

COCA COLA FEMSA SA DE CV
Form 20-F
April 18, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2005
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, 2005 was:

| | |
|-------------|------------------------------------|
| 844,078,519 | Series A Shares, without par value |
| 731,545,678 | Series D Shares, without par value |
| 270,906,004 | Series L Shares, without par value |

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

Yes

No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes

No

Indicate by check mark whether the registrant: (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)

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and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer

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

Item 17

Item 18

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

Yes

No

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INTRODUCTION

References

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

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

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. 10.6275 to US\$ 1.00, the noon buying rate for Mexican pesos on December 31, 2005 as published by the Federal Reserve Bank of New York. On March 31, 2006, this exchange rate was Ps. 10.90 to US\$ 1.00. See Item 3. Key Information Exchange Rate Information for information regarding exchange rates since January 1, 2001.

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., known at the time of acquisition as Panamerican Beverages, Inc., and which we refer to as Panamco, on May 6, 2003. Under generally accepted accounting principles in Mexico, or Mexican GAAP, Panamco is included in our consolidated financial statements since May 2003 but is not included prior to this date. As a result, our consolidated financial information for periods after the acquisition is not comparable with the previous periods. 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 Consolidated Financial Data

This annual report includes (under Item 18) our audited consolidated balance sheets as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years ended December 31, 2005, 2004 and 2003. Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in Mexico (Mexican GAAP). Mexican GAAP differs in certain significant respects from generally accepted accounting principles in the United States, or 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 and stockholders' equity.

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

- Nonmonetary assets (including property, plant 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.
- All financial statements are restated in constant Mexican pesos at December 31, 2005.
- 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 Notes 25 and 26 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 information for periods subsequent to the acquisition is not comparable to information for 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 December 31,

2005⁽¹⁾ 2005 2004 2003⁽²⁾ 2002 2001

(in millions of U.S. dollars or in millions of constant Mexican pesos
at December 31, 2005, except per share data)

**Income Statement Data:
Mexican GAAP**

| | | | | | | |
|-------------------------|----------|------------|------------|------------|------------|------------|
| Net sales | \$ 4,690 | Ps. 49,840 | Ps. 47,442 | Ps. 38,664 | Ps. 20,141 | Ps. 19,184 |
| Total revenues | 4,724 | 50,198 | 47,786 | 39,062 | 20,303 | 19,331 |
| Cost of sales | 2,398 | 25,486 | 24,351 | 19,614 | 9,445 | 8,982 |
| Gross profit | 2,326 | 24,712 | 23,435 | 19,448 | 10,858 | 10,349 |
| Operating expenses | 1,508 | 16,029 | 15,448 | 12,109 | 5,789 | 5,825 |
| Intangible amortization | - | - | - | - | 44 | 118 |
| Income from operations | 818 | 8,683 | 7,987 | 7,339 | 5,025 | 4,406 |
| Net income for the year | 443 | 4,704 | 5,604 | 2,539 | 2,892 | 2,530 |
| Majority net income | 432 | 4,586 | 5,580 | 2,520 | 2,892 | 2,530 |

| | | | | | | |
|---------------------|----|-----|----|----|---|---|
| Minority net income | 11 | 118 | 24 | 19 | - | - |
|---------------------|----|-----|----|----|---|---|

U.S. GAAP

| | | | | | | |
|---------------------------------------|----------|------------|------------|------------|------------|------------|
| Net sales | \$ 4,690 | Ps. 49,840 | Ps. 47,096 | Ps. 37,702 | Ps. 19,768 | Ps. 18,775 |
| Total revenues | 4,724 | 50,198 | 47,429 | 38,087 | 19,914 | 20,910 |
| Income from operations ⁽³⁾ | 760 | 8,078 | 7,532 | 7,062 | 4,833 | 4,284 |
| Net income for the year | 419 | 4,455 | 5,925 | 2,498 | 2,853 | 2,600 |
| Net income per share ⁽⁴⁾ | 0.23 | 2.41 | 3.21 | 1.47 | 2.00 | 1.83 |

**Balance Sheet Data:
Mexican GAAP**

| | | | | | | |
|------------------------------|----------|------------|------------|------------|------------|------------|
| Total assets | \$ 6,319 | Ps. 67,148 | Ps. 69,618 | Ps. 67,683 | Ps. 18,582 | Ps. 16,442 |
| Short-term debt | 417 | 4,428 | 3,389 | 3,237 | 11 | 16 |
| Long-term debt | 1,475 | 15,673 | 22,447 | 28,420 | 3,583 | 3,333 |
| Capital stock | 272 | 2,886 | 2,886 | 2,886 | 2,678 | 2,678 |
| Majority stockholders equity | 3,178 | 33,768 | 30,415 | 25,011 | 10,515 | 8,880 |
| Total stockholders equity | 3,268 | 34,727 | 31,155 | 25,191 | 10,515 | 8,880 |

U.S. GAAP

| | | | | | | |
|-----------------|----------|------------|------------|------------|------------|------------|
| Total assets | \$ 6,377 | Ps. 67,776 | Ps. 70,186 | Ps. 68,548 | Ps. 18,646 | Ps. 17,135 |
| Short-term debt | 417 | 4,428 | 3,381 | 3,236 | 10 | 17 |

| | | | | | | |
|----------------------------|-------|--------|--------|--------|--------|-------|
| Long-term debt | 1,475 | 15,673 | 22,439 | 28,370 | 3,582 | 3,333 |
| Capital stock | 272 | 2,886 | 2,886 | 2,886 | 2,678 | 2,678 |
| Total stockholders' equity | 3,176 | 33,751 | 30,243 | 23,966 | 10,103 | 8,923 |

Other Data:

Mexican GAAP

| | | | | | | |
|-------------------------------------|--------|-----------|-----------|-----------|---------|---------|
| Depreciation ⁽⁵⁾ | \$ 123 | Ps. 1,307 | Ps. 1,284 | Ps. 1,079 | Ps. 621 | Ps. 692 |
| Capital expenditures ⁽⁶⁾ | 189 | 2,012 | 2,009 | 2,164 | 1,533 | 941 |

U.S. GAAP

| | | | | | | |
|--------------------------------|--------|-----------|-----------|-----------|-----|-----|
| Depreciation ⁽⁵⁾⁽⁷⁾ | \$ 125 | Ps. 1,332 | Ps. 1,142 | Ps. 1,559 | 482 | 753 |
|--------------------------------|--------|-----------|-----------|-----------|-----|-----|

-
- (1) Translation to U.S. dollar amounts at an exchange rate of Ps. 10.6275 to US\$ 1.00 solely for the convenience of the reader.
- (2) Includes the acquired territories from May 2003.

- (3) We include employee profit sharing as part of income from operations for purposes of U.S. GAAP.
- (4) For the years ended December 31, 2001 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. For the year ended December 31, 2004, computed on the basis of 1,846.4 million shares outstanding, the weighted average shares outstanding during 2004 after giving effect to the rights offering that expired in September 2004. For the year ended December 31, 2005, computed on the basis of 1,846.5 million shares outstanding.
- (5) Excludes estimated breakage of bottles and cases and amortization of other assets, pension and seniority premiums and deferred taxes. See the consolidated statements of changes in financial position included in our consolidated financial statements.
- (6) Includes investments in property, plant and equipment, bottles and cases and deferred charges.
- (7) In accordance with U.S. GAAP, expressed in nominal Mexican pesos and not restated in constant Mexican pesos at December 31, 2005.

Dividends and Dividend Policy

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

| Fiscal Year with Respect to which Dividend was Declared | Date Dividend Paid | Mexican Pesos per Share (Nominal) | U.S. Dollars per Share |
|--|---------------------------------|--|---------------------------------------|
| 2001 2002 ⁽¹⁾ | 2002 May 30, | 0.394 | 0.042 |
| 2003 | 2004 May 14, | 0.282 | 0.025 |
| 2004 | 2005 May 4, | 0.336 | 0.031 |
| 2005 | 2006 ⁽²⁾ March 8, | 0.376 | (3) |

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

(2) Date of dividend declaration because dividends for 2005 have not been paid at the time of this annual report. The dividend will be paid on June 15, 2006.

(3) Because dividends for 2005 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 fiscal 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 and therefore represent nominal historical figures.

| <u>Period</u> | Exchange Rate | | | |
|---------------|----------------------|------------|------------------------------|-------------------|
| | High | Low | Average⁽¹⁾ | Period End |
| 2001 | Ps. 9.97 | Ps. .8.95 | Ps. 9.34 | Ps. 9.16 |
| 2002 | 10.43 | 9.00 | 9.66 | 10.43 |
| 2003 | 11.41 | 10.11 | 10.79 | 11.24 |
| 2004 | 11.64 | 10.81 | 11.31 | 11.15 |
| 2005 | 11.41 | 10.41 | 10.87 | 10.63 |

(1) Average month-end rates.

| | Exchange Rate | | |
|----------------|---------------|-----------|------------|
| | High | Low | Period End |
| 2004: | | | |
| First Quarter | Ps. 11.25 | Ps. 10.81 | Ps. 11.18 |
| Second Quarter | 11.64 | 11.16 | 11.54 |
| Third Quarter | 11.60 | 11.35 | 11.39 |
| Fourth Quarter | 11.54 | 11.11 | 11.15 |
| 2005: | | | |
| First Quarter | Ps. 11.41 | Ps. 10.98 | Ps. 11.18 |
| Second Quarter | 11.23 | 10.76 | 10.77 |
| Third Quarter | 10.90 | 10.58 | 10.79 |
| Fourth Quarter | 10.94 | 10.41 | 10.63 |
| September | 10.89 | 10.68 | 10.79 |
| October | 10.94 | 10.69 | 10.79 |
| November | 10.77 | 10.57 | 10.58 |
| December | 10.77 | 10.41 | 10.63 |
| 2006: | | | |
| January | Ps. 10.64 | Ps. 10.44 | Ps. 10.44 |
| February | 10.53 | 10.43 | 10.45 |
| March | 10.95 | 10.46 | 10.90 |

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. The Mexican peso remained relatively stable in 2004 and has appreciated since the end of 2004 and through March 31, 2006. 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 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, and changes in this relationship may adversely affect our results of operations and financial position.

Approximately 96% of our sales volume in 2005 was derived from sales of *Coca-Cola* trademark beverages. In each of our territories, produce, market and distribute *Coca-Cola* trademark beverages through standard bottler agreements. Through its rights under the bottler agreements and as a large shareholder, The Coca-Cola Company has the ability to exercise substantial influence over the conduct of our business.

Under our bottler agreements, The Coca-Cola Company may unilaterally set the price for its concentrate. In 2005, The Coca-Cola Company informed us that it will gradually increase concentrate prices for carbonated soft drinks over a three year period in Mexico beginning in 2007 and in Brazil beginning in 2006. 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 expenses although it is 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 authorization or consent. The Coca-Cola Company has the exclusive right to import and export *Coca-Cola* trademark beverages to and from our territories; although, we hold the exclusive right to sell *Coca-Cola* trademark beverages within 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 2013, and 2015, renewable in each case for ten-year terms. Our bottler agreements for Brazil expired in December 2004, and our bottler agreements for Guatemala, Nicaragua and Colombia expire in June 2006. Our bottler agreement for *Coca-Cola* trademark beverages in Venezuela expires in August 2006. We are currently in the process of negotiating renewals of these agreements. Our remaining territories are governed by bottler agreements that expire after 2006 and 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. Termination would prevent us from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on our business, financial condition, prospects and results of operations.

The Coca-Cola Company and FEMSA have substantial influence on the conduct of our business, which may result in us taking actions contrary to the interest of our remaining shareholders.

The Coca-Cola Company and FEMSA have significant influence on the conduct of our business. 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 all actions requiring approval by 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, which may result in us taking actions contrary to the interest of our remaining shareholders.

We have significant transactions with affiliates, particularly The Coca-Cola Company and FEMSA, which create potential conflicts of interest and could result in less favorable terms to us.

We engage in transactions with subsidiaries of both The Coca-Cola Company and FEMSA. Our transactions with FEMSA include supply agreements under which we purchase certain supplies and equipment, a service agreement under which a FEMSA subsidiary transports finished products from our production facilities to distribution facilities in Mexico, sales of finished products to a Mexican convenience store chain owned by FEMSA, sales and distribution agreements with a Brazilian brewer owned by FEMSA and a service agreement under which a FEMSA subsidiary provides administrative services to our company. In addition, we have entered into cooperative marketing arrangements with The Coca-Cola Company and FEMSA. We are a party to a number of bottler agreements with The Coca-Cola Company and have also entered into a credit agreement with The Coca-Cola Company pursuant to which we may borrow up to US\$ 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.

Competition could adversely affect our financial performance.

The beverage industry throughout Latin America is highly competitive. We face competition from other bottlers of soft drinks such as Pepsi products, 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 financial performance.

Our principal competitor in Mexico is The Pepsi Bottling Group, or PBG. PBG is the largest bottler of Pepsi products worldwide and competes with *Coca-Cola* trademark beverages. We have also experienced stronger competition in Mexico from lower priced soft drinks in larger, multiple serving packaging. In Argentina and Brazil, we compete with Companhia de Bebidas das Américas, commonly referred to as Ambev, the largest brewer in Latin America and a subsidiary of InBev S.A., which sells Pepsi products, in addition to a portfolio that includes local brands with flavors such as guaraná and proprietary beers. In each of our territories we compete with Pepsi bottlers with various other bottlers and distributors of nationally and regionally advertised soft drinks. In certain territories, we compete with producers of soft drink flavors that have a strong local presence.

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

Water is an essential component of soft drinks. We obtain water from various sources in our territories, including springs, wells, rivers and municipal water companies. In Mexico, we purchase water from municipal water companies and pump water from our own wells pursuant to concessions granted by the Mexican government. We obtain 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 and/or federal 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 shortages or changes in governmental regulations.

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

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

Our most significant raw materials are concentrate, which we acquire from companies designated by The Coca-Cola Company, packaging materials and sweeteners. Prices for concentrate are determined by The Coca-Cola Company pursuant to our bottler agreements as a percentage of the weighted average retail price, net of applicable taxes. In 2005,

The Coca-Cola Company informed us that it will gradually increase concentrate prices for carbonated soft drinks over a three year period in Mexico beginning in 2007 and in Brazil beginning in 2006. The prices for our remaining raw materials are driven by market prices and local availability as well as the imposition of import duties and import restrictions and fluctuations in exchange rates. We are also required to meet all of our supply needs from suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to us. Our sales prices are denominated in the local currency in which we operate, while the prices of certain materials used in the bottling of our products, mainly resin, ingots to make plastic bottles, finished plastic bottles and aluminum cans, 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. Our most significant packaging raw material costs arise from the purchase of resin and plastic ingots to make plastic bottles and from the purchase of finished plastic bottles, the prices of which are tied to crude oil prices. In Mexico, the prices that we paid for resin increased on average by more than 25% in U.S. dollars in 2005. 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 expect sugar prices to increase in 2006 in all of the countries in which we operate other than Mexico. In Venezuela, we have experienced sugar shortages that have adversely affected our operations. These shortages were due to insufficient domestic production to meet demand and current restrictions on sugar imports.

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

Taxes on soft drinks could adversely affect our business.

Our products are subject to excise and value-added taxes in many of the countries in which we operate. The imposition of new taxes or increases in taxes on our products may have a material adverse effect on our business, financial condition, prospects and results of operations. In 2003, Mexico implemented a 20% excise tax on carbonated soft drinks produced with non-sugar sweetener. See Item 8. Financial Information Legal Proceedings. Certain countries in Central America, Argentina and Brazil have also imposed taxes on carbonated soft drinks. See Item 4. Information on the Company Regulation Taxation of Soft Drinks. We cannot assure you that any governmental authority in any country where we operate will not impose or increase taxes on our products in the future.

Regulatory developments may adversely affect our business.

We are subject to regulation in each of the territories in which we operate. The principal areas in which we are subject to regulation are environment, labor, taxation, health and antitrust. The adoption of new laws or regulations in the countries in which we operate may increase our operating costs or impose restrictions on our operations which, in turn, may adversely affect our financial condition, business and results of operations. In particular, environmental standards are becoming more stringent in several of the countries in which we operate, and we are in the process of complying with these new standards. Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on our future results of operations or financial condition.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which we operate. The imposition of these restrictions in the future may have an adverse effect on our results of operations and financial position. Although Mexican bottlers have been free to set prices for carbonated soft drinks without governmental intervention since January 1996, such prices had been subject to statutory price controls and to voluntary price restraints, which effectively limited our ability to increase prices in the Mexican market without

governmental consent. See Item 4. Information on the Company Regulation Price Controls. We cannot assure that governmental authorities in any country where we operate will not impose statutory price controls or voluntary price restraints in the future.

Our operations have from time to time been subject to investigations and proceedings by antitrust authorities and litigation relating to alleged anticompetitive practices. We cannot assure you that these investigations and proceedings will not have an adverse effect on our results of operations or financial condition.

Risks Related to the Series L Shares and the ADSs

Holders of our Series L Shares have limited voting rights.

Holders of our Series L Shares are entitled to vote only in 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. As a result, these holders will not be able to influence our business or operations. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders and Item 10. Additional Information Bylaws Voting Rights.

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

Our shares are traded on the New York Stock Exchange in the form of ADSs. We cannot assure that holders of our shares in the form of ADSs will receive notice of shareholders meetings from our ADS depository in sufficient time to enable such holders to return voting instructions to the ADS depository in a timely manner.

Holders of Series L Shares in the United States and holders of ADSs may not be able to participate in any future preemptive rights offering and as a result may be subject to dilution of their equity interests.

Under applicable Mexican law, if we issue new shares for cash as a part of a capital increase, we are generally required to grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally allow holders of our shares or ADSs who are located in the United States to exercise any preemptive rights in any future capital increases unless (1) we file a registration statement with the SEC with respect to that future issuance of shares or (2) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, as well as the benefits of preemptive rights to holders of our shares in the form of ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

We cannot assure that we will file a registration statement with the SEC to allow holders of our shares or ADSs who are located in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, the sale by the ADS depository of preemptive rights and the distribution of the proceeds from such sales to the holders of our shares in the form of ADSs is not possible. As a result, the equity interest of holders of our shares in the form of ADSs would be diluted proportionately. See Item 10. Additional Information Preemptive Rights.

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

Under Mexican law, the protections afforded to minority shareholders are different from, and may be less than, those afforded to minority shareholders in the United States. Mexican laws concerning duties of directors are not well developed, there is no procedure for class actions as such actions are conducted in the United States and there are different procedural requirements for bringing shareholder lawsuits for the benefit of companies. Therefore, it may be more difficult for minority shareholders to enforce their rights against us, our directors or our controlling shareholders than it would be for minority shareholders of a United States company.

Investors may experience difficulties in enforcing civil liabilities against us or our directors, officers and controlling persons.

We are organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States. In addition, all or a substantial portion of our assets and their respective assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

Developments in other countries may adversely affect the market for our securities.

The market value of securities of Mexican companies is, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reaction to developments in one country can have effects on the securities of issuers in other countries, including Mexico. We cannot assure you that events elsewhere, especially in emerging markets, will not adversely affect the market value of our securities.

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. For the year ended December 31, 2005, 57% of our total revenues were attributable to Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our company. We cannot assume that such conditions will not return or that such conditions will not have a material adverse effect on our results of operations and financial condition.

Our business may be significantly affected by the general condition of the Mexican economy, or by the rate of inflation in Mexico, interest rates in Mexico and exchange rates for the Mexican peso. Decreases in the growth rate of the Mexican economy, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. Because a large percentage of our costs and expenses are fixed, we may not be able to reduce costs and expenses upon the occurrence of any of these events, and our profit margins may suffer as a result. In addition, an increase in interest rates in Mexico would increase the cost to us of variable rate, Mexican peso-denominated funding, which constituted approximately 58% of our total debt as of December 31, 2005, and have an adverse effect on our financial position and results of operations.

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

A depreciation of the Mexican peso relative to the U.S. dollar would increase the cost to us of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and thereby may negatively affect our financial position and results of operations. We generally do not hedge our exposure to the U.S. dollar with respect to the Mexican peso and other currencies. A severe devaluation or depreciation of the Mexican peso may also result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated indebtedness or obligations in other currencies. While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could institute restrictive exchange rate policies in the future, as it has done in the past. Currency fluctuations may have an adverse effect on our financial condition, results of operations and cash flows in future periods.

Political events in Mexico could adversely affect our operations.

Political events in Mexico may significantly affect our operations. In the Mexican federal 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 and 2004, the PAN lost additional seats in the Mexican congress and state governorships. The resulting legislative gridlock, which is expected to continue at least until the Mexican presidential election in July 2006, has impeded the progress of structural reforms in Mexico, which may adversely affect economic conditions in Mexico, and consequently, our results of operations.

The Mexican presidential election will result in a change in administration, as presidential reelection is not permitted in Mexico. The presidential race is highly contested among a number of different parties, including the PRI, the PAN and the *Partido de la Revolución Democrática* (the Party of the Democratic Revolution) or PRD, each with its

own political platform. As a result, we cannot predict which party will prevail in the elections or whether changes in Mexican governmental policy will result from a change in administration. Such changes may adversely affect economic conditions or the industry in which we operate in Mexico and therefore our results of operations and financial position.

Developments in other Latin American countries in which we operate may adversely 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, results of operations in recent years have been adversely affected by deteriorating macroeconomic and political conditions. In Venezuela, significant economic, regulatory and political instability, including a currency devaluation, high unemployment, the introduction of exchange controls and social unrest have resulted in higher production costs and declining profitability for us. In Venezuela, we have experienced limited disruptions in production and distribution. We also experienced limited disruptions in distribution in Argentina in 2005.

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. Total revenues increased in our non-Mexican territories other than Central America, at a relatively higher rate than in our Mexican territories in 2005 as compared to prior periods, resulting in a greater contribution to our results of operations from these territories, which also have a lower operating margin. This trend may continue in the future. Devaluation of the local currencies against the U.S. dollar may increase our operating costs in these countries, and depreciation against the Mexican peso may negatively affect the results of operations for these countries 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 that continue to apply. 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 bottler of *Coca-Cola* trademark beverages in Latin America, and the second largest in the world, calculated in each case by sales volume in 2005. We operate in the following territories:

- Mexico a substantial portion of central Mexico (including Mexico City) and southeast Mexico (including the Gulf region).
- Central America Guatemala (Guatemala City and surrounding areas), Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).
- Colombia most of the country.
- Venezuela nationwide.
- Argentina Buenos Aires and surrounding areas.
- Brazil the area of greater São Paulo, Campinas, Santos, the state of Mato Grosso do Sul and part of the state of Goiás.

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.coca-colafemsa.com.

The following is an overview of our operations by segment in 2005:

Operations by Segment Overview
Year Ended December 31, 2005⁽¹⁾

| | Total | Percentage of | Income from | Percentage of |
|-----------------|-----------------|----------------------|--------------------|----------------------|
| | Revenues | Total | Operations | Income from |
| | | Revenues | Operations | Operations |
| Mexico | Ps. 28,705 | 57.0% | Ps. 6,122 | 70.5% |
| Central America | 3,428 | 6.8 | 468 | 5.4 |
| Colombia | 4,697 | 9.3 | 532 | 6.1 |
| Venezuela | 4,946 | 9.8 | 233 | 2.7 |
| Argentina | 2,798 | 5.6 | 422 | 4.9 |
| Brazil | 5,819 | 11.5 | 906 | 10.4 |

(1) Expressed in millions of Mexican pesos, except for percentages. 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 activities, including corporate services.

Corporate History

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

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

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

In a series of transactions between 1994 and 1997, we acquired the territory for Buenos Aires, Argentina from a subsidiary of The Coca-Cola Company. We expanded our Argentine operations in February 1996 by acquiring territories for the contiguous San Isidro and Pilar areas.

We expanded our Mexican operations in November 1997 by acquiring a territory in the state of Chiapas in southern Mexico, after which we covered the entire state of Chiapas.

In May 2003, we acquired all of Panamco and began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central and the gulf regions of Mexico and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. The total cost of the transaction was approximately Ps. 42,807 million, including transaction expenses in the amount of Ps. 424 million. We financed the acquisition as follows: Ps. 18,768 million of new debt, Ps. 9,875 million of assumed net debt, a Ps. 3,020 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. 7,654 million in the form of equity interests in Panamco and Ps. 3,066 million in cash.

During August 2004, we conducted a rights offering to allow existing holders of our Series L Shares and ADSs to acquire newly-issued Series L Shares in the form of Series L Shares and ADSs, respectively. The purpose of the rights offering was to permit holders of Series L Shares, including in the form of ADSs, to subscribe on a proportionate basis at the same price per share at which FEMSA and The Coca-Cola Company subscribed in connection with the Panamco acquisition. The rights offering expired on September 1, 2004. On March 8, 2006, our shareholders approved the non-cancellation of the 98,684,857 Series L Shares (equivalent to approximately 9.87 million ADSs) that were not subscribed for in the rights offering. These shares are available for issuance in connection with future transactions and on terms and conditions determined by our Board of Directors at an issuance price of no less than US\$ 2.216 per share or its equivalent in Mexican currency.

As of March 31, 2006, FEMSA indirectly owned Series A Shares equal to 45.7% of our capital stock (53.6% of its capital stock with full voting rights). The Coca-Cola Company indirectly owned Series D Shares equal to 39.6% of the capital stock of our company (46.4% of our capital stock with full voting rights). Series L Shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange, constitute the remaining 14.7% of our capital stock.

Business Strategy

We are the largest bottler of *Coca-Cola* trademark beverages in Latin America in terms of total sales volume in 2005, 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 Argentina and Brazil) 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 multi-segmentation strategies in our major markets to target distinct market clusters divided by competitive intensity and socioeconomic levels; well-planned product, packaging and pricing strategies through channel distribution and by improving operational efficiencies throughout our company. To achieve these goals we continue our efforts in:

- working with The Coca-Cola Company to develop a business model to continue exploring new lines of beverages, extend existing products and participate in new beverage segments, such as the non carbonated beverage portfolio;
- implementing packaging strategies designed to increase consumer demand for our products and to build a strong returnable base for the Coca-Cola brand in our acquired territories;
- replicating our successful best practices throughout the whole value chain;
- rationalizing and adapting our organizational and asset structure in order to be in a better position to respond to a changing competitive environment;
- strengthening our selling capabilities and selectively implementing our pre-sale system, in order to get closer to our clients and help 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 strong 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 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 manufacturing and distribution capacity to improve the efficiency of our operations. In 2003 and 2004, as part of the integration process from our acquisition of Panamco, we closed several under-utilized manufacturing centers and shifted distribution activities to other existing facilities. We closed additional distribution centers in 2005. 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.

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

Our Markets

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

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

Our Products

We produce, market and distribute *Coca-Cola* trademark beverages, proprietary brands and brands licensed from third parties. The *Coca-Cola* trademark beverages include colas, flavored soft drinks, water and beverages in other categories such as juice drinks and isotonic. The following table set forth our main brands as of March 31, 2006:

| <i>Colas:</i> | Mexico | Central America | Colombia | Venezuela | Brazil | Argentina |
|------------------------------|---------------|----------------------------|-----------------|------------------|---------------|------------------|
| <i>Coca-Cola</i> | | | | | | |
| <i>Coca-Cola light</i> | | | | | | |
| <i>Flavored Soft Drinks:</i> | Mexico | Central America | Colombia | Venezuela | Brazil | Argentina |
| <i>Chinotto</i> | | | | | | |
| <i>Crush</i> | | | | | | |
| <i>Fanta</i> | | | | | | |
| <i>Fresca</i> | | | | | | |
| <i>Frescolita</i> | | | | | | |
| <i>Grapette</i> | | | | | | |
| <i>Hit</i> | | | | | | |
| <i>Kuat</i> | | | | | | |
| <i>Lift</i> | | | | | | |
| <i>Mundet⁽¹⁾</i> | | | | | | |
| <i>Premio⁽²⁾</i> | | | | | | |
| <i>Quatro</i> | | | | | | |
| <i>Senzao</i> | | | | | | |
| <i>Simba</i> | | | | | | |
| <i>Sprite</i> | | | | | | |
| <i>Taí</i> | | | | | | |

| Water: | Mexico | Central America | Colombia | Venezuela | Brazil | Argentina |
|----------------------------------|---------------|----------------------------|-----------------|------------------|---------------|------------------|
| <i>Ciel</i> | | | | | | |
| <i>Club K⁽²⁾</i> | | | | | | |
| <i>Crystal⁽²⁾</i> | | | | | | |
| <i>Dasani</i> | | | | | | |
| <i>Manantial</i> | | | | | | |
| <i>Nevada</i> | | | | | | |
| <i>Santa Clara⁽²⁾</i> | | | | | | |

| Other Categories: | Mexico | Central America | Colombia | Venezuela | Brazil | Argentina |
|-------------------------------|---------------|----------------------------|-----------------|------------------|---------------|------------------|
| <i>Powerade⁽³⁾</i> | | | | | | |
| <i>Sunfil⁽⁴⁾</i> | | | | | | |

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- (1) Brand licensed from FEMSA.
 - (2) Proprietary brand.
 - (3) Isotonic.
 - (4) Juice drink.

Sales Overview

We measure total sales volume in terms of unit cases. Unit case refers to 192 ounces of finished beverage product (24 eight-ounce servings) and, when applied to fountain syrup, powders and concentrate, refers to the volume of fountain syrup, powders and concentrate that is required to produce 192 ounces of finished beverage product. The following table illustrates our historical sales volume for each of our territories and includes the acquired territories only from May 2003.

| | Sales Volume | | |
|-----------------|---------------------------------|-------------|-------------|
| | Year Ended December 31, | | |
| | 2005 | 2004 | 2003 |
| | (millions of unit cases) | | |
| Mexico | 1,025.0 | 989.9 | 850.1 |
| Central America | 109.4 | 110.6 | 72.9 |
| Colombia | 179.7 | 167.1 | 114.1 |
| Venezuela | 172.5 | 172.7 | 110.1 |
| Argentina | 150.1 | 144.3 | 126.6 |
| Brazil | 252.5 | 227.5 | 142.5 |
| Combined Volume | 1,889.2 | 1,812.1 | 1,416.3 |

Product and Packaging Mix

Our most important brand is *Coca-Cola* and its line extensions, *Coca-Cola light*, *Coca-Cola with lime* and *Coca-Cola light with lime*, which together accounted for 62.1% of total sales volume in 2005. *Ciel*, *Fanta*, *Sprite*, *Lift* and *Fresca*, our next largest brands in consecutive order, accounted for 10.8%, 5.7%, 3.1%, 2.5% and 1.8%, respectively, of total sales volume in 2005. We use the term line extensions to refer to the different flavors in which we offer our brands. We produce, market and distribute *Coca-Cola* trademark beverages in each of our territories in containers authorized by The Coca-Cola Company, which consist of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles made of polyethylene terephthalate, which we refer to as PET.

We use the term presentation to refer to the packaging unit in which we sell our products. Presentation sizes for our *Coca-Cola* trademark beverages range from a 4-ounce personal size to a 20-liter multiple serving size. We consider multiple serving size as equal to or larger than 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. We offer both returnable and non-returnable presentations, which allow us to offer different combinations of convenience and price to implement revenue management strategies and to target specific distribution channels and population segments in our territories. In addition, we sell some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which we refer to as fountain. We also sell bottled water products in jug sizes, which refers to sizes 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.

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

The characteristics of our territories are very diverse. Central Mexico is densely populated and has a large number of competing carbonated 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 carbonated soft drink products as

compared to Mexico, particularly in Brazil. 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 consumption of our products has been affected by periodic operating disruptions. 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 2005, 2004 and 2003, which includes the acquired territories for the first four months of 2003 prior to the acquisition of Panamco. We acquired these territories on May 6, 2003. We have presented above under Sales Overview our actual sales volumes by territory for the three years ended December 31, 2005, 2004 and 2003, which include the acquired territories solely for eight months of 2003.

Mexico. Our product portfolio consists of *Coca-Cola* trademark beverages, and since 2001 has included the *Mundet* trademark beverages. In 2005, as part of our efforts to revitalize the *Coca-Cola* brand we launched *Coca-Cola with lime (Citra)* and *Cola-Cola light with lime (Citra light)*, both line extensions of the *Coca-Cola* brand. We also introduced a portfolio of no calorie versions of the majority of our core flavor brands under the *Spacio Leve* commercial strategy. We also launched the non-carbonated beverages *Ciel Aquarius*, a flavored no calorie water, and juice-based products under the *Minute Maid* brand. Carbonated soft drink per capita consumption of our products in our Mexican territories in 2005 was 389 eight-ounce servings.

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

| | Year Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Product Sales Volume | (millions of unit cases) | | |
| <i>Coca-Cola</i> Trademark Beverages | 991.7 | 969.2 | 985.4 |
| Other Beverages | 33.3 | 20.7 | 16.2 |
| Total | 1,025.0 | 989.9 | 1,001.6 |
| % Growth | 3.5% | (1.2)% | 2.2% |
| Unit Case Volume Mix by Category | (in percentages) | | |
| Total Carbonated Soft Drinks | 79.3% | 80.4% | 78.5% |
| Water ⁽¹⁾ | 19.7 | 19.1 | 20.9 |
| Other Categories | 1.0 | 0.5 | 0.6 |
| Total | 100.0% | 100.0% | 100.0% |
| Product Mix by Presentation | (in percentages) | | |
| Returnable | 26.6% | 28.4% | 27.9% |
| Non-returnable | 57.2 | 55.9 | 54.9 |
| Fountain | 1.2 | 1.3 | 1.3 |
| Jug | 15.0 | 14.4 | 15.9 |
| Total | 100.0% | 100.0% | 100.0% |

(1) Includes jug volume.

Our most popular soft drink presentations were the 2.5 -liter returnable plastic bottle, the 0.6 -liter non-returnable plastic bottle and the 2.5 -liter non-returnable plastic bottle, which together accounted for almost 70% of total carbonated soft drink sales volume in Mexico in 2005. Since 2003, we have introduced a number of new presentations in Mexico. These include 2.5 -liter returnable plastic bottles, 1.25 -liter returnable glass bottles, 1.5 -liter non-returnable plastic bottles, 8 and 10.5 -ounce cans, 0.45 -liter non-returnable plastic bottles, 0.71 -liter non-returnable plastic bottles and 4-ounce non-returnable glass bottles. We relaunched our 2.0 -liter non-returnable plastic bottle to fill competitive and consumer needs.

Multiple serving presentations are an important component of our product mix. In 2005, multiple serving presentations represented 61.1% of total carbonated soft drink sales volume in Mexico, remaining almost flat as compared to 2004. Our commercial strategies seek to maintain the packaging mix between single and multiple serving presentations.

In the past, the packaging trend in the soft drink industry in Mexico had moved toward non-returnable presentations. However, in 2004, due to the entrance of low price brands in multiple serving size presentations, we refocused our packaging mix strategy to reinforce our sales of multiple serving size returnable packages. As a result, carbonated soft-drink non-returnable presentations remained almost flat as a percentage of total sales volume in Mexico in 2004. In 2005, our carbonated soft-drink non-returnable presentations increased as a percentage of our total sales volume from 66.8% in 2004 to 68.7% in 2005, due to a more favorable economic environment in the country and a wider offering of non-returnable presentations. Returnable plastic and glass presentations offer consumers a more affordable, although less convenient, product. 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 more than 20% lower than a non-returnable package of the same size. These returnable products are mainly sold to small store retailers, which represent the largest distribution channel in the Mexican market, and benefit from returnable bottles lower price per ounce, which allows 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 volume reached 1,025.0 million unit cases in 2005, an increase of 3.5% compared to 989.9 million unit cases in 2004. Carbonated soft drink sales volume grew 2.5%, which together with the 31.6% increase in jug water sales volume, accounted for over 80% of the incremental volumes during the year. Carbonated soft drink volume growth was mainly driven by strong growth from the *Coca-Cola* brand.

Central America. Our product sales in Central America consist predominantly of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption in Central America of our products was 131 eight-ounce servings in 2005.

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

| | Year Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Product Sales Volume | (millions of unit cases) | | |
| <i>Coca-Cola</i> Trademark Beverages | 101.7 | 102.9 | 99.6 |
| Other Beverages | 7.7 | 7.7 | 7.7 |
| Total | 109.4 | 110.6 | 107.3 |
| % Growth | (1.1)% | 3.1% | 7.2% |
| Unit Case Volume Mix by Category | (in percentages) | | |
| Total Carbonated Soft Drinks | 93.6% | 94.3% | 94.1% |
| Water | 4.3 | 4.1 | 4.2 |
| Other Categories | 2.1 | 1.6 | 1.7 |
| Total | 100.0% | 100.0% | 100.0% |

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| Product Mix by Presentation | (in percentages) | | |
|------------------------------------|-------------------------|--------|--------|
| Returnable | 41.9% | 48.3% | 51.8% |
| Non-returnable | 54.4 | 47.2 | 42.9 |
| Fountain | 3.7 | 4.5 | 5.3 |
| Jug | | | |
| Total | 100.0% | 100.0% | 100.0% |

In Central America, we sell the majority of our sales volume through small retailers. In 2005, multiple serving presentations represented 48.8% of total carbonated soft drink sales volume in Central America compared with 50.1% in 2004. Beginning in 2004, we faced greater competition as a result of the entrance of low price brands in the Central American region. We also reinforced our packaging portfolio offering for the *Coca-Cola* brand with the introduction of 1.5 -liter and 2.5 -liter non-returnable plastic bottles and a more affordable 2.5 -liter returnable plastic bottle. We also complemented our product portfolio with the introduction of *Frescolita*, a value protection brand in 2.5 -liter, 1.5 -liter and 0.6 liter non-returnable plastic bottles.

Total sales volume was 109.4 million unit cases in 2005, declining 1.1% compared to 110.6 million in 2004. The volume decline was driven by lower carbonated soft drink volumes as a result of a tougher competitive environment in the region.

Colombia. Our product portfolio in Colombia consists of *Coca-Cola* trademark beverages and certain products sold under proprietary trademarks and the *Kola Román* brand, which we license from a third party. Carbonated soft drink per capita consumption of our products in Colombia during 2005 was 85 eight-ounce servings.

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

| | Year Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Product Sales Volume | (millions of unit cases) | | |
| <i>Coca-Cola</i> Trademark Beverages | 168.0 | 152.7 | 133.5 |
| Other Beverages | 11.7 | 14.4 | 38.3 |
| Total | 179.7 | 167.1 | 171.8 |
| % Growth | 7.5% | (2.7)% | (7.1)% |
| Unit Case Volume Mix by Category | (in percentages) | | |
| Total Carbonated Soft Drinks | 87.9% | 86.4% | 84.7% |
| Water ⁽¹⁾ | 12.0 | 13.2 | 15.1 |
| Other Categories | 0.1 | 0.4 | 0.2 |
| Total | 100.0% | 100.0% | 100.0% |

| Product Mix by Presentation | (in percentages) | | |
|------------------------------------|-------------------------|--------|--------|
| Returnable | 46.2% | 50.7% | 53.4% |
| Non-returnable | 44.5 | 39.6 | 36.8 |
| Fountain | 3.3 | 3.3 | 3.0 |
| Jug | 6.0 | 6.4 | 6.8 |
| Total | 100.0% | 100.0% | 100.0% |

(1) Includes jug volume.

The Colombian market is characterized by lower per capita consumption and relatively lower levels of non-returnable presentations compared with the rest of our territories. In 2005, multiple serving presentations represented 47.2% of total carbonated soft drink sales volume in Colombia. At the beginning of 2005, we launched *Crush Multiflavors* to enhance our competitive position, foster demand for flavored carbonated soft drink brands and leverage our extended distribution and improved execution capabilities countrywide.

Total sales volume was 179.7 million unit cases in 2005, an increase of 7.5% compared to 167.1 million in 2004, driven by an increase in carbonated soft drink volumes. The volume increase was mainly a result of incremental volumes in the *Crush* brand and volume increases in the *Coca-Cola* brand.

Venezuela. Our product portfolio in Venezuela consists predominantly of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption of our products in Venezuela during 2005 was 135 eight-ounce servings.

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

| | Year Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Product Sales Volume | (millions of unit cases) | | |
| <i>Coca-Cola</i> Trademark Beverages | 169.4 | 169.5 | 148.6 |
| Other Beverages | 3.1 | 3.2 | 3.0 |
| Total | 172.5 | 172.7 | 151.6 |
| % Growth | (0.1)% | 13.9% | (6.9)% |
| Unit Case Volume Mix by Category | (in percentages) | | |
| Total Carbonated Soft Drinks | 86.6% | 86.3% | 86.2% |
| Water ⁽¹⁾ | 8.7 | 8.2 | 8.2 |
| Other Categories | 4.7 | 5.5 | 5.6 |
| Total | 100.0% | 100.0% | 100.0% |
| Product Mix by Presentation | (in percentages) | | |
| Returnable | 24.7% | 30.1% | 36.4% |
| Non-returnable | 69.0 | 63.4 | 57.6 |
| Fountain | 3.2 | 3.0 | 2.7 |
| Jug | 3.1 | 3.5 | 3.3 |
| Total | 100.0% | 100.0% | 100.0% |

(1) Includes jug volume.

During 2005, despite increasing demand for carbonated soft drinks in the marketplace, our sales volume remained almost flat due to periodic operating difficulties that prevented us from producing and distributing enough supply.

Total sales volume totaled 172.5 million unit cases in 2005, remaining almost flat compared to 172.7 million in 2004. The slight volume increase in carbonated soft drink and water sales volume was completely offset by a decline in our non-carbonated beverage segment.

Argentina. Our product portfolio in Argentina consists exclusively of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption of our products in Argentina during 2005 was 316 eight-ounce servings.

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

| | Year Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Product Sales Volume | (millions of unit cases) | | |
| <i>Coca-Cola</i> Trademark Beverages | 150.1 | 144.3 | 126.6 |
| Other Beverages | | | |
| Total | 150.1 | 144.3 | 126.6 |
| % Growth | 4.0% | 14.0% | 9.5% |
| Unit Case Volume Mix by Category | (in percentages) | | |
| Total Carbonated Soft Drinks | 97.3% | 98.6% | 98.8 % |
| Water | 1.7 | 0.8 | 0.9 |
| Other Categories | 1.0 | 0.6 | 0.3 |

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| | | | |
|------------------------------------|-------------------------|--------|--------|
| Total | 100.0% | 100.0% | 100.0% |
| Product Mix by Presentation | (in percentages) | | |
| Returnable | 25.9% | 26.9% | 24.5% |
| Non-returnable | 70.7 | 69.6 | 71.8 |
| Fountain | 3.4 | 3.5 | 3.7 |
| Jug | | | |
| Total | 100.0% | 100.0% | 100.0% |

During 2005, we experienced a packaging shift mix towards non-returnable presentations. Returnable packaging accounted for 25.9% of total sales volume in Argentina in 2005 as compared to 26.9% in 2004. We continue to be focused on bolstering our non-carbonated categories through our juice drinks *Cepita*, *Carioca* and *Montefiore*.

Total sales volume reached 150.1 million unit cases in 2005, an increase of 4.0% compared with 144.3 million in 2004. In 2005, core brands generated approximately 73% of our incremental volume growth and premium brands accounted for most of the balance, which more than offset volume decline in our value protection brands. In Argentina, premium brands consist of diet carbonated soft drinks and *Schweppes*. The majority of the volume growth came from our non-returnable presentations, including the 1.5 and 2.25 -liter non-returnable plastic bottles for our core brands, representing almost 68% of the sales volume increase. In 2005, multiple serving presentations represented 82.6% of carbonated soft drinks total sales volume as compared to 83.1% in 2004.

Brazil. Our product portfolio in Brazil consists mainly of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption of our products in Brazil during 2005 was 187 eight-ounce servings.

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

| | Year Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Product Sales Volume | (millions of unit cases) | | |
| <i>Coca-Cola</i> Trademark Beverages | 235.1 | 214.6 | 206.1 |
| Other Beverages | 17.4 | 12.9 | 10.9 |
| Total | 252.5 | 227.5 | 217.0 |
| % Growth | 11.0% | 4.8% | (15.7)% |
| Unit Case Volume Mix by Category | (in percentages) | | |
| Total Carbonated Soft Drinks | 92.1% | 93.4% | 94.2% |
| Water | 7.0 | 5.8 | 5.1 |
| Other Categories | 0.9 | 0.8 | 0.7 |

| | | | |
|------------------------------------|--------|-------------------------|--------|
| Total | 100.0% | 100.0% | 100.0% |
| Product Mix by Presentation | | (in percentages) | |
| Returnable | 8.0% | 5.3% | 4.9% |
| Non-returnable | 88.5 | 90.9 | 90.4 |
| Fountain | 3.5 | 3.8 | 4.6 |
| Jug | | | |
| Total | 100.0% | 100.0% | 100.0% |

During 2005, we continued to diversify our packaging mix from 2.0 -liter non-returnable packages and cans, which together accounted for over 60% of carbonated soft drink sales volume in 2005, a decrease from 69% in 2004, to a wider array of returnable and non-returnable presentations, including 3.0 -liter, 2.5 -liter, 2.25 -liter and 1.5 -liter non-returnable plastic bottles and 1.0 -liter returnable glass bottles.

Total sales volume was 252.5 million unit cases in 2005, an increase of 11.0% compared to 227.5 million in 2004. This increase included 9.5% carbonated soft drink volume growth during the year. The majority of the volume growth came from multiple serving presentations, including the 1.5 -liter, 2.0 -liter and 2.25 -liter non-returnable plastic

bottles and the 1.0 -liter returnable glass bottle, which together represented 60.5% of our carbonated soft drinks total sales volume. The volume increase was a result of volume growth across all our beverage categories, including strong volume growth from the *Coca-Cola* brand in both returnable and non-returnable presentations and our water brand *Crystal* as a result of increased focus on both brands.

We distribute the Kaiser brands of beer in our territories in Brazil. In January 2006, FEMSA acquired an indirect controlling stake in Cervejarias Kaiser Brasil S.A. or Cervejarias Kaiser. We have subsequently agreed to continue to distribute the Kaiser beer portfolio and to assume the sales function in São Paulo, Brazil, consistent with the arrangements in place prior to 2004. Beginning with the second quarter of 2005, we ceased including beer that we distribute in Brazil in our sales volumes. We have reclassified prior periods presented in this report for comparability purposes.

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. Our marketing expenses in 2005, net of contributions by The Coca-Cola Company, were Ps. 1,484 million. The Coca-Cola Company contributed Ps. 952 million in 2005. 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 continue to roll out our information technology system in our acquired territories.

Retailer Incentive Programs. Incentive programs include providing retailers with commercial coolers 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 different types of locations or distribution channels. In response to this analysis, we tailor our product, price, packaging and distribution strategies to meet the particular needs of and exploit the potential of each channel.

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

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

Product Distribution

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

Product Distribution Summary As of December 31, 2005

| | Mexico | Central America | Colombia | Venezuela | Brazil | Argentina |
|----------------------|--------|--------------------|----------|-----------|--------|-----------|
| Distribution Centers | 106 | 35 | 37 | 33 | 12 | 5 |

| | | | | | | |
|---|-------|-------|-------|-------|-------|------|
| Retailers (in thousands) ⁽¹⁾ | 585.2 | 134.3 | 368.7 | 228.9 | 115.6 | 79.6 |
|---|-------|-------|-------|-------|-------|------|

(1) Estimated.

We use two main sales methods depending on market and geographic conditions: (1) the traditional or conventional truck route system, in which the person in charge of the delivery makes immediate sales from inventory available on the truck and (2) the pre-sale system, which separates the sales and delivery functions and allows sales

personnel to sell products prior to delivery and trucks to be loaded with the mix of products that retailers have previously ordered, thereby increasing distribution efficiency. As part of the pre-sale system, sales personnel also provide merchandising services during retailer visits, which we believe enhance the presentation of our products at the point of sale. 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 and distribution system for our 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.

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 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. The on-premise segment consists of sales through sidewalk stands, restaurants, bars and various types of dispensing machines as well as sales through point-of-sale programs in concert halls, auditoriums and theaters.

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. At the end of 2005, we operated 35 distribution centers in our Central American territories. In our Central American operations, as in most of our territories, an important part of our total sales volume is through small retailers, and we have low supermarket penetration.

Colombia. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. During 2005, we closed four distribution facility in Colombia.

Venezuela. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. During 2005, we closed one distribution facility in Venezuela. Our Venezuelan operations distribute a significant part of total sales through small retailers and supermarkets which in most of our operations have a less significant presence.

Argentina. As of December 31, 2005, we operated five distribution centers in Argentina. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors.

In 2005, 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. The percentage of total sales volume through supermarkets decreased from 15.4% in 2004 to 14.3% in 2005.

Brazil. In Brazil, almost 100% of our direct sales volume was through the pre-sale system, although the delivery of our finished products to customers is by a third party. At the end of 2005, we operated 12 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 20% of our total sales volume through supermarkets in 2005. In addition, in designated zones,

third-party distributors purchase our products at a discount from the wholesale price and resell the products to retailers.

Competition

Although we believe that our products enjoy wider recognition and greater consumer loyalty than those of our principal competitors, the 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. Competitive pressures in the territories acquired in the Panamco acquisition are different than those we have historically faced. For example, a number of our competitors in Central America and Brazil offer both soft drinks and beer, which may enable them to achieve distribution efficiencies.

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

Mexico. Our principal competitors in Mexico are bottlers of Pepsi products, whose territories overlap but are not co-extensive with our own. These competitors include Pepsi Gemex, S.A. de C.V. in central Mexico, a subsidiary of PBG, the largest bottler of Pepsi products 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 continue to face competition from low price producers offering multiple 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 a joint venture between AmBev and The Central American Bottler Corporation; in Costa Rica, our principal competitor is Embotelladora Centroamericana, S.A. and in Panama, our main competitor is Refrescos Nacionales, S.A. During 2005, we continued to face an increase in competition from low price producers offering multiple serving size presentations in some Central American countries.

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

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.

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.

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 multiple serving presentations that represent an important portion of the soft drink market.

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 has historically been set pursuant to periodic negotiations with The Coca-Cola Company. In most cases, concentrate is purchased in the local currency of the territory.

In 2005, The Coca-Cola Company informed us that it will gradually increase concentrate prices for carbonated soft drinks over a three year period in Mexico beginning in 2007 and in Brazil beginning in 2006. Based on our internal estimates for revenues and sales volume mix, we currently expect the incremental annual cost in Mexico to be approximately US\$ 20 million in 2007, increasing gradually by a similar amount during the following two years, and to reach approximately US\$ 60 million by the end of 2009. In Brazil, the increase will affect all carbonated soft-drink presentations. Based on our estimates, we currently expect our annual costs in Brazil to rise by approximately US\$ 1.0 million in 2006, increasing gradually by a similar amount the following two years, and to reach approximately US\$ 3.8 million by the end of 2008. We have informed The Coca-Cola Company that in order to offset the impact on our profitability that such concentrate prices represent, we intend to reduce our contribution to marketing expenditures of its soft drink brands in Mexico and Brazil, effective the same dates as the cost increases.

In addition to concentrate, we purchase sweeteners, carbon dioxide, resin and ingots to make plastic bottles, finished plastic and glass bottles, cans, closures and fountain containers, as well as other packaging materials. Our bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company. Prices for packaging materials 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. Our most significant packaging raw material costs arise from the purchase of resin, plastic ingots to make plastic bottles and finished plastic bottles, which we obtain from international and local producers. The prices of these materials are tied to crude oil prices, and we have recently experienced volatility in the prices we pay for these materials. In Mexico, our average price for resin increased by more than 25% in U.S. dollars in 2005. Resin prices may continue to increase in the future.

Under our agreements with The Coca-Cola Company, we may use raw or refined sugar or high fructose corn syrup as sweeteners in our products. Sugar prices in all of the countries in which we operate, other than Brazil, are subject to local regulations and other barriers to market entry that cause us to pay in excess of international market prices for sugar. 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 is presently in short supply, although the supply of specific materials could be adversely affected by strikes, weather conditions, governmental controls or national emergency situations.

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

Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for the soft drink. We 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, S.A. de C.V., a sugar cane producer in which we hold a 2.54% equity interest.

In December 2001, the Mexican government expropriated the majority of the sugar mills in Mexico. To manage 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 high fructose corn syrup. 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. The effect of these excise taxes was to limit our ability to substitute other sweeteners for sugar. We have initiated proceedings in Mexican federal court against this excise tax that have allowed us to cease paying the tax in 2005 and as of March 31,

2006. We are also resuming the use of high fructose corn syrup as a sweetener. See Item 8. Financial Information Legal Proceedings Mexico.

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. Sugar prices stabilized in 2005 after significant increases in 2004.

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 high fructose corn syrup is limited.

Colombia. We use sugar as a sweetener in our products, which we buy from several domestic sources. We purchase pre-formed ingots from Amcor and Tapón Corona de Colombia S.A., in which we had a 40% equity interest until June 2005. 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. Since 2003, we have experienced a sugar shortage due to lower domestic production and the inability of the main sugar importers to obtain permissions to import. However, we were able to meet our sugar requirements through imports. 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.

Argentina. In Argentina, we use high fructose corn syrup from several different local suppliers as sweetener in our products instead of sugar. We purchase glass bottles, plastic cases and other raw materials from several domestic sources. We purchase pre-formed plastic ingots, as well as returnable plastic bottles, at competitive prices from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina S.A., a *Coca-Cola* bottler with operations in Argentina, Chile and Brazil, and other international suppliers. We purchase crown caps and plastic closures from local and international suppliers. We purchase our can presentations and juice-based products for distribution to customers in Buenos Aires from CICAN S.A., in which we own a 48.1% equity interest.

Brazil. Sugar is widely available in Brazil at internal market prices, which historically have been lower than international prices. We expect sugar prices to increase in 2006. We purchase glass bottles, plastic bottles and cans from several domestic and international suppliers.

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 10 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, 14% in Venezuela, 18% (São Paulo) and 17% (Mato Grosso do Sul) in Brazil 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 carbonated soft drinks produced with non-sugar sweeteners. See Item 8. Financial Information Legal Proceedings.
- Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.25 as of December 31, 2005) per liter of soft drink.
- 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.
- 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%.
- Brazil imposes an average production tax of 16.5% and an average sales tax of 4.6% in the territories where we operate.

Water Supply Law. In Mexico, we purchase water directly from municipal water companies and pump water from our own wells pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the *Ley de Aguas Nacionales de 1992* (the 1992 Water Law), and regulations issued thereunder, which created the *Comisión Nacional del Agua* (the National Water Commission). The National Water Commission is charged with overseeing the national system of water use. Under the 1992 Water Law, concessions for the use of a specific volume of ground or surface water generally run for five-, ten- or fifteen-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms to be extended upon termination. The Mexican government is authorized to reduce the volume of ground or surface water granted for use by a concession by whatever volume of water is not used by the concessionaire for three consecutive years. However, because the current concessions for each of our plants in Mexico do not match each plant's projected needs for water in future years, we successfully negotiated with the Mexican government 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 S.A., 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, certain municipal authorities began to test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by SEMARNAP. All of our bottler plants located in Mexico City, as well as the Toluca plant, met these new standards in 2001. See [Description of Property, Plant and Equipment](#).

In our Mexican operations, we built in 2004 a PET recycling plant in partnership with The Coca-Cola Company and ALPLA, which manufactures plastic bottles for us in Mexico. This plant is located in Toluca, Mexico, and has a recycling capacity of 15,000 metric tons per year and started operations in March 2005.

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 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.

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.

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 for each territory that The Coca-Cola Company enters into with bottlers outside the United States for the sale of concentrates for certain *Coca-Cola* trademark beverages. We manufacture, package, distribute and sell 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 retail 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 among The Coca-Cola Company and certain of its subsidiaries and certain subsidiaries of FEMSA, an adverse action by The Coca-Cola Company under any of the bottler agreements may result in a suspension of certain veto rights of the directors appointed by The Coca-Cola Company. This provides us with limited protection against The Coca-Cola Company's ability to raise concentrate prices to the extent that such increase is deemed detrimental to us pursuant to the shareholder agreement and the bylaws. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.

The Coca-Cola Company has the ability, at its sole discretion, to reformulate any of the *Coca-Cola* trademark beverages and to discontinue any of the *Coca-Cola* trademark beverages, subject to certain limitations, so long as all *Coca-Cola* trademark beverages are not discontinued. The Coca-Cola Company may also introduce new beverages in our territories in which case we have a right of first refusal with respect to the manufacturing, packaging, distribution and sale of such new beverages subject to the same obligations as then exist with respect to the *Coca-Cola* trademark beverages under the bottler agreements. The bottler agreements prohibit us from producing or handling cola products other than those of The Coca-Cola Company, or other products or packages that would imitate, infringe upon, or cause confusion with the products, trade dress, containers or trademarks of The Coca-Cola Company, or from acquiring or holding an interest in a party that engages in such activities. The bottler agreements also prohibit us from bottling any 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 a significant portion of our total marketing expenses in our territories during 2005, period in which we also contributed to The Coca-Cola Company's marketing expenses. 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 | 10 years, renewable automatically. |
| | For two territories May 2015 | 10 years, renewable automatically. |
| Central America⁽¹⁾ | Guatemala June 2006 | Renewable as agreed between the parties. |
| | Nicaragua June 2006 | Five years, requires notice at least six but not more than 12 months before expiration date. |
| | Costa Rica September 2007 | Five years, requires notice at least six but not more than 12 months before expiration date. |
| Colombia | June 2006 | Five years, requires notice at least six but not more than 12 months before expiration date. |
| Venezuela | For <i>Coca-Cola</i> trademark beverages August 2006 | Five years, requires notice at least six but not more than 12 months before expiration date. |
| | For other beverages August 2006 | Renewable as agreed between the parties. |
| Argentina | September 2014 | 10 years, renewable automatically. |
| Brazil | December 2004 ⁽²⁾ | Five years, requires notice at least six but not more than 12 months before expiration date. |

(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.

(2) We are still in the process of negotiating renewals for these territories.

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, 2005, we owned 30 bottler plants company wide. By country, we have twelve bottler facilities in Mexico, four in Central America, six in Colombia, four in Venezuela, three in Brazil and one in Argentina.

Since the Panamco acquisition in May 2003, we consolidated 22 of our plants into existing facilities, including four plants in Mexico, one in Central America, eleven in Colombia, five in Venezuela and one in Brazil. During the same period, we have increased our productivity measured in unit cases sold by our remaining plants by more than 80% company wide as of December 31, 2005.

As of December 31, 2005 we operated 228 distribution centers, more than 45% of which were in our Mexican territories. We own approximately 80% of these distribution centers and lease the remainder. See Item 4. The Company Product Distribution.

We maintain an all risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disaster, including hurricane, hail, earthquake and damages caused by human acts, including explosion, fire, vandalism, riot and losses incurred in connection with goods in transit. In addition, we maintain an all risk liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. The policies are issued by Allianz México, S.A., Compañía de Seguros, and the coverage is partially reinsured in the international reinsurance market.

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

**Production Facility Summary
As of December 31, 2005**

| Country | Principal Use | Installed Capacity (thousands of unit cases) | % Utilization ⁽¹⁾ |
|----------------|----------------------|---|---|
| Mexico | Bottler Facility | 1,578,693 | 63% |
| Guatemala | Bottler Facility | 34,151 | 69% |
| Nicaragua | Bottler Facility | 51,387 | 51% |
| Costa Rica | Bottler Facility | 56,389 | 58% |
| Panama | Bottler Facility | 55,344 | 36% |
| Colombia | Bottler Facility | 322,498 | 50% |
| Venezuela | Bottler Facility | 284,376 | 60% |
| Argentina | Bottler Facility | 182,275 | 79% |
| Brazil | Bottler Facility | 464,889 | 56% |

(1) Annualized rate.

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

**Production Facility by Location
As of December 31, 2005**

| Country | Plant | Facility Area (thousands of sq. meters) |
|--------------------|-------------------------------------|--|
| Mexico | San Cristóbal de las Casas, Chiapas | 24 |
| | Cedro, Distrito Federal | 18 |
| | Cuautitlán, Estado de México | 35 |
| | Los Reyes la Paz, Estado de México | 28 |
| | Toluca, Estado de México | 280 |
| | Celaya, Guanajuato | 87 |
| | León, Guanajuato | 38 |
| | Morelia, Michoacán | 50 |
| | Juchitán, Oaxaca | 27 |
| | Ixtacomitán, Tabasco | 90 |
| | Apizaco, Tlaxcala | 80 |
| Coatepec, Veracruz | 96 | |
| Guatemala | Guatemala City | 46 |
| Nicaragua | Managua | 71 |
| Costa Rica | San José | 52 |
| Panama | Panama City | 29 |
| Colombia | Barranquilla | 27 |
| | Bogotá | 89 |
| | Bucaramanga | 27 |
| | Cali | 89 |
| | Manantial | 33 |
| Medellín | 44 | |
| Venezuela | Antímano | 14 |
| | Barcelona | 141 |
| | Maracaibo | 34 |
| | Valencia | 91 |
| Argentina | Alcorta | 73 |
| Brazil | Campo Grande | 36 |
| | Jundiaí | 191 |
| | Moji das Cruzes | 95 |

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, 2005:

| <u>Name of Company</u> | <u>Jurisdiction of Incorporation</u> | <u>Percentage Owned</u> |
|--|---|------------------------------------|
| Propimex, S.A. de C.V | Mexico | 100.00% |
| Administración y Asesoría Integral, S.A. de C.V | Mexico | 100.00% |
| Corporación Interamericana de Bebidas, S.A. de C.V | Mexico | 100.00% |
| Panamco México, S.A. de C.V | Mexico | 99.24% |
| Panamco Bajío, S.A. de C.V | Mexico | 96.11% |
| Kristine Oversease, S.A. de C.V. (holding company of Brazilian operations) | Mexico | 83.11% |

Item 4A. Unresolved Staff Comments

None

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, together with a reconciliation to U.S. GAAP of net income and stockholders' equity.

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. 32,084 million, excluding transaction expenses. We also assumed Ps. 9,875 million of net debt. The acquisition was financed with new indebtedness of Mexican pesos and U.S. dollars in the amount of Ps. 18,768 million, an exchange of The Coca-Cola Company's equity interests in Panamco valued at Ps. 7,654 million for new shares of our company, cash on hand of Ps. 3,066 million and an equity contribution from FEMSA of Ps. 3,020 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. 37,154 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 information for the year ended December 31, 2003 is not comparable to subsequent periods. Financial information provided by us with respect to the 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.

For our consolidated financial statements as of and for the years ended December 31, 2005 and 2004, we reported each of Mexico, Central America, Colombia, Venezuela, Argentina and Brazil 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 for all periods.

Average Price Per Unit Case. We use average price per unit case to analyze average pricing trends in the different territories in which we operate. We calculate average price per unit case by dividing net sales by total sales volume.

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, 2005, 2004 and 2003, 57.1%, 57.8% and 65.4%, respectively, of our net sales were attributable to Mexico. After the acquisition of Panamco, we have greater exposure to countries in which we have not historically conducted operations, particularly countries in Central America, Colombia, Venezuela and Brazil, although we continue to generate a majority of our net sales 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 Mexican peso-denominated variable interest rate indebtedness and would have an adverse effect on our financial position and results of operations. A depreciation of the Mexican peso relative to 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.

Critical Accounting Estimates

The preparation of our consolidated financial statements requires that we make estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent assets and liabilities as of the date of the financial statements and (3) 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.

Returnable Bottles and Cases; Allowance for Bottle Breakage. We expense returnable bottles and cases that are in the market as they are placed in the hands of customers. For new launches of returnable products or presentations, we recognize the expense over a one-year period. These bottles and cases in the hands of customers represent the majority of our returnable packaging base.

We classify returnable bottles and cases that are in our control in our facilities or under a loan to customers as fixed assets in accordance with industry practice. We expense breakage as incurred for these bottles and cases. We periodically compare this breakage expense with a depreciation expense calculated on the basis of estimated useful life, which is four years in most cases for returnable glass bottles, 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. We determine depreciation of bottles and cases only for tax purposes in Mexico and some other countries.

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 in accordance with our management's estimated future use.

We include refrigeration equipment in other assets and record it initially at the cost of acquisition. Equipment of domestic origin is restated by applying domestic inflation factors. Imported equipment is restated by applying the inflation rate of the country of origin and then translated at the year-end exchange rate. Refrigeration equipment is amortized based on an estimated average useful life of approximately five years. Major refrigeration equipment repairs were initiated in Mexico in 2004. These repairs were capitalized and are being amortized over a two-year

period net of the undepreciated value of the parts replaced.

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 as

intangible assets that relate to the rights to produce and distribute *Coca-Cola* trademark beverages. 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. 37,154 million for the right to produce and distribute *Coca-Cola* trademark beverages, 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 returnable bottles and the coolers considering (1) their remaining useful lives, (2) their general operational condition at the acquisition date, (3) certain operational and strategic decisions implemented when we assumed control of the operations and (4) compliance with our accounting policies and estimates).
- The fair value of long-term debt.
- Labor and other liabilities (severance of personnel and other obligations generated by Panamco's operations before we assumed control).
- 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 are 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 and intangible assets are no longer subject to amortization, but instead are 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 end of 2005.

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.

Our evaluations throughout the year and up to the date of this filing did not lead to any significant impairment of intangible assets 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 include obligations for pension and retirement plans, seniority premiums and beginning in 2005 severance indemnity liabilities, all based on actuarial calculations by independent actuaries, using the projected unit credit method. Beginning January 1, 2005, revised Bulletin D-3 establishes that severance payments

resulting from situations other than a restructuring should be charged to the income statement in accordance with actuarial calculations based on the Company's severance indemnity history of the last three years. Until December 31, 2004 such severance indemnities were charged to expenses on the date when a decision was taken. These liabilities are considered to be non-monetary and are restated using long-term assumptions. The cost for the year of labor liabilities is charged to income from operations. The determination of our obligations and expenses for labor obligations 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 obligations and our future expense.

The following table is a summary of the three key assumptions to be used in determining 2006 annual pension expense, along with the impact on pension expense of a 1% change in each assumed rate:

| Assumption | 2006 rate (in real terms) (1) | Impact of 1% change (millions) (2) |
|----------------------------------|--|---|
| Mexican Subsidiaries: | | |
| Discount rate | 6.0% | + Ps. (46) - Ps. 43 |
| Salary growth rate | 2.0% | + Ps. 49 - Ps. (48) |
| Long-term asset return | 6.0% | + Ps. (46) - Ps. 43 |
| Non-Mexican Subsidiaries: | | |
| Discount rate | 4.5% | + Ps. (37) - Ps. 44 |
| Salary growth rate | 1.5% | + Ps. 36 - Ps. (26) |
| Long-term asset return | 4.5% ⁽³⁾ | + Ps. (37) - Ps. 44 |

(1) Calculated using a measurement date of November 2005.

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

(3) Not applicable for Colombia, Nicaragua and Guatemala.

The new requirements of Mexican GAAP under Bulletin D-3, *Obligaciones Laborales* (Labor Obligations), clarify that the total period cost related to the pension plan should be reported above the operating income line. Historically, we registered financing costs related to the pension plan as part of net interest expense, and the amortization of past services in other expenses. In compliance with the new requirements, we reclassified these costs above the operating income line and for comparability, reclassified prior periods.

Income taxes. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. If these estimates and related assumptions

change in the future, we may be required to record additional valuation allowances against our deferred tax assets resulting in additional income tax expense.

Tax and legal contingencies. We are subject to various claims and contingencies related to tax and legal proceedings as described below under Contingencies . Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss.

New Accounting Pronouncements

The following new accounting standards have been issued under Mexican GAAP, the application of which is required as indicated.

As of May 31, 2004, the Mexican Institute of Public Accountants or IMCP formally transferred the function of establishing and issuing financial reporting standards to the Mexican Board for Research and Development of Financial Reporting Standards, or CINIF, consistent with the international trend of requiring this function be performed by an independent entity.

Accordingly, the IMCP's task of issuing bulletins and circulars of Mexican GAAP was transferred to CINIF, which subsequently renamed standards of Mexican GAAP as *Normas de Información Financiera* (Financial Reporting Standards, or NIFs), and determined that NIFs encompass (1) new bulletins established under the new function; (2) any interpretations issued thereof; (3) any Mexican GAAP bulletins that have not been amended, replaced or revoked by the new NIFs; and (4) International Financial Reporting Standards, or IFRS, that are supplementary guidance to be used when Mexican GAAP does not provide primary guidance.

One of the main objectives of CINIF is to attain greater concurrence with IFRS. To this end, it started by reviewing the theoretical concepts contained in Mexican GAAP and establishing a Conceptual Framework to support the development of financial reporting standards and to serve as a reference in solving issues arising in the accounting practice. The Conceptual Framework is formed by eight financial reporting standards, which comprise the NIF-A series. The NIF-A series, together with NIF B-1, were issued on October 31, 2005. Their provisions are effective for years beginning January 1, 2006, superseding all existing Mexican GAAP series A bulletins.

The most significant changes established by these standards are as follows:

- In addition to the statement of changes in financial position, NIF A-3 includes the statement of cash flows, which should be issued when required by a particular standard.
- NIF A-5 includes a new classification for revenues and expenses: ordinary and extraordinary. Ordinary revenues and expenses are derived from transactions or events that are within the normal course of business or that are inherent in the entity's activities, whether frequent or not; extraordinary revenues and expenses refer to unusual transactions and events, whether frequent or not.
- NIF A-7 requires the presentation of comparative financial statements for at least with the preceding period. Through December 31, 2004, the presentation of prior years' financial statements was optional. The financial statements must disclose the authorized date for their issuance, and the names of the officers or administrative bodies authorizing the related issuance.
- NIF B-1 establishes that changes in particular standards, reclassifications and correction of errors must be recognized retroactively. Consequently, basic financial statements presented on a comparative basis with the current year that might be affected by the change, must be adjusted as of the beginning of the earliest period

presented.

At the date of issuance of these financial statements, we have not fully assessed the effects of adopting these new standards on its financial information.

The following new accounting standards have been issued under U.S. GAAP, the application of which is required as indicated. We do not anticipate that these new standards will have a significant impact on our consolidated financial position or results of operations.

SFAS No. 123(R), *Share-Based Payments*, or SFAS No. 123(R). This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees* to stock compensation awards issued to employees. Rather, SFAS No. 123(R) requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide services in exchange for the award (usually the vesting period). SFAS No. 123(R) applies to all awards granted after the required effective date and to awards modified, repurchased or cancelled after that date. SFAS No. 123(R) will be effective for the fiscal year ending December 31, 2006. We do not grant stock options to employees.

SFAS No. 151, *Inventory Costs*, or SFAS No. 151. SFAS No. 151 is an amendment to Accounting Research Bulletin No. 43. This statement clarifies that abnormal amounts of idle capacity expense, freight, handling costs and wasted materials should be recognized as current period charges and requires the allocation of fixed production overhead cost to inventory based on the normal capacity of the production facilities. This guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application allowed for inventory costs incurred during fiscal years beginning after November 23, 2004. We adopted this accounting standard effective January 1, 2006.

SFAS No. 153, *Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29*, or SFAS No. 153. In December 2004, the FASB issued SFAS No. 153, which amends APB Opinion No. 29, *Accounting for Non-monetary Transactions* to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS No. 153 is effective for non-monetary assets exchanges occurring in fiscal periods beginning after June 15, 2005. We adopted this accounting standard effective January 1, 2006.

SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3, or SFAS No. 154. In May 2005, the FASB issued SFAS No. 154. This statement replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements* and changes the requirements for the accounting for and reporting a change in accounting principle. This statement applies to all voluntary changes in accounting principle and also to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle instead of recognize voluntary changes in accounting principle by including in net income of the period the change of the cumulative effect refer to a new pronouncement. This guidance is applicable for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

Emerging Issues Task Force (EITF) Issue No. 96-16, *Investor s Accounting for Investee when the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders have Certain Approval or Veto Rights*, or EITF 96-16. In June 2005, the Emerging Issues Task Force agreed to amend Item 4 of the Protective Rights section of this consensus as well as Example 1 of Exhibit 96-16A to be consistent with the consensus reached in Issue 04-5,

Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership Right . EITF 96-16 Item 4 specifies that a right with respect to acquisitions or dispositions of assets that are not expected to be undertaken in the ordinary course of the business is considered as a protective right that does not overcome the presumption of consolidation by the investor with a majority voting interest in its investee. This amendment is applicable to new investments and to investment agreements that are modified after June 29, 2005. The consensus of this amendment to EITF 96-16 does not change our current equity method of accounting of for its investment in our

subsidiaries in its U.S. GAAP consolidated financial statement.

EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments, or EITF 03-01. On November 3, 2005, the FASB issued FASB Staff Position FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments . This FSP addresses the determination as to when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting consideration subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have

not been recognized as other-than-temporary impairments. The guidance in this FSP amends SFAS No. 115

Accounting for Certain Investments in Debt and Equity Securities and SFAS No. 124 Accounting for Certain Investments Held by Not-for-Profit Organizations and APB Opinion No.18 The Equity Method of Accounting for Investments in Common Stock . We will adopt the recognition and measurement guidance of EITF 03-01 in 2006, when applicable.

EITF Issue No. 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty, or EITF 04-13. In September 2005, the FASB ratified the consensus reached by the EITF regarding EITF 04-13. This guidance addresses the circumstances under which two or more inventory transactions with the same counterparty should be viewed as a single non-monetary transaction with the scope of APB Opinion No. 29 Accounting for Non-monetary Transactions . The EITF reached a consensus that a non-monetary exchange whereby an entity transfers finished goods inventory in exchange for the receipt of raw materials or work-in-progress inventory within the same line of business is not considered as an exchange transaction to facilitate sales customers as described in APB Opinion No. 29 paragraph 20(b) and therefore should be recognized by the entity at fair value if it is determinable within reasonable limits and the transaction has commercial substance. All other non-monetary exchanges of inventory within the same line of business should be recognized at the carrying amount of the inventory transferred. The EITF agreed that this consensus should be applied to transactions completed in reporting periods beginning after March 2006. We will adopt this guidance in 2006.

EITF Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination, or EITF 05-6. In June 2005, the EITF reached a consensus on EITF 05-6. This guidance determines that leasehold improvements acquired in a business combination should be amortized over the shorter of the useful life of the assets or a term that includes required lease period and renewals that are deemed to be reasonably assured at the date of acquisition. The EITF also agreed that leasehold improvements that are placed in service significantly after and not contemplated at or near beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date the leasehold improvement are purchased. This consensus is applicable to leasehold improvements that are purchased or acquired in reporting periods beginning after June 29, 2005.

FSP FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period. . In October 2005, the FASB addressed that there is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore rental costs associated with ground or building operating leases that are incurred during construction period shall be recognized as rental expense. This guidance shall be applied to the first reporting period beginning after December 15, 2005. Currently, for U.S. GAAP purposes, we record rental expenses in the income statement as incurred.

Results of Operations

The following table sets forth our consolidated income statement for the years ended December 31, 2005, 2004 and 2003:

| | Year Ended December 31, | | | |
|---|--|-------------|-------------|---------------------------|
| | 2005⁽¹⁾ | 2005 | 2004 | 2003⁽²⁾ |
| | (in millions of U.S. dollars or millions of constant Mexican pesos at December 31, 2005, except per share data) | | | |
| Revenues: | | | | |
| Net sales | \$ 4,690 | Ps. 49,840 | Ps. 47,422 | Ps 38,664 |
| Other operating revenues | 34 | 358 | 344 | 398 |
| Total revenues | 4,724 | 50,198 | 47,786 | 39,062 |
| Cost of sales | 2,398 | 25,486 | 24,351 | 19,614 |
| Gross profit | 2,326 | 24,712 | 23,435 | 19,448 |
| Operating expenses: | | | | |
| Administrative | 265 | 2,819 | 2,824 | 2,156 |
| Selling | 1,243 | 13,210 | 12,624 | 9,953 |
| | 1,508 | 16,029 | 15,448 | 12,109 |
| Income from operations | 818 | 8,683 | 7,987 | 7,339 |
| Integral result of financing: | | | | |
| Interest expense | 231 | 2,452 | 2,622 | 1,681 |
| Interest income | (26) | (280) | (288) | (265) |
| Foreign exchange (gain) loss, net | (21) | (223) | 36 | 2,206 |
| Gain on monetary position | (76) | (813) | (1,537) | (946) |
| | 108 | 1,136 | 833 | 2,676 |
| Other expense, net | 28 | 303 | 408 | 281 |
| Income for the year before income taxes and employee profit sharing | 682 | 7,244 | 6,746 | 4,382 |
| Income taxes and employee profit sharing | 241 | 2,562 | 1,142 | 1,843 |

| | | | | | | | |
|---|---------|-----|--------|-----|---------|-----|---------|
| Net income for the year before change in accounting principle | 441 | | 4,682 | | 5,604 | | 2,539 |
| Change in accounting principle | (2) | | (22) | | | | |
| Net income for the year | \$ 443 | Ps. | 4,704 | Ps. | 5,604 | Ps. | 2,539 |
| Majority net income | \$ 432 | Ps. | 4,586 | Ps. | 5,580 | Ps. | 2,520 |
| Minority net income | 11 | | 118 | | 24 | | 19 |
| Weighted average shares outstanding (in millions) | 1,846.5 | | 1846.5 | | 1,846.4 | | 1,704.3 |
| Majority net income per share (basic and diluted) | \$ 0.23 | Ps. | 2.48 | Ps. | 3.02 | Ps. | 1.48 |

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 10.6275 per US\$ 1.00 solely for the convenience of the reader.

(2) Includes the acquired territories since May 2003.

Results of Operations by Segment

The following table sets forth certain financial information for each of our segments for the years ended December 31, 2005, 2004 and 2003. See Note 24 to our consolidated financial statements for additional information by segment.

| | Year Ended December 31, | | | | | |
|--------------------------------|------------------------------------|--------|-------------|--------|---------------------------|--------|
| | 2005 | | 2004 | | 2003⁽²⁾ | |
| | (millions of Mexican Pesos) | | | | | |
| Total revenues | | | | | | |
| Mexico | Ps. | 28,705 | Ps. | 27,474 | Ps. | 25,719 |
| Central America ⁽¹⁾ | | 3,428 | | 3,526 | | 2,314 |
| Colombia | | 4,697 | | 4,294 | | 2,920 |
| Venezuela | | 4,946 | | 4,683 | | 2,827 |
| Argentina | | 2,798 | | 2,614 | | 2,241 |
| Brazil | | 5,819 | | 5,195 | | 3,041 |
| Gross profit | | | | | | |
| Mexico | Ps. | 15,310 | Ps. | 14,610 | Ps. | 13,900 |
| Central America ⁽¹⁾ | | 1,643 | | 1,695 | | 1,138 |
| Colombia | | 2,119 | | 1,995 | | 1,315 |
| Venezuela | | 1,994 | | 1,962 | | 1,216 |
| Argentina | | 1,099 | | 1,023 | | 809 |
| Brazil | | 2,735 | | 2,265 | | 1,313 |
| Income from operations | | | | | | |
| Mexico | Ps. | 6,122 | Ps. | 5,807 | Ps. | 6,232 |
| Central America ⁽¹⁾ | | 468 | | 421 | | 216 |
| Colombia | | 532 | | 457 | | 329 |
| Venezuela | | 233 | | 368 | | 259 |
| Argentina | | 422 | | 408 | | 236 |
| Brazil | | 906 | | 526 | | 198 |

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

(2) Includes the acquired territories since May 2003.

Results of Operations for Year Ended December 31, 2005 Compared to Year Ended December 31, 2004**Consolidated Results of Operations**

Total Revenues. Consolidated total revenues grew 5.0% to Ps. 50,198 million in 2005, compared to Ps. 47,786 million in 2004. The majority of the growth came from Mexico, Brazil and Colombia, accounting for 43%, 26% and 17% of the total incremental revenues, respectively.

Consolidated sales volume reached 1,889.2 million unit cases in 2005 compared to 1,812.1 million unit cases in 2004, an increase of 4.3%. Carbonated soft drink volume grew 3.6% as a result of sales volume increases in all of our territories other than Venezuela and Central America. Carbonated soft drink volume growth was mainly driven by the Coca-Cola brand, which accounted for over 50% of incremental volume. A strong marketing campaign, combined with our multi-segmentation strategies in major markets, contributed to this growth.

Consolidated average price per unit case increased 0.8% from Ps. 26.18 in 2004 to Ps. 26.38 in 2005, driven by average price increases in all our territories, except Central America. Price increases implemented during the year, mainly in Venezuela, Colombia and Argentina, combined with a better packaging and product mix in Mexico and Brazil, resulted in higher average prices per unit case.

Gross Profit. Our gross profit increased 5.4% to Ps. 24,712 million in 2005, compared with the previous year. Brazil and Mexico accounted for over 90% of this growth. Gross margin improved 20 basis points as a result of higher average prices per unit case in all of our territories, except Central America, and relatively stable average costs per unit case on a consolidated basis. Lower sweetener costs in Mexico and Colombia, combined with the appreciation of local currencies in the majority of our territories applied to our U.S. dollar-denominated costs, more than compensated for price increases in resin used to make plastic bottles.

The components of cost of sales include raw materials (principally soft drink concentrate and sweeteners), packaging materials, 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 as a percentage of total revenues declined to 31.9% in 2005 from 32.3% in 2004 due to higher fixed-cost absorption driven by incremental volumes and higher average price per unit case. During 2005, operating expenses in absolute terms increased 3.8% year over year mainly as a result of (1) the implementation of value-creation initiatives, including reconfiguring our distribution network to support new multi-segmentation strategies in major markets by socioeconomic levels and competitive intensity and the implementation of revenue management strategies, (2) salary increases ahead of inflation in some of the countries in which we operate, and (3) higher operating expenses due to increases in maintenance expenses and freight costs in some 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 2005 and 2004, our distribution costs amounted to Ps. 7,008 million and Ps. 6,610 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).

Income from Operations. Our consolidated operating income increased 8.7% to Ps. 8,683 million in 2005, compared with 2004. Growth in Mexico, Brazil and Colombia more than compensated for an operating income

decline in Venezuela. Our overall operating margin improved 60 basis points to 17.3% during 2005.

Integral Result of Financing. The term *integral result of financing* refers to the combined financial effects of net interest expense and 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 and gains or losses resulting from derivative financial instruments. 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 2005 we reported a loss in integral result of financing of Ps. 1,136 million, an increase of 36.4% compared to 2004. Lower gains in our monetary position, as a result of the combined effect of a decline in our monetary liabilities and a lower Mexican inflation rate as applied to these monetary liabilities, more than offset a decline in interest expense and a foreign exchange gain derived from the appreciation of the Mexican peso against the U.S. dollar, as applied to our U.S. dollar-denominated debt.

Other Expenses. Other expenses decreased to Ps. 303 million in 2005 from Ps. 408 million in 2004. Other expenses were higher in 2004 due to a change in the tax deduction criteria on coolers in Mexico in 2004 that required us to make a one-time payment.

Income Taxes and Employee Profit Sharing. Income taxes and employee profit sharing increased to Ps. 2,562 million in 2005 from Ps. 1,142 million in 2004. Our consolidated effective income tax and employee profit sharing rate increased from 16.9% in 2004, to 35.4% in 2005, mainly due to a one-time benefit in the amount of Ps. 1,355 million, derived from a gain from a tax lawsuit in 2004 in connection with a deduction of losses arising from a sale of shares during 2002.

Net Income. Our consolidated majority net income was Ps. 4,586 million during 2005, a decrease of 17.8% compared to 2004, principally due to above mentioned non-recurring events. Earnings per share were Ps. 2.48 (US\$ 2.33 per ADS) computed on the basis of 1,846.5 million shares outstanding (each ADS represents 10 Series L Shares). Excluding these non-recurring effects, majority net income would have increased 13.8% in 2005.

Consolidated Results Of Operations By Geographic Segment

Mexico

Total Revenues. Total revenues in Mexico were Ps. 28,705 million in 2005, compared to Ps. 27,474 million in 2004, an increase of 4.5% mainly driven by 3.5% total sales volume growth. Average price per unit case remained relatively stable at Ps. 27.77 in 2005, compared to Ps. 27.72 for 2004. Carbonated soft drinks average price per unit case was Ps. 32.10 during 2005, remaining almost flat as compared to 2004.

Total sales volume reached 1,025 million unit cases in 2005, an increase of 3.5% compared to 2004, driven by (1) 2.4% sales volume growth of the carbonated soft drinks segment, accounting for more than 56% of the incremental volumes of the year, (2) strong volume growth in the still water category, and (3) strong volume growth in the non-carbonated beverages segment. Carbonated soft drinks volume growth was mainly driven by incremental volumes of the *Coca-Cola* brand in single serve presentations, which contributed to more than 50% percent of total carbonated soft drinks incremental volumes.

Income from Operations. Gross profit totaled Ps. 15,310 million, representing a gross margin of 53.3% in 2005, an increase of 10 basis points as compared to 2004. Lower sweetener costs, derived from lower sugar prices and the usage of high fructose corn syrup, combined with the appreciation of the Mexican peso against the U.S. dollar applied to our U.S. dollar-denominated costs, more than offset higher resin prices during the year, resulting in a slight improvement in average cost per unit case.

Our operating income in 2005 reached Ps. 6,122 million, resulting in a 21.3% operating margin compared to a 21.1% in 2004, as a result of higher fixed-cost absorption driven by higher revenues.

Central America

Total Revenues. Total revenues in Central America were Ps. 3,428 million in 2005, a decline of 2.8% as compared to 2004, driven by lower average price per unit case, which accounted for 70% of the revenue decline, and a

decrease in sales volume comprised the balance. Average price per unit case decreased 2.5% to Ps. 30.94, mainly as a result of a more competitive environment in the majority of the region, driven by the entrance of low-price producers of carbonated soft drinks.

Total sales volume was 109.4 million unit cases in 2005, a 1.1% decrease as compared to the previous year as a result of lower volumes in Nicaragua and Guatemala. Carbonated soft drinks volume decline more than offset strong volume growth of 20.7% in non-carbonated beverages, including bottled water.

Income from Operations. Gross profit totaled Ps. 1,643 million in 2005, a reduction of 3.1% as compared to 2004, mainly driven by lower revenues. Higher resin prices and sweetener costs combined with a packaging mix shift towards non-returnable presentations more than offset savings from cost cutting initiatives throughout the region, resulting in a margin decline of 20 basis points to 47.9% in 2005.

Operating income reached Ps. 468 million in 2005, resulting in an operating income margin of 13.7%, an improvement of 180 basis points as compared to 2004, driven by savings achieved through better distribution practices and from our shared services program implemented throughout the region in 2004.

Colombia

Total Revenues. Total revenues in Colombia reached Ps. 4,697 million in 2005, an increase of 9.4% as compared to 2004. Over 80% of revenue growth was driven by incremental volume, and higher average price per unit case represented the balance. Average price per unit case reached Ps. 26.14 for 2005, compared to Ps. 25.70 in 2004, recording an increase of 1.7% as a consequence of price increases implemented during the year, and the appreciation of the Colombian peso against the U.S. dollar in 2005, as applied to our net revenues in Mexican pesos under Mexican GAAP.

Total sales volume was 179.7 million unit cases in 2005, an increase of 7.5% as compared to 2004, mainly driven by 33% volume growth in our flavored carbonated soft drinks, which more than offset still water volume decline. Still water volumes declined as a result of a packaging-rationalization strategy, to reduce the production of still water sold in less profitable presentations.

The growth of flavored carbonated soft drinks volume was generated by our successful introduction of the brand *Crush* in different flavors in the market, which reached more than 10% of our total sales volume in 2005. The volume decline in returnable multi-serve presentations was more than offset by volume growth in our 1.25 liter non-returnable plastic presentation for the *Crush* brand and the 2.5 -liter plastic non-returnable presentation for the *Coca-Cola* brand.

Income from Operations. Gross profit totaled Ps. 2,119 million in 2005, an increase of 6.2% as compared to 2004, resulting in a gross margin of 45.1% for the year as compared to 46.5% in 2004. The packaging mix shift towards non returnable plastic presentations, which accounted for 48% of our total sales in 2005, compared with 43% in the previous year, combined with higher resin prices, more than offset savings achieved from the consolidation of our manufacturing network and the appreciation of the Colombian peso against the U.S. dollar, applied to our U.S. dollar-denominated costs.

Operating income totaled Ps. 532 million, an increase of 16.4%, reaching an operating margin of 11.3%, an improvement of 70 basis points as compared to 2004, driven by higher fixed cost absorption due to higher revenues.

Venezuela

Total Revenues. Total revenues in Venezuela increased by 5.6% to Ps. 4,946 million in 2005, as compared to Ps. 4,683 million in 2004, driven by higher average price per unit case. Average price per unit case increased by 5.5% to Ps. 28.60 in 2005 as compared to 2004, as a result of price increases implemented during the year.

Total sales volume was 172.5 million unit cases in 2005, almost flat as compared to 2004. Flavored carbonated soft drinks and non-carbonated drinks decline was offset by volume growth of the *Coca-Cola* brand and of still water volume. During 2005, despite increasing demand for carbonated soft drinks in the marketplace, our sales volume remained flat due to periodic operating difficulties that prevented us from producing and distributing enough supply.

Income from Operations. Gross profit totaled Ps. 1,994 million in 2005, representing a gross margin of 40.3% as compared to 41.9% in 2004 a decrease of 160 basis points. This decline was a result of higher raw material prices, the devaluation of the Venezuelan bolivar and a shift in packaging mix towards non-returnable presentations, which grew as a percentage of our total sales volume to 72.2% from 66.5% in 2004.

Operating expenses increased 10.5% in 2005 due to salary increases implemented during the year and higher maintenance costs. Operating income totaled Ps. 233 million in 2005, a decrease from Ps. 368 million in 2004, resulting in an operating margin of 4.7% as compared to 7.9% in 2004. The decrease was a result of a reduction in gross profit and increases in operating expenses.

Argentina

Total Revenues. Total revenues in Argentina reached Ps. 2,798 million, a 7.0% increase as compared to 2004, driven by the combination of better average price per unit case and volume growth, each contributing to approximately half of this growth. Average price per unit case during 2005 grew 4.0% to Ps. 17.97 from Ps. 17.28 in the previous year, as a result of (1) a positive product shift mix towards single-serve presentations from our core and premium brands, which carry higher average price per unit case, (2) incremental volume from our carbonated soft drink premium and core segments, (3) the strong performance of our non-carbonated portfolio and (4) price increases implemented during the year.

Total sales volume reached 150.1 million unit cases in 2005, an increase of 4.0% over 2004. In 2005, volume growth came from our core and premium brands, which more than offset the volume decline of our value protection brands, which decreased from representing 15.3% of total volume in 2004 to 13.3% in 2005. The majority of the incremental volumes in carbonated soft drinks came from the *Coca-Cola* brand, with the 0.6 liter presentation alone accounting for almost 40% of the growth. Non-carbonated beverages, excluding still water, almost doubled in sales volume during the year from a very low base in 2004, driven by incremental volume in the juice-based and flavored water products under the *Cepita* brand. Non-carbonated beverages excluding non-flavored still water, contributed to close to 20% of our incremental volume.

Income from Operations. Gross profit totaled Ps. 1,099 million in 2005, an increase of 7.4% as compared with the previous year. Higher resin prices, a slight depreciation of the Argentine peso against the U.S. dollar as applied to our U.S. dollar denominated costs, and an increases in labor costs were more than offset by better average price per unit case, resulting in a slight gross margin expansion from 39.1% in 2004 to 39.3% in 2005.

Operating expenses increased 10.1% in 2005 as compared to 2004, mainly due to higher freight costs and salaries, which were offset by higher average prices per unit case, resulting in a 3.4% increase in our operating income to Ps. 422 million. Our operating income margin decreased 50 basis points to 15.1% from 15.6% in 2004.

Brazil

Total Revenues. Total revenues in Brazil reached Ps. 5,819 million in 2005, an increase of 12.0% as compared to 2004. Volume growth contributed more than 90% of this increase and better average price per unit case accounted for the balance. Average price per unit case was Ps. 22.43 during the year, an increase of 1.2% as compared to 2004, driven by a channel mix shift to higher profitable channels, such as small retailers and on-premise consumption formats carrying higher average price per unit case, which more than offset a packaging mix shift towards returnable presentations, which carry lower average price per unit case.

Total sales volume increased 11.0% to 252.5 million unit cases in 2005. The majority of this growth came from our carbonated soft drinks, contributing to over 80% of our incremental volumes and still water growth representing the

balance. Carbonated soft drinks posted a strong 9.5% growth in 2005, driven by the *Coca-Cola* and *Fanta* brands, accounting for more than 70% of the incremental carbonated soft drinks volume. During 2005, returnable presentations reached 8.0% of our total sales volume, as compared to 5.3% in 2004 driven by the successful roll-out of the 1.0 liter returnable glass presentation for the *Coca-Cola* brand. Still water sales volume grew 35% in the year, driven by an increased marketing and execution focus on our proprietary still bottled water Crystal brand.

Income from Operations. Gross profit totaled Ps. 2,735 million in 2005, resulting in a gross margin expansion of 340 basis points, from 43.6% in 2004 to 47.0% in 2005. The appreciation of the Brazilian real against the U.S. dollar,

as applied to our raw material costs denominated in U.S. dollars and improvements in manufacturing efficiencies more than offset raw material price increases.

Operating income reached Ps. 906 million, an increase of 72.2% as compared to 2004, mainly driven by top line growth, resulting in an operating income margin expansion of 550 basis points to 15.6% in 2005. Operating expenses per unit case declined, mainly due to improved operating leverage from an increase in sales volume and the implementation of better commercial practices, including improvements in presale efficiencies.

Results of Operations for Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Our results of operations include the territories acquired in the Panamco acquisition from May 2003. As a result, the acquired territories are included for twelve months of 2004 but only eight months of 2003.

Consolidated Results of Operations

Total Revenues. Consolidated total revenues grew 22.3% to Ps. 47,786 million in 2004, compared to Ps. 39,062 million in 2003. The inclusion of the acquired territories for twelve months in 2004 more than compensated for the decline in total revenues of our Mexican and Colombian territories.

Consolidated sales volume reached 1,812.1 million unit cases in 2004 compared to 1,416.3 million unit cases in 2003, an increase of 27.9% . 92.2% of the increase was due to the inclusion of the acquired territories for twelve months of 2004. The remaining increase was driven by volume growth in carbonated soft drinks, in particular the *Coca-Cola* brand, which more than compensated for jug water volume declines in Mexico and Colombia and flavored carbonated soft drink volume declines in Colombia and Brazil. Introduction of new multiple serving presentations and product and package segmentation efforts in our distribution channels contributed significantly to these results. Consolidated average price per unit case decreased 4.1% from Ps. 27.30 in 2003 to Ps. 26.17 in 2004, mainly driven by a decline in the average price of carbonated soft drinks in our historical Mexican territories and lower prices in the acquired territories.

Cost of Sales. Cost of sales increased to Ps. 24,351 million in 2004, from Ps. 19,614 million in 2003, as a result of the inclusion of the acquired territories for the twelve months of 2004. As a percentage of total revenues, cost of sales increased 80 basis points, mainly driven by lower average prices per unit case. As we discuss below, raw material increases were offset by operating improvements and the appreciation of local currencies in the territories in which we operate.

Operating Expenses. Consolidated operating expenses were Ps. 15,448 million in 2004, an increase of 27.6% compared to 2003, due to the inclusion of the acquired territories for twelve months of 2004. As a percentage of total revenues, operating expenses grew 130 basis points due to lower fixed-cost absorption driven by lower average price per unit case. Operating expenses per unit case remained almost flat due to cost-cutting initiatives across all of our territories and better commercial and distribution practices.

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 2004 and 2003, our distribution costs amounted to Ps. 6,610 million and Ps. 5,419 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).

Income from Operations. Consolidated income from operations grew to Ps. 7,987 million in 2004, from Ps. 7,339 million in 2003, mainly due to the inclusion of the acquired territories for twelve months of 2004. Income from

operations as a percentage of total revenues decreased 210 basis points in 2004, from 18.8% to 16.7%, mainly as a result of the inclusion of our acquired territories, which have lower operating margins and lower average price per unit case.

Integral Result of Financing. In 2004, we reported a loss in integral result of financing of Ps. 833 million, a decrease of 68.9% compared to 2003. This decrease was driven by the combined effect of a decline of the foreign-exchange loss due to the appreciation of the Mexican peso against the U.S. dollar, as applied to our U.S. dollar-denominated debt, and gains on our monetary position, as a result of an increase of our monetary liabilities, which partially offset higher interest expenses.

Other Expenses. Other expenses increased to Ps. 408 million in 2004 from Ps. 281 million in 2003, driven mainly by additional restructuring expenses from the integration of acquired territories.

Income Taxes and Employee Profit Sharing. Income taxes and employee profit sharing decreased from Ps. 1,843 million in 2003 to Ps. 1,142 million in 2004. Our consolidated effective income tax and employee profit sharing rate declined from 42.1% in 2003, to 16.9% in 2004, mainly due to one-time benefits in the amount of Ps. 1,355 million from a gain on a tax lawsuit.

Net Income. Our consolidated majority net income increased by 121.4% to Ps. 5,580 million in 2004 from Ps. 2,520 million in 2003 due to the reasons discussed above. Net income per share was Ps. 3.02 in 2004 compared to Ps. 1.48, computed in each case on the basis of 1,846.4 and 1,704.3 million shares outstanding, respectively.

Consolidated Results of Operations by Geographic Segment

Mexico

Total Revenues. Total revenues in Mexico were Ps. 27,474 million in 2004, compared to Ps. 25,719 million in 2003, an increase of 6.8% due to the inclusion of the acquired territories for twelve months of 2004, which offset a total revenues decline in both our original territories and the acquired territories. Average price per unit case was Ps. 27.72, compared to Ps. 30.12 for 2003. Carbonated soft drinks average price per unit case reached Ps. 31.10 during 2004, compared to Ps. 33.61 for 2003. Average prices were adversely impacted by:

- volume growth, mainly coming from the territories outside the Valley of Mexico, which carry a lower average price per unit case;
- a different packaging mix as a result of the inclusion of jug water sales volume, which has a lower average price per unit case, for the twelve months of 2004; and
- a slight shift to multiple serving presentations, which have a lower average price per unit case.

Total sales volume reached 990 million unit cases in 2004, an increase of 16.4% compared to 2003, due to the inclusion of the acquired territories for twelve months of 2004. Jug water sales volume declined as a result of pricing and channel-segmentation initiatives taken to increase the jug water business's profitability. Carbonated soft drinks volume growth was mainly driven by strong growth of our flavored carbonated soft drink brands, including *Mundet Multi-Flavors*, *Fanta Naranja* and *Lift Golden Apple*, which accounted for the majority of the incremental carbonated soft drink volume, and volume growth of the *Coca-Cola* brand.

Income from Operations. Gross profit totaled Ps. 14,610 million, representing a gross margin of 53.2% in 2004 as compared to 54.0% in 2003. During 2004, we experienced higher raw-material prices, mainly in sugar and resin for the production of plastic bottles. Raw material cost pressures and a more challenging competitive environment that precluded us from increasing prices were offset by gross synergies realized from the integration of the acquired territories, combined with cost-saving initiatives such as light-weighting of plastic bottles, which allows us to use less resin, and greater use of standard sugar as a percentage of the sweetener mix, which is less expensive than refined sugar.

Our operating income totaled Ps. 5,807 million, resulting in a 21.1% operating margin compared to a 24.2% operating margin in 2003, as a result of lower fixed-cost absorption driven by lower average price per unit case.

Central America

Total Revenues. Total revenues in Central America reached Ps. 3,526 million in 2004, an increase of 52.4% as compared to 2003. More than 90% of the growth came from the inclusion of the acquired territories for twelve months of 2004. Average price per unit case was Ps. 31.74, compared to an average price per case of Ps. 31.67 in 2003. During the year, we implemented tactical price increases in all of the countries comprising our Central America segment, which partially offset lower average prices per unit case that were driven by increases in total sales volume for multiple serving presentations.

Total volume reached 111 million unit cases in 2004, increasing 52% over 2003 volume, mainly driven by the inclusion of the acquired territories for twelve months of 2004. The remaining volume growth was also driven by:

- the solid performance of the cola category, especially in Nicaragua and Costa Rica; and
- growth in flavored carbonated soft drinks.

Income from Operations. Gross profit totaled Ps. 1,695 million in 2004, representing a gross margin of 48.1% as compared to 49.2% in 2003. During the year, we experienced raw material cost pressures across the region, which adversely affected gross margins. Operating income totaled Ps. 421 million, reaching an operating income margin of 11.9%, as compared to 9.3% in 2003, driven by savings achieved through better manufacturing and distribution practices, a higher fixed component in our pre-sale compensation scheme, and a turnaround in profitability in our Guatemalan operations.

Colombia

Total Revenues. Total revenues in Colombia reached Ps. 4,294 million in 2004, an increase of 47.1% as compared to 2003, due to the inclusion of the acquired territories for twelve months of 2004, which more than compensated for the net sales decline as a result of lower sales volume. Average price per unit case reached Ps. 25.70 for the year as compared to Ps. 25.59 for 2003. Average price per unit case remained relatively stable during the year as a result of:

- tactical price increases, from a declining pricing base at the beginning of the year resulting from increased sales volume for multi-serving presentations; and
- the appreciation of the Colombian peso against the U.S. dollar toward the end of the year, the effect of which is to increase the net sales reported in our financial statements in Mexican pesos under Mexican GAAP.

Total sales volume was 167 million unit cases in 2004, an increase of 46.5% compared to 2003, mainly driven by the inclusion of the acquired territories for twelve months of 2004, which more than offset the declines in our flavored carbonated soft drink and jug water sales volume. The total sales volume declines were mainly a result of an asset-rationalization strategy intended to reduce the production of still water sold in less profitable presentations and a more competitive environment in the flavored carbonated soft drinks category.

The majority of the flavored carbonated soft drinks volume decline was generated by returnable single-serve presentations, which was partially offset by growth in our 0.6 -liter plastic non-returnable presentation and our multiple serving presentations, including our new 1.25 -liter returnable glass presentation for the *Coca-Cola* brand and *Quatro*, our new Christmas promotional 3.0 -liter plastic non-returnable presentation for the *Coca-Cola* brand, and our existing 1.25, 2.0 and 2.25 -liter plastic non-returnable presentations for flavored carbonated soft drinks and the *Coca-Cola* brand.

Income from Operations. Gross profit totaled Ps. 1,995 million in 2004, reaching a gross margin of 46.5% for the year as compared to 45.0% in 2003. The increase in gross margins was driven by:

- sugar price declines;
- savings achieved from the rationalization of manufacturing facilities; and
- the appreciation of the Colombian peso against the U.S. dollar applied to our U.S. dollar-denominated costs.

Operating income totaled Ps. 457 million, reaching an operating margin of 10.6% as compared to 11.3% in 2003. Improved distribution and commercial practices, as well as headcount optimization, partially offset freight cost increases derived from our manufacturing rationalization effort.

Venezuela

Total Revenues. Total revenues in Venezuela reached Ps. 4,683 million in 2004, as compared to Ps. 2,827 million, driven by the inclusion of the acquired territories for twelve months of 2004, which represented 59% of our total

revenues growth. During 2004, we implemented tactical price increases in the first and third quarters of 2004, resulting in an average price per unit case of Ps. 27.10, as compared to Ps. 25.65 in 2003.

Total sales volume reached 173 million unit cases in 2004, increasing 56.9% compared to 2003, driven by the inclusion of the acquired territories for twelve months of 2004, which accounted for approximately 66% of our sales volume growth. The increase in total sales volume was also driven by strong growth across all of our beverage categories.

Incremental sales volume was mainly driven by the *Coca-Cola* brand, the *Grapette* value-protection brand and the multi-flavored carbonated soft drink brand *Hit*. Our multiple serving presentations contributed to our incremental volume, including the new 2.25 and 3.1 -liter plastic non-returnable presentations for the *Grapette* value-protection brand.

Income from Operations. Gross profit totaled Ps. 1,962 million in 2004, representing a gross margin of 41.9% as compared to 43.0% in 2003. During the year, we experienced raw material costs pressures, mainly plastic bottles and sugar, and a shift to non-returnable presentations, which have a higher cost per unit case.

Operating income totaled Ps. 368 million in 2004, resulting in an operating margin of 7.9% as compared to 9.2% in 2003. Operating expenses were impacted by:

- salary increases implemented during the year;
- additional senior and operating headcount to strengthen our operations in Venezuela; and
- freight cost increases significantly above inflation.

Argentina

Total Revenues. Total revenues in Argentina reached Ps. 2,614 million, a 16.6% increase as compared to total revenues of Ps. 2,241 in 2003 driven by total sales volume growth of 14%. Average price per unit case grew 3.0% over the course of the year to Ps. 17.32 from Ps. 16.82 in 2003, mainly as a result of price increases implemented during the year.

Total sales volume reached 144 million unit cases in 2004, an increase of 14.0% over 2003. In 2004, core brands generated approximately 45% of our incremental volume growth, the value-protection brand *Tai*, accounted for 40%, and brands we sell at a premium price accounted for most of the balance.

The majority of the total volume growth came from our returnable presentations, including the 1.25 -liter returnable glass presentation for our core brands and the 2.0 -liter returnable plastic bottle only for the *Coca-Cola* brand, which represented almost 50% of the sales volume increase.

Income from Operations. Gross profit totaled Ps. 1,023 million in 2004, reaching a gross margin of 39.1%, an improvement of 300 basis points compared to 2003. This improvement was mainly driven by:

- higher sales volume;
- higher average prices per unit case; and
- a favorable mix shift toward returnable presentations, which have lower cost per unit case.

In 2004, our Argentine territories' operating income reached Ps. 408 million, an increase of 72.9% compared to Ps. 236 million in 2003, and operating margin rose to 15.6% in 2004 from 10.5% in 2003. Operating expenses as a percentage of total revenues decreased 210 basis points, from 25.6% in 2003 to 23.5% in 2004, mainly as a result of higher fixed-cost absorption due to higher revenues and a 15.5% reduction in administrative expenses.

Brazil

Total Revenues. Total revenues in Brazil reached Ps. 5,195 million in 2004, an increase of 70.8% as a result of the inclusion of the acquired territories for twelve months of 2004, representing approximately 83% of this growth. Average price per unit case was Ps. 22.17 during the year as compared to Ps. 20.19 in 2003, with the increase resulting from:

- revenue management initiatives;
- tactical price increases; and
- the appreciation of the Brazilian real.

Total sales volume was 228 million unit cases in 2004, an increase of 59.6% compared to 2003. The sales volume increase was mainly a result of the inclusion of the acquired territories for twelve months in 2004, which accounted for 94% of the total sales volume growth. A strong focus on the Coca-Cola brand and solid growth in single-serve bottled water more than offset the volume decline in flavored carbonated soft drinks.

The majority of the total volume growth came from multiple serving presentations, including the 1.5, 2.25, 2.5, and 3.0-liter plastic non-returnable presentations, pursuant to our strategy to diversify from 2.0-liter plastic non-returnable presentation and 12-ounce cans.

Income from Operations. Gross profit totaled Ps. 2,265 million in 2004, reaching a gross margin of 43.6% as compared to 43.2% in 2003, reflecting savings achieved from the closure of a manufacturing facility and lower sweetener costs.

Operating income was Ps. 526 million, reaching an operating income margin of 10.1% for 2004 as compared to 6.5% in 2003. Operating expenses per unit case declined mainly due to improved operating leverage from an increase in sales volume and the implementation of better practices, including taking over previously outsourced services and implementing cost-cutting strategies.

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 and in the international and Mexican capital markets.

Our total indebtedness was Ps. 20,101 million as of December 31, 2005, as compared to Ps. 25,836 million as of December 31, 2004. Short-term debt and long-term debt were Ps. 4,428 million and Ps. 15,673 million, respectively, as of December 31, 2005, as compared to Ps. 3,389 million and Ps. 22,447 million, respectively, as of December 31,

2004. Cash and cash equivalents were Ps. 1,958 million as of December 31, 2005, as compared to Ps. 3,782 million as of December 31, 2004. Approximately Ps. 71 million of cash as of December 31, 2005 is considered restricted cash because it has been deposited to settle accounts payable in Venezuela. As of December 31, 2005, we had a working capital deficit (defined as the excess of current liabilities over current assets) of Ps. 4,426 million, reflecting accounts payable to suppliers of Ps. 4,616 million and short-term debt balance of Ps. 4,428 million principally relating to the maturity of long-term debt in 2006.

As part of our financing policy, we expect to continue to finance our liquidity needs from cash from operations. Nonetheless, 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. In addition, in the future we may be required to finance our working capital and capital expenditure needs with short-term or other borrowings.

As of December 31, 2005, we had uncommitted approved lines of credit totaling approximately US\$ 865 million (Ps. 9,193 million), which we believe are currently available. In December 2003, we entered into a loan agreement with The Coca-Cola Company that permits us to borrow, upon the satisfaction of certain conditions, US\$ 250 million (Ps. 2,657 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 any of cash from operations, long-term indebtedness and capital stock of our company.

Sources and Uses of Cash. The following table summarizes the sources and uses of cash for the three years ended December 31, 2005 from our statement of changes in financial position:

**Principal Sources and Uses of Cash
Year ended December 31,**

**(in millions of U.S. dollars and millions of constant
Mexican pesos at December 31, 2005)**

| | 2005 | 2005 | 2004 | 2003 |
|---|---------------------|---------------|---------------|-----------|
| Net resources generated by operations | \$ 622 | Ps. 6,613 Ps. | Ps. 8,235 Ps. | Ps. 2,841 |
| Net resources used in investing activities ⁽¹⁾⁽²⁾ | (194) | (2,064) | (1,849) | (34,324) |
| Net resources obtained from (used in) financing activities ⁽²⁾ | (600) | (6,373) | (5,749) | 27,613 |
| Dividends declared and paid | (60) ⁽³⁾ | (636) | (557) | - |

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

(2) The amounts for 2003 reflect the acquisition of Panamco and the corresponding financing.

(3) The dividend will be paid on June 15, 2006; although it has already been recorded as an account payable as of March 31, 2006.

Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2005:

| | Maturity (in millions of Mexican pesos) | | | | Total |
|--|---|------------------|-----------------------|---------------------------------|--------------|
| | Less than 1 year | 1-3 years | 4 -5 years | In excess of 5 years | |
| Debt | | | | | |
| Mexican pesos ⁽¹⁾ | Ps. 1,425 | Ps. 6,321 | Ps. 1,055 | Ps. 4,471 | Ps. 13,271 |
| U.S. dollars ⁽¹⁾ | 2,148 | 3,216 | - | 482 | 5,846 |
| Venezuelan bolivars | 389 | - | - | - | 389 |
| Colombian pesos | 211 | 161 | - | - | 372 |
| Argentine pesos | 224 | - | - | - | 224 |
| Guatemalan quetzals | 25 | - | - | - | 25 |
| Capital Leases | | | | | |
| U.S. dollars | 7 | 7 | - | - | 14 |
| Interest Payments on Debt⁽²⁾ | | | | | |
| Mexican pesos | 1,105 | 1,912 | 610 | 719 | 4,345 |
| U.S. dollars | 489 | 859 | 168 | 40 | 1,557 |
| Venezuelan bolivars | 40 | - | - | - | 40 |
| Colombian pesos | 26 | 9 | - | - | 35 |
| Argentine pesos | 11 | - | - | - | 11 |
| Guatemalan quetzals | 2 | - | - | - | 2 |
| Interest Rate Swaps⁽³⁾ | | | | | |
| Mexican pesos | (31) | 6 | 47 | 57 | 79 |
| Cross Currency Swaps⁽⁴⁾ | | | | | |
| U.S. dollars to Mexican pesos ⁽⁵⁾ | 99 | 290 | 174 | 43 | 606 |
| Mexican pesos to Colombian pesos ⁽⁶⁾ | (16) | (27) | - | - | (43) |
| Mexican pesos to Argentine pesos ⁽⁷⁾ | (0) | - | - | - | (0) |
| Forward Contracts | | | | | |
| Agreements to purchase Mexican Pesos ⁽⁸⁾ | (10) | - | - | - | (10) |
| Operating Leases | | | | | |
| Mexican pesos | 249 | 378 | 264 | 105 | 986 |
| Guatemalan quetzals | 2 | - | - | - | 2 |
| Nicaraguan cordobas | 1 | - | - | - | 1 |
| Costa Rican colons | 3 | - | - | - | 3 |
| Brazilian reals | 47 | 103 | 194 | - | 344 |
| Argentine pesos | 4 | - | - | - | 4 |
| Price Commodity Contracts | | | | | |
| U.S. dollars | 164 | 491 | 95 | - | 750 |
| Expected Benefits to be Paid for Pension Plan and Seniority Premium | 35 | 72 | 74 | 191 | 372 |
| Other Long-Term Liabilities⁽⁹⁾ | - | - | - | 3,126 | 3,126 |

(1)

Includes the effect of cross currency swaps, pursuant to which US\$ 140 million of U.S. dollar-denominated long-term debt is swapped to Mexican pesos in the amount of Ps. 1,541 million.

- (2) Interest was calculated using debt as of and nominal interest rate amounts in effect on December 31, 2005. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 10.7109 per U.S. dollar, the exchange rate quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2005, and were not restated in constant Mexican pesos at December 31, 2005.
- (3) Reflects the amount of future payments that we would be required to make. The amounts were calculated by applying the difference between the interest rate swaps and the nominal interest rates contracted to long-term debt at December 31, 2005. Liabilities denominated in U.S. dollars were translated to Mexican pesos as described in footnote (2) above.
- (4) Includes cross currency swap contracts held by us as of December 31, 2005.

- (5) Includes cross-currency swaps from U.S. dollars to Mexican pesos with respect to US\$ 140 million of U.S. dollar-denominated debt using the weighted average contracted exchange rate of Ps. 11.01 per U.S. dollar and interest rate swaps from a variable U.S. dollar interest rate to a fixed Mexican peso rate, which have weighted averages rates of 4.7% and 11.0%, respectively.
- (6) Includes cross-currency swaps from Mexican pesos to Colombian pesos with respect to Ps. 1,255 million of Mexican pesos which were swapped to Colombian pesos in the amount of 262,926 million Colombian pesos with a 3 year maturity and interest rate swaps from a variable Mexican peso rate to a fixed Colombian peso rate, which as of December 31, 2005 have weighted averages of 8.6% and 8.5%, respectively. These hedges are not considered hedges for purposes of our consolidated financial statements in accordance with Mexican GAAP, as described in Note 18 thereto.
- (7) Includes cross-currency swaps from Mexican pesos to Argentine pesos with respect to Ps. 55 million of Mexican pesos which were swapped to Argentine pesos in the amount of 15 million Argentine pesos with a one year maturity and interest rate swaps from a variable Mexican peso rate to a fixed Argentine peso rate, which as of December 31, 2005 have weighted averages rates of 8.2% and 7.1%, respectively. These hedges are not considered hedges for purposes of our consolidated financial statements in accordance with Mexican GAAP, as describes in Note 18.
- (8) Forward contract with respect to US\$ 70 million with a settlement date of May 3, 2006, paying US dollar rates and receiving Mexican peso rates, held as of December 31, 2005
- (9) Other long-term liabilities reflects liabilities whose maturity dates are undefined and depends on a series of circumstances out of our control, therefore these liabilities have been considered to have a maturity of more than five years.

Debt Structure

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, 2005:

| Currency | Percentage of Total Debt ⁽¹⁾ | Average Nominal Rate ⁽²⁾ | Average Adjusted Rate ⁽¹⁾⁽³⁾ |
|---------------------|---|-------------------------------------|---|
| U.S. dollars | 32.58% | 7.06% | 7.66% |
| Mexican pesos | 55.93% | 9.54% | 9.43% |
| Colombian pesos | 8.04% | 8.72% | 7.46% |
| Venezuelan bolivars | 1.95% | 12.08% | 12.08% |
| Argentine pesos | 1.39% | 9.38% | 9.21% |
| Guatemalan quetzals | 0.12% | 6.50% | 6.50% |

- (1) Includes the effect of derivative contracts held by us as of December 31, 2005, including cross currency swaps from U.S. dollars to Mexican pesos, Mexican pesos to Colombian pesos, Mexican pesos to Argentine pesos and a U.S. dollar forward position.
- (2) Annual weighted average interest rate per currency as of December 31, 2005.
- (3) Annual weighted average interest rate per currency as of December 31, 2005 after giving effect to interest rate swaps. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk.

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, 2005:

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 US\$ 200 million (Ps. 2,126 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 US\$ 290 million (Ps. 3,082 million) remain outstanding as of December 31, 2005. 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.

Bank Loans. During 2005, we entered into a number of loans with individual banks in Mexican pesos and U.S. dollars with an aggregate principal amount of Ps 2,650 million and US\$ 91 million (Ps. 967 million), respectively. These loans contain restrictions on liens, fundamental changes such as mergers and certain asset sales and subsidiary indebtedness. In addition, we are required to 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 | 2007 | Ps. 1,906 million ⁽¹⁾ | 28-day TIIE ⁽²⁾ + 55 bps |
| 2003 | 2008 | Ps. 1,250 million | 182-day CETE ⁽³⁾ + 120 bps |
| 2003 | 2008 | Ps. 2,500 million | 91-day CETE ⁽³⁾ + 115 bps |
| 2003 | 2009 | Ps. 500 million | 9.90% Fixed |
| 2003 | 2010 | Ps. 1,000 million | 10.4% Fixed |

- (1) In September 2005, we repurchased the equivalent in Mexican Pesos of Ps. 94 million of our 2003 (28-day TIIE + 55 bps) *certificados bursátiles*; thus reducing its outstanding amount from Ps. 2,000 million to Ps. 1,906 million.
- (2) TIIE means the *Tasa de Interés Interbancaria de Equilibrio* (the Equilibrium Interbank Interest Rate).
- (3) 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.

We are in compliance with all of our restrictive covenants as of December 31, 2005. A significant and prolonged deterioration in our consolidated results of operations could cause us to cease to be in compliance under certain indebtedness in the future. We can provide no assurances that we will be able to incur indebtedness or to refinance existing indebtedness on similar terms in the future.

Off-Balance Sheet Arrangements

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 recorded as a result of the Panamco acquisition. Any amounts required to be paid in connection with these loss contingencies would be required to be paid from available cash. The following table presents the nature and amount of the recorded loss contingencies as of December 31, 2005:

| | Short-Term | | Long-Term | | Total | |
|-------|-------------------|----|------------------|-------|--------------|-------|
| Tax | Ps. | 4 | Ps. | 1,364 | Ps. | 1,368 |
| Legal | | | | 168 | | 168 |
| Labor | | 63 | | 219 | | 282 |
| Total | Ps. | 67 | Ps. | 1,751 | Ps. | 1,818 |

We have other loss contingencies for which we have not recorded a reserve in particular, we have entered into legal proceedings with labor unions and tax authorities. These proceedings are in the ordinary course of business and are common to the industry in which we operate. The aggregate amount of damages sought in these proceedings is US\$ 81 million. These contingencies were classified by our legal counsel as less than probable but more than remote of being settled against us. However, we believe that the ultimate resolution of such legal proceedings will not have a material adverse effect on our consolidated financial position or result of operations. These contingencies or our assessment of them may change in the future, and we may record reserves or be required to pay amounts in respect of these contingencies.

Capital Expenditures

The following table sets forth our capital expenditures, including investment in property, plant and equipment, bottles and cases and deferred charges, for the periods indicated on a consolidated and by segment basis:

Consolidated Capital Expenditures

| | Year ended December 31, | | | | | |
|--|--|-----------|-------------|-----------|-------------|-----------|
| | 2005 | | 2004 | | 2003 | |
| | (millions of constant Mexican pesos at December 31, 2005) | | | | | |
| Property, plant and equipment | Ps. | 701 | Ps. | 963 | Ps. | 1,292 |
| Bottles and cases | | 490 | | 442 | | 429 |
| Deferred charges and other investments | | 821 | | 604 | | 443 |
| Total | Ps. | 2,012 | Ps. | 2,009 | Ps. | 2,164 |

Capital Expenditures by Segment

| | Year ended December 31, | | | | | |
|-----------------|--|-----------|-------------|-----------|-------------|-----------|
| | 2005 | | 2004 | | 2003 | |
| | (millions of constant Mexican pesos at December 31, 2005) | | | | | |
| Mexico | Ps. | 1,021 | Ps. | 1,140 | Ps. | 1,625 |
| Central America | | 145 | | 164 | | 155 |
| Colombia | | 296 | | 126 | | 1 |
| Venezuela | | 285 | | 235 | | 50 |
| Argentina | | 86 | | 57 | | 115 |
| Brazil | | 179 | | 287 | | 218 |
| Total | Ps. | 2,012 | Ps. | 2,009 | Ps. | 2,164 |

Our capital expenditures in 2005 focused on investments in returnable bottles and cases, increasing plant operating efficiencies, placing refrigeration equipment with retailers and, improving the efficiency of our distribution infrastructure and advancing information technology. Through these measures, we strive to improve our profit margins and overall profitability.

We estimate that our capital expenditures in 2006 will be approximately US\$ 250 million (Ps. 2,656 million). Our capital expenditures in 2006 are primarily intended for:

- investments in returnable bottles and cases;
- market investments (primarily for the placement of refrigeration equipment); and
- improvements in our manufacturing facilities and throughout our logistics network.

We estimate that a majority of our projected capital expenditures for 2006 will be spent in our Mexican territories. We believe that internally generated funds will be sufficient to meet our budgeted capital expenditure for 2006. Our capital expenditure plan for 2006 may change based on market and other conditions and our results of operations and financial resources.

Historically, The Coca-Cola Company has contributed to our capital expenditure program. We generally utilize these contributions for the placement of refrigeration equipment with customers, particularly in Mexico, and other initiatives that promote volume growth of *Coca-Cola* trademark beverages. Such payments may result in a reduction in our selling expenditures. Contributions by The Coca-Cola Company are made on a discretionary basis. Although we

believe that The Coca-Cola Company will make additional contributions in the future to assist our capital expenditure program, we can give no assurance that any such contributions will be made.

Hedging Activities

We hold or issue derivative instruments to hedge our exposure to market risks related to changes in interest rates, foreign currency exchange rates, equity risk and commodity price risk. See Item 11. Quantitative and Qualitative Disclosures about Market Risk.

The following table provides a summary of the fair value of derivative instruments as of December 31, 2005. The fair market value is obtained mainly from external sources, which are also our counterparties to the relevant contracts.

Fair Value
At December 31, 2005
(in millions of constant Mexican pesos)

| | Maturity less than 1 year | Maturity 1 - 3 years | Maturity 4 - 5 years | Maturity in excess of 5 years | Total fair value |
|-----------------------------------|--|-------------------------------------|---------------------------------|--|---------------------------------|
| Prices quoted by external sources | 7 | (42) | (176) | - | (211) |

U.S. GAAP Reconciliation

The principal differences between Mexican GAAP and U.S. GAAP that affect our net income and stockholders equity relate to the accounting for:

- inflationary adjustment of prior years financial statements;
- classification differences;
- deferred promotional expenses;
- intangible assets;
- inflationary adjustment of imported equipment;
- capitalization of integral cost of financing;
- derivative financial instruments;
- deferred income tax and employee profit sharing;
- pension plan; and
- minority interest.

A more detailed description of the differences between Mexican GAAP and U.S. GAAP as they relate to us and a reconciliation of majority net income and majority stockholders' equity under Mexican GAAP to net income and stockholders' equity under U.S. GAAP are contained in Notes 25 and 26 to our consolidated financial statements. Note 25(b) also describes certain presentation differences between Mexican GAAP and U.S. GAAP.

Pursuant to Mexican GAAP, our consolidated financial statements recognize certain effects of inflation in accordance with Bulletins B-10 and B-12. These effects were not reversed in the reconciliation to U.S. GAAP.

Under U.S. GAAP, we had net income of Ps. 4,455 million in 2005, Ps. 5,925 million in 2004 and Ps. 2,498 million in 2003. Net income as reconciled to U.S. GAAP was lower than majority net income as reported under Mexican GAAP by Ps. 131 million in 2005, higher by Ps. 345 million in 2004 and lower by Ps. 22 million in 2003.

Stockholders' equity under U.S. GAAP was Ps. 33,751 million, Ps. 30,243 million and Ps. 23,966 million in 2005, 2004 and 2003, respectively. Compared to majority stockholders' equity under Mexican GAAP, stockholders' equity under U.S. GAAP was lower by Ps. 17 million, Ps. 172 million and Ps. 1,045 million in 2005, 2004 and 2003, respectively.

Item 6. Directors, Senior Management and Employees**Directors**

Management of our business is vested in our board of directors. Our bylaws provide that our board of directors will consist of at least eighteen directors elected at the annual ordinary shareholders meeting for renewable terms of one year. Our board of directors currently consists of 18 directors and 18 alternate directors. The directors are elected as follows: 11 directors and their respective alternate directors are elected by holders of the Series A Shares voting as a class; four directors and their respective alternate directors are elected by holders of the Series D Shares voting as a class; and three directors and their respective alternate directors are elected by holders of the Series L Shares voting as a class. Directors may only be elected by a majority of shareholders of the appropriate series, voting as a class, represented at the meeting of shareholders.

In addition, holders of any series of our shares that do not vote in favor of the directors elected, either individually or acting together with other dissenting shareholders of any series, are entitled to elect one additional director and the corresponding alternate director for each 10% of our outstanding capital stock held by such individual or group. Any directors and alternate directors elected by dissenting shareholders will be in addition to those elected by the majority of the holders of Series A Shares, Series D Shares and Series L Shares.

Our bylaws provide that the board of directors shall meet at least four times a year. Actions by the board of directors must be approved by at least a majority of the directors present and voting, which (except under certain limited circumstances) must include at least two directors elected by the Series D shareholders. See [Item 7. Major Shareholders and Related Party Transactions](#) Major Shareholders The Shareholders Agreement.

See [Item 7. Major Shareholders and Related Party Transactions](#) Related Party Transactions for information on relationships with certain directors and senior management.

As of March 31, 2006, our board of directors had the following members:

Series A Directors

| | | |
|---|---|---|
| José Antonio Fernández Carbajal ⁽¹⁾ <i>Director</i> | Born: First elected: Term expires: Principal occupation: Other directorships: | February 1954 1993 2007 Chief Executive Officer, FEMSA. Chairman of the board of FEMSA. Vice-Chairman of the board of Instituto Tecnológico de Estudios Superiores de Monterrey, which we refer to as ITESM, Member of the boards of directors of Grupo Financiero BBVA Bancomer and Grupo Industrial Bimbo. |
| | Business experience: | Held directorships at FEMSA Cerveza s Commercial Division and the Oxxo Retail Chain. Has experience in the strategic planning department of FEMSA and has been involved in many managerial and |

operational aspects of FEMSA's
businesses.

Series A Directors

| | | |
|---|-----------------------|---|
| | Education: | Holds a degree in Industrial Engineering and an MBA from ITESM. |
| | Alternate director: | Alfredo Livas Cantú |
| Alfonso Garza Garza ⁽²⁾ <i>Director</i> | Born: | July 1962 |
| | First elected: | 1996 |
| | Term expires: | 2007 |
| | Principal occupation: | Vice President of Human Resources Officer, FEMSA. |
| | Other directorships: | Alternate director of FEMSA and member of the boards of directors of the Hospital San José Tec de Monterrey. |
| | Business experience: | Has experience in several FEMSA business units and departments, including Domestic Sales, International Sales, Procurement and Marketing, mainly in FEMSA Empaques, FEMSA Cerveza and was General Director of FEMSA Empaques. |
| | Education: | Holds a degree in Industrial Engineering from ITESM and an MBA from Instituto Panamericano de Alta Dirección de Empresa, which we refer to as IPADE. |
| | Alternate director: | Mariana Garza de Treviño ⁽³⁾ |
| José Luis Cutrale <i>Director</i> | Born: | September 1946 |
| | First elected: | 2004 |
| | Term expires: | 2007 |
| | Principal occupation: | General Director of Sucocitrico Cutrale. |
| | Other directorships: | Member of the boards of directors of Cutrale North America, Cutrale Citrus Juice, and Citrus Products. |
| | Business experience: | Founding partner of Sucocitrico Cutrale and member of ABECITRUS (the Brazilian Association of Citrus Exporters) and CDES (the Brazilian Government's Counsel for Economic and Social Development). |
| | Alternate director: | José Luis Cutrale, Jr. |

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Carlos Salazar Lomelín
Director

| | |
|-----------------------|---|
| Born: | April 1951 |
| First elected: | 2001 |
| Term expires: | 2007 |
| Principal occupation: | Chief Executive Officer, Coca-Cola FEMSA. |

Series A Directors

| | | |
|--|-----------------------|--|
| | Business experience: | Has held managerial positions in several FEMSA subsidiaries, including Grafo Regia and Plásticos Técnicos Mexicanos. Served as Chief Executive Officer of FEMSA Cerveza until 2000. |
| | Education: | Holds a degree in Economics from ITESM, a graduate degree in Economic Development in Italy from the Instituto di Studio per lo Sviluppo and Cassa di Risparmio delle Provincie Lombarde and an MBA from ITESM. |
| | Alternate director: | Max Michel Suberville |
| Ricardo Guajardo Touché <i>Director</i> | Born: | May 1948 |
| | First elected: | 1993 |
| | Term expires: | 2007 |
| | Principal occupation: | Member of the board and Chairman of the audit committee of Grupo Financiero BBVA Bancomer. |
| | Other directorships: | Member of the boards of directors of El Puerto de Liverpool, Transportación Marítima Mexicana, Grupo Industrial Alfa, Grupo Aeroportuario del Sureste, and ITESM. Executive directorships in the financial divisions of Grupo AXA and Grupo VAMSA. |
| | Business experience: | Has experience in various positions in Grupo Visa. |
| | Education: | Holds degrees in Electrical Engineering from ITESM and the University of Wisconsin and a Masters Degree from the University of California at Berkeley. |
| | Alternate director: | Eduardo Padilla Silva |
| Paulina Garza de Marroquín ⁽³⁾ <i>Director</i> | Born: | March 1972 |
| | First elected: | 2005 |
| | Term expires: | 2007 |
| | Principal occupation: | Director, FEMSA. |
| | Other directorships: | Member of the boards of directors of Pronatura del Noreste and Patronato de Chipinque. |
| | Business experience: | Has experience in private banking and marketing. Held different positions at Grupo Financiero BBVA |

| | |
|---------------------|---|
| Education: | Bancomer and FEMSA Cerveza. Holds a degree in Business Administration from ITESM. |
| Alternate director: | Eva Garza de Fernández ⁽⁴⁾ |

Series A Directors

| | | |
|--|---|---|
| Federico Reyes García <i>Director</i> | Born: First elected: Term expires: Principal occupation: | September 1945 1993 2007 Corporate Development Officer of FEMSA. Served as Vice President of Finance and Corporate Development of FEMSA, Director of Corporate Staff at Grupo AXA, a major manufacturer of electrical equipment, and Chief Executive Officer of Seguros Monterrey and Fianzas Monterrey. Has extensive experience in the insurance sector. |
| | Business experience: | Served as Vice President of Finance and Corporate Development of FEMSA, Director of Corporate Staff at Grupo AXA, a major manufacturer of electrical equipment, and Chief Executive Officer of Seguros Monterrey and Fianzas Monterrey. Has extensive experience in the insurance sector. |
| | Education: | Holds a degree in Business and Finance from ITESM. |
| | Alternate director: | Alejandro Bailleres Gual |
| Javier Astaburuaga Sanjines <i>Director</i> | Born: First elected: Term expires: Principal occupation: | July 1959 2006 2007 Chief Financial Officer and Executive Vice President of Strategic Development of FEMSA |
| | Business experience: | Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance, held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer and for two years prior to his current position, was FEMSA Cerveza's Director of Sales for the north region of Mexico. Prior to his current position, was FEMSA Cerveza's Co-Chief Executive Officer. |
| | Education: | Holds a degree in accounting from ITESM. |
| | Alternate director: | Francisco José Calderón Rojas |
| Alfonso González Migoya <i>Director</i> | Born: First elected: Term expires: | January 1945 2006 2007 |

Principal occupation:

Independent Consultant.

Other directorships:

Member of the board and chairmen of the auditing committee of Banco Regional de Monterrey, S.A.; member of the board of Ecco, S.A. and Berel, S.A.

Table of Contents**Series A Directors**

| | | |
|---|-----------------------|--|
| | Business experience: | Served from 1995 until 2005, as Corporate Director of Grupo Industrial Alfa. |
| | Education: | Holds a degree in Mechanical engineering from ITESM and an MBA from the Stanford Graduate School of Business. |
| | Alternate director: | Francisco Garza Zambrano |
| Daniel Servitje Montul <i>Director</i> | Born: | April 1959 |
| | First elected: | 1998 |
| | Term expires: | 2007 |
| | Principal occupation: | Chief Executive Officer, Grupo Industrial Bimbo. |
| | Other directorships: | Member of the boards of directors of Banco Nacional de Mexico, Grupo Bimbo and Transforma Mexico. |
| | Business experience: | Served as Vice President of Grupo Bimbo. |
| | Education: | Holds a degree in Business from the Universidad Iberoamericana in Mexico and an MBA from the Stanford Graduate School of Business. |
| | Alternate director: | Sergio Deschamps Ebergeney |
| Enrique Senior <i>Director</i> | Born: | August 1943 |
| | First elected: | 2004 |
| | Term expires: | 2007 |
| | Principal occupation: | Investment Banker, Allen & Company. |
| | Other directorship: | Member of the boards of Televisa and Premier Retail Networks. |
| | Business experience: | Among other clients, has provided financial advisory services to FEMSA and Coca-Cola FEMSA. |
| | Alternate director: | Herbert Allen III |

Series D Directors

| | | |
|--------------------------------|-----------------------|---|
| Gary Fayard <i>Director</i> | Born: | April 1952 |
| | First elected: | 2003 |
| | Term expires: | 2007 |
| | Principal occupation: | Chief Financial Officer, The Coca-Cola Company. |

Series D Directors

| | | |
|--|-----------------------|---|
| | Other directorships: | Member of the boards of directors of Coca-Cola Enterprises and Coca-Cola Sabco. |
| | Business experience: | Senior Vice-President of The Coca-Cola Company and former Partner of Ernst & Young. |
| | Education: | Holds a CPA from the University of Alabama. |
| | Alternate director: | David Taggart |
| Irial Finan <i>Director</i> | Born: | June 1957 |
| | First elected: | 2004 |
| | Term expires: | 2007 |
| | Principal occupation: | President of Bottling Investments, The Coca-Cola Company. |
| | Other directorships: | Member of the Board of Directors of Coca-Cola Enterprises and Altracel Pharmaceuticals. |
| | Business experience: | Chief Executive Officer of Coca-Cola Hellenic. Has experience in several Coca-Cola bottlers, mainly in Europe. |
| | Education: | Holds a Bachelor's degree from National University of Ireland. |
| | Alternate director: | Mark Harden |
| Charles H. McTier <i>Director</i> | Born: | January 1939 |
| | First elected: | 1998 |
| | Term expires: | 2007 |
| | Principal occupation: | President, Robert W. Woodruff Foundation. |
| | Other directorships: | Member of the board of directors of the SunTrust Bank of Georgia. |
| | Business experience: | President of Joseph B. Whitehead Foundation, The Lettie Pate Evans Foundation and The Lettie Pate Whitehead Foundation. |
| | Education: | Holds a degree in Business Administration from Emory University. |
| | Alternate director: | Carol C. Hayes |
| Bárbara Garza de Braniff ⁽³⁾ <i>Director</i> | Born: | December 1959 |
| | First elected: | 2005 |
| | Term expires: | 2007 |
| | Principal occupation: | Private Investor. |
| | Other directorships: | Alternate member of the boards of FEMSA and Grupo Financiero BBVA Bancomer. |

Business experience:

Has experience in finance.

Education:

Holds a degree in Business Administration and a Masters in Administration from ITESM.

Alternate director:

Geoffrey J. Kelly

Series L Directors

Alexis E. Rovzar de la Torre
Director

Born: July 1951
 First elected: 1993
 Term expires: 2007
 Principal occupation: Executive Partner, White & Case.
 Other directorships: Member of the boards of directors of FEMSA, Deutsche Bank (Mexico), Grupo Industrial Bimbo, Grupo ACIR, Comex, Comsa and Ray & Berndtseon.
 Business experience: Has experience in numerous international business transactions, including joint ventures, debt to capital swaps and many other financial projects.
 Education: Holds a degree in Law from UNAM.
 Alternate director: Arturo Estrada Treanor

José Manuel Canal Hernando
Director

Born: February 1940
 First elected: 2003
 Term expires: 2007
 Principal occupation: Independent consultant.
 Other directorships: Member of the boards of directors of FEMSA and FEMSA Cerveza.
 Business experience: Served as Managing Partner of Ruiz, Urquiza y Cía.
 Alternate director: Helmut Paul

Francisco Zambrano Rodríguez
Director

Born: January 1953
 First elected: 2003
 Term expires: 2007
 Principal occupation: Vice President, Desarrollo Inmobiliario y de Valores.
 Other directorships: Member of the board of directors of several Mexican companies, including Desarrollo Inmobiliario y de Valores and Internacional de Inversiones.
 Business experience: Has extensive experience in investment banking and private investment services in México.
 Alternate director: Karl Frei

- (1) Son-in-law of Eugenio Garza Lagüera.
- (2) Nephew of Eugenio Garza Lagüera.
- (3) Daughter of Eugenio Garza Lagüera and sister-in-law of José Antonio Fernández Carbajal.
- (4) Daughter of Eugenio Garza Lagüera and wife of José Antonio Fernández Carbajal.

Eugenio Garza Lagüera is the Honorary (non-voting) Life Chairman of our board of directors. The secretary of the board of directors is Carlos Eduardo Aldrete Ancira and the alternate secretary of the board is David A. González Vessi.

On June 8, 2004, a group of Brazilian investors, among them José Luis Cutrale, a member of our board of directors, made a capital contribution equivalent to approximately US\$50 million to our Brazilian operations in exchange for a 16.9% equity stake in these operations. We have entered into an agreement with Mr. Cutrale pursuant to which he was invited to serve as a director of our company. The agreement also provides for a right of first offer on transfers by the investors, tag-along and drag-along rights and certain rights upon a change of control of either party, with respect to our Brazilian operations.

Statutory Examiners

Under Mexican law, a statutory examiner must be elected by the shareholders at the annual ordinary shareholders meeting for a term of one year. We currently have two statutory examiners, one elected by the holders of Series A Shares and one by the holders of Series D Shares, and two alternate statutory examiners, one elected by the holders of Series A Shares and one by the holders of Series D Shares. Mexican law also requires that the statutory examiners receive periodic reports from our board of directors regarding material aspects of our affairs, including our financial condition. The primary role of the statutory examiners is to report to our shareholders at the annual ordinary shareholders meeting on the accuracy of the financial information presented to such statutory examiners by the board of directors. Our Series A statutory examiner is Ernesto González Dávila and our Series D statutory examiner is Fausto Sandoval Amaya. Our alternate Series A statutory examiner is Ernesto Cruz Velázquez de León and our alternate Series D statutory examiner is Víctor Soulé García.

Executive Officers

As of March 31, 2006, the following are the principal executive officers of our company:

| | | |
|---|--|---|
| Carlos Salazar Lomelín ⁽¹⁾ <i>Chief Executive Officer</i> | Born: Joined: Appointed to current position: | April 1951 2000 2000 |
| Ernesto Torres Arriaga <i>Vice President</i> | Born: Joined: Appointed to current position: Business experience with us: Other business experience: Education: | July 1936 1979 1995 Production Manager of Industria Embotelladora de México. Director of Production for the State of Mexico. Extensive experience at various bottler plants in Mexico, where he held several positions in the production, technical and logistics areas, eventually becoming General Manager of Sales, Production and Administration. Holds a degree in Food Engineering from Kansas State University. |
| Héctor Treviño Gutiérrez <i>Chief Financial and Administrative Officer</i> | Born: Joined: Appointed to current position: Business experience with us: Other business experience: Education: | August 1956 1993 1993 Headed Corporate Development department. At FEMSA, was in charge of International Financing, served as General Manager of Financial Planning and General Manager of Strategic Planning. Holds a degree in Chemical and Administrative Engineering from ITESM and an MBA from the Wharton School of Business. |
| Rafael Suárez Olaguibel <i>Commercial Planning and Strategic Development Officer</i> | Born: Joined: Appointed to current position: Business experience with us: | April 1960 1986 2003 Has held several director positions with us, including Chief Operating Officer in Mexico, Planning and Projects Director, Corporate Marketing Manager for the Valley |

Other business experience: of Mexico and Director of Marketing. Also served as Distribution and Marketing Director of FEMSA's soft drink division and as Chief Operating Officer of Coca-Cola FEMSA de Buenos Aires. Has worked in the Administrative,

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| | | |
|---|--------------------------------|--|
| | | Distribution and Marketing departments of The Coca-Cola Export Company. |
| | Education: | Holds a degree in Economics from ITESM. |
| Alejandro Duncan <i>Technical Officer</i> | Born: | May 1957 |
| | Joined: | 1995 |
| | Appointed to current position: | 2002 |
| | Business experience with us: | Infrastructure Planning Director of Mexico. |
| | Other business experience: | Has undertaken responsibilities in different production, logistics, engineering, project planning and manufacturing departments of FEMSA and was a Plant Manager in central Mexico and Manufacturing Director in Buenos Aires. |
| | Education: | Holds a degree in Mechanical Engineering from ITESM and an MBA from the Universidad de Monterrey. |
| Eulalio Cerda Delgadillo <i>Human Resources Officer</i> | Born: | July 1958 |
| | Joined: | 1996 |
| | Appointed to current position: | 2001 |
| | Business experience with us: | Manager, positions in several departments, including maintenance, projects, packaging and human resources. |
| | Other business experience: | At FEMSA Cerveza, served as New Projects Executive and worked in several departments including marketing, maintenance, packaging, bottling, human resources, technical development and projects. |
| | Education: | Holds a degree in Mechanical Engineering from ITESM. |
| John Anthony Santa María Otazúa <i>Chief Operating Officer - Mexico</i> | Born: | August 1957 |
| | Joined: | 1995 |
| | Appointed to current position: | 2003 |
| | Business experience with us: | Has served as Strategic Planning and Business Development Officer and Chief Operating Officer of Mexican operations. He has experience in several areas of the |

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| | company, namely development of new products and mergers and acquisitions. |
| Other business experience: | Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management. |
| Education: | Holds a degree in Business Administration and an MBA with a major in Finance from Southern Methodist University. |

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| <p>Ernesto Silva Almaguer <i>Chief Operating Officer - Mercosur</i></p> | <p>Born: Joined: Appointed to current position: Business experience with us:</p> | <p>March 1953 1996 2003 Chief Operating Officer in Buenos Aires and New Business Development and Information Technology Director.</p> |
| | <p>Other business experience:</p> | <p>Has worked as General Director of packaging subsidiaries of FEMSA (Famosa and Quimiproducos), served as Vice President of International Sales at FEMSA Empaques and Manager of FEMSA's Corporate Planning and held several positions at the Grupo Industrial ALFA.</p> |
| | <p>Education:</p> | <p>Holds a degree in Mechanical and Administrative Engineering from Universidad Autónoma de Nuevo León and an MBA from the University of Texas at Austin.</p> |
| <p>Hermilo Zuart Ruíz <i>Chief Operating Officer Latin Centro</i></p> | <p>Born: Joined: Appointed to current position: Business experience with us:</p> | <p>March 1949 1992 2003 Chief Operating Officer in the Valley of Mexico, Chief Operating Officer in the Southeast Mexico.</p> |

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| Other business experience: | Has undertaken several responsibilities in the manufacturing, commercialization, planning and administrative areas of FEMSA: Franquicias Officer, mainly in charge of <i>Mundet</i> products. |
| Education: | Holds a degree in Public Accounting from UNAM and completed a graduate course in Business Management from IPADE. |

(1) See Directors.

Compensation of Directors and Officers

For the year ended December 31, 2005, the aggregate compensation of all of our executive officers paid or accrued for services in all capacities was approximately Ps. 125 million, of which approximately Ps. 57 million was paid in the form of cash bonus awards. The aggregate compensation amount also includes bonuses paid to certain of our executive officers pursuant to our stock incentive plan. See *Stock Incentive Plan* and *EVA-Based Stock Incentive Plan*.

The aggregate compensation for directors during 2005 was Ps. 4.3 million. For each meeting attended, we paid US\$ 4,000 to each director in 2005. We paid US\$ 15,000 per year to each of the members of the Audit Committee and Ps. 7,000 per meeting attended to each of the members of the Finance and Planning and the Evaluation and Compensation Committees.

Our senior management and executive officers participate in our benefit plan on the same basis as our other employees. Members of our board of directors do not participate in our benefit plans. As of December 31, 2005, amounts set aside or accrued for all employees under these retirement plans were Ps. 813 million, of which Ps. 298 million is already funded.

Stock Incentive Plan

Our bonus program for executive officers is based upon the accomplishment of certain critical success factors, established annually by management. The bonus is paid in cash the following year based on the accomplishment of these goals.

From 1999 to 2003, we instituted a compensation plan for certain key executives that consisted of granting them an annual bonus in cash to purchase FEMSA and Coca-Cola FEMSA stock or options, based on each executive's responsibilities within the organization and his or her performance. Executives receiving bonuses had access to the stocks granted to them in 20% increments in each of the five years following the granting of the bonus, beginning one year after they were granted. The five-year program ended in 2003, the last year shares were granted.

As of March 31, 2006, four administrative trusts, which administer the stock incentive plan, hold a total of 1,175,111 BD Units of FEMSA and 352,738 of our Series L Shares, each representing 0.098% and 0.019% of the total number of shares outstanding of FEMSA and of us, respectively.

EVA-Based Stock Incentive Plan

In 2004, we commenced a new three-year stock incentive plan for the benefit of our executive officers, which we refer to as the EVA Stock Incentive Plan. This new plan replaced the stock incentive plan described above and was developed using as the main metric for evaluation the Economic Value Added (or EVA) framework developed by Stern

Stewart & Co., a compensation consulting firm. Under the terms of the EVA Stock Incentive Plan, eligible executive officers are entitled to receive a special cash bonus, which will be used to purchase a stock grant.

Under this plan, each year our Chief Executive Officer, in conjunction with the Evaluation and Compensation Committee of our board of directors, determine the amount of the special cash bonus used to purchase the stock grant. This amount will be determined based on each executive officer's level of responsibility and based on the EVA generated by the relevant business units, Coca-Cola FEMSA and/or FEMSA.

We intend for the stock grants to be administered by certain trusts for the benefit of the selected executive officers. Under the proposed terms of the EVA Stock Incentive Plan, each time a special bonus is assigned to an executive officer, the executive officer will contribute the special bonus received to the administrative trust in exchange for a stock grant. Pursuant to the proposed plan, the administrative trust will acquire a specified proportion of publicly traded local shares of FEMSA and Series L Shares of Coca-Cola FEMSA on the Mexican Stock Exchange using the special bonus contributed by each executive officer. The ownership of the publicly traded local shares of FEMSA and the Series L Shares of Coca-Cola FEMSA will vest upon the executive officer holding a stock grant each year over the next five years following the date of receipt of the stock grant, at a rate per year equivalent to 20% of the number of the publicly traded local shares of FEMSA and Coca-Cola FEMSA Series L Shares.

As of March 31, 2006, the trust that manages the EVA Stock Incentive Plan, holds a total of 1,910,346 BD Units of FEMSA and 1,143,627 of our Series L Shares, each representing 0.16% and 0.06% of the total number of shares outstanding of FEMSA and of us, respectively.

Share Ownership

As of March 31, 2006, several of our directors and alternate directors serve on the technical committee as trust participants under the Irrevocable Trust No. 463 established at INVEX, S.A., Institución de Banca Múltiple, Invex Grupo Financiero, as Trustee, which is the owner of 71.75% of the voting stock of FEMSA, which in turn owns 45.7% of our outstanding capital stock. As a result of the technical committee's internal procedures, the technical committee as a whole is deemed to have beneficial ownership with sole voting power of all the shares deposited in the voting trust, and the trust participants, as technical committee members, are deemed to have beneficial ownership with shared voting power over those same deposited shares. These directors and alternate directors are Alfonso Garza Garza, Paulina Garza de Marroquin, Bárbara Garza de Braniff, Mariana Garza de Treviño, Max Michel Suberville and Eva Garza de Fernández... See Item 7. Major Shareholders and Related Party Transactions Major Shareholders. Our Honorary (non-voting) Life Chairman Eugenio Garza Lagüera is also a trust participant and technical committee member. None of our other directors, alternate directors or executive officers is the beneficial owner of more than 1% of any class of our capital stock.

Board Practices

Our bylaws state that the board of directors will meet at least four times a year, following the end of each quarter, to discuss our operating results and progress in achieving strategic objectives. Our board of directors can also hold extraordinary meetings. See Item 10. Additional Information Bylaws.

Under our bylaws, directors serve one-year terms although they continue in office until successors are appointed. None of the members of our board or senior management of our subsidiaries has service agreements providing for benefits upon termination of employment.

Our board of directors is supported by committees, which are working groups that analyze issues and provide recommendations to the board of directors regarding their respective areas of focus. The executive officers interact

periodically with the committees to address management issues. The following are the three committees of the board of directors:

1. *Finance and Planning Committee.* The Finance and Planning Committee works with the management to set annual and long-term strategic and financial plans of the company and monitors adherence to these plans. It is responsible for setting our optimal capital structure of the company and recommends the appropriate level of borrowing as well as the issuance of securities. Financial risk management is another responsibility of the Finance and Planning Committee. The members are Javier Astaburuaga

Sanjines, Irial Finan, Federico Reyes García, Ricardo Guajardo Touché and Enrique Senior. The Secretary of the Finance and Planning Committee is Hector Treviño Gutiérrez, our Chief Financial Officer.

2. *Audit Committee.* The Audit Committee is responsible for reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee. The Audit Committee has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters. To carry out its duties, the Audit Committee may hire independent counsel and other advisors. As necessary, the company compensates the independent auditor and any outside advisor hired by the Audit Committee and provides funding for ordinary administrative expenses incurred by the Audit Committee in the course of its duties. Alexis E. Rovzar de la Torre is the President of the Audit Committee. The additional members include: Charles H. McTier, José Manuel Canal Hernando and Francisco Zambrano Rodríguez. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Market Law and applicable New York Stock Exchange listing standards. The Secretary of the Audit Committee is José González Ornelas, head of FEMSA's internal audit area.

3. *Evaluation and Compensation Committee.* The Evaluation and Compensation Committee, or Human Resources Committee, reviews and recommends the management compensation programs to ensure that they are aligned with shareholders' interests and corporate performance. The Evaluation and Compensation Committee is also responsible for identifying suitable director and senior management candidates and setting their compensation levels. It also develops evaluation objectives for the Chief Executive Officer and assesses his performance and remuneration in relation to these objectives. The members of the Evaluation and Compensation Committee are Daniel Servitje Montul, Gary Fayard, Alfonso Garza Garza and Alfonso González Migoya. The Secretary of the Evaluation and Compensation Committee is Eulalio Cerda Delgadillo, head of Coca-Cola FEMSA's human resources department.

Employees

As of December 31, 2005, our headcount was as follows: 25,023 in Mexico, 5,275 in Central America, 7,984 in Colombia, 7,339 in Venezuela, 6,765 in Brazil and 3,249 in Argentina. We include in headcount employees of third party distributors who we do not consider to be our employees. The table below sets forth headcount by category for the periods indicated:

| | As of December 31, | | |
|---------------------------------------|---------------------------|-------------|-------------|
| | 2005 | 2004 | 2003 |
| Executives | 427 | 427 | 337 |
| Non-union | 15,784 | 15,409 | 15,032 |
| Union | 23,003 | 23,590 | 24,342 |
| Employees of third party distributors | 16,421 | 16,812 | 17,130 |
| Total | 55,635 | 56,238 | 56,841 |

As of December 31, 2005, approximately 60% of our employees, most of whom were employed in Mexico, were members of labor unions. We had 95 separate collective bargaining agreements with 31 labor unions. In general, we have a good relationship with the labor unions throughout our operations, except in Colombia and Venezuela, which are the subjects of significant labor-related litigation. See Item 8. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings. We believe we have appropriate reserves for these litigation proceedings and do not currently expect them to have a material adverse effect.

Insurance Policies

We maintain insurance policies for all employees. These policies mitigate the risk of having to pay death benefits in the event of an industrial accident. We maintain directors and officers insurance policies covering all directors and certain key executive officers for liabilities incurred in their capacities as directors and officers.

Item 7. Major Shareholders and Related Party Transactions**MAJOR SHAREHOLDERS**

Our capital stock consists of three classes of securities: Series A Shares held by FEMSA, Series D Shares held by The Coca-Cola Company and Series L Shares held by the public. The following table sets forth our major shareholders as of March 31, 2006:

| <u>Owner</u> | Outstanding Capital Stock | Percentage Ownership of Outstanding Capital Stock | Percentage of Voting Rights |
|--|--------------------------------------|--|--|
| FEMSA (Series A Shares) ⁽¹⁾ | 844,078,519 | 45.7 | 53.6 |
| The Coca-Cola Company (Series D Shares) ⁽²⁾ | 731,545,678 | 39.6 | 46.4 |
| Public (Series L Shares) ⁽³⁾ | 270,906,004 | 14.7 | - |
| Total | 1,846,530,201 | 100.0 | 100.0 |

- (1) FEMSA owns these shares through its wholly-owned subsidiary Compañía Internacional de Bebidas, S.A. de C.V., which we refer to in this annual report as CIBSA. 71.75% of the voting stock of FEMSA is owned by the technical committee and trust participants under Irrevocable Trust No. 463 established at Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero, as Trustee. As a consequence of the technical committee's internal procedures, the technical committee, as a whole, is deemed to have beneficial ownership with sole voting power of all the shares deposited in the voting trust and the following trust participants, as technical committee members, are deemed to have beneficial ownership with shared voting power over those same deposited shares: BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/25078-7 (controlled by Max Michel Suberville), Eugenio Garza Lagüera, Paulina Garza de Marroquín, Bárbara Garza de Braniff, Mariana Garza de Treviño, Eva Gonda Rivera, Eva Garza de Fernández, Consuelo Garza Lagüera, Alfonso Garza Garza, Patricio Garza Garza, Juan Carlos Garza Garza, Eduardo Garza Garza, Eugenio Garza Garza, Alberto Bailleres Gonzalez, Maria Teresa Gual Aspe, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by Eugenio Garza Lagüera), Corbal, S.A. de C.V. (controlled by Alberto Bailleres Gonzalez), Magdalena Michel de David, Alepage, S.A. (controlled by Consuelo Garza Lagüera), BBVA Bancomer Servicios, S.A. as Trustee under Trust No. F/29013-0 (controlled by the estate of José Calderón Ayala, late father of Francisco José Calderón Rojas), Max Michel Suberville, Max David Michel, Juan David Michel, Monique David de VanLathem, Renee Michel de Guichard, Magdalena Guichard Michel, Rene Guichard Michel, Miguel Guichard Michel, Graciano Guichard Michel, Juan Guichard Michel, Franca Servicios, S.A. de C.V. (controlled by the estate of José Calderón Ayala, late father of Francisco José Calderón Rojas) and BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres).
- (2) The Coca-Cola Company indirectly owns these shares through its wholly-owned subsidiaries, The Inmex Corporation, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V.
- (3) Holders of Series L Shares are only entitled to vote in limited circumstances. See Item 10. Additional Information Bylaws. Holders of ADSs are entitled, subject to certain exceptions, to instruct The Bank of New York, a depositary, as to the exercise of the limited voting rights pertaining to the Series L Shares underlying their ADSs.

On March 8, 2006, our shareholders approved the non-cancellation of the 98,684,857 Series L Shares (equivalent to approximately 9.87 million ADSs) that were not subscribed for in a rights offering conducted in August 2004. These shares are held in treasury and are available for issuance in connection with future transactions and on terms and conditions determined by our Board of Directors at an issuance price of no less than US\$ 2.216 per share or its equivalent in Mexican currency.

FEMSA and The Coca-Cola Company have reached an agreement pursuant to which, at FEMSA's request, FEMSA may purchase sufficient shares from The Coca-Cola Company to increase its ownership of our capital stock to 51%. See Coca-Cola Memorandum.

Our Series A Shares, owned by FEMSA, are held in Mexico and our Series D Shares, owned by The Coca-Cola Company, are held outside of Mexico.

As of December 31, 2005, there were 23,601,418 of our ADSs outstanding, each ADS representing ten Series L Shares. Approximately 87% of our outstanding Series L Shares were represented by ADSs. As of March 31, 2006, approximately 85% of our outstanding Series L Shares were represented by ADSs, held by approximately 202 holders (including The Depository Trust Company) with registered addresses outside of Mexico.

The Shareholders Agreement

We operate pursuant to a shareholders agreement among two subsidiaries of FEMSA, The Coca-Cola Company and certain of its subsidiaries. This agreement, together with our bylaws, sets forth the basic rules under which we operate.

The shareholders agreement contemplates that we will be managed in accordance with one-year and five-year business plans, although in practice, we are now managed according to a three-year plan.

Under our bylaws, our Series A Shares and Series D Shares are the only shares with full voting rights and, therefore, control actions by our shareholders and board of directors. The holders of Series A Shares and Series D Shares have the power to determine the outcome of all actions requiring approval by our board of directors and, except in certain limited situations, all actions requiring approval of the shareholders. For actions by the board of directors, a supermajority including the directors appointed by the holders of Series D Shares is required for all actions. For shareholder actions, a majority of the shares represented at the shareholder meeting must vote in favor, whereas to amend the voting or quorum rights set out in the bylaws, a supermajority of at least 95% of those voting and not abstaining, must vote in favor.

The shareholders agreement sets forth the principal shareholders' understanding as to the effect of adverse actions of The Coca-Cola Company under the bottler agreements. Our bylaws provide that a majority of the directors appointed by the holders of Series A Shares, upon making a reasonable, good faith determination that any action of The Coca-Cola Company under any bottler agreement between The Coca-Cola Company and our company or any of our subsidiaries is materially adverse to our business interests and that The Coca-Cola Company has failed to cure such action within 60 days of notice, may declare a simple majority period at any time within 90 days after giving notice. During the simple majority period certain decisions, namely the approval of material changes in our business plans, the introduction of a new, or termination of an existing, line of business, and related party transactions outside the ordinary course of business, which would ordinarily require the presence and approval of at least two Series D directors, can be made by a simple majority vote of our entire board of directors, without requiring the presence or approval of any Series D director. A majority of the Series A directors may terminate a simple majority period but, once having done so, cannot declare another simple majority period for one year after the termination. If a simple majority period persists for one year or more, the provisions of the shareholders agreement for resolution of irreconcilable differences may be triggered, with the consequences outlined in the following paragraph.

In addition to the rights of first refusal provided for in our bylaws regarding proposed transfers of Series A Shares or Series D Shares, the shareholders agreement contemplates three circumstances under which one principal shareholder may purchase the interest of the other in our company: (1) a change in control in a principal shareholder; (2) the existence of irreconcilable differences between the principal shareholders; or (3) the occurrence of certain specified defaults.

In the event that (1) one of the principal shareholders buys the other's interest in our company in any of the circumstances described above or (2) the ownership of our shares of capital stock other than the Series L Shares of the subsidiaries of The Coca-Cola Company or FEMSA is reduced below 20% and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement requires that our bylaws be amended to eliminate all share transfer restrictions and all super-majority voting and quorum requirements, after which the shareholders agreement would terminate. In the event that the ownership of our shares of capital stock other than the Series L Shares of the subsidiaries of The Coca-Cola Company or FEMSA is reduced below 25% (but not below 20%) and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement requires that our bylaws be amended to eliminate all super-majority voting and quorum requirements, other than those relating to the share transfer restrictions.

The shareholders agreement also contains provisions relating to the principal shareholders' understanding as to our growth. It states that it is The Coca-Cola Company's intention that we will be viewed as one of a small number of its anchor bottlers in Latin America. In particular, the parties agree that it is desirable that we expand by acquiring additional bottler territories in Mexico and other Latin American countries in the event any become available through horizontal growth. In addition, The Coca-Cola Company has agreed, subject to a number of conditions, that if it

obtains ownership of a bottler territory that fits with our operations, it will give us the option to acquire such territory. The Coca-Cola Company has also agreed to support prudent and sound modifications to our capital structure to support horizontal growth. The Coca-Cola Company's agreement as to horizontal growth expires upon either the elimination of the super-majority voting requirements described above or The Coca-Cola Company's election to terminate the agreement as a result of a default.

The Coca-Cola Memorandum

In connection with the acquisition of Panamco, we established certain understandings primarily relating to operational and business issues with both The Coca-Cola Company and FEMSA that were memorialized in writing prior to completion of the acquisition. The terms are as follows:

- The current stockholder arrangements between FEMSA and The Coca-Cola Company will continue in place. See The Shareholders Agreement.
- FEMSA will continue to consolidate our financial results.
- The Coca-Cola Company and FEMSA will continue to discuss in good faith the possibility of implementing changes to our capital structure in the future.
- There will be no changes in concentrate incidence pricing or marketing support by The Coca-Cola Company up to May 2004. After such time, The Coca-Cola Company has complete discretion to implement any changes with respect to these matters, but any decision in this regard will be discussed with us and will take our operating condition into consideration.
- The Coca-Cola Company may require the establishment of a different long-term strategy for Brazil. If, after taking into account our performance in Brazil, The Coca-Cola Company does not consider us to be part of this long-term strategic solution for Brazil, then we will sell our Brazilian franchise to The Coca-Cola Company or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures.
- FEMSA, The Coca-Cola Company and we will meet to discuss the optimal Latin American territorial configuration for the Coca-Cola bottler system. During this meeting, we will consider all possible combinations and any asset swap transactions that may arise from these discussions. In addition, we will entertain any potential combination as long as it is strategically sound and done at fair market value.
- We would like to keep open strategic alternatives that relate to the integration of carbonated soft drinks and beer. The Coca-Cola Company, FEMSA and us would explore these alternatives on a market-by-market basis at the appropriate time.
- The Coca-Cola Company will sell to a subsidiary of FEMSA, sufficient shares to permit FEMSA to beneficially own 51% of our outstanding capital stock (assuming that this subsidiary of FEMSA does not sell any shares and that there are no issuances of our stock other than as contemplated by the acquisition). This understanding will be in place until May 2006. In this proposed sale, FEMSA would pay the higher of:

The prevailing market price per share at the time of the sale, and

The sum of US\$ 2.216 per share (US\$ 22.16 per ADS) plus The Coca-Cola Company's carrying costs.

- We may be entering some markets where significant infrastructure investment may be required. The Coca-Cola Company and FEMSA will conduct a joint study that will outline strategies for these markets, as well as the investment levels required to execute these strategies. Subsequently, it is intended that FEMSA and The Coca-Cola Company will reach agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome for either

partner.

- We entered into a stand-by credit facility, on December 19, 2003, with The Coca-Cola Export Corporation. Under this facility, we may borrow, subject to certain conditions, up to US\$ 250 million for working capital and other general corporate purposes at any time when such funding is not otherwise available until December 2006.

RELATED PARTY TRANSACTIONS

FEMSA

We regularly engage in transactions with FEMSA and its subsidiaries. We believe that our transactions with FEMSA and its subsidiaries are on terms comparable to those that would result from arm's length negotiations with unaffiliated parties and are reviewed by our Audit Committee.

We purchase crown caps, plastic bottle caps, cans, commercial coolers, lubricants, detergents, plastic cases and substantially all of our returnable glass bottle requirements for our Mexican operations from subsidiaries of FEMSA under several supply agreements. A subsidiary of FEMSA also sells coolers to our non-Mexican operations. The aggregate amount of these purchases was Ps. 1,302 million, Ps. 1,238 million and Ps. 1,681 million in 2005, 2004 and 2003, respectively.

We also sell products to a chain of convenience stores owned by FEMSA under the name OXXO. The aggregate amount of these sales was Ps. 593 million, Ps. 269 million and Ps. 165 million in 2005, 2004 and 2003, respectively.

In November 2000, we entered into a service agreement with a subsidiary of FEMSA for the transportation of finished products from our production facilities to our distribution centers within Mexico. In 2004, this subsidiary also provided consulting services to some of our non-Mexican operations. Pursuant to the agreement, we paid approximately Ps. 749 million, Ps. 685 million and Ps. 455 million in 2005, 2004 and 2003, respectively. See Item 4. Information on the Company The Company Product Distribution.

We entered into a service agreement in June 1993 with another subsidiary of FEMSA, pursuant to which it provides certain administrative services relating to insurance, legal and tax advice, relations with governmental authorities and certain administrative and auditing services.

In November 2001, we entered into two franchise bottler agreements with Promotora de Marcas Nacionales, an indirect subsidiary of FEMSA, under which we became the sole franchisee for the production, bottling, distribution and sale of *Mundet* brands in the valley of Mexico and in most of our operations in southeast Mexico. Each franchise agreement has a term of ten years and will expire in November 2011. Both agreements are renewable for ten-year terms, subject to non-renewal by either party with notice to the other party. The total payments made under these agreements were Ps. 109 million, Ps. 78 million and Ps. 90 million in 2005, 2004 and 2003, respectively.

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

FEMSA is also a party to the understandings we have with The Coca-Cola Company relating to specified operational and business issues that may affect us following completion of the Panamco acquisition. A summary of these understandings is set forth under Major Shareholders The Coca-Cola Memorandum.

The Coca-Cola Company

We regularly engage in transactions with The Coca-Cola Company and their affiliates. We purchase all of our concentrate requirements for *Coca-Cola* trademark beverages from The Coca-Cola Company. Total payments by us to The Coca-Cola Company for concentrates were approximately Ps. 7,763 million, Ps. 7,221 million and Ps. 6,069 million in 2005, 2004 and 2003, respectively. Our company and The Coca-Cola Company pay and reimburse each

other for marketing expenditures. The Coca-Cola Company also contributes to our refrigeration equipment investment program. We received contributions to our marketing expenses, which includes the refrigeration equipment investment program, of Ps. 952 million, Ps. 958 million and Ps. 1,307 million in 2005, 2004 and 2003, respectively.

In Argentina, we purchase a portion of our plastic ingot requirements for producing plastic bottles and all of our returnable bottle requirements from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina S.A., a *Coca-Cola* bottler with operations in Argentina, Chile and Brazil in which The Coca-Cola Company has a substantial interest.

In connection with the acquisition of Panamco, subsidiaries of The Coca-Cola Company made specified undertakings to support and facilitate the Panamco acquisition for the benefit of our company. In consideration for these undertakings, we made certain undertakings for the benefit of The Coca-Cola Company and its subsidiaries, including indemnity obligations with respect to specified matters relating to the accuracy of disclosure and the compliance with applicable law by our board of directors and the board of directors of Panamco and undertakings to take specified actions and refrain from specified others to facilitate the ability of The Coca-Cola Company to receive favorable tax treatment in connection with its participation in the acquisition. In connection with the execution of the acquisition agreement for Panamco, The Coca-Cola Company and FEMSA memorialized their understandings relating to specified operational and business issues that may affect us following completion of the acquisition. A summary of these understandings is set forth under **Major Shareholders** The Coca-Cola Memorandum.

Associated Companies

We regularly engage in transactions with companies in which we own an equity interest. We believe these transactions are on terms comparable to those that would result from arm's length negotiations with unaffiliated third parties.

In Mexico, we purchase finished products in cans from Industria Envasadora de Querétaro, S.A. de C.V., or IEQSA, a joint venture with *Coca-Cola bottlers in Mexico* in which we hold an approximate 33.68% interest. We paid IEQSA Ps. 530 million, Ps. 455 million and Ps. 278 million in 2005, 2004 and 2003, respectively. IEQSA purchases cans from FEMSA. We also purchase sugar from Beta San Miguel, a sugar-cane producer in which we hold a 2.54% equity interest to which we paid Ps. 575 million, Ps. 946 million and Ps. 240 million in 2005, 2004, and 2003 respectively. In Argentina, we purchase our can presentations from CICAN, a joint venture with *Coca-Cola* bottlers in Argentina, Uruguay and Paraguay, in which we own a 48.1% interest. We paid CICAN Ps. 60 million, Ps. 31 million and Ps. 24 million in 2005, 2004 and 2003, respectively. In Colombia, we purchase pre-formed ingots from Tapón Corona, in which we had a 40% equity interest until June 2005 and to which we paid Ps. 113 million, Ps. 206 million and Ps. 125 million in 2005, 2004, and 2003 respectively. We also buy a small quantity of raw materials from Distribuidora Plástica, S.A., Metalforma, S.A. and Vidrios Panameños, S.A. of which we own a 33.3%, 31.0% and 6.84% equity interest, respectively.

In Mexico, during the second half of 2005, we began to sell some product to Compañía de Servicios de Bebidas Refrescantes, S.A. de C.V., a joint venture among Coca-Cola bottlers in Mexico and The Coca-Cola Company, in which we hold an approximate 26.0% interest, to offer a more complete portfolio of non-carbonated beverages to supermarkets and convenience stores. We sold approximately Ps. 31 million through this joint venture in 2005.

Other Related Party Transactions

José Antonio Fernández, Eva Garza de Fernández and Ricardo Guajardo Touché, who are directors of Coca-Cola FEMSA, are also members of the board of directors of ITESM, a Mexican private university that routinely receives donations from us.

In connection with the acquisition of Panamco, we hired Allen & Company LLC to provide advisory services. One of our directors, Enrique Senior, is a Managing Director of Allen & Company LLC and one of our alternate directors, Herbert Allen III, is the President of Allen & Company LLC. Allen & Company LLC provides investment banking services to us and our affiliates in the ordinary course of its business.

We are insured in Mexico primarily under FEMSA's umbrella insurance policies with Grupo Nacional Provincial S.A., of which the son of the chairman of its board of directors is one of our alternate directors. The policies were purchased pursuant to a competitive bidding process.

On June 8, 2004, a group of Brazilian investors, among them José Luis Cutrale, a member of our board of directors, made a capital contribution equivalent to approximately US\$ 50 million to our Brazilian operations in exchange for a 16.9% equity stake in these operations. See Item 6. Directors, Senior Management and Employees Directors.

Item 8. Financial Information**CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION****Consolidated Financial Statements**

See Item 18. Financial Statements and pages F-1 through F-39.

Dividend Policy

For a discussion of our dividend policy, see Item 3. Key Information Dividends and Dividend Policy.

Significant Changes

No significant changes have occurred since the date of the annual financial statements included in this annual report.

Legal Proceedings

We are party to various legal proceedings in the ordinary course of business. Other than as disclosed in this annual report, we are not currently involved in any litigation or arbitration proceeding, including any proceeding that is pending or threatened of which we are aware, which we believe will have, or has had, a material adverse effect on our company. Other legal proceedings that are pending against or involve us and our subsidiaries are incidental to the conduct of our and their business. We believe that the ultimate disposition of such other proceedings individually or in an aggregate basis will not have a material adverse effect on our consolidated financial condition or results of operations.

Mexico

Tax Matters. During 2002 and 2003, we initiated two *juicios de amparo* (appeals based on the violation of constitutional rights) related to the *Impuesto Especial Sobre Productos y Servicios* (Special Tax on Products and Services, or IEPS). The 2002 appeal related to the IEPS applicable to inventories in Mexico produced with high fructose corn syrup and the 2003 appeal related to the IEPS applicable to all carbonated soft drinks in Mexico produced with non-sugar sweeteners. In November 2003, we obtained a final favorable decision not subject to appeal from a Mexican federal court for our 2002 appeal and in June 2004 for our 2003 appeal. During 2004 and 2005, we did not pay IEPS in any of our Mexican operations, and we have already received from the authorities a reimbursement of the IEPS paid during 2002 and 2003, including accrued interest.

In April 2004, the Mexican Supreme Court of Justice issued a ruling with respect to rules previously issued by the Mexican Ministry of Finance regarding tax deductions of certain assets in the beverage industry, such as coolers. This ruling requires these assets to be treated as fixed assets with finite useful lives. We had previously considered coolers as an expense for tax purposes. This change of criteria had no effect on net income since the difference between the carrying value and tax basis of the coolers was recorded as a deferred income tax liability in prior years. Tax payments in connection with this change in criteria resulted in a charge to income in 2004 in the amount of Ps. 144 million. During March 2005, the tax authorities reviewed the payments in connection with this change in criteria, which resulted in an additional charge to income of Ps. 121 million.

Antitrust Matters. During 2000, the *Comisión Federal de Competencia* in Mexico (the Mexican Antitrust Commission), pursuant to complaints filed by PepsiCo. and certain of its bottlers in Mexico, started an investigation

of The Coca-Cola Company and its bottlers. Later in 2000, the Mexican Antitrust Commission alleged, and in 2002, determined that Coca-Cola bottlers engaged in monopolistic practices through exclusivity arrangements with certain retailers. The Mexican Antitrust Commission did not impose any fines, but ordered Coca-Cola bottlers, including certain of our Mexican subsidiaries, to abstain from entering into any exclusivity arrangement with retailers that stock soft drink bottles of up to 2.0 -liters. We, along with other *Coca-Cola* bottlers, appealed the resolution rendered in February 2002 by a *Recurso de Reconsideración* (Review Recourse), which was presented before the Mexican Antitrust Commission. The Mexican Antitrust Commission confirmed its original determination and issued a confirmatory resolution in July 2002. We and our Mexican operating subsidiaries appealed this resolution before a Mexican federal court by initiating several *juicios de amparo* (appeals based on the violation of constitutional rights) and obtained favorable final decisions

not subject to appeal. Under these judicial decisions, the resolution was declared null and void and the Mexican Antitrust Commission was ordered to issue a new resolution.

In August 2005, the Mexican Antitrust Commission issued a new resolution whereby it determined that: (1) we engaged in monopolistic practices consisting in the sale of carbonated drinks conditioned on restricting sales of any other brands of carbonated drinks offered by a third party in the relevant market and ordered us to abstain from engaging in such practices and (2) a fine of Ps. 63.2 million was imposed. We and our Mexican operating subsidiaries filed *amparo* proceedings challenging the resolution, which are currently under review. Hearings are expected to take place in April 2006. We believe the resolution is without merit and intend to defend ourselves in this matter.

In March 2003, in a separate proceeding, the Mexican Antitrust Commission started an investigation involving The Coca-Cola Company, Coca-Cola FEMSA and certain other Coca-Cola bottlers due to complaints filed by some retailers and other bottlers. In September 2003, the Mexican Antitrust Commission requested certain Coca-Cola bottlers, including some of our Mexican subsidiaries, to provide information. We initiated *amparo* proceedings, and a Mexican federal court issued a final ruling that the requests for information were unconstitutional. In August 2004, however, as a result of the investigation, the Mexican Antitrust Commission issued several *Oficios de Presunta Responsabilidad* (statement of charges) asserting that our company and its Mexican operating subsidiaries, as well as other bottlers, engaged in monopolistic practices and requested additional information. We initiated *amparo* proceedings asserting the illegality of these requests, which are currently under review. In July 2005, the Mexican Antitrust Commission issued a resolution that determined we engaged in certain monopolistic practices and ordered us to abstain from incurring in such practices and imposed a fine of Ps. 63.2 million. We initiated *amparo* proceedings against such first instance resolution, which are currently under review. We believe the resolution is without merit and intend to defend ourselves in this matter.

Central America

Antitrust Matters in Costa Rica. During August 2001, the *Comisión para Promover la Competencia* in Costa Rica (Costa Rican Antitrust Commission) pursuant to a complaint filed by PepsiCo. and its bottler in Costa Rica initiated an investigation of the sales practices of The Coca-Cola Company and our Costa Rican subsidiary for alleged monopolistic practices in retail distribution, including sales exclusivity arrangements. A ruling from the Costa Rican Antitrust Commission was issued in July 2004, which found the company engaged in monopolistic practices with respect to exclusivity arrangements, pricing and the sharing of refrigeration equipment under certain limited circumstances and imposed an US\$ 130,000 fine. Our appeal of the Costa Rican Antitrust Commission's ruling was recently dismissed. We have filed judicial proceedings challenging the ruling of the Costa Rican Antitrust Commission and the process is still pending in court. We do not believe that this matter will have a material adverse effect on our financial condition or results of operations.

In November, 2004, *Ajecen del Sur S.A.*, the bottler of Big Cola in Costa Rica, filed a complaint before the Costa Rican Antitrust Commission related to monopolistic practices in retail distribution and exclusivity agreements against The Coca-Cola Company and our Costa Rican subsidiary. The Costa Rican Antitrust Commission has decided to pursue an investigation. We are currently awaiting notice of a hearing after which a formal investigation may be initiated. We are undertaking the necessary measures to defend ourselves in this new process.

Tax Matters in Costa Rica. In September 2004, our Costa Rican subsidiary received notice of certain tax claims asserted by the Costa Rican tax authorities to pay taxes on sales of carbonated soft drinks from April 2002 through July 2003. These claims currently total approximately US\$ 12 million. In previous years, our Costa Rican subsidiary had been required to pay similar taxes, however, due to the favorable final decisions on the appeals that we filed, we were not required to pay these taxes. Legal actions have been initiated against the current assessment by the Costa Rican tax authorities and are currently under review. We believe this assessment is without merit.

Colombia

Labor Matters. During July 2001, a labor union and several individuals from the Republic of Colombia filed a lawsuit in the U.S. District Court for the Southern District of Florida against certain of our subsidiaries. In the complaint, the plaintiffs alleged that the subsidiaries of the company acquired in the Panamco acquisition engaged in wrongful acts against the labor union and its members in Colombia, including kidnapping, torture, death threats and intimidation. The complaint alleges claims under the U.S. Alien Tort Claims Act, Torture Victim Protection Act, Racketeer Influenced and

Corrupt Organizations Act and state tort law and seeks injunctive and declaratory relief and damages of more than US\$ 500 million, including treble and punitive damages and the cost of the suit, including attorney fees. We filed a motion to dismiss the complaint for lack of subject matter and personal jurisdiction. The court denied the motion to dismiss for lack of subject matter jurisdiction but has not ruled on the personal jurisdiction motion, subject to further clarification from the parties. This motion is therefore still pending. We believe this lawsuit is without merit and intend to defend ourselves in this matter.

Venezuela

Tax Matters. In 1999, certain of our Venezuelan subsidiaries received notice of certain tax claims asserted by the Venezuelan tax authorities. These subsidiaries have taken the appropriate recourses against these claims at the administrative level as well as at the court level in Venezuela. The claims currently total approximately US\$ 15.6 million. The company has certain rights to indemnification from Venbottling Holding, Inc., a former shareholder of Panamco and The Coca-Cola Company, for a substantial portion of the claims. Based on the analysis that we have completed in relation to these claims, as well as the defense strategy that we have developed, we do not believe that the ultimate disposition of these cases will have a material adverse effect on our financial condition or results of operations.

Labor and Distribution Matters. Since 2001, our Venezuelan subsidiaries have been the subject of more than 350 claims and lawsuits by former independent distributors claiming alleged labor and severance rights owed to them at the time of the termination of their relationship with us. As of December 31, 2005, of the total amounts claimed by the former distributors of our Venezuela subsidiary were approximately US\$ 14.8 million. Notwithstanding the number of claims and the amounts involved, most of these claims have been filed by former distributors that either entered into release agreements with our subsidiaries at the time of their termination, and therefore we believe have no rights for additional claims, or are claims that were filed after the expiration of the statute of limitations.

Brazil

Antitrust Matters. Several claims have been filed against us by private parties, which are currently pending before the Brazilian Ministry of Law and Economics that allege anticompetitive practices by our Brazilian subsidiaries. The plaintiffs are Ragi (Dolly), a Brazilian producer of B Brands, and PepsiCo. Under Brazilian law, each of these claims could result in substantial monetary fines and other penalties. We believe each of the claims is without merit, and we intend to defend ourselves in these matters. In June 2005, the claim previously filed by Serv Lar, a distributor of our products in Brazil, alleging anticompetitive practices, was resolved in our favor by the Brazilian authorities.

Item 9. The Offer and Listing**TRADING MARKETS**

The following table sets forth, for the periods indicated, the reported high and low sale prices for the Series L Shares on the Mexican Stock Exchange and the reported high and low sale prices for the ADSs on the New York Stock Exchange:

| | Mexican Stock Exchange Mexican pesos per Series L Share | | New York Stock Exchange U.S. dollars per ADS | |
|----------------|--|--------------------|---|------------------------|
| | High ⁽¹⁾ | Low ⁽¹⁾ | High ^{(1) (2)} | Low ^{(1) (2)} |
| 2001: | | | | |
| Full year | Ps. 23.15 | Ps. 16.54 | \$ 25.31 | \$ 17.40 |
| 2002: | | | | |
| Full year | Ps. 27.60 | Ps. 22.85 | \$ 29.70 | \$ 22.60 |
| 2003: | | | | |
| Full year | Ps. 24.60 | Ps. 18.30 | \$ 22.81 | \$ 16.64 |
| 2004: | | | | |
| First quarter | Ps. 27.49 | Ps. 24.00 | \$ 25.03 | \$ 21.03 |
| Second quarter | 27.30 | 23.50 | 24.57 | 20.41 |
| Third quarter | 25.93 | 22.28 | 22.61 | 19.48 |
| Fourth quarter | 26.62 | 22.41 | 23.83 | 19.93 |
| 2005: | | | | |
| First quarter | Ps. 29.71 | Ps. 25.06 | \$ 26.73 | \$ 22.44 |
| Second quarter | 28.56 | 24.76 | 26.71 | 22.34 |
| Third quarter | 30.44 | 28.06 | 28.65 | 26.00 |
| Fourth quarter | 30.50 | 26.63 | 28.04 | 25.00 |
| September | 30.44 | 27.66 | 28.40 | 26.00 |
| October | 30.50 | 27.66 | 28.04 | 25.71 |
| November | 28.40 | 26.63 | 26.65 | 25.00 |
| December | 29.40 | 26.68 | 27.32 | 25.59 |
| 2006: | | | | |
| January | Ps. 31.42 | Ps. 29.10 | \$ 29.91 | \$ 27.01 |
| February | 32.52 | 30.41 | 30.88 | 29.13 |
| March | 36.46 | 32.08 | 33.20 | 30.04 |

(1) High and low closing prices for the periods presented.

(2) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the Series L Shares on the last day of the periods presented based on the noon buying rates for Mexican pesos as published by the Federal Reserve Bank of New York on such date.

Since November 1, 1996, our 8.95% Notes due November 1, 2006 have been listed on the New York Stock Exchange. The following table sets forth, for the periods indicated, the reported high and low sale prices for the notes, as a percentage of principal amount, on the New York Stock Exchange:

| | New York Stock Exchange Percentage of Principal Amount in U.S. Dollars | |
|----------------|---|--------------------------|
| | High⁽¹⁾ | Low⁽¹⁾ |
| 2001: | | |
| Full year | \$112.25 | \$102.06 |
| 2002: | | |
| Full year | \$115.51 | \$110.14 |
| 2003: | | |
| Full year | \$118.50 | \$112.50 |
| 2004: | | |
| First quarter | \$115.75 | \$114.75 |
| Second quarter | 115.38 | 110.88 |
| Third quarter | 112.00 | 111.00 |
| Fourth quarter | 111.75 | 109.75 |
| 2005: | | |
| First quarter | \$109.88 | \$107.13 |
| Second quarter | 107.13 | 106.25 |
| Third quarter | 106.25 | 104.63 |
| Fourth quarter | 104.63 | 103.13 |
| September | 105.13 | 104.63 |
| October | 104.63 | 104.38 |
| November | 104.38 | 103.75 |
| December | 103.75 | 103.13 |
| 2006: | | |
| January | \$103.13 | \$103.00 |
| February | 103.00 | 102.75 |
| March | 102.75 | 102.75 |

(1) High and low closing prices for the periods presented

It is not practicable for us to determine the portion of the notes beneficially owned by U.S. persons.

TRADING ON THE MEXICAN STOCK EXCHANGE

The Mexican Stock Exchange or the *Bolsa Mexicana de Valores, S.A. de C.V.*, located in Mexico City, is the only stock exchange in Mexico. Founded in 1907, it is organized as a corporation, the shares of which are held by 30 brokerage firms that are exclusively authorized to trade on the Mexican Stock Exchange. Trading takes place principally through automated systems that are open between the hours of 8:30 a.m. and 3:00 p.m. Mexico City time, each business day. Trades in securities listed can also be effected off the Exchange. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the Series L Shares that are directly or indirectly (for example, through ADSs) quoted on a stock exchange outside of Mexico.

Settlement is effected two business days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the CNBV. Most securities traded on the Mexican Stock Exchange, including our shares, are on deposit with the *S.D. Indeval, S.A. de C.V., Instituto para el Depósito de Valores*, which we refer to as Indeval, a privately owned securities depository that acts as a clearinghouse for Mexican Stock Exchange transactions.

Item 10. Additional Information**BYLAWS**

The following is a summary of the material provisions of our bylaws and applicable Mexican law. For a description of the provisions of our bylaws relating to our board of directors, executive officers and statutory examiners, see Item 6. Directors, Senior Management and Employees.

On December 30, 2005, the New Mexican Securities Market Law (the "New Mexican Securities Law") was published, becoming effective 180 days after its publication. The New Mexican Securities Market Law includes provisions that seek to improve the regulation of disclosure of information, minority shareholder rights and corporate governance. In addition, the New Mexican Securities Law imposes further duties and liabilities on the members of the Board of Directors as well as on the relevant officers (such as a duty of loyalty and a duty of care). Likewise, under the New Mexican Securities Law we are required to adopt specific amendments to our bylaws within 180 days of the effective date of the new law. We currently expect the most significant of these amendments to relate to: (1) revising our corporate name to reflect that we have adopted a new corporate form called a Publicly Held Company (Sociedad Anónima Bursátil), (2) creating the Corporate Practices Committee, a new committee of our Board of Directors, which will consist exclusively of independent directors and (3) eliminating the role and responsibilities of the statutory examiner (Comisario), whose responsibilities will be assumed by the Board of Directors through the Audit Committee and the new Corporate Practices Committee, as well as by our external auditor. The following summary does not give effect to these amendments.

Organization and Register

We were incorporated on October 30, 1991, as a *sociedad anónima de capital variable* (Mexican variable stock corporation) in accordance with the Mexican General Corporations Law. We were registered in the Public Registry of Commerce of Mexico City on November 22, 1991 under mercantile number 2986.

Purposes

The purposes of our company include the following:

- to establish, promote and organize commercial or civil companies of any type, as well as to acquire and possess shares or participations in them;
- to carry out all types of active and passive transactions involving bonds, shares, participations and securities of any type;
- to provide or receive advisory, consulting or other types of services in business matters;
- to conduct business with equipment, raw materials and any other items necessary to the companies in which we have an interest or with which we have commercial relations;
- to acquire and dispose of trademarks, commercial names, copyrights, patents, inventions, franchises, distributions, concessions and processes;
- to possess and operate real and personal property necessary for our purposes;

- to subscribe, buy and sell stocks, bonds and securities among other things; and
- to draw, accept, make, endorse or guarantee negotiable instruments, issue bonds secured with real property or unsecured, and to make us jointly liable, to grant security of any type with regard to obligations entered into by us or by third parties, and in general, to perform the acts, enter into the agreements and carry out other transactions as may be necessary or conducive to our business purpose.

Voting Rights, Transfer Restrictions and Certain Minority Rights

Series A and Series D Shares have full voting rights but are subject to transfer restrictions. Although no Series B Shares have been issued, our bylaws provide for the issuance of Series B Shares with full voting rights that are freely transferable. Series L Shares are freely transferable but have limited voting rights. None of our shares are exchangeable for shares of a different series. The rights of all series of our capital stock are substantially identical except for:

restrictions on transfer of the Series A and Series D Shares;

- limitations on the voting rights of Series L Shares;
- the respective rights of the Series A, Series D and Series L Shares, voting as separate classes in a special meeting, to elect specified numbers of our directors and alternate directors; and
- prohibitions on non-Mexican ownership of Series A Shares. See Item 6. Directors, Senior Management and Employees, Foreign Investment Legislation and Transfer Restrictions.

Under our bylaws, holders of Series L Shares are entitled to vote only in limited circumstances. They may elect up to three of our eighteen directors and, in certain circumstances where holders of Series L Shares have not voted for the director elected by holders of the majority of these series of shares, they may be entitled to elect one or more additional directors. See Item 6. Directors, Senior Management and Employees.

A quorum of 82% of our subscribed and paid shares of capital stock (including the Series L Shares) and the vote of at least a majority of our capital stock voting (and not abstaining) is required for:

- the transformation of our company from one type of company to another (other than changing from a variable capital to fixed-capital corporation and vice versa);
- any merger where we are not the surviving entity or any merger with an entity whose principal corporate purposes are different from those of our company or our subsidiaries; and
- cancellation of the registration of our shares with the Mexican Registry of Securities, or RNV, maintained by the Mexican Securities and Banking Commission, or CNBV, or with other foreign stock exchanges on which our shares may be listed.

In the event of cancellation of the registration of any of our shares in the RNV, our bylaws require our controlling shareholders to make a public offer to acquire these shares, unless amended by (1) an affirmative vote of 95% of our capital stock (including the Series L Shares) and (2) the approval of the CNBV.

Holders of Series L Shares are not entitled to attend or to address meetings of shareholders at which they are not entitled to vote.

Under Mexican law, holders of shares of any series are entitled to vote as a class in a special meeting governed by the same rules that apply to extraordinary meetings on any action that would have an effect on the rights of holders of shares of such series. There are no procedures for determining whether a particular proposed shareholder action requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

In order to change any voting or quorum rights set out in the bylaws, the following is necessary: (1) a minimum quorum of holders of 95% of all the subscribed and paid shares of capital stock, the vote of holders of at least 95% of all the subscribed and paid shares of capital stock voting (and not abstaining) in connection therewith, and (2) the previous approval of the CNBV.

Pursuant to the Mexican Securities Market Law and the Mexican General Corporations Law, our bylaws include a number of minority shareholder protections. These minority protections include provisions that permit:

- holders of at least 10% of our outstanding capital stock entitled to vote (including in a limited or restricted manner) to call a shareholders meeting;
- holders of at least 15% of our outstanding capital stock to bring an action for civil liabilities against our directors, members of the audit committee and our statutory examiners if (1) the relevant shareholders shall have voted against exercising such action at the relevant shareholders meeting, (2) the claim covers all of the damage

- alleged to have been caused to us and not merely the damage suffered by the complaining shareholders and (3) any recovery is for our benefit and not the benefit of the complaining shareholders;
- holders of at least 10% of our outstanding capital stock who are entitled to vote at any shareholders meeting to request that resolutions with respect to any matter on which they were not sufficiently informed be postponed;
- holders of 20% of our outstanding capital stock to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote and file a petition for a court order to suspend the resolution temporarily within 15 days following the adjournment of the meeting at which the action was taken, provided that (1) the challenged resolution violates Mexican law or our bylaws, (2) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution and (3) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder;
- holders of at least 10% of our outstanding capital stock to appoint one member of our board of directors and one alternate member of our board of directors; and
- holders of at least 10% of our outstanding capital stock to appoint one statutory examiner and one alternate statutory examiner.

Shareholders Meetings

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary meetings are those called to consider certain matters specified in Article 182 of the Mexican General Corporations Law and our bylaws. These matters include: amendments to the bylaws, liquidation, dissolution, merger and transformation from one form of company to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. In addition, our bylaws require an extraordinary meeting to consider the cancellation of the registration of our shares with the RNV or with other foreign stock exchanges on which our shares may be listed. All other matters, including increases or decreases affecting the variable portion of our capital stock, are considered at an ordinary meeting.

An ordinary meeting of the holders of Series A and Series D Shares must be held at least once each year (1) to consider the approval of the financial statements of our and certain of our subsidiaries for the preceding fiscal year and (2) to determine the allocation of the profits of the preceding year.

Mexican law provides for a special meeting of shareholders to allow holders of shares of a series to vote as a class on any action that would prejudice exclusively the rights of holders of such series. Holders of Series A, Series D and Series L Shares at their respective special meetings must appoint, remove or ratify directors and statutory examiners, as well as determine their compensation.

The quorum for ordinary and extraordinary meetings at which holders of Series L Shares are not entitled to vote is 76% of the holders of subscribed and paid Series A and Series D Shares, and the quorum for an extraordinary meeting at which holders of Series L Shares are entitled to vote is 82% of the subscribed and paid shares of capital stock.

The quorum for special meetings of any series of shares is a majority of the holders of the subscribed and paid capital stock of such shares, and action may be taken by holders of a majority of such shares.

Resolutions adopted at an ordinary or extraordinary shareholders meeting are valid when adopted by holders of at least a majority of the subscribed and paid capital stock voting (and not abstaining) at the meeting. Resolutions

adopted at a special shareholders meetings are valid when adopted by the holders of at least a majority of the subscribed and paid shares of the series of shares entitled to attend the special meeting.

Shareholders meetings may be called by the board of directors, the statutory examiner and, under certain circumstances, a Mexican court. Holders of 10% or more of our capital stock may require the board of directors or the statutory examiners to call a shareholders meeting at which the holders of Series L Shares would be entitled to vote, and holders of 10% or more of the Series A and Series D Shares may require the board of directors or the statutory examiners

to call a meeting at which the holders of Series L Shares would not be entitled to vote. A notice of meeting and an agenda must be published in a newspaper of general circulation in Mexico City at least 15 days prior to the meeting. Notices must set forth the place, date and time of the meeting and the matters to be addressed and must be signed by

whomever convened the meeting. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice. To attend a meeting, shareholders must deposit their shares with the company or with Indeval or an institution for the deposit of securities prior to the meeting as indicated in the notice. If entitled to attend the meeting, a shareholder may be represented by an attorney-in-fact.

Additional Transfer Restrictions Applicable to Series A and Series D Shares

Our bylaws provide that no holder of Series A or Series D Shares may sell its shares unless it has disclosed the terms of the proposed sale and the name of the proposed buyer and has previously offered to sell the shares to the holders of the other series for the same price and terms as it intended to sell the shares to a third party. If the shareholders being offered shares do not choose to purchase the shares within 90 days of the offer, the selling shareholder is free to sell the shares to the third party at the price and under the specified terms. In addition, our bylaws impose certain procedures in connection with the pledge of any Series A or Series D Shares to any financial institution that are designed, among other things, to ensure that the pledged shares will be offered to the holders of the other series at market value prior to any foreclosure. Finally, a proposed transfer of Series A or Series D Shares other than a proposed sale or a pledge, or a change of control of a holder of Series A or Series D Shares that is a subsidiary of a principal shareholder, would trigger rights of first refusal to purchase the shares at market value. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.

Dividend Rights

At the annual ordinary meeting of holders of Series A and Series D Shares, the board of directors submits our financial statements for the previous fiscal year, together with a report thereon by the board and the report of the statutory examiner. Once the holders of Series A and Series D Shares have approved the financial statements, they determine the allocation of our net profits for the preceding year. Mexican law requires the allocation of at least 5% of net profits to a legal reserve, which is not subsequently available for distribution, until the amount of the legal reserve equals 20% of our capital stock. Thereafter, the holders of Series A and Series D Shares may determine and allocate a certain percentage of net profits to any general or special reserve, including a reserve for open-market purchases of our shares. The remainder of net profits is available for distribution in the form of dividends to the shareholders.

All shares outstanding and fully paid (including Series L Shares) at the time a dividend or other distribution is declared are entitled to share equally in the dividend or other distribution. No series of shares is entitled to a preferred dividend. Shares that are only partially paid participate in a dividend or other distributions in the same proportion that the shares have been paid at the time of the dividend or other distributions. Treasury shares are not entitled to dividends or other distributions. After ten years, dividend entitlement lapses in favor of the company.

Change in Capital and Withdrawal Rights

According to our bylaws, any change in our authorized capital stock requires a resolution of an extraordinary meeting of shareholders. We are permitted to issue shares constituting fixed capital and shares constituting variable capital. At present, all of the issued shares of our capital stock, including those Series B and Series L Shares that remain in our treasury, constitute fixed capital. The fixed portion of our capital stock may be increased or decreased only by amendment of our bylaws adopted by a resolution at an extraordinary meeting of the shareholders. The variable portion of our capital stock may be increased or decreased by resolution of an ordinary meeting of the shareholders without amending our bylaws.

A capital stock increase may be effected through the issuance of new shares for payment in cash or in kind, or by capitalization of indebtedness or of certain items of stockholders' equity.

Under Mexican law and our bylaws, the outstanding variable portion of our stock may be withdrawn at the holder's option at any time at a redemption price equal to the lower of:

- 95% of the average price per share quoted on the Mexican Stock Exchange during the 30 trading days prior to the date on which the withdrawal becomes effective; and
- the book value per share as calculated from our financial statements (as approved at the annual ordinary general shareholders meeting) for the fiscal year at the end of which the withdrawal becomes effective.

Shareholders exercising their withdrawal rights can request reimbursement by us on the day following the ordinary shareholders meeting at which the financial statements referred to above are approved. If this option is exercised during the first three quarters of a fiscal year, it is effective at the end of that fiscal year, but if it is exercised during the fourth quarter, it is effective at the end of the next succeeding fiscal year. The redemption price would be payable following the ordinary meeting at which the relevant annual financial statements are approved.

Because our fixed capital cannot be withdrawn, requests for withdrawals are satisfied only to the extent of the available variable capital and in the order in which they are received. Requests that are received simultaneously are fulfilled pro rata to the extent of the available variable capital.

Preemptive Rights

Under Mexican law, except in limited circumstances (including mergers, sales of repurchased shares, conversion into shares of convertible securities and issuances under Article 81 of the Mexican Securities Market Law, which is described below), in the event of an increase in our capital stock, a holder of record generally has the right to subscribe to shares of a series held by such holder sufficient to maintain such holder's existing proportionate holding of shares of that series. Preemptive rights must be exercised during a term fixed by the shareholders at the meeting declaring the capital increase, which term must last at least 15 days following the publication of notice of the capital increase in the Official State Gazette. As a result of applicable United States securities laws, holders of ADSs may be restricted in their ability to participate in the exercise of preemptive rights under the terms of the deposit agreement. Shares subject to a preemptive rights offering, with respect to which preemptive rights have not been exercised, may be sold by us to third parties on the same terms and conditions previously approved by the shareholders or the board of directors. Under Mexican law, preemptive rights cannot be waived in advance or be assigned, or be represented by an instrument that is negotiable separately from the corresponding shares.

Article 81 of the Mexican Securities Market Law permits the issuance and sale of shares through a public offering without granting shareholders preemptive rights, if permitted by the bylaws and upon, among other things, express authorization of the CNBV and the approval of the extraordinary shareholders meeting called for such purpose.

Limitations on Share Ownership

Ownership by non-Mexican nationals of shares of Mexican companies is regulated by the 1993 Foreign Investment Law and its regulations. The Mexican Foreign Investment Commission is responsible for the administration of the Mexican Foreign Investment Law and its regulations.

As a general rule, the Mexican Foreign Investment Law allows foreign holdings of up to 100% of the capital stock of Mexican companies, except for those companies engaged in certain specified restricted industries. The Mexican Foreign Investment Law and its regulations require that Mexican shareholders retain the power to determine the administrative control and the management of corporations in industries in which special restrictions on foreign holdings are applicable. Foreign investment in our shares is not limited under either the Mexican Foreign Investment Law or its regulations.

Although the Mexican Foreign Investment Law grants broad authority to the Mexican Foreign Investment Commission to allow foreign investors to own more than 49% of the capital of Mexican enterprises after taking into consideration public policy and economic concerns, our bylaws provide that Series A Shares must at all times constitute no less than 51% of all outstanding common shares (excluding Series L Shares) and may only be held by Mexican investors. Under our bylaws, in the event Series A Shares are subscribed or acquired by any other shareholders holding shares of any other series, and the shareholder is of a nationality other than Mexican, these Series A Shares are automatically converted into shares of the same series of stock that this shareholder owns, and this conversion will be

considered perfected at the same time as the subscription or acquisition, provided however that Series A Shares may never represent less than 51% of the capital stock.

Other Provisions

Authority of the Board of Directors

The board of directors is our legal representative and is authorized to take any action in connection with our operations not expressly reserved to our shareholders. Pursuant to the Mexican Securities Market Law, the board of directors must approve, among other matters:

- any transactions outside of the ordinary course of our business to be undertaken with related parties;
- significant asset transfers or acquisitions;
- providing material guarantees or collateral; and
- other material transactions.

Meetings of the board of directors are validly convened and held if a majority of the members are present. Resolutions passed at these meetings will be valid if approved by a majority of the disinterested members of the board of directors present at the meeting. If required, the chairman of the board of directors may cast a tie-breaking vote.

Redemption

Our fully paid shares are subject to redemption in connection with either (1) a reduction of capital stock or (2) a redemption with retained earnings, which, in either case, must be approved by our shareholders at an extraordinary shareholders meeting. The shares subject to any such redemption would be selected by us by lot or in the case of redemption with retained earnings, by purchasing shares by means of a tender offer conducted on the Mexican Stock Exchange, in accordance with the Mexican General Corporations Law and the Mexican Securities Law.

Repurchase of Shares

According to our bylaws, we generally may not repurchase our shares, subject to certain exceptions:

- we may repurchase fully paid shares for cancellation with distributable earnings pursuant to a decision of an extraordinary meeting of shareholders;
- pursuant to judicial adjudication, we may acquire the shares of a shareholder in satisfaction of a debt owed to us by that shareholder; although we must sell any shares so acquired within three months or our capital stock will be reduced and the shares cancelled; and
- in accordance with our bylaws, we are permitted to repurchase our own shares on the Mexican Stock Exchange under certain circumstances, with funds from a special reserve created for that purpose. We may hold shares we repurchase as treasury shares, which would be treated as authorized and issued but not outstanding unless and until subsequently subscribed for and sold.

Forfeiture of Shares

As required by Mexican law, our bylaws provide that non-Mexican holders of our shares are (1) considered to be Mexican with respect to such shares that they acquire or hold and (2) may not invoke the protection of their own governments in respect of the investment represented by those shares. Failure to comply with our bylaws may result in a penalty of forfeiture of a shareholder's capital stock in favor of the Mexican state. In the opinion of Lic. Carlos Aldrete Ancira, our general counsel, under this provision, a non-Mexican holder of our shares (including a non-Mexican holder of ADSs) is deemed to have agreed not to invoke the protection of its own government by asking such government to

interpose a diplomatic claim against the Mexican state with respect to its rights as a shareholder, but is not deemed to have waived any other rights it may have, including any rights under the United States securities laws, with respect to its investment in our company. If a shareholder should invoke governmental protection in violation of this agreement, its shares could be forfeited to the Mexican state.

Duration

Our bylaws provide that our existence continues until 2090, unless extended through a resolution of an extraordinary shareholders meeting.

Conflict of Interest

Any shareholder that has a conflict of interest with respect to a transaction of our company is required to disclose such conflict and abstain from voting with respect to such transaction at the relevant shareholders meeting. A shareholder that votes on a business transaction in which its interests conflict with those of our company may be liable for damages, but only if the transaction would not have been approved without its vote.

Under Mexican law, any director who has a conflict of interest with our company in any transaction must disclose such fact to the other directors and abstain from voting. Any director who violates such provisions will be liable for damages.

Our directors and statutory examiners may not represent shareholders in any shareholder meetings.

Appraisal Rights

Whenever the shareholders approve a change of corporate purpose, change of nationality or the transformation from one form of company to another, any shareholder entitled to vote on such change that has voted against it, may withdraw as a shareholder of our company and have its shares redeemed at a price per share calculated as specified under applicable Mexican law, provided that it exercises its right within 15 days following the adjournment of the meeting at which the change was approved. In this case, the shareholder would be entitled to the reimbursement of its shares, in proportion to the company's assets in accordance with the last approved balance sheet. Because holders of Series L Shares are not entitled to vote on certain types of these changes, these withdrawal rights are available to holders of Series L Shares in fewer cases than to holders of other series of our capital stock.

Liquidation

Upon our liquidation, one or more liquidators may be appointed to wind up our affairs. All fully paid and outstanding shares of capital stock (including Series L Shares) will be entitled to participate equally in any distribution upon liquidation. Shares that are only partially paid participate in any distribution upon liquidation in the proportion that they have been paid at the time of liquidation. There are no liquidation preferences for any series of our shares.

Actions Against Directors

Action for civil liabilities against directors may be initiated by resolution passed at an ordinary shareholders meeting. In the event the shareholders decide to bring the action, the directors against whom the action is brought immediately cease to be directors. Additionally, shareholders (including holders of Series L Shares) representing, in the aggregate, not less than 15% of the capital stock may directly bring an action against directors, provided that

- the shareholders did not concur in the decision at the shareholders meeting not to take action against the directors; and
- the claim covers all the damages alleged to have been caused to us and not only the portion corresponding to the shareholders. Any recovery of damages with respect to the action will be for our benefit and not for the shareholders bringing action.

Limited Liability

The liability of shareholders for our company's losses is limited to their shareholdings in our company.

MATERIAL AGREEMENTS

We manufacture, package, distribute and sell soft drinks and bottled water under bottler agreements with The Coca-Cola Company. In addition, pursuant to a tradename licensing agreement with The Coca-Cola Company, we are authorized to use certain trademark names of The Coca-Cola Company. For a discussion of the terms of these agreements, see [Item 4. Information on the Company Bottler Agreements](#).

We are operated pursuant to a shareholders agreement among two subsidiaries of FEMSA, The Coca-Cola Company and certain of its subsidiaries. For a discussion of the terms of this agreement, see [Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement](#).

We purchase the majority of our non-returnable plastic bottles from ALPLA, a provider authorized by The Coca-Cola Company, pursuant to an agreement we entered into in April 1998 for our original operations in Mexico. Under this agreement, we rent plant space to ALPLA, where it produces plastic bottles to certain specifications and quantities for our use.

See [Item 5. Operating and Financial Review and Prospects Summary of Significant Debt Obligations](#) for a brief discussion of certain terms of our significant debt agreements.

See [Item 7. Major Shareholders and Related Party Transactions Related Party Transactions](#) for a discussion of other transactions and agreements with our affiliates and associated companies.

EXCHANGE CONTROLS

The Mexican economy has suffered balance of payment deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert Mexican pesos to U.S. dollars, no assurance can be given that the Mexican government will not institute a restrictive exchange control policy in the future.

TAXATION

The following summary contains a description of certain U.S. federal income and Mexican federal tax consequences of the purchase, ownership and disposition of our 8.95% Notes due November 1, 2006, which we refer to as the Notes, Series L Shares or ADSs by a holder that is a citizen or resident of the United States, a U.S. domestic corporation or a person or entity that otherwise will be subject to U.S. federal income tax on a net income basis in respect of the Notes, Series L Shares or ADSs, which we refer to as a U.S. holder, but it does not purport to be a description of all of the possible tax considerations that may be relevant to a decision to purchase the Notes, Series L Shares or ADSs. In particular, this discussion does not address all Mexican or U.S. federal income tax considerations that may be relevant to a particular investor, nor does it address the special tax rules applicable to certain categories of investors, such as banks, dealers, traders who elect to mark to market, tax-exempt entities, insurance companies, certain short-term holders of Notes, Series L Shares or ADSs or investors who hold the Notes, Series L Shares or ADSs as part of a hedge, straddle, conversion or integrated transaction or investors who have a functional currency other than the U.S. dollar. U.S. holders should be aware that the tax consequences of holding the Notes, Series L Shares or ADSs may be materially different for investors described in the preceding sentence. This summary deals only with U.S. holders that will hold the Notes, Series L Shares or ADSs as capital assets and does not address the tax treatment of a U.S. holder that owns or is treated as owning 10% or more of the voting shares (including Series L Shares) of our company. Nor does it address the situation of holders of Notes who did not acquire the Notes as part of the initial distribution.

This summary is based upon tax laws of the United States and Mexico as in effect on the date of this annual report, including the provisions of the income tax treaty between the United States and Mexico, which we refer in this annual report as the Tax Treaty, which are subject to change. The summary does not address any tax consequences under the laws of any state or locality of Mexico or the United States or the laws of any taxing jurisdiction other than the federal laws of Mexico and the United States. Holders of the Notes, Series L Shares or ADSs should consult their tax advisers as to the U.S., Mexican or other tax consequences of the purchase, ownership and disposition of Notes, Series L Shares or ADSs, including, in particular, the effect of any foreign, state or local tax laws.

Mexican Taxation

For purposes of this summary, the term *non-resident holder* means a holder that is not a resident of Mexico and that does not hold the Notes, Series L Shares, or ADSs in connection with the conduct of a trade or business through a permanent establishment in Mexico. For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her home in Mexico, or if he or she has another home outside Mexico but his or her center of vital interests (as defined in the Mexican Tax Code) is located in Mexico. The center of vital interests of an individual is situated in Mexico when, among other circumstances, more than 50% of that person's total income during a calendar year originates from within Mexico. A legal entity is a resident of Mexico either if it is organized under the laws of Mexico or if it has its principal place of business or its place of effective management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless such a person can demonstrate that the contrary is true. If a legal entity or an individual is deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to such a permanent establishment will be subject to Mexican taxes, in accordance with applicable tax laws.

Tax Considerations Relating to the Notes

Taxation of Interest and Principal in Respect of the Notes. Under Mexican income tax law, payments of interest by a Mexican issuer in respect of its notes (including payments of principal in excess of the issue price of such notes, which, under Mexican law, are deemed to be interest) to a non-resident holder generally will be subject to a Mexican withholding tax assessed at a rate of 4.9% if (1) the relevant notes are registered with the Special Section of the

National Registry of Securities and Intermediaries maintained by the National Banking and Securities Commission, (2) the notes are placed, through banks or brokerage houses, in a country that has entered into a treaty to avoid double taxation with Mexico, and (3) no party related to us (defined under the applicable law as parties that are shareholders of our company that own, directly or indirectly, individually or collectively, with related persons (within the meaning of the applicable law) more than ten percent of our voting stock or corporations more than twenