sufficient to meet our water supply needs.

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

Our most significant raw materials are concentrate, which we acquire from companies designated by The Coca-Cola Company, sweeteners and packaging materials. Prices for concentrate are determined by The Coca-Cola Company pursuant to our bottler agreements as a percentage of the weighted average retail price, net of applicable taxes. The prices for our remaining raw materials are driven by market prices and local availability as well as the imposition of import duties and import restrictions and fluctuations in exchange rates. We are also required to use only suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to us. Our sales prices are denominated in the local currency in which we operate, while the prices of certain materials used in the bottling of our products, mainly aluminum cans and plastic bottles, are paid in or determined with reference to the U.S. dollar and therefore may increase if the U.S. dollar appreciates against the currency of any country in which we operate, particularly against the Mexican peso. See Item 4. Information on the Company The Company Raw Materials.

After concentrate, packaging and sweeteners constitute the largest portion of our raw material costs. Sugar prices in all of the countries in which we operate other than Brazil are subject to local regulations and other barriers to market entry that cause us to pay in excess of international market prices for sugar. In Mexico, sugar prices increased approximately 8% in 2003, and our ability to substitute other sweeteners has been limited by the imposition of a 20% excise tax on carbonated soft drinks produced with non-sugar sweeteners. In Venezuela, there was a shortage of sugar during the second half of 2003 due to the inability of the main sugar importers to access foreign currencies as a result of the exchange controls implemented at the beginning of 2003.

We cannot assure you that our raw material prices will not increase in the future. Increases in the prices of raw materials will increase our cost of sales and adversely affect our results of operations.

Taxes on soft drinks could affect our business.

Our products are subject to excise and value-added taxes in many of the countries in which we operate. The imposition of new taxes or increases in taxes on our products may have a material adverse effect on our business, prospects, financial conditions and results of operations. Mexico recently implemented a 20% excise tax on carbonated soft drinks produced with non-sugar sweetener. Certain countries in Central America, Argentina and Brazil have also imposed taxes on our products. See Item 4. Information on the Company Regulation Taxation of Soft Drinks. We can give no assurance that any governmental authority in any country where we operate will not impose or increase any such taxes in the future.

Regulatory developments may have an effect on 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, taxes and antitrust. The adoption of new laws or regulations in the

countries in which we operate may increase our operating costs or impose restrictions on our operations. In particular, environmental standards became more stringent recently in several of the countries in which we operate, and we are in the process of complying with these new standards.

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 may have an adverse effect on our results of operations and financial position. Although Mexican bottlers have been free to set prices for carbonated soft drinks without governmental intervention since January 1996, such prices were once subject to statutory price controls and, later, to voluntary price restraints, which effectively limited our ability to increase prices in the Mexican market without governmental consent. See Item 4. Information on the Company Regulation Price Controls. We can give no assurance that governmental authorities in any country where we operate will not impose voluntary price restraints or statutory price controls.

Risks Related to the Series L Shares and the ADSs

Holders of our Series L Shares have limited voting rights.

Holders of our Series L Shares are entitled to vote only in limited circumstances. They generally may elect three of our 18 directors and are only entitled to vote on specific matters, including changes in our corporate form, certain mergers involving our company and the cancellation of the registration of our shares. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders and Item 10. Additional Information Bylaws Voting Rights. In addition, we can give no assurance that holders of our ADSs will receive notice of shareholders meetings from The Bank of New York, the depositary for our ADSs, with sufficient time to enable holders to return voting instructions to the depositary in a timely manner.

Holders of ADSs are not entitled to attend shareholders meetings and they may only vote through the depositary.

Under Mexican law, a shareholder is required to deposit its shares with a Mexican custodian in order to attend a shareholders meeting. A holder of ADSs will not be able to meet this requirement, and accordingly is not entitled to attend shareholders meetings. A holder of ADSs is entitled to instruct the ADS depositary as to how to vote the shares represented by ADSs, in accordance with procedures provided for in the deposit agreement, but a holder of ADSs will not be able to vote its shares directly at a shareholders meeting or to appoint a proxy to do so.

Holders of our ADSs may not be able to participate in any future preemptive rights offerings and as a result may be subject to a dilution of their equity interests.

Our Series L Shares are traded on the New York Stock Exchange in the form of ADSs. Under Mexican law, if we issue new shares for cash as a part of a capital increase, we must generally grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally offer or sell shares to holders of our ADSs in the United States pursuant to any preemptive rights offering (or otherwise) unless (i) we file a registration statement with the U.S. Securities and Exchange Commission, which we refer to as the SEC, with respect to that future issuance of shares or (ii) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933. In addition, under current Mexican law, sales by the ADS depositary of preemptive rights and distribution of the proceeds from such sales to ADS holders are not possible. See Item 10. Additional Information Bylaws Preemptive Rights.

At the time of any capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, as well as the benefits of preemptive rights to holders of our ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement. If we do not file a registration statement with the SEC, our ADS holders in the United States may not be able to participate in any preemptive rights offering and their equity interest would be diluted proportionately.

It may be difficult to enforce civil liabilities against us or our directors, officers and controlling persons.

We are organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States. In addition, a substantial portion of our assets and their assets are located in Mexico. As a result, it may be difficult for investors to effect service of process within the United States on these 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 these persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

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

Under Mexican law, the protections afforded to minority shareholders are different from those in the United States. In particular, the law concerning fiduciary duties of directors is not well developed, there is no procedure for class actions or shareholder derivative actions and there are different procedural requirements for bringing shareholder lawsuits. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholders than it would be for shareholders of a U.S. company.

Risks Related to Mexico and the Other Countries in Which We Operate

Adverse economic conditions in Mexico may adversely affect our financial condition and results of operations.

We are a Mexican corporation, and our Mexican operations are our single most important geographic segment. In the past, Mexico has experienced both prolonged periods of weak economic conditions and dramatic deteriorations in economic conditions that have had a negative impact on our company. There can be no assurances that such conditions will not return or that such conditions will not have a material adverse effect on our financial condition and results of operations.

Our business may be significantly affected by the general condition of the Mexican economy, the rate of inflation and interest rates. Decreases in the growth rate of the Mexican economy, periods of negative growth, and increases in inflation or interest rates may result in lower demand for soft drink beverages, lower real pricing or a shift to lower margin products or lower margin presentations. Because a large percentage of our costs are fixed costs, we may not be able to reduce costs and expenses, 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 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 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 our raw materials, the price of which is paid in or determined with reference to U.S. dollars and debt obligations denominated in U.S. dollars and thereby may negatively affect our net results. 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 indebtedness or obligations in other currencies. While the Mexican government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert 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. To the extent that there are currency fluctuations, they are likely to have an effect on our financial condition, results of operations and cash flows in future periods.

Political events in Mexico could affect our operations.

Mexican political events may also significantly affect our operations. In the Mexican national elections held on July 2, 2000, Vicente Fox of the *Partido Acción Nacional* (the National Action Party) or PAN, won the

presidency. Although his victory ended more than 70 years of presidential rule by the *Partido Revolucionario Institucional* (the Institutional Revolutionary Party) or PRI, neither the PRI nor the PAN succeeded in securing a majority in the Mexican congress. In elections in 2003, the PAN lost additional seats in the Mexican congress and state governships. The resulting legislative gridlock has impeded the progress of reforms in Mexico, which may adversely affect economic conditions in Mexico or our results of operations. During 2004, there will be elections for governors in ten of 32 states and for local congresses in 14 states.

Developments in other Latin American countries in which we operate may affect our business.

In addition to Mexico, we conduct operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. These countries expose us to different or greater country risk than Mexico. For many of these countries, operating results in recent years have been adversely affected by deteriorating macroeconomic and political conditions. In Venezuela and Argentina, significant economic and political instability, including a contracting economy, a drastic currency devaluation, high unemployment, the introduction of exchange controls and social unrest have resulted in higher production costs and declining net sales. In Colombia, we have experienced limited disruptions in production and distribution as a result of political instability.

Our future results may be significantly affected by the general economic and financial conditions in the countries where we operate, by the devaluation of the local currency, inflation or interest rates or by political developments or changes in law. Devaluation of the local currency against the U.S. dollar may increase the operating costs in that country, and a depreciation against the Mexican peso may negatively affect the results of that country as reported in our Mexican GAAP financial statements. In addition, some of these countries may impose exchange controls that could impact our ability to purchase raw materials in foreign currencies and the ability of the subsidiaries in these countries to remit dividends abroad or make payments other than in local currencies, as is currently the case in Venezuela under regulations imposed in January 2003. As a result of these potential risks, we may experience lower demand, lower real pricing or increases in costs, which may negatively impact our results of operations.

Item 4. Information on the Company

THE COMPANY

Overview

We are the largest *Coca-Cola* bottler in Latin America, with our territories representing approximately 40% of *Coca-Cola* sales volumes in Latin America, and the second largest bottler of *Coca-Cola* trademark beverages in the world, calculated in each case by sales volume in unit cases sold in our territories in 2003. 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 City and surrounding areas, Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).

Colombia most of the country.

Venezuela nationwide.

Brazil the area of greater Sã Paulo, Campinas, Santos, the state of Mato Grosso do Sul and part of the state of Goias.

Argentina federal capital of Buenos Aires and surrounding areas.

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

The following is an overview of our operations by segment in 2003:

Operations by Segment Overview
Year Ended December 31, 2003[(1),(2)]

	Mexico		Central America		Colombia		Venezuela		Brazil		Argentina	
	Pesos	%	Pesos	%	Pesos	%	Pesos	%	Pesos	%	Pesos	%
Total Revenues	23,935.2	66.7%	2,186.5	6.1%	2,319.1	6.5%	2,544.5	7.1%	2,796.9	7.8%	2,076.9	5.8%
Income from Operations	5,633.6	84.0%	218.4	3.2%	261.1	3.9%	231.5	3.5%	149.8	2.2%	215.6	3.2%

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

(2) Expressed in millions of Mexican pesos.

Corporate History

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

FEMSA is a beverage company with significant interests in Mexico and other Latin American countries. It owns 45.7% of the stock in Coca-Cola FEMSA, 70% of FEMSA Cerveza, S.A. de C.V., a significant player in the Mexican beer market as well as a major exporter in key international markets including the United States, 100% of FEMSA Comercio, S.A. de C.V., a convenience store chain in Mexico and 100% of FEMSA Empaques, S.A. de C.V., which we refer to as FEMSA Empaques, a producer and distributor of beverage-related packaging materials. In 2003, we represented 47%, 55% and 50%, of FEMSA s total revenues, income from operations and net income, respectively.

Consistent with our goals of maximizing long-term profitability and growth and enhancing our competitive position, 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 U.S.$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. After giving effect to these transactions, FEMSA retained a 51% indirect interest in our company.

In a series of transactions between 1994 and 1997, we acquired the territory for the federal capital of Buenos Aires by purchasing 100% of Coca-Cola FEMSA de Buenos Aires, S.A. de C.V. from a subsidiary of The Coca-Cola Company. We expanded our Argentine operations in February 1996 by acquiring the former San Isidro Refrescos S.A. territories, which we refer to as SIRSA, including certain properties of Refrescos del Norte S.A. Through these transactions, we expanded our Argentine operations to include the contiguous San Isidro and Pilar areas.

We expanded our Mexican operations in November 1997 by acquiring 100% of Embotelladora de Soconusco, S.A. de C.V., a bottler in the Tapachula area of the state of Chiapas in southern Mexico. With this acquisition, we service the entire state of Chiapas.

In May 2003, we expanded our operations throughout Latin America by acquiring 100% of Panamco, then the largest soft drink bottler in Latin America in terms of sales volumes in 2002. Through our acquisition of Panamco, we 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. The total cost of the transaction was approximately Ps.38,603 million, excluding transaction expenses, and we financed the acquisition as follows: Ps.17,267 million of new debt (including approximately Ps.5,245 million used to refinance existing Panamco indebtedness); a Ps.2,779 million capital investment from FEMSA; the issuance of our Series D Shares to subsidiaries of The Coca-Cola Company in exchange for a capital contribution of Ps.7,041 million in the form of equity interests in Panamco; Ps.2,820 million in cash; and Ps.9,085 million of assumed net debt.

After the Panamco acquisition, FEMSA indirectly owns 45.7% of our capital stock, representing 53.6% of our capital stock with full voting rights, and The Coca-Cola Company indirectly owns 39.6% of our capital stock, representing 46.4% of our capital stock with full voting rights. The remaining 14.7% of our capital stock trades on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange.

Business Strategy

We are the largest bottler of *Coca-Cola* trademark beverages in Latin America in terms of sales volumes in 2003, 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 divisional headquarters in Mexico City;

- Latin Centro (covering territories in Guatemala, Nicaragua, Costa Rica, Panama, Colombia and Venezuela) with divisional headquarters in San José, Costa Rica; and
- Mercosur (covering territories in Brazil and Argentina) with divisional 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 profitability are increasing our revenues by implementing well planned product, package and pricing strategies through channel distribution and by implementing best practices in order to improve operational efficiencies throughout our company. To achieve these goals we continue our efforts in:

- working with The Coca-Cola Company to continue exploring new lines of beverages that extend existing brands and allow us to participate in new beverage segments;
- implementing packaging strategies designed to increase consumer demand for our products and to build a strong returnable base in our new territories;
- replicating our successful best practices throughout the whole value chain within the newly acquired territories;
- 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 in order to get closer to our clients, helping them satisfy the beverage needs of consumers;
- integrating our operations through advanced information technology systems;
- evaluating our bottled water strategy, in conjunction with The Coca-Cola Company, to maximize its profitability across our market territories; and
- committing to building a best-in-class collaborative team, from top to bottom.

We seek to increase per capita consumption of soft drinks 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 The Company Product and Packaging Mix. We also seek to increase placement of refrigeration equipment, including promotional displays, through the strategic placement of such equipment 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 distribution capacity to improve the efficiency of our operations. In 2003, as part of the integration process from the acquisition of Panamco, we closed several under-utilized manufacturing centers and shifted distribution activities to other existing facilities. See Description of Property, Plant and Equipment. In each of our facilities, we seek to increase productivity 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 non-alcoholic beverages.

We continue with the integration process in our new Mexican territories, realizing synergies in back-office operations, manufacturing and procurement and have implemented closure and integration of facilities and

headcount reductions. We closed Panamco s Miami and Mexico City offices, consolidating our headquarter operations into our original office in Mexico City. In our other new territories we have replicated some of our traditional management practices and systems, and we have introduced several packing presentations across our new territories, strengthening *Coca-Cola* brands and offering new options to the consumers. We have implemented new pricing architecture strategies, differentiating returnable presentations from non-returnables in order to achieve an adequate combination of price and convenience.

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 cross-fertilization programs, whereby a growing team of multinational executives exchange experiences, know how and talent among our new and existing territories.

Our Markets

The following map shows the locations of our territories, giving in each case the population to which we offer products, the number of retailers of our carbonated soft drinks and the per capita consumption of our soft drink products:

Per capita consumption data for a territory is determined by dividing sales volumes within the territory (in bottles, jugs, cans, powders 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, we and The Coca-Cola Company measure, among other factors, the per capita consumption of our carbonated beverages.

Our Products

We produce, market and distribute the following *Coca-Cola* trademark beverages, proprietary brands and brands licensed from third parties, as of March 15, 2004:

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Colas:						
Coca-Cola	X	X	X	X	X	X
Coca-Cola light	X	X	X	X	X	X
Coca-Cola light lemon					X	
Coca-Cola vanilla	X		X	X		

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Flavored Soft Drinks:						
Beat	X					
Canada Dry ginger ale		X				
Chinotto				X		
Chinotto light				X		
Crush						X
Delaware Punch	X					
Fanta	X	X	X		X	X
Fanta light					X	X
Fanta multi-flavors	X	X			X	
Fresca	X	X				
Fresca pink grapefruit	X					
Frescolita				X		
Grapette				X		
Hit				X		
Kist(1)		X				
Kola Román(2)			X			
Kuat					X	
Kuat laranja					X	
Kuat light					X	
Lift	X	X	X			
Lift green apple	X	X				
Mundet multi-flavors(3)	X					
Premio(1)			X			
Prisco(3)	X					

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Quatro	X		X	X		X
Schweppes					X	X
Senzao	X					
Sidral Mundet[(3)]	X					
Sidral Mundet light[(3)]	X					
Simba					X	
Sintonia					X	
Sprite	X	X	X		X	X
Sprite light / Sprite Cero	X				X	X
Taí					X	X

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Water:						
Alpina[(1)]		X				
Ciel	X					
Ciel Mineralizada	X					
Club K[(1)]			X			
Crystal[(1)]					X	
Dasani		X				
Kin						X
Manantial[(1)]			X			
Nevada				X		
Pure Mountain[(1)]		X				
Santa Clara[(1)]			X			
Shangri-la[(1)]		X				
Soda Clausen[(1)]			X			
Soda Kin						X

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Other Categories:[(4)]						
Black Fire						X
Burn					X	
Flash Power					X	
Fruitopia		X				
Hi-C		X				X
Juizz[(1)]		X				
Kapo		X				
Keloco[(1)]	X					
Kin light	X					
Malta Regional[(2)]				X		
Mickey Aventuras	X					
Nativa						X
Nestea[(2)]	X	X		X	X	

Polar		X			
Powerade	X	X	X	X	
Schweppes		X		X	
Shangri-la(1)		X			
Sunfil		X		X	
Super 12(1)		X			
Super Malta(2)		X			
					X

(1) Proprietary brand.

(2) Brand licensed from third parties other than The Coca-Cola Company.

(3) Brand licensed from FEMSA.

(4) Includes juices, sport drinks, dairy, malt, powder, iced tea and mixers.

Sales Overview

We measure 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 volumes for each of our territories. The sales volume include the newly acquired Panamco territories only from May 2003.

	Sales Volumes Year Ended December 31		
	2001	**2001**	**2001**
	(millions of unit cases)		
Mexico	850.1	504.7	477.9
Central America	72.9		
Colombia	114.1		
Venezuela	110.1		
Brazil	176.6		
Argentina	126.6	115.6	129.9
Combined Volume	1,450.5	620.3	607.8

Product and Packaging Mix

Our single most important brand is *Coca-Cola*, which accounted for 60.2% of the total consolidated sales volume in 2003. *Fanta, Sprite, Lift* and *Fresca*, our next largest brands in consecutive order, accounted for 5.1%, 3.1%, 2.4% and 2.1%, respectively, of sales volumes in 2003. 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 terephtalate, which we refer to as PET. Presentation sizes for our *Coca-Cola* trademark beverages range from a 6.5-ounce personal size to a 20-liter multi-serving size. We consider multi-serving size presentations as equal to or larger than 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multi-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 jug presentations, which is a presentation larger than 17 liters, that have a much lower price per unit than our other beverage products.

In addition to *Coca-Cola* trademark beverages, we produce, market and distribute certain other proprietary brands and beverages licensed from third parties other than The Coca-Cola Company in a variety of presentations.

The characteristics of our territories are very diverse. Central Mexico is densely populated and has a large number of competing soft drink brands and higher per capita income as compared to the rest of our territories. Brazil and Argentina are densely populated but have lower per capita consumption of soft drink products as compared to Mexico. Portions of Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower per capita consumption of soft drink products. In Venezuela, per capita income and consumption have been affected due to the economic and political unrest in recent years. In recent years, per capita income has been negatively affected by macroeconomic conditions in most of the countries where we operate.

The following discussion analyzes our product and packaging mix by segment. The volume data presented is for the years 2002 and 2003 and includes the newly acquired territories for all of 2002 and the first four months of 2003 prior to the acquisition of Panamco. As discussed above, we did not acquire these territories until May 6, 2003. Nonetheless, we believe that presenting the prior periods in this section provides a more complete illustration of the characteristics of our territories than would be possible based solely on information from the last eight months of 2003. We have not included information for periods prior to 2002. We have presented above under Sales Overview our actual sales volumes by territory for the three years ended December 31, 2001, 2002 and 2003, which include the newly acquired territories solely for eight months of 2003.

Mexico. Our product portfolio consists of *Coca-Cola* trademark beverages, and since 2001 has included the third party *Mundet* trademark beverages. In 2003, we expanded our core brand portfolio line launching the flavored soft drinks *Fresca pink grapefruit* and *Lift green apple*. We also introduced *Coca-Cola vanilla* in our

Mexican territories, strengthening the cola category. Soft drink per capita consumption in Mexico during 2003 was 483 eight-ounce servings.

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

	Year Ended December 31,	
	2003	**2002**
Product Sales Volumes	**(millions of unit cases)**	
Coca-Cola Trademark Beverages	985.4	964.6
Other Beverages	16.2	15.9
Total	1,001.6	980.5
% Growth	2.2%	

Unit Case Volume Mix by Category	**(in percentages)**	
Colas	59.8%	60.8%
Flavored Soft Drinks	18.7	17.2
Total Carbonated Soft Drinks	78.5	78.0
Water[1]	20.9	20.7
Other Categories	0.6	1.3
Total	100.0%	100.0%

Product Mix by Presentation	**(in percentages)**	
Returnable	27.9%	28.2%
Non-returnable	54.9	53.6
Fountain	1.3	1.3
Jug	15.9	16.9
Total	100.0%	100.0%

(1) Includes jug volumes.

Our most popular soft drink presentations were the 2.5-liter and 2.0-liter returnable plastic bottles, the 0.6-liter non-returnable plastic bottle, and the 2.5-liter and the 2.0-liter non-returnable plastic bottle, which combined accounted for more than 60% of our total soft drink sales volume in 2003 in Mexico. Since 1995, we have introduced a number of new presentations in Mexico. These include 2.5-liter and 2.0-liter returnable plastic bottles, 1.0-liter non-returnable plastic bottles, 8-ounce non-returnable glass bottles, 0.25-liter non-returnable plastic bottles and 0.6-liter plastic contour bottles to replace the 0.5-liter non-returnable glass and plastic presentations. In 2003, we launched new 2.5-liter returnable and non-returnable presentations.

Multi-serving presentations are an important component of our product mix. In 2003, multi-serving presentations represented 67% of our total soft drink sales volumes in Mexico, as compared to 64% in 2002. We expect that demand for multi-serving presentations will continue increasing. We believe that the popularity of multi-serving presentations is primarily attributable to the lower price per ounce of product in larger presentations.

In the past, the packaging trend in the soft drink industry in Mexico had moved toward non-returnable presentations. However, due to the entrance of low price brands in multi-serving size presentations, we have refocused our packaging mix strategy to reinforce our sales of multi-serving size returnable packages, and as a result non-returnable presentations remained almost flat in 2003 as compared to 2002. Returnable plastic and glass presentations offer consumers a more affordable, although less convenient, product, and we believe returnable packages present an opportunity for us to attract new customers and maintain customer loyalty, because they make *Coca-Cola* trademark beverages more attractive to price-sensitive consumers. The price of a 2.5-liter returnable package is approximately 30% less than the same size non-returnable package. These returnable products are mainly sold to small store retailers, representing the largest distribution channel in the Mexican market, that benefit from returnable bottles lower price per ounce of product, allowing them to compete with larger supermarkets. We believe that our continued commitment to returnable bottle availability will allow us to compete with low-price entrants to the Mexican soft drink market.

Total sales volumes reached 1,001.6 million unit cases in 2003, increasing 2.2% compared to 2002, including a 2.9% carbonated soft drink volume growth during the same period. The volume growth was mainly driven by (i) the solid performance of our new flavored brands including *Fresca pink grapefruit* and *Lift green apple*, accounting for approximately 70% of the incremental volumes during the year, (ii) the incremental sales volumes reached by *Ciel* still water in a 5.0-liter presentation and, (iii) volume growth from *Coca-Cola* brand beverages. This volume growth was partially offset by a decline in our jug water volume, mainly in the 19.0-liter water jug presentation, the result of our new revenue management initiatives intended to improve the profitability of our bottled water business in our new territories, and to a lesser extent to the increased size of multi-serving presentations.

In 2003, product and packaging innovation helped us weather a relatively weak economic environment and increased competition from low price soft drink brands in multi-serving size presentations, which have increased their presence and product alternatives in certain areas of our Mexican territories. With the introduction of our new multi-serving size 2.5-liter returnable and non-returnable presentations, for the *Coca-Cola* brand and selected flavors, we reduced the price gap per ounce versus low price brands during 2003, enhancing the value proposition for our customers.

Central America. Our product sales in Central America consist predominantly of *Coca-Cola* trademark beverages. During 2003 we launched the *Dasani* water brand in one of our Central American territories. Soft drink per capita consumption in Central America during 2003 was 131 eight-ounce servings.

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

	Year Ended December 31,	
	2003	**2002**
Product Sales Volumes	**(millions of unit cases)**	
Coca-Cola Trademark Beverages	99.6	93.3
Other Beverages	7.7	6.8
Total	107.3	100.1
% Growth	7.2%	
Unit Case Volume Mix by Category	**(in percentages)**	
Colas	69.4%	69.6%
Flavored Soft Drinks	24.7	23.7
Total Carbonated Soft Drinks	94.1	93.3
Water	4.2	4.0
Other Categories	1.7	2.7
Total	100.0%	100.0%
Product Mix by Presentation	**(in percentages)**	
Returnable	51.8%	50.9%
Non-returnable	42.9	43.4
Fountain	5.3	5.7
Jug		
Total	100.0%	100.0%

In Central America, we sell the majority of our sales volumes through small retailers. In 2003, multi-serving presentations represented 47.5% of our total soft drink sales volumes in Central America. We also launched a 2.0-liter returnable presentation in Central America for the *Coca-Cola* brand and selected flavor brands in 2003 to take advantage of the trend to larger presentations.

Total sales volumes reached 107.3 million unit cases in 2003, increasing 7.2% compared to 2002, including 8.1% growth in carbonated soft drink sales volumes during the same period. The sales volume growth was mainly driven by (i) the solid performance of the cola category, increasing almost 7% during the year, and representing 66%

of the incremental sales volumes, especially in our territories in Guatemala and Nicaragua, and (ii) the incremental sales volume reached by the carbonated soft drink flavor segment, which represented the majority of the balance.

Colombia. Our product portfolio in Colombia consists of *Coca-Cola* trademark beverages, certain products sold under proprietary trademarks, as well as sales of the *Kola Román* brand, which we license from a third party. Soft drink per capita consumption in Colombia during 2003 was 80 eight-ounce servings.

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

	Year Ended December 31,	
	2003	**2002**
Product Sales Volumes	**(millions of unit cases)**	
Coca-Cola Trademark Beverages	133.5	139.0
Other Beverages	38.3	46.0
Total	171.8	185.0
% Growth	(7.1)%	
Unit Case Volume Mix by Category	**(in percentages)**	
Colas	62.4%	60.4%
Flavored Soft Drinks	22.3	21.8
Total Carbonated Soft Drinks	84.7	82.2
Water[(1)]	15.1	17.5
Other Categories	0.2	0.3
Total	100.0%	100.0%
Product Mix by Presentation	**(in percentages)**	
Returnable	53.4%	53.8%
Non-returnable	36.8	35.3
Fountain	3.0	3.0
Jug	6.8	7.9

Total	100.0%	100.0%

(1) Includes jug volumes.

The Colombian market is characterized by lower per capita consumption and relatively lower levels of non-returnable presentations. In 2003, multi-serving presentations represented 45.7% of our total soft drink sales volumes in Colombia. We are continuing to evaluate the right product, package and pricing architecture for our portfolio of brands in Colombia.

Total sales volumes amounted to 171.8 million unit cases in 2003, decreasing 7.1% compared to 2002, including a 4.4% carbonated soft drink volume decline during the same period. The volume decline was mainly driven by a reduction in the production of water sold in less profitable packages, which accounted for almost 50% of the volume decline during the year. Carbonated soft drinks accounted for the balance.

Venezuela. Our product portfolio in Venezuela consists predominantly of *Coca-Cola* trademark beverages. Soft drink per capita consumption in Venezuela during 2003 was 123 eight-ounce servings.

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

	Year Ended December 31,	
	2003	**2002**
Product Sales Volumes	**(millions of unit cases)**	
Coca-Cola Trademark Beverages	148.6	160.6
Other Beverages	3.0	2.3
Total	151.6	162.9
% Growth	(6.9)%	
Unit Case Volume Mix by Category	**(in percentages)**	
Colas	57.0%	48.2%
Flavored Soft Drinks	29.2	34.0
Total Carbonated Soft Drinks	86.2	82.2
Water[(1)]	8.2	10.6
Other Categories	5.6	7.2
Total	100.0%	100.0%
Product Mix by Presentation	**(in percentages)**	
Returnable	36.4%	39.1%
Non-returnable	57.6	52.5
Fountain	2.7	3.0

Jug	3.3	5.4
Total	100.0%	100.0%

(1) Includes jug volumes.

During January of 2003, political unrest in Venezuela due to a national strike made it practically impossible for Panamco to run this operation on a regular basis. Supply shortages during the first quarter and a severe economic recession significantly affected volume performance during 2003. We re-introduced the one-liter returnable glass presentation for the Coca-Cola brand in 2003, which we believe had a positive impact on sales volumes in 2003.

Total sales volumes decreased in 2003 to 151.6 million unit cases, including a decrease of 2.3% in carbonated soft drink volumes. Carbonated soft drink flavors accounted for almost 60% of the sales volume decline during the year, and still bottled water accounted for the majority of the balance, driven by a change of consumption habits due to the country s economic recession.

Brazil. Our product portfolio in Brazil consists mainly of *Coca-Cola* trademark beverages. Pursuant to an agreement with Cervejarias Kaiser, we distribute the *Kaiser* brands of beer, which represented 18.2% of our sales volumes in Brazil in 2003. During 2003, we expanded our product lines, introducing *Coca-Cola light lemon*, *Kuat laranja* and *Sintonia*. Soft drink per capita consumption in Brazil during 2003 was 189 eight-ounce servings.

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

	Year Ended December 31,	
	2003	**2002**
Product Sales Volumes	**(millions of unit cases)**	
Coca-Cola Trademark Beverages	206.1	239.5
Other Beverages	59.0	83.1
Total	265.1	322.6
% Growth	(17.8)%	
Unit Case Volume Mix by Category	**(in percentages)**	
Colas	53.4%	47.5%
Flavored Soft Drinks	23.7	26.7
Total Carbonated Soft Drinks	77.1	74.2
Water	4.1	5.1
Other Categories[(1)]	18.8	20.7
Total	100.0%	100.0%

Product Mix by Presentation	**(in percentages)**	
Returnable	11.1%	11.9%
Non-returnable	85.1	84.1
Fountain	3.8	4.0
Jug		
Total	100.0%	100.0%

(1) Includes beer.

During 2003, we initiated a packaging differentiation strategy intended to diversify our operation from 2.0-liter PET non-returnable packages and cans, which together accounted for almost 80% of sales volumes in 2002 and the beginning of 2003. We launched more than six different packaging presentations during 2003, including a new 12-ounce non-returnable glass bottle and a new 200-milliliter returnable glass bottle in order to offer convenience and affordability for the on-premise segment. By selling more profitable stock keeping units or SKUs, we intend to strengthen our packaging and brand portfolio, and enhance our pricing architecture in order to increase the profitability of the segment.

Total sales volumes amounted to 265.1 million unit cases in 2003, decreasing 17.8% compared to 2002 volumes, including a 14.7% decline in non-profitable carbonated beverage sales volumes during the same period. The majority of the volume decline during 2003 came from 2.0-liter non-returnable presentations, especially for low margin products like *Simba* and *Taí*, as we tried to reach a better price value combination by shifting to more profitable presentations. Carbonated soft drinks accounted for 60% of the volume decline during 2003, beer represented 30% and bottled water represented the balance.

Argentina. Our product portfolio in Argentina consists exclusively of *Coca-Cola* trademark beverages. Soft drink per capita consumption in Argentina during 2003 was 276 eight-ounce servings.

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

	Year Ended December 31,	
	2003	**2002**
Product Sales Volumes	**(millions of unit cases)**	
Coca-Cola Trademark Beverages	126.6	115.6
Other Beverages		
Total	126.6	115.6
% Growth	9.5%	
Unit Case Volume Mix by Category	**(in percentages)**	
Colas	71.4%	68.3%
Flavored Soft Drinks	27.4	30.4
Total Carbonated Soft Drinks	98.8	98.7

Water	0.9	0.8
Other Categories	0.3	0.5
Total	100.0%	100.0%

Product Mix by Presentation	**(in percentages)**	
Returnable	24.5%	12.4%
Non-returnable	71.8	82.9
Fountain	3.7	4.7
Jug		
Total	100.0%	100.0%

In 2002, in order to minimize the impact of the deteriorated economic situation in Argentina, as well as increase the affordability of our products, we launched new returnable presentations such as a 1.25-liter returnable glass presentation and a 2.0-liter returnable PET presentation, which combined with existing presentations accounted for 25% of our sales volumes in 2003. During 2003 we also experienced an increase in our premium brands fostered by the launch of *Fanta light* and the slow recovery of the Argentine economy.

Total sales volumes amounted to 126.6 million unit cases in 2003, increasing 9.5% compared to 2002. The sales volume increase was mainly driven by our returnable packaging strategy and the economic recovery from the devaluation of the Argentine peso in 2002. We also experienced a product shift from our less profitable value protection brands, *Taí* and *Crush*, toward our core and premium brands, the *Coca-Cola* brand and *Fanta*, which increased 15.1% and 40.6%, respectively. For the first time, in 2003 we sold more sales volumes from premium brands than from value protection brands, fostered by a 10.9% volume increase of the *Coca-Cola light* brand and the successful introduction of *Fanta light* during the year. Premium brands represented 12.2% of total sales volumes during 2003.

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 Argentina and Brazil, 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 soft drink consumers. 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 market segments we serve. We are in the process of rolling out our information technology system in our new territories in order to standardize the systems in these territories with our original territories.

Retailer Incentive Programs. Incentive programs include providing retailers with commercial refrigerators for the display and cooling of soft drink products and for point-of-sale display materials. We seek, in particular, to increase distribution coolers 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 segment our market and develop targeted efforts for each 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 soft drink consumers in each of the various 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 such systems, including in hand-held computers to support the gathering of product, consumer and delivery information required to implement our channel marketing strategies effectively, for most of our sales routes in Mexico and Argentina, and will continue investing to increase pre-sale coverage in certain of our new territories.

Cooperative Marketing Budget. Our consolidated total marketing expenditure made in 2003 was Ps.1,498.4 million. In 2003 and 2002, The Coca-Cola Company contributed 48% and 41%, respectively, of our marketing expenditures budget. See Bottler Agreements.

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, 2003

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Distribution Centers	113	43	42	38	10	4
Number of Retailers(1)	547,185	139,289	442,210	234,740	120,008	75,735

(1) Estimated.

We use two main sales methods depending on market and geographic conditions: 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 the pre-sale system. The pre-sale program separates the sales and delivery functions, allowing sales personnel to sell products prior to delivery and enabling trucks to be loaded with the mix of products that retailers have previously ordered, thereby increasing distribution efficiency. Under the pre-sale program, sales personnel also provide merchandising services during retailer visits, which we believe enhances the presentation of our products at the point of sale. 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.

We believe that service visits to retailers and frequency of deliveries are essential elements in an effective selling distribution system for soft drink products. Accordingly, we have continued to expand our pre-sale system throughout our operations, except in areas where we believe consumption patterns do not warrant pre-sale. We are in the process of replicating our business model in our new territories.

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 bottler 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. In 2003, we implemented these practices in the newly acquired Mexican territories.

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 segment, supermarkets and others. On premise consists of (i) sales through sidewalk stands, restaurants, bars and various types of dispensing machines and (ii) sales through point of sale programs in concert halls, auditoriums and theaters by means of a series of arrangements with Mexican promoters.

Central America. In Central America, we distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. In Central America, excluding Guatemala, we sold more than 50% of sales volumes through the pre-sale system in 2003. In Guatemala, we sold only around 10% of sales volumes through pre-sale in 2003, but we currently plan to increase pre-sale coverage in the future. In our Central American operations, just as in most of our territories, an important part of our sales volumes are through small retailers, and we have low supermarket penetration in this region, representing less than 8% of sales volumes in 2003.

Colombia. Approximately half of sales volumes in Colombia are sold through pre-sale and half through the traditional system in 2003. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. Since May 2003, we consolidated five distribution centers out of 47 in our Colombian operations, with the objective of increasing productivity levels and asset utilization.

Venezuela. In Venezuela close to 70% of our sales volumes in 2003 were through the pre-sale system. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. During 2003 we consolidated the operations of two of the 40 distribution facilities. Our Venezuelan operations distribute a significant part of sales volumes through small retailers and supermarkets, which represent approximately 13% of our sales volumes in 2003.

Brazil. In Brazil, almost 100% of our direct sales volumes are through the pre-sale system, although the delivery of our finished products to customers is by a third party. At the end of 2003, we operated ten distribution facilities in our Brazilian territories. In contrast with the rest of our territories, which have low supermarket penetration,

in Brazil we sold more than 25% of our sales volume through supermarkets in 2003. In addition, in designated zones independent wholesalers purchase our products at a discount from the wholesale price and resell the products to retailers. Independent wholesalers distributed approximately 16% of our products in 2003.

Argentina. At December 31, 2003, we operated four distribution centers in Argentina. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. Independent wholesalers distributed approximately 5.7% of our products in 2003.

In Argentina, in 2003 we sold the majority of our products in the take-home segment, which consists of sales to consumers who take the beverages home or elsewhere for consumption. In 2003, the percentage of sales volumes through supermarkets decreased to 17.9% from 23.4% in 2002.

Competition

Although we believe that our products enjoy wider recognition and greater consumer loyalty than those of our principal competitors, the soft drink segments 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 soft drink 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 and Brazil also offer both soft drinks and beer, which may enable them to achieve distribution efficiencies.

During 2003, we faced new competitive pressures that are different than those we have historically faced as we began operations in Central America, Colombia, Venezuela and Brazil. In addition, distribution and marketing practices in some of these territories differ from our historical practices.

Recently, price discounting and packaging have joined consumer sales promotions, customer service and non-price retailer incentives as the primary means of competition among soft drink bottlers. We compete by seeking to offer an attractive price / value proposition to the different segments in our markets and by building on our brand equity. 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. These competitors include Pepsi Gemex in central Mexico, a subsidiary of PBG, the largest bottler of Pepsi globally, and several other Pepsi bottlers in central and southeast Mexico. In addition, we compete with Cadbury Schweppes and with other national and regional brands in our Mexican segment. We also face an increase in competition from low price producers offering multi-serving size presentations in the soft drink industry.

Central America. In the countries that comprise our Central America segment, our main competitors are Pepsi bottlers. In Guatemala and Nicaragua we compete against 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.

Colombia. Our principal competitor is Postobón S.A., which we refer to as Postobón, a well-established local bottler that sells flavored soft drinks, some of which have a wide consumption preference, such as cream soda, the second most popular category in the Colombian soft drink industry in terms of sales volumes, and Pepsi products. Postobón is a vertically integrated producer, the owners of which hold other significant commercial interests in Colombia.

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 soft drinks in multi-serving presentations that represent an important portion of the soft drink market.

Argentina. In Argentina, our main competitor is BAESA, a Pepsi bottler, which is owned by Argentina s principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In addition to BAESA, competition has intensified over the last several years with the entrance of a number of competitors offering generic, low priced soft drinks 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 diet sodas, 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 net of applicable taxes. Although The Coca-Cola Company has the right to unilaterally set the price of concentrates, in practice this percentage is set pursuant to periodic negotiations with The Coca-Cola Company. In connection with the Panamco acquisition, The Coca-Cola Company agreed that concentrate prices would not be raised through May 2004. See Item 7. Major Shareholders and Related Party Transactions Major

Shareholders The Coca-Cola Memorandum. In most cases, concentrate is purchased in the local currency of the territory.

In addition to concentrates, we purchase sweeteners, carbon dioxide, glass and plastic bottles, cans, closures and fountain containers, as well as other packaging materials. Our bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, all containers, closures, cases, cartons and other packages and labels may be purchased only from suppliers approved by The Coca-Cola Company, which includes manufacturing subsidiaries of FEMSA Empaques. Prices for packaging materials historically are 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. Under our agreements with The Coca-Cola Company, we may use raw or refined sugar or HFCS as sweeteners in our products, although we currently use sugar in all of our operations except for Argentina. 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. We have experienced sugar price volatility in these territories as a result of changes in local conditions and regulations.

None of the materials or supplies that we use are 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 some glass bottles, closures, plastic cases, commercial refrigerators, cans and certain lubricants and detergents for bottling lines from subsidiaries of FEMSA Empaques. 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 purchase some of our non-returnable plastic bottles, as well as pre-formed plastic ingots for the production of non-returnable plastic bottles, from ALPLA Fábrica de Plásticos, S.A. de C.V., which we refer to as ALPLA, an authorized provider of PET for The Coca-Cola Company.

We purchase some can presentations from Industria Envasadora de Querétaro, S.A. de C.V., known as IEQSA, a bottler cooperative in which we hold 33.68% interest. Both we and IEQSA purchase a portion of our empty can supply requirements from Fábricas Monterrey, S.A. de C.V., known as Famosa, a subsidiary of FEMSA Empaques. Our supply agreements provide for market based pricing.

Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for the soft drink. We regularly purchase sugar from Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of *Coca-Cola* bottlers. 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, another sugar-cane producer in which we hold a 2.54% equity interest.

In December 2001, the Mexican government expropriated the sugar industry in Mexico. To administer this industry, the Mexican government entered into a trust agreement with Nacional Financiera, S.N.C., which we refer to as Nafin, a Mexican government-owned development bank, pursuant to which Nafin acts as trustee. In addition, the Mexican government imposed a 20% excise tax, effective January 1, 2002, on carbonated soft drinks sweetened with HFCS. As a result we converted our Mexican bottler facilities to sugar-cane-based production in early 2002. On January 1, 2003, the Mexican government broadened the reach of this tax by imposing a 20% excise tax on carbonated soft drinks produced with non-sugar sweetener, including HFCS. The effect of these excise taxes is to limit our ability to substitute other sweeteners for sugar.

Imported sugar is also presently 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 and increased by approximately 8% in 2003.

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 are significantly higher than international market prices, and our ability to import sugar or HFCS 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 a local supplier and Tapón Corona, in which we have a 40% equity interest. We purchase all our glass bottles and cans from suppliers, in which our competitor Postobón owns a 40% equity interest. Other suppliers exist for glass bottles, however, cans are available only from this one source.

Venezuela. We use sugar as a sweetener in our products, of which we purchase the majority from the local market and the rest we import mainly from Colombia. In the second half of 2003, there was a shortage of sugar due to the inability of the main sugar importers to access foreign currencies as a result of the exchange controls implemented at the beginning of 2003. We only 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. One exclusive supplier handles all our can requirements.

Brazil. Sugar is widely available in Brazil at internal market prices which are generally lower than international prices. We purchase glass bottles, PET bottles and cans from several domestic and international suppliers.

Argentina. In Argentina, we use HFCS from several different local suppliers as sweetener in our products instead of sugar. We purchase glass bottles, plastic trays and other raw materials from several domestic sources. We purchase pre-formed plastic ingots, as well as returnable plastic bottles, at competitive prices from Complejo Industrial PET S.A., which we refer to as CIPET, a local subsidiary of Embotelladora Andina S.A., a *Coca-Cola* bottler with operations in Argentina, Chile and Brazil, and other international suppliers. We purchase crown caps from local and international suppliers. We purchase our can presentations for distribution to customers in Buenos Aires from Complejo Industrial CAN S.A., which we refer to as CICAN, in which Coca-Cola FEMSA de Buenos Aires has a 48.1% equity interest.

REGULATION

Price Controls. At present, there are no price controls on our products in any of our segments. In Mexico, prior to 1992, prices of carbonated soft drinks were regulated by the Mexican government. From 1992 to 1995, the industry was subject to voluntary price restraints. In response to the devaluation of the Mexican peso relative to the U.S. dollar in 1994 and 1995, however, the Mexican government adopted an economic recovery plan to control inflationary pressures in 1995. As part of this plan, the Mexican government encouraged the *Asociación Nacional de Productores de Refrescos y Aguas Carbonatadas, A.C.* (the National Association of Bottlers) to engage in voluntary consultations with the Mexican government with respect to price increases for returnable presentations. These voluntary consultations were terminated in 1996. In the last ten years, the governments in Colombia, Brazil, and Venezuela have also imposed formal price controls on soft drinks. The imposition of price controls in the future may limit our ability to set prices and adversely affect our results of operations.

Taxation of Soft Drinks. All the countries in which we operate impose a value-added tax on the sale of soft drinks, with a rate of 15% in Mexico, 12% in Guatemala, 15% in Nicaragua, 13% in Costa Rica, 5% in Panama, 16% in Colombia, 16% in Venezuela, 18% in Brazil (only in the territories where we operate) and 21% in Argentina. In addition, several of the countries in which we operate impose the following excise or other taxes:

- Mexico imposes a 20% excise tax on soft drinks produced with HFCS in January 2002 that was suspended in September 2002. In January 2003, the Mexican government implemented a 20% excise tax on carbonated soft drinks produced with non-sugar sweeteners.
- Guatemala imposes an excise tax of 0.18 cents in local currency (Ps.0.25 as of December 31, 2003) per liter of soft drink.
- Nicaragua imposes a 9% consumption tax.
- 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.
- Panama imposes a 5% tax based on the cost of goods produced.
- Brazil imposes an excise tax of 9% and a consumption tax of 6.9% in the territories where we operate.
- Argentina imposes an excise tax on colas and on flavored soft drinks containing less than 5% lemon juice or less than 10% fruit juice of 8.7%, and an excise tax on flavored soft drinks with 10% or more fruit juice and on mineral water of 4.2%.

Water Supply Law. In Mexico, we purchase water directly from municipal water companies and pump water from our own wells pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the *Ley de Aguas Nacionales de 1992* (the Water Law of 1992), 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 Water Law of 1992, concessions for the use of a specific volume of ground or surface water generally run for five-, ten- or fifteen-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms to be extended upon termination. The Mexican government is authorized to reduce the volume of ground or surface water granted for use by a concession by whatever volume of water is not used by the concessionaire for three consecutive years. However, because the current concessions for each of our plants in Mexico do not match each plant s projected needs for water in future years, we successfully negotiated with the Mexican government 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. We believe that we are in compliance with the terms of our existing concessions.

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

We do not currently require a permit to obtain water in our other territories. In Nicaragua, Costa Rica and some plants in Colombia, we own private water wells. In Argentina, we obtain water from Aguas Argentinas, a privately-owned concessionaire of the Argentine government. In the remainder of our territories, we obtain water from governmental agencies or municipalities. In the past five years we have not had a water shortage in any of our territories, although we can give no assurances that water will be available in sufficient quantities to meet our future production needs or that additional regulations relating to water use will not be adopted in the future.

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, Recursos Naturales y Pesca* (the Ministry of the Environment, Natural Resources and Fisheries) or SEMARNAP. SEMARNAP can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to close non-complying facilities. Under the 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 SEMARNAP. Adopted in January 1993, the law provides that plants located in Mexico City that use deep water wells to supply their water requirements must pay a fee to the city for the discharge of residual waste water to drainage. In 1995, municipal authorities began to test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by SEMARNAP. All of our bottler plants located in Mexico City, as well as the Toluca plant, met these new standards in 2001, and as a result, we were not subject to additional fees. See Description of Property, Plant and Equipment Production Facilities.

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. In some countries in Central America, we are in the process of bringing our operations into compliance with new environmental laws. For example, in Nicaragua we are in the final phase of the construction of a water treatment plant located at our bottler plant in Managua. Also, our Costa Rica operations have participated in a joint effort along with the local division of The Coca-Cola Company called *Proyecto Planeta* (Project 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 toxic and dangerous materials. These laws include the control of atmospheric emissions 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.

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), and the *Ley Penal del Ambiente* (the Criminal Environment Law). Since the enactment of the Organic Environmental Law in 1995, our Venezuelan subsidiary has presented to the proper authorities 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.

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, 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 the ISO 9000 since March 1995 and the ISO 14001 since March 1997.

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 Recursos Naturales y Ambiente Humano* (the Ministry of Natural Resources and Human Environment) and the *Secretaría de Política Ambiental* (the Ministry of Environmental Policy) for the province of Buenos Aires. Our Alcorta plant meets and is in compliance with waste water discharge standards.

We have expended, and may be required to expend in the future, funds for compliance with and remediation under local environmental laws and regulations. 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 more stringent in our territories, and there is increased awareness of local authorities for 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 that The Coca-Cola Company enters into with bottlers outside the United States for the sale of concentrates for certain *Coca-Cola* trademark beverages. We manufacture, package, distribute and sell soft drink beverages and bottled water 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 wholesale price, 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 with a subsidiary of The Coca-Cola Company and a subsidiary 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 soft drink 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 approximately 48% of our advertising and marketing budget in our territories during 2003. Although we believe that The Coca-Cola Company intends to continue to provide funds for advertising and marketing, it is not obligated to do so. 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.

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 us to give notice electing to renew the agreement. The following table summarizes by segment the expiration dates and renewal provisions of our bottler agreements:

Segment	Expiration Date	Renewal Provision
Mexico	For two territories June 2013	Ten years, renewable automatically.
	For two territories May 2005	Ten years, requires notice at least six but not more than twelve months before expiration date.
Central America(1)	Guatemala March 2006	Renewable as agreed between the parties.
	Nicaragua May 2006	Five years, requires notice at least six but not more than twelve months before expiration date.
	Costa Rica September 2007	Five years, requires notice at least six but not more than twelve months before expiration date.
Colombia	June 2004(2)	Five years, requires notice at least six but not more than twelve months before expiration date.

Venezuela	For *Coca-Cola* trademark beverages August 2006	Five years, requires notice at least six but not more than twelve months before expiration date.
	For other beverages August 2006	Renewable as agreed between the parties.
Brazil	April 2004(2)	Five years, requires notice at least six but not more than twelve months before expiration date.
Argentina	September 2004(2)	Ten years, renewable automatically.

(1) We are currently in the process of finalizing the bottler agreement for Panama, which we expect will be substantially similar to our existing bottler agreements for Central America.

(2) A renewal notice has been sent by us to The Coca-Cola Company.

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;
- 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, 2003, we owned 32 bottler plants company wide. By country, we have twelve bottler facilities in Mexico, four in Central America, six in Colombia, six in Venezuela, three in Brazil and one in Argentina.

Since the Panamco acquisition during 2003, we consolidated 20 of our plants into existing facilities, including four plants in Mexico, one in Central America, eleven in Colombia, three in Venezuela and one in Brazil. At the same time, we increased our productivity measured in unit cases sold by our remaining plants by more than 50% company wide.

As of December 31, 2003 we operated 250 distribution centers, more than 40% of which were in our Mexican territories. We own approximately 80% of these distribution centers and lease the remainder. See The Company Product Distribution. During 2003, as part of our consolidation process, we reduced the number of our distribution centers across our territories by 37.

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. The policies are issued by Allianz and the coverage is partially reinsured in the international reinsurance market.

The table below summarizes principal use, installed capacity and percentage utilization of our production facilities by country:

Production Facility Summary
As of December 31, 2003

Country	Principal Use	Installed Capacity (thousands of unit cases)	% Utilization[1]
Mexico	Bottler Facility	1,417,345	59.5%
Guatemala	Bottler Facility	30,303	54.6%
Nicaragua	Bottler Facility	26,807	70.8%
Costa Rica	Bottler Facility	37,992	56.3%
Panama	Bottler Facility	28,830	36.1%
Colombia	Bottler Facility	264,036	37.5%
Venezuela	Bottler Facility	268,763	42.1%
Brazil	Bottler Facility	378,969	56.3%
Argentina	Bottler Facility	206,736	60.3%

(1) Annualized Rate

The table below summarizes plant location and facility area of our production facilities:

Production Facility By Location
As of December 31, 2003

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	San Cristobal de las Casas, Chiapas	24
	Cedro, Distrito Federal	18
	Cuautitlán, Estado de Mexico	35
	Los Reyes la Paz, Estado de Mexico	28
	Toluca, Estado de Mexico	280
	Celaya, Guanajuato	87
	León, Guanajuato	38

	Morelia, Michoacan	50
	Juchitán, Oaxaca	27
	Ixtacomitán, Tabasco	90
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	96
Guatemala	Guatemala City	46
Nicaragua	Managua	59
Costa Rica	San José	52
Panama	Panama City	29
Colombia	Barranquilla	27
	Bogotá Norte	89
	Bucaramanga	27
	Cali	88
	Manantial	33
	Medellín	44
Venezuela	Antimano	14
	Barcelona	141
	Calabozo	70
	Maracaibo	34
	Maracay	31
	Valencia	91
Brazil	Campo Grande	36
	Jundiaí1	91
	Moji das Cruzes	95
Argentina	Alcorta	73

SIGNIFICANT SUBSIDIARIES

The table below sets forth all of our direct and indirect significant subsidiaries and the percentage of equity of each subsidiary we owned directly or indirectly as of December 31, 2003:

Name of Company	Percentage Owned
Propimex, S.A. de C.V., a Mexican corporation	99.99%
Inmuebles del Golfo, S.A. de C.V., a Mexican corporation	99.99%
Corporación Interamericana de Bebidas, S.A. de C.V., a Mexican corporation	99.97%
Panamco México, S.A. de C.V., a Mexican corporation	98.14%
Panamco Bajío, S.A. de C.V., a Mexican corporation	93.37%

Item 5. Operating and Financial Review and Prospects

General

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements including the notes thereto. Our consolidated financial statements were prepared in accordance with Mexican GAAP, which differ in certain significant respects from U.S. GAAP. Notes 25 and 26 to our consolidated financial statements provide a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to us, and a reconciliation to U.S. GAAP of majority net income, majority stockholders equity and certain other selected financial data.

Our consolidated financial statements include the financial statements of Coca-Cola FEMSA and those of all companies in which we own directly or indirectly a majority of the outstanding voting capital stock and/or over which we exercise control.

Acquisition of Panamco. On May 6, 2003, we completed the acquisition of Panamco. The acquisition of Panamco resulted in a substantial increase in the size and geographic scope of our operations. The purchase price for 100% of the capital stock of Panamco was Ps.29,518 million, excluding transaction expenses. We also assumed Ps.9,085 million of net debt. The acquisition was financed with an equity contribution from FEMSA of Ps.2,779 million, an exchange of The Coca-Cola Company s equity interests in Panamco valued at Ps.7,041 million for new shares of our company, cash on hand of Ps.2,820 million and new indebtedness of Mexican pesos and U.S. dollars in the amount of Ps.17,267 million. As a result of the Panamco acquisition, in accordance with Mexican GAAP, we recognized as intangible assets with indefinite lives, the rights to produce and distribute trademark brands of The Coca-Cola Company. These identified intangibles, calculated as the difference between the price paid and the fair value of the net assets acquired, were valued at Ps.33,420 million, including financial and advisory fees, costs associated with closing certain acquired facilities, rationalizing and consolidating operations, relocating the corporate and other offices and the integration of the operations.

Comparability of Information Presented; Reporting Segments. Under Mexican GAAP, Panamco is included in our consolidated financial statements from May 2003 and is not reflected for periods prior to this date. As a result, our consolidated financial statements as of and for the year ended December 31, 2003 are not comparable to prior periods. Financial information provided by us with respect to the newly acquired territories is also not comparable to Panamco s consolidated financial statements for prior periods as they were prepared using different policies and in accordance with U.S. GAAP and in U.S. dollars. These financial statements will also not be comparable to subsequent periods, as Panamco is only included in our consolidated financial statements for eight months of 2003.

For our consolidated financial statements for the years ended and as of December 31, 2001 and 2002, we reported Mexico and Argentina as separate reporting segments. For our consolidated financial statements for the year ended and as of December 31, 2003, we reported each of Mexico, Central America, Colombia, Venezuela, Brazil and Argentina as a separate reporting segment. Through our acquisition of Panamco, we acquired additional territories in Mexico, which are reported as part of our Mexico segment, as well as territories in Central America, Colombia, Venezuela and Brazil. We did not acquire any additional territories in Argentina, the segment information for which is fully comparable to prior periods.

Although our consolidated financial information is not comparable to prior periods, we maintain sales volume data for our territories on a basis comparable to that maintained by Panamco for prior periods. For comparison purposes, the following table presents sales volume by segment:

	Year Ended December 31,	
	2003	2002

	(millions of unit cases)	(percentage)	(millions of unit cases)	(percentage)
Total Volumes:				
Mexico	1,001.6	54.9%	980.5	52.5%
Central America	107.3	5.9	100.1	5.4
Colombia	171.8	9.4	185.0	9.9
Venezuela	151.6	8.3	162.9	8.7
Brazil	265.1	14.5	322.6	17.3
Argentina	126.6	7.0	115.6	6.2
Total	1,824.0	100.0%	1,866.7	100.0%

The presented sales volume information is different from our actual sales volume. We have presented this information because these sales volumes are one of the metrics we use to manage our business. Sales volumes are discussed in greater detail by segment in Item 4. Information on the Company The Company Sales Overview.

Effects of Changes in Economic Conditions. Our results of operations are affected by changes in economic conditions in Mexico and in the other countries in which we operate. For the years ended December 31, 2003, 2002 and 2001, 66.7%, 90.6% and 89.1%, respectively, of our net sales were attributable to Mexico. Although after the Panamco acquisition, we have greater exposure to countries in which we have not historically conducted operations, particularly countries in Central America and Colombia, Venezuela and Brazil, we continue to generate a substantial portion of our revenues in Mexico.

Our future results may be significantly affected by the general economic and financial conditions in the countries where we operate. Decreases in economic growth rates, periods of negative growth, devaluation of local currencies, increases in inflation or interest rates and political developments may result in lower demand for our products, lower real pricing or a shift to lower margin products or lower margin presentations. Because a large percentage of our costs are fixed costs, we may not be able to reduce costs and expenses, and our profit margins may suffer as a result of downturns in the economy of each country. In addition, an increase in interest rates in Mexico would increase our cost of variable rate debt and Mexican peso-denominated funding and would have an adverse effect on our financial position and results of operations. A depreciation of the U.S. dollar would increase our cost of raw materials with prices payable in or determined with reference to the U.S. dollar and of debt obligations denominated in U.S. dollars, and thereby may negatively impact our results of operations.

Operating Leverage. Companies with structural characteristics that result in margin expansion in excess of sales growth are referred to as having high operating leverage. We are engaged in capital-intensive activities. The high utilization of the installed capacity of our production facilities results in better fixed cost absorption, as increased output results in higher revenues without additional fixed costs. Absent significant increases in variable costs, gross profit margins will expand when production facilities are operated at higher utilization rates. Alternatively, higher fixed costs will result in lower gross profit margins in periods of lower output.

In addition, our commercial operations are carried out through extensive distribution networks, the principal fixed assets of which are distribution centers and trucks. Our distribution systems are designed to handle large volumes of beverages. Fixed costs represent an important proportion of our total distribution expense. Generally, the higher the volume that passes through the distribution system, the lower the fixed distribution cost as a percentage of the corresponding revenues. As a result, operating margins improve when the distribution capacity is operated at higher utilization rates. In contrast, periods of decreased utilization because of lower volumes will negatively impact our operating margins.

Critical Accounting Estimates

The preparation of our consolidated financial statements requires that we make estimates and assumptions that affect (i) the reported amounts of our assets and liabilities, (ii) the disclosure of our contingent assets and liabilities as of the date of the financial statements and (iii) the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on our historical experience and on various other reasonable factors, which together form the basis for making judgments about the carrying values of our assets and liabilities. Our actual results may differ from these estimates under different assumptions or conditions. We evaluate our estimates and judgments on an on-going basis. Our significant accounting policies are described in Notes 4 and 5 to our consolidated financial statements. We believe our most critical accounting policies that imply the application of estimates and/or judgments are:

Allowance for Doubtful Accounts. We determine our allowance for doubtful accounts based on an evaluation of the aging of our receivables portfolio. The amount of the allowance contemplates our historical loss rate on receivables and the economic environment in which we operate. Most of our sales, however, are realized in cash and do not give rise to doubtful accounts.

Bottles and Cases; Allowance for Bottle Breakage. We classify bottles and cases in accordance with industry practices as fixed assets. Breakage is expensed as incurred, and returnable bottles and cases are not depreciated. We determine depreciation of bottles and cases only for tax purposes.

We periodically compare the book breakage expense with calculated depreciation expense, estimating a useful life of four years for returnable glass bottles and one year for returnable plastic bottles and four years for returnable cases. These useful lives are determined in accordance with our business experience. Historically, the annual calculated depreciation expense has been similar to the annual book breakage expense. Whenever we decide to discontinue a particular returnable presentation and retire it from the market, we write-off the discontinued presentation through an increase in the breakage expense.

Property, Plant and Equipment. Property, plant and equipment are depreciated over their useful lives. The estimated useful lives represent the period we expect the assets to remain in service and to generate revenues. We base our estimates on independent appraisals and the experience of our technical personnel.

We describe the methodology used to restate imported equipment in Note 5(e) to our consolidated financial statements, which includes applying the exchange and inflation rates of the country of origin utilized as permitted by Mexican GAAP. We believe this method more accurately presents the fair value of the assets than restated cost determined by applying inflation factors.

We valued at fair value all fixed assets acquired in the Panamco transaction, considering their operational condition at the acquisition date and the future cash flows they will generate in accordance with our management s estimated future use.

In 2003, after conducting an extensive analysis on the current conditions and expected useful lives of our refrigerator inventories in Mexico, we decided to modify the useful life of refrigerators in our original territories from three to five years. We made this decision based on the quality of our equipment as observed on a regular basis in point of sales locations and the benefit of our maintenance policy. As a result depreciation expense recorded in the 2003 income statement decreased approximately Ps.92 million. The useful life for refrigerators in the new territories acquired from Panamco is five years.

Valuation of Intangible Assets and Goodwill. As we discuss in Note 5(i) to our consolidated financial statements, beginning in 2003 we applied Bulletin C-8, *Activos Intangibles* (Intangible Assets), which established that project development costs should be capitalized if they fulfill the criteria established for recognition as assets. Additionally, Bulletin C-8 requires identifying all intangible assets to reduce as much as possible the goodwill associated with business combinations. Prior to 2003, the excess of the purchase price over the fair value of the net assets acquired in a business combination was considered to be goodwill. With the adoption of Bulletin C-8, we consider such excess to

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relate to the rights to produce and distribute *Coca-Cola* trademark products. We separate intangible assets between those with a finite useful life and those with an indefinite useful life, in accordance with the period over which we expect to receive the benefits.

We valued at fair value all of Panamco s assets and liabilities as of the date of the acquisition and, as required by Bulletin C-8, we conducted an analysis of the excess purchase price over the fair value of the net assets. The analysis resulted in the recognition of an intangible asset with indefinite life in the amount of Ps.33,420 for the right to produce and distribute *Coca-Cola* trademark products, which will be subject to annual impairment tests, under U.S. GAAP and Mexican GAAP. The fair value of the assets and liabilities was determined based on the following:

the fair value of the assets acquired (determined as the value of the fixed assets, the glass returnable bottles and the refrigerators considering (i) their remaining useful lives, (ii) their general operational condition at the acquisition date,

(iii) certain operational and strategic decisions implemented when we assumed control of the operations and (iv) compliance with our accounting policies and estimates);

labor and other liabilities (severance of personnel and other obligations generated by Panamco s operations before we assumed control); and

cancellation of goodwill (the goodwill previously recorded by Panamco was cancelled).

For Mexican GAAP purposes, goodwill is the difference between the price paid and the fair value of the shares and/or net assets acquired that was not assigned directly to an intangible asset. Goodwill and assigned intangible assets are recorded in the functional currency of the subsidiary in which the investment was made and is restated by applying the inflation rate of the country of origin and the year-end exchange rate. Goodwill is amortized over a period of not more than 20 years.

Under U.S. GAAP, SFAS No. 142, Goodwill and Other Intangible Assets, effective in 2002, goodwill is no longer subject to amortization, but instead is subject to an initial impairment review and subsequent impairment test. This test is performed annually unless an event occurs or circumstances change by which it becomes more likely than not that a reporting unit will reduce its fair value below its carrying amount, in which case an interim impairment test is performed. Our impairment review indicates that no impairment charge is required as of the beginning of 2004.

Impairment of Intangible Assets, Goodwill and Long-Lived Assets. We continually review the carrying value of our intangible assets, goodwill and long-lived assets for accuracy. We review for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable based on our projections of anticipated future cash flows. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations.

In December 2001, the Argentine government adopted a series of economic measures, the most important of which consisted of restrictions on cash withdrawals and foreign exchange transactions. Due to the continuing difficult economic situation in Argentina, the uncertainty with respect to the period of recovery, and the instability of the exchange rate, on July 1, 2002, the company performed a valuation of its investment in Coca-Cola FEMSA de Buenos Aires, based on market price value multiples of comparable businesses. The valuation resulted in the recognition of an impairment of Ps.457 million, which was recorded in our 2002 results. Given the present economic situation in Argentina, we believe that the current net asset value of our foreign subsidiary is fairly valued, and although we can give you no assurances, we do not expect to recognize additional impairments in the future in Argentina.

Our evaluations throughout the year and up to the date of this filing did not lead to any other significant impairment of goodwill or long-lived assets. We can give no assurance that our expectations will not change as a result of new information or developments. Changes in economic or political conditions in all the countries in which we operate or in the industries in which we participate, however, may cause us to change our current assessment.

Labor Liabilities. Our labor liabilities are comprised of pension plan and seniority premiums. The determination of our obligations and expenses for pension and other post-retirement benefits depends on our selection of

certain assumptions used by actuaries in calculating such amounts. We evaluate our assumptions at least annually. Those assumptions are described in Note 15 to our consolidated financial statements and include, the discount rate, expected long-term rate of return on plan assets, rates of increase in compensation costs and certain employee-related factors, such as turnover, retirement age and mortality. The assumptions include the economic risk involved in the countries in which our business operates.

In accordance with Mexican GAAP, actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expenses and recorded obligations in such future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other post-retirement obligations and our future expense.

The following table is a summary of the three key assumptions to be used in determining 2004 annual pension expense for Mexico, along with the impact on pension expense of a 1% change in each assumed rate:

Assumption	**2004 rate (in real terms)**	**Impact of 1% change (millions)[(1), (2)]**

Mexican Subsidiaries:		
Discount rate	6.0%	+ Ps.(26) - Ps.81
Salary growth rate.	1.5%	+ Ps.24 - Ps.(23)
Long-term asset return.	5.5%	+ Ps.(26) - Ps.81
Foreign Subsidiaries:		
Discount rate	4.5%	+ Ps.(31) - Ps.36
Salary growth rate.	1.5%	+ Ps.36 - Ps.(29)
Long-term asset return.	4.5%	+ Ps.(31) - Ps.36

(1) The impact is not the same for an increase of 1% as for a decrease of 1% because the rates are not linear.

(2) + indicates an increase of 1%; - indicates a decrease of 1%.

New Accounting Pronouncements

Mexican GAAP

Bulletin C-15, *Deterioro en el Valor de los Activos de Larga Duración y su Disposición* (Impairment of the Value of Long-Lived Assets and their Disposal): In March 2003, the *Instituto Mexicano de Contadores Públicos* (the Mexican Institute of Certified Public Accountants), which we refer to as the IMCP, issued Bulletin C-15, the application of which is mandatory for financial statements for periods beginning on or after January 1, 2004, although early application is encouraged. Bulletin C-15 establishes, among others, new principles for the calculation and recognition of impairment losses for long-lived assets and their reversal. The calculation of such loss requires the determination of the recoverable value, which is now defined as the greater of the net selling price of a cash-generating unit and its value in use, which is the present value of discounted future net cash flows. The accounting principles issued prior to this new bulletin used future net cash flows, without requiring the discounting of such cash flows. We do not anticipate that this new standard will have a significant impact on our financial position or results of operations.

Bulletin C-12, *Instrumentos Financieros con Características de Pasivo, de Capital o de Ambos* (Financial Instruments with Characteristics of Debt, Equity or Both): In April 2003, the IMCP issued Bulletin C-12, the application of which is mandatory for financial statements for periods beginning on or after January 1, 2004, although early

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application is encouraged. Bulletin C-12 establishes the more significant differences between debt and equity, as the basis for the development of the criteria necessary to appropriately identify, classify and record, upon initial recognition, the debt and equity components of compound financial instruments. This new pronouncement is similar to SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, of U.S. GAAP. We do not anticipate that this new standard will have a significant impact on our financial position or results of operations.

U.S. GAAP

SFAS No 149, Amendments of Statement 133 on Derivative Instruments and Hedging Activities (which we refer to as SFAS No. 149): In April 2003, the FASB issued SFAS No. 149, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other agreements and for hedging activities under SFAS No. 133. The changes in this statement improve financial reporting by requiring that agreements with comparable characteristics be accounted for similarly. The new standard will be effective for agreements entered into or modified after September 30, 2003, except as stated below and for hedging relationships designated after September 30, 2003. In addition, except as stated below, all provisions of this statement should be applied prospectively.

The provisions of this statement that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to September 15, 2003 should continue to be applied in accordance with their respective effective dates. We do not anticipate that this new standard will have a significant impact on our financial position or results of operations.

FASB Interpretation No. 46, Consolidation of Variable Interest Entities (which we refer to as FIN 46): In January 2003, the FASB issued FIN 46. FIN 46 clarified the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 was effective immediately for all variable interests held in a variable interest entity created after January 31, 2003. For a variable interest held in a variable interest entity created before February 1, 2003 we would be required to apply the provisions of FIN 46 as of December 31, 2004. We do not currently have any variable interests in a variable interest entity.

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Results of Operations

The following table sets forth our consolidated income statement for the years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,			
	2003(1)(2)	2003(1)	2002	2001
	(millions of U.S. dollars or constant Mexican pesos at December 31, 2003)			
Revenues:				
Net sales	$ 3,158.6	Ps 35,486.8	Ps. 18,518.6	Ps. 17,636.5
Other operating revenues	21.6	242.6	148.9	135.1
Total revenues	3,180.2	35,729.4	18,667.5	17,771.6
Cost of sales	1,600.4	17,980.3	8,680.8	8,255.8
Gross profit	1,579.8	17,749.1	9,986.7	9,515.8
Operating expenses:				
Administrative	207.7	2,333.9	1,474.8	1,357.7
Selling	774.8	8,704.8	3,844.5	3,993.3
	982.5	11,038.7	5,319.3	5,351.0
Goodwill amortization			40.6	108.3
Income from operations	597.3	6,710.4	4,626.8	4,056.5
Integral result of financing:				
Interest expense	(138.1)	(1,551.4)	(348.4)	(343.4)
Interest income	20.2	227.0	264.0	287.7
Foreign exchange gain (loss), net	(180.5)	(2,027.9)	249.9	10.3
Gain (loss) from monetary position	77.5	870.8	394.8	(84.2)
Total integral result of financing	(220.9)	(2,481.5)	560.3	(129.6)
Other expenses, net	21.2	238.6	614.2	44.2
Income for the year before income taxes, employee profit sharing and change	355.2	3,990.3	4,572.9	3,882.7

in accounting principles							
Income taxes and employee profit sharing		147.6		1,658.3		1,912.1	1,526.7
Income for the year before change in accounting principles		207.6		2,332.0		2,660.8	2,356.0
Change in accounting principles							30.1
Net income for the year	$	207.6	Ps.	2,332.0	Ps.	2,660.8	Ps. 2,325.9
Minority net income		1.8		20.2			
Majority net income	$	205.8	Ps.	2,311.8	Ps.	2,660.8	Ps. 2,325.9

(1) Includes the new territories acquired in the Panamco acquisition from May 2003.

(2) Translation to U.S. dollar amounts at an exchange rate of Ps.11.235 to U.S.$1.00 solely for the convenience of the reader.

Results of Operations by Segment

The following table sets forth certain financial information for each of our segments for the years ended December 31, 2003, 2002 and 2001. For the years ended December 31, 2002 and 2001, we reported our results of operations in two segments, Mexico and Argentina. See Note 24 to our consolidated financial statements for additional information by segment.

	Year Ended December 31,					
	2003		2002		2001	
	(millions of Mexican Pesos)					
Net Sales						
Mexico	Ps.	23,683.2	Ps.	16,774.9	Ps.	15,718.6
Central America(1)		2,182.6				
Colombia		2,319.1				
Venezuela		2,542.2				
Brazil		2,785.8				
Argentina		1,973.9		1,743.7		1,917.9
Total Revenues						
Mexico	Ps.	23,935.2	Ps.	16,843.2	Ps.	15,783.8
Central America(1)		2,186.5				
Colombia		2,319.1				
Venezuela		2,544.5				
Brazil		2,796.9				
Argentina		2,076.9		1,824.3		1,987.8
Gross Profit						
Mexico	Ps.	12,844.5	Ps.	9,359.2	Ps.	8,636.6
Central America(1)		1,087.9				
Colombia		1,068.1				
Venezuela		1,105.9				
Brazil		1,011.0				

Argentina		767.6		627.5		879.2
Income from Operations						
Mexico	Ps.	5,633.6	Ps.	4,597.4	Ps.	3,981.0
Central America(1)		218.4				
Colombia		261.1				
Venezuela		231.5				
Brazil		149.8				
Argentina		215.6		29.4		75.5

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

Results of Operations for the Year Ended December 31, 2003 Compared to the Year Ended December 31, 2002.

Consolidated Results of Operations

Net Sales. Consolidated net sales grew by 91.6% to Ps.35,486.8 in 2003, from Ps.18,518.6 in 2002, as a result of the inclusion of sales from the newly acquired territories for eight months of 2003 as well as increases in sales in our previously existing territories in Mexico and Argentina. Consolidated sales volumes increased to 1,450.5 million unit cases for 2003. Consolidated average unit price per case decreased by 18.1% from Ps.29.86 in 2002 to Ps.24.46 in 2003 due to the inclusion of the newly acquired territories, which had higher sales volumes of less profitable products.

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Other Operating Revenues. Other operating revenues increased by 62.9% to Ps.242.6 million in 2003, from Ps.148.9 million in 2002. Other operating revenues mainly consist of sales to other bottlers pursuant to tolling arrangements in Argentina, revenues from sales of recyclable scrap to bottle suppliers and sales of point of sales materials for the fountain business.

Cost of Sales. Cost of sales increased to Ps.17,980.3 million in 2003, from Ps.8,680.8 million in 2002, as a result of the inclusion of the newly acquired territories for eight months of 2003. As a percentage of total sales, cost of sales increased 3.8%, reflecting the higher costs of sales in the newly acquired territories mainly due to the different product mix and higher manufacturing costs. We were also affected by the impact of the devaluation of the U.S. dollar against the Mexican peso as applied to our raw materials with prices that are paid in or determined with reference to the U.S. dollar.

The components of cost of sales include raw materials (principally soft drink concentrate, packaging materials, sweeteners and water), depreciation expenses attributable to our production facilities, wages and other employment expenses associated with the labor force employed at our production facilities and certain overhead expenses. Concentrate prices are determined as a percentage of the retail price of our products net of applicable taxes. See Item 4. Information on the Company The Company Raw Materials.

Operating Expenses. Consolidated operating expenses were Ps.11,038.7 million in 2003, as a result of the inclusion of the newly acquired territories for eight months of 2003. As a percentage of total sales, operating expenses increased 2.4%, due to the standardization of marketing practices in the newly acquired territories and the fact that distribution costs in our new territories are higher than in our original territories.

We incur various expenses related to the distribution of our products. We include these types of costs in the selling expenses line of our income statement. During 2003 and 2002, our distribution costs amounted to Ps.2,803.6 million and Ps.2,099.0 million, respectively. The exclusion of these charges from our cost of sales line may result in the amounts reported as gross profit not being comparable to other companies, which may include all expenses related to their distribution network in cost of sales when computing gross profit (or an equivalent measure).

Goodwill Amortization. We did not recognize goodwill amortization in 2003. In May of 2003 we considered the excess of the purchase price over the fair value of the net assets acquired in the Panamco acquisition, related to the rights to produce and distribute *Coca-Cola* trademark products, as intangible assets with an indefinite useful life. These intangible assets with indefinite lives are not amortized, but are periodically subject to an impairment test.

Income from Operations. Consolidated income from operations after amortization of goodwill grew to Ps.6,710.4 million in 2003, from Ps.4,626.8 million in 2002. Income from operations as a percentage of total revenues decreased 6% in 2003, from 24.8% to 18.8%, mainly as a result of the inclusion of our new territories, which had lower operating margins.

Integral Result of Financing. The term integral result of financing refers to the combined financial effects of net interest expense or interest income, net foreign exchange gains or losses and net gains or losses on monetary position. Net foreign exchange gains or losses represent the impact of changes in foreign exchange rates on assets or liabilities denominated in currencies other than local currencies. A foreign exchange loss arises if a liability is denominated in a foreign currency that appreciates relative to the local currency between the date the liability is incurred or the beginning of the period, whichever comes first, and the date it is repaid or the end of the period, whichever comes first, as the appreciation of the foreign currency results in an increase in the amount of local currency which must be exchanged to repay the specified amount of the foreign currency liability. The gain or loss on monetary position refers to the impact of local inflation on monetary assets and liabilities.

In 2003, we reported a loss of Ps.2,481.5 million from integral result of financing, as compared to a gain of Ps.560.3 million in 2002. This loss principally reflects our new financial position after the Panamco acquisition, and the combined effect of:

- accrued interest expenses related to existing debt and the acquisition financing incurred in connection with the Panamco transaction, which more than offset the interest income generated by our reduced cash balances;
- a foreign exchange loss generated mainly by the devaluation of the Mexican peso against the U.S. dollar, as applied to our U.S. dollar-denominated debt; and
- a consolidated monetary gain, as a result of inflation adjustments applied to the consolidated net monetary liability position.

Other Expenses. Other expenses decreased from Ps.614.2 in 2002 to Ps.238.6 in 2003 mainly as a result of the impairment recorded in 2002 related to the Argentine operations.

Income Taxes and Employee Profit Sharing. Income taxes and employee profit sharing decreased from Ps.1,912.1 million in 2002 to Ps.1,658.2 million in 2003. The company s consolidated effective income tax and employee profit sharing rate remained 41.6% in 2003, reflecting the Mexican effective tax rate of 44.0% that is applied to Mexican income before taxes, which comprised the majority of our taxable income during 2003.

Net Income. Consolidated net income decreased by 12.4% in 2003 to Ps.2,332.1 from Ps.2,660.8. Net income per share was Ps.1.36 (U.S.$1.21 per ADS) in 2003 computed on the basis of 1,704.3 million compounded average shares outstanding during 2003.

Consolidated Results of Operations by Geographic Segment

Mexico

Net Sales. Net sales in Mexico increased to Ps.23,683.2 million in 2003, from Ps.16,774.9 million in 2002, principally as a result of the inclusion of the newly acquired territories for eight months of 2003. Sales volumes in Mexico grew to 850.1 million unit cases during 2003 from 504.7 million unit cases in 2002. Although most of this growth in sales volumes is a result of the inclusion of the newly acquired territories, volume growth was also driven by:

- solid performance of our new flavored brands including *Fanta multi-flavors, Fresca pink grapefruit* and *Lift green apple*;
- incremental sales volumes achieved by Ciel still water in a 5.0-liter presentation, particularly in central Mexico; and
- volume growth from the *Coca-Cola* brand.

The effect of these volume increases on our net sales was mitigated by a lower average real price per unit case in Mexico, which decreased to Ps.27.86 in 2003, mainly due to the incorporation of jug water volumes with a much lower cost per unit from the newly acquired territories and to a lesser extent by the increased size of multi-serving presentations.

Income from Operations. Gross profit totaled Ps.12,844.5 million, reaching a 53.7% margin as a percentage of total revenues in 2003. Higher raw materials prices, the effect of the devaluation of the Mexican peso versus the U.S. dollar on our raw materials with prices payable in or determined with reference to the U.S. dollar, a softer economy and a lower disposable income, amplified by a migration to multi-serving presentations from individual size presentations resulted in declining margins in 2003. During 2003, we eliminated Panamco s former headquarters in Mexico City and Miami, closed four plants out of 16, consolidated 29 distribution centers out of 142, introduced more than 73,000 new coolers into the market and reconfigured pre-sale and distribution networks by reducing third party selling and distribution. Operating income totaled Ps.5,633.6 million in 2003, reaching a 23.5% margin as a percentage of total revenues.

Central America

Net Sales. Net sales in Central America were Ps.2,182.6 million for 2003. During this period, our average real price per unit case was Ps.29.93. Sales volumes in Central America in 2003 were driven by:

- solid performance of the cola category, especially in our territories in Guatemala and Nicaragua; and
- incremental sales volume in the carbonated soft drinks flavor segment.

Higher volumes from our core brands in returnable presentations as well as volumes sold in non-returnable PET bottles contributed to the results during the year.

Income from Operations. Gross profit totaled Ps.1,087.9 million in 2003, reaching a 49.8% gross margin as a percentage of total revenues during the same period. Procurement and other cost reduction initiatives offset cost increases of U.S. dollar-denominated packaging costs during the year. We closed one of our two plants in Panama, and consolidated two distribution centers in the region. Operating income totaled Ps.218.4 million, reaching an operating income margin of 9.9% as a percentage of total revenues. We believe our Central American territories will present opportunities for us to develop a more effective returnable packaging base, new product alternatives and improve execution practices. In Guatemala, however, we face a strong competitive environment combined with a higher than normal cost structure.

Colombia

Net Sales. Net sales in Colombia were Ps.2,319.1 million for 2003. During this period, our average real price per unit case was Ps.20.32. Sales volumes were weak during this period as a result of:

- low sales of carbonated soft drinks as a result of an increasing competitive landscape of alternative lower price or inexpensive beverage categories such as powders, natural juices and tap water affecting the Colombian carbonated soft drinks industry; and
- a reduction in the production of water sold in less profitable packages.

Income from Operations. Gross profit totaled Ps.1,068.1 million, reaching a 46.1% gross margin as a percentage of total revenues during the same period. Lower volumes, higher packaging costs and the impact of the devaluation of the Colombian peso versus the U.S. dollar, applied to U.S. dollar denominated expenses resulted in declining margins. During 2003, we implemented a strong asset consolidation program intended to increase the efficiency of our manufacturing network. We converted 11 manufacturing plants out of 17 into distribution facilities from May 2003 to February 2004 and also consolidated five distribution centers as part of our strategy to face a tough competitive environment. Operating income was Ps.261.1 million, reaching an 11.3% margin as a percentage of total revenues during 2003.

Venezuela

Net Sales. Net sales in Venezuela were Ps.2,542.2 million for 2003. During this period, our average real price per unit case was Ps.23.08. Sales volumes in Venezuela were adversely affected by:

- political unrest, stock shortages and a severe economic recession; and
- a change of consumption habits due to the country s economic recession.

We were able to mitigate some of this decline by implementing an asset rationalization strategy intended to increase the efficiency of our manufacturing network during the year. Sales volumes improved slightly at the end of 2003 as a result of our packaging and revenue management strategies. Volume growth from the *Coca-Cola* brand increased and partially offset the volume decline of carbonated soft drink flavors during the year.

Income from Operations. Gross profit totaled Ps.1,105.9 million in 2003, reaching a 43.4% gross margin as a percentage of total revenues during the same period. Political unrest, combined with a devaluation of the bolivar against the U.S. dollar applied to our raw materials that are payable or are determined with reference to the U.S. dollar, and a severe decline in the economic activity in the country, resulted in a contraction of more than 10% of the country s gross domestic product, which was only partially offset by price increases during the year. We consolidated our production facilities from nine to six and closed two distribution facilities in 2003. Operating income was Ps.231.5 million, reaching an operating income margin of 9.1% during 2003.

Brazil

Net Sales. Net sales in Brazil were Ps.2,785.8 million in 2003. During this period, our average real price per unit case was Ps.15.77. In 2003, we undertook an initiative to use in-house pre-sale and to rely less on third party wholesalers in order to have more control over the point of sale and to permit us to implement packaging management strategies. We launched more than ten different SKUs to target different consumption occasions, including *Coca-Cola com Limão* and *Kuat laranja* (guaraná flavor with orange). Traditionally in Brazil, most of our consumption came from only two packaging alternatives, cans and 2.0-liter bottles. We are now focusing on a broader array of presentations to spur consumer demand. For example, our new 12-ounce non-returnable glass bottle and our new 200-milliliter returnable glass bottle offer a combination of convenience and affordability for on-premise consumption of *Coca-Cola.* Our new 2.25-liter and 3.0-liter non-returnable PET presentations for carbonated soft drink flavors and the *Coca-Cola* brand, respectively, provide packaging alternatives and permit selling strategies between the supermarket and small retailers opening a road to implement our segmentation and revenue management initiatives.

Income from Operations. Gross profit totaled Ps.1,011.0 million in 2003, reaching a 36.1% margin as a percentage of total revenues. The implementation of new commercialization and point of sale development strategies improved our packaging and product mix during the year. We consolidated one plant out of four during 2003. Operating income was Ps.149.8 million, reaching an operating income margin of 5.4% during 2003.

Argentina

Net Sales. Net sales in Argentina increased by 13.2% in 2003 to Ps.1,973.9 million from Ps.1,743.8 million in 2002. During 2003, our average real price per unit case increased by 3.4% in 2003 to Ps.15.59 from Ps.15.08, as a result of price increases implemented during the year and a change of mix toward our core brands in returnable presentations and our premium brands, which have the highest average prices per unit.

Sales volumes in Argentina increased 9.5% to 126.6 million unit cases in 2003, from 115.6 million unit cases in 2002. We believe the principal volume drivers in Argentina in 2003 were our returnable packaging strategy and the economic recovery from the devaluation of the Argentine peso in 2002. We also experienced a product shift from our less profitable value protection brands, *Taí* and *Crush*, toward our core brands, *Coca-Cola* and *Fanta*, which increased 15.1% and 40.6% in terms of sales volumes, respectively, and for the first time, more sales from premium brands than from value protection brands, fostered by a 10.9% volume increase of the *Coca-Cola light* brand and the successful introduction of *Fanta light* during the year.

Income from Operations. Gross profit totaled Ps.767.6 million during 2003, reaching a gross margin of 37%, an improvement of 2.6% as compared to 2002. This improvement was mainly driven by (i) higher sales volume, (ii) higher average prices per unit case, and (iii) an appreciation of the Argentine peso versus the U.S. dollar applied to U.S. dollar-denominated raw materials and expenses. In Argentina, operating expenses as a percentage of total revenues decreased 4.4% from 31% in 2002 to 26.6% in 2003, mainly as a result of the appreciation of the Argentina peso versus the U.S. dollar applied to expenses payable in or determined with reference to the U.S. dollar and strict cost control measures. Operating income during 2003 in our Argentine territories reached Ps.215.6 million and operating margin rose from 2.9% during 2002 to 10.4% in 2003.

Results of Operations for the Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001.

Consolidated Results of Operations

Net Sales. Consolidated net sales grew by 5% in 2002, principally reflecting growth in Mexico, which more than offset a decrease in net sales in Argentina.

Other Operating Revenues. Other operating revenues increased by 10.2% in 2002, to Ps.148.9 million. The increase primarily reflects revenues obtained from toll production agreements in Argentina with neighboring *Coca-Cola* bottlers, whereby we produce beverages for sales in their territories.

Cost of Sales. The components of cost of sales include raw materials (principally sweeteners, soft drink concentrate, packaging materials and water), depreciation expenses attributable to our production facilities, wages and other employment expenses associated with the labor force employed at our production facilities and certain overhead expenses. Concentrate prices, which are payable in local currency, are determined as a percentage of the retail price of our products net of applicable taxes. See Item 4. Information on the Company The Company Raw Materials. As a percentage of total revenues, cost of sales remained unchanged during 2002 as compared to 2001 at 46.5%.

Operating Expenses. Consolidated operating expenses decreased by 0.6% in 2002 as compared to 2001 and by 1.6% compared as a percent of total revenues (to 28.5% from 30.1%). The decrease, in absolute terms, resulted from a 3.7% decline in selling expenses, which offset an 8.6% increase in administrative expenses. The increase in administrative expenses was due in part to increases in payroll taxes in Mexico following new legislation adopted at the beginning of the year.

We incur various expenses related to the distribution of our products. We include these types of costs in the selling expenses line of our income statement. During 2002 and 2001, our distribution costs amounted to Ps.2,099.0 million and Ps.2,236.4 million, respectively. The exclusion of these charges from our cost of sales line may result in the amounts reported as gross profit not being comparable to other companies that may include all expenses related to their distribution network in cost of sales when computing gross profit (or an equivalent measure).

Goodwill Amortization. Goodwill amortization for 2002 was Ps.40.7 million, compared to Ps.108.3 million for 2001. Due to the uncertainty and instability of the economic environment in Argentina, during the third quarter of 2002, we wrote down Ps.457.2 million of the goodwill generated by the acquisition of our territories in Argentina. This non-cash impairment charge was recorded under other expense, net, in our consolidated income statement. Under Mexican GAAP, the remaining value of goodwill will continue to be amortized in the income statement.

Income from Operations. Consolidated income from operations after amortization of goodwill grew by 14.1% to Ps.4,626.8 million in 2002. Operating income as a percentage of total revenues increased by 2% in 2002, from 24.8% to 22.8%. This increase primarily reflects a decrease in operating expenses, a 2.9% increase in the average price per unit case, a slight reduction in cost of sales per unit case and lower goodwill amortization expenses because of a non-cash impairment charge to goodwill relating to our operations in Argentina in July 2002.

Integral Result of Financing. The term integral result of financing refers to the combined financial effects of net interest expense or interest income, net foreign exchange gains or losses and net gains or losses on monetary position. Net foreign exchange gains or losses represent the impact of changes in foreign exchange rates on assets or liabilities denominated in currencies other than local currency. A foreign exchange loss arises if a liability is denominated in a foreign currency that appreciates relative to the local currency between the date the liability is incurred or the beginning of the period, whichever comes first, and the date it is repaid or the end of the period, whichever comes first, as the appreciation of the foreign currency results in an increase in the amount of local currency which must be exchanged to repay the specified amount of the foreign currency liability. The gain or loss on monetary position refers to the impact of inflation on monetary assets and liabilities.

In 2002, we reported income of Ps.560.3 million from integral result of financing, as compared to a loss of Ps.129.6 million in 2001. This improvement principally reflects:

a net foreign exchange gain of Ps.250.0 million in 2002, as compared to a loss of Ps.10.3 million in 2001. In 2002, both the Mexican peso and the Argentine peso depreciated in value against the U.S. dollar, which produced a net foreign exchange gain as our U.S. dollar-denominated cash positions in Mexico and Argentina exceeded our U.S. dollar-denominated liabilities. In 2001, the Mexican peso appreciated in value against the U.S. dollar.

a gain on monetary position of Ps.394.8 million in 2002, as compared to a loss on monetary position of Ps.84.2 million in 2001. This improvement primarily reflects the effect of inflation on our net monetary liability position in Argentina. Argentina experienced significant inflation in 2002 as opposed to deflation in 2001, resulting in a monetary gain on our Argentine peso liabilities in 2002 and a loss in 2001.

These factors more than offset an increase in net interest expenses of Ps.28.7 million, which reflects primarily a slight increase in interest expenses generated by the devaluation of the Mexican peso against the U.S. dollar and a decrease in interest income generated by a reduction in interest rates as applied to our cash balances.

Until June 30, 2002, we calculated foreign exchange losses or gains on the U.S. dollar liabilities incurred in connection with the acquisition of our Argentine territories, only with respect to the un-hedged portion of such liabilities. According to Mexican GAAP, the investment in our Argentine territories was designated as a hedge to the indebtedness incurred. As of June 30, 2002, the dollar-denominated outstanding liabilities relating to the acquisition of our Argentine territories amounted to U.S.$300 million and the net investment in our Argentine territories was U.S.$118.1 million, resulting in un-hedged liabilities of U.S.$181.5 million. Since July 2002, we discontinued using our investment in our Argentine territories as a hedge. We determined that our current operations in Argentina do not represent a natural hedge of these liabilities given the current volatility of the exchange rate between the Argentine peso and the U.S. dollar and the elimination of the one-to-one parity between those currencies. The Audit Committee of our board of directors approved this determination.

Other Expenses. Other expenses increased significantly from Ps.44.1 million in 2001 to Ps.614.2 million in 2002, mainly as a result of the Ps.457.2 million impairment recognized during the third-quarter of 2002 in connection with the goodwill generated by the acquisition of our Argentine operations and severance payments in connection with the restructuring of certain of our operations in Mexico and Argentina.

Income Taxes and Employee Profit Sharing. Income taxes and employee profit sharing increased from Ps.1,526.7 million in 2001 to Ps.1,912.1 million in 2002. The company s consolidated effective income tax and employee profit sharing rate increased from 39.3% in 2001 to 41.8% in 2002. In 2002, our effective tax rate increased because the impairment charge mentioned above is non-deductible for tax purposes. Excluding that charge, our effective tax rate in 2002 would have been 38.3%.

Net Income. Consolidated net income increased by 14.4% to Ps.2,660.8 in 2002, resulting in earnings per share of Ps.1.87 (U.S.$ 0.17 per ADS).

Consolidated Results Operations by Geographic Segment

Mexico

Net Sales. Net sales grew by 6.7% in Mexico. During 2002, our average real price per unit case increased by 1.1%, mainly due to price increases implemented in central Mexico during February 2002. Sales volumes in Mexico grew by 5.6% to 504.7 million unit cases during 2002 and represented 81.3% of our consolidated sales volume. During 2002, as compared to 2001, sales volume in Mexico:

in colas, increased 0.8%, to 362.2 million unit cases;

in flavored soft drinks, increased 12.9%, to 110.9 million unit cases; and

in *Ciel*, still and mineral water, increased 27.4%, to 23.9 million unit cases.

The following chart sets forth sales volumes and average unit price per case for 2002, as well as percent growth over 2001 in Mexico:

	Excluding *Kin light* (1)		**Including *Kin light* (1)**	
	Total	**% Growth**	**Total**	**% Growth**
Sales volumes(2)	498.4	4.3	504.7	5.6
Avg. unit price	Ps. 33.66	2.3	Ps. 33.24	1.1

(1) We distributed our Kin light powdered beverage brand on a complimentary basis during the year in order to better examine this category s potential and evaluate consumption patterns and price strategies.

(2) Millions of unit cases.

We believe that the principal volume drivers in Mexico in 2002 were:

- strong performance of *Mundet* beverages and still water, featuring the new 5-liter jug of *Ciel;*
- continued expansion in the flavor and new categories segments with the introduction of new products, such as *Beat, Mickey Aventuras, Kin light* and *Nestea;* and
- modest volume growth in the core cola portfolio.

Income from Operations. Gross profit totaled Ps.9,359.2 million, reaching a gross margin of 55.6% in 2002 compared to a margin of 54.7% in 2001 due to a greater absorption of fixed costs driven by sales volume growth. Operating expenses decreased slightly as a percentage of total revenues by 120 basis points to 28.2%. This reflects primarily a decrease of 1.3 percentage points in selling expenses as a percentage of total revenues. Administrative expenses remained unchanged as a percentage of total revenues. Income from operations during 2002 reached Ps.4,597.4 million with an operating margin of 27.3%, an increase of 25.2% from 2001.

Argentina

Net Sales. Net sales in Argentina decreased by 9.1% in 2002, despite an 11% decline in sales volume. In Argentina, our average real price per unit case increased by 2.1% in 2002, as a result of a 67% weighted average price increase implemented during the year that offset the effect of inflation and a change in mix to returnable packages which generate a lower price per unit. The 11% decline in sales volumes reflects continued economic uncertainty in Argentina.

We responded to the challenges presented by the Argentine market in 2002 with the objective of defending the equity of our brands, regaining market presence from B brands, extracting positive cash flow and reducing our cost structure. As the year progressed, our commercial strategies yielded a more favorable outcome, closing the year with volume growth of 3% in the fourth quarter of 2002. Our principal commercial strategy was shifting the mix towards returnable packages, which increased from 5.8% of the mix in 2001 to 12.4% in 2002. The shift was led by the 1.25-liter glass returnable presentation of *Coca-Cola*, *Fanta* and *Sprite*, which was introduced in the second quarter of 2002 and represented 16.6% of our sales volume in Argentina during the fourth quarter of 2002.

Income from Operations. Gross profit totaled Ps.627.6 million, reaching a gross margin of 34.4% in 2002 compared to a margin of 44.2% in 2001. Cost of sales as a percentage of total revenues during 2002 increased 9.8 percentage points to 65.6%. These results are due to lower absorption of fixed costs driven by volume decline, higher prices for raw materials, particularly those with prices quoted in U.S. dollars, and higher depreciation resulting from the restatement to year-end values of foreign currency denominated assets following the significant devaluation of the Argentine peso. Selling expenses decreased by 25.9%, a reduction of 5.8 percentage points as a percentage of total revenues resulting from lower marketing expenses and headcount reduction combined with adjustments in salaries. Administrative expenses in Argentina increased by 17.2% as a result of higher depreciation resulting mostly from the

restatement to year-end values of the leases of our computer equipment recorded in foreign currencies, following the significant devaluation of the Argentine peso. Income from operations during 2002 reached Ps.29.4 million with an operating margin of 1.6%, a decline of 2.2 percentage points as compared to 2001, as a result of an 11% decline in sales volume combined with higher administrative expenses.

Liquidity and Capital Resources

Liquidity. The principal source of our liquidity is cash generated from operations. A significant majority of our sales are on a cash basis with the remainder on a short-term credit basis. We have traditionally been able to rely on cash generated from operations to fund our working capital requirements and our capital expenditures. Our working capital benefits from the fact that we make our sales on a cash basis, while we generally pay our suppliers on credit. In addition to cash generated from operations, we have used new borrowings to fund acquisitions of new territories. We have relied on a combination of borrowings from Mexican and international banks, borrowings in the international capital markets and, more recently, borrowings in the Mexican capital markets.

As a result of the Panamco acquisition, our total indebtedness was Ps.29,004 million as of December 31, 2003, as compared to Ps.3,306 million as of December 31, 2002. Cash and cash equivalents were Ps.2,783 million as of December 31, 2003, as compared to Ps.6,429 million as of December 31, 2002. Approximately U.S.$43 million of cash is subject to restrictions as a result of certain collateral arrangements we have entered into on behalf of our subsidiaries with respect to existing indebtedness.

As part of our financing policy, we expect to continue to finance our liquidity needs from cash from operations. Nonetheless in the future we may be required to finance our working capital and capital expenditure needs with short-term or other borrowings. As a result of regulations in certain countries in which we operate, it may not be beneficial or, as in the case of exchange controls in Venezuela, practicable for us to remit cash generated in local operations to fund cash requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures we may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. As of December 31, 2003, we had U.S. dollar-denominated, uncommitted approved lines of credit totaling approximately Ps.2,944 million, of which Ps.2,039 million was available as of such date. In December 2003, we finalized a loan agreement with The Coca-Cola Company that permits us to borrow, upon the satisfaction of certain conditions, U.S.$250 million prior to December 20, 2006 for funding working capital needs and for other general corporate purposes at any time when such funding is not otherwise available under our existing lines of credit.

We continuously evaluate opportunities to pursue acquisitions or engage in joint venture or other transactions. We would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock of our company.

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Sources and Uses of Cash. The following table summarizes the sources and uses of cash for the three years ended December 31, 2003:

	Principal Sources and Uses of Cash Year ended December 31,			
	(millions of constant Mexican pesos at December 31, 2003)			
	2003	2003	2002	2001
Net resources generated by operations	$ 223.9	Ps. 2,516.0	Ps. 4,005.0	Ps. 3,520.1
Net resources used in investing activities(1)(2)	(2,809.0)	(31,558.8)	(1,409.7)	(865.3)
Net resources obtained from (used in) financing activities(2)	2,260.5	25,396.6	(272.3)	474.6
Dividends declared and paid.			(608.3)	(331.5)

(1) Includes property, plant and equipment plus deferred charges and investment in shares.

(2) The increase in 2003 reflects the acquisition of Panamco and the corresponding financing.

Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2003:

	As of December 31, 2003 (amounts in millions of Mexican pesos)				
Contractual Obligations	**Maturity less than 1 year**	**Maturity 1-3 years**	**Maturity 4-5 years**	**Maturity in excess of 5 years**	**Total**
Long-Term Debt Obligations	1,238.2	12,623.3	8,430.4	4,932.8	27,224.7
Capital Lease Obligations	7.6	15.1	9.4		32.1
Operating Lease Obligations	173.3	313.6	290.4	272.9	1,050.2
Total	1,419.1	12,952.0	8,730.2	5,205.7	28,307.0

Debt Structure

On December 31, 2003, we had cash and cash equivalents of Ps.2,783.2 million (U.S.$247.7 million), total short term debt of Ps.2,963 million (U.S.$263.7 million) and long term debt of Ps.26,041.3 million (U.S.$2,317.8 million). The following chart sets forth the current debt breakdown of the company and its subsidiaries by currency and interest rate type as of December 31, 2003:

Currency	% Total Debt	% Interest Rate Floating	Average Rate(1)
U.S. dollars	42%	5%	5.90%
Mexican Pesos	56%	56%	7.41%
Colombian Pesos	2%	100%	10.34%

(1) Annualized average interest rate per currency as of December 31, 2003.

Summary of Significant Debt Instruments

The following is a brief summary of our significant long-term indebtedness with restrictive covenants outstanding as of December 31, 2003:

9.40% Senior Unsecured Notes Due 2004. On August 26, 1994, we entered into a note purchase agreement pursuant to which we issued 9.40% Senior Unsecured Notes due 2004 in the amount of U.S.$100 million. The note purchase agreement imposes certain conditions on a consolidation or merger by us and restrictions on liens, sale and leaseback transactions, assets sales and subsidiary indebtedness. We are also required to maintain a ratio of consolidated net borrowings to consolidated net worth and a minimum level of net worth. In addition, upon a change of control, which is defined as the failure of The Coca-Cola Company to hold at least 25% of our capital stock with voting rights, we are required to make an offer to prepay the notes at their face value.

8.95% Notes Due 2006. On October 28, 1996, we entered into an indenture pursuant to which we issued 8.95% Notes due 2006 in the amount of U.S.$200 million. The indenture imposes certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and sale and leaseback transactions. In addition, upon a change of control, which is defined as the failure of The Coca-Cola Company to hold at least 25% of our capital stock with voting rights, we are required to make an offer to repurchase the notes at their face value.

7.25% Notes Due 2009. On July 11, 1997, our subsidiary Panamco issued 7.25% Senior Notes Due 2009, of which U.S.$290 million remain outstanding as of December 31, 2003. We guaranteed these notes on October 15, 2003. The indenture imposes certain conditions upon a consolidation or merger by us or Panamco and restricts the incurrence of liens and sale and leaseback transactions by Panamco.

Term Loans. On April 23, 2003, we entered into a Term Loan Agreement pursuant to which we borrowed:

Ps.2,741.3 million with a five-year maturity that amortizes in semi-annual installments beginning in 30 months from the borrowing date;

U.S.$298.5 with a three-year maturity; and

U.S.$208.5 million with a five-year maturity.

The Term Loan Agreement contains restrictions on liens, fundamental changes such as mergers and certain asset sales and our ability to incur restrictions on the ability of our subsidiaries to pay dividends and subsidiary indebtedness. In addition, we are required to maintain a minimum interest expense coverage ratio and comply with a maximum leverage ratio. Finally, there is an event of default upon a change of control, which is defined as the failure of The Coca-Cola Company to hold at least 25% of our capital stock with voting rights.

Certificados Bursátiles. During 2003, we established a program for and issued the following *certificados bursátiles* in the Mexican capital markets:

Issue Date	Maturity	Amount	Rate
2003	2005	Ps. 2,750 million	28 day TIIE + 55 bps

2003	2007	Ps. 2,000 million	28 day TIIE + 55 bps
2003	2008	Ps. 1,250 million	182 day CETE + 120 bps
2003	2008	Ps. 2,500 million	91 day CETE + 115 bps
2003	2009	Ps. 500 million	9.90% Fixed
2003	2010	Ps. 1,000 million	10.4% Fixed

(1) TIIE means the *Tasa de Interés Interbancaria de Equilibrio* (the Equilibrium Interbank Interest Rate).

(2) CETE means the *Certificados de Tesorería del Gobierno Federal* (the Federal Government Treasury Certificates).

The *certificados bursátiles* contain restrictions on the incurrence of liens and accelerate upon the occurrence of an event of default, including a change of control, which is defined as the failure of The Coca-Cola Company to hold at least 25% of our capital stock with voting rights.

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We believe we are currently in compliance with all of our restrictive covenants, although a significant and prolonged deterioration in our consolidated results of operations could cause us to cease to be in compliance under certain indebtedness. We can provide no assurances that we will be able to incur indebtedness in the future or to refinance existing indebtedness on similar terms.

Off-balance SheetArrangements

We do not have any off-balance sheet arrangements.

Contingencies

We have various loss contingencies, for which reserves have been recorded in those cases where we believe the results of an unfavorable resolution is probable. See Item 8 Financial Information Consolidated Statements and Other Financial Information Legal Proceedings. Most of these loss contingencies have been recorded as reserves against intangibles. Any amounts required to be paid in connection with these loss contingencies would be required to be paid from available cash.

Capital Expenditures

The following table sets forth our capital expenditures (before sales of property, plant and equipment) for the periods indicated on a consolidated and by segment basis:

Consolidated Capital Expenditures

	Year ended December 31,		
	2003	**2002**	**2001**
Total	**(millions of constant Mexican pesos at December 31, 2003)**		
Plants and distribution	Ps. 1,205.2	Ps. 596.6	Ps. 589.8
Bottles	349.7	292.5	181.1
Deferred charges and other investments	355.5	520.6	229.0
Total	Ps. 1,910.4	Ps. 1,409.7	Ps. 999.9 &nb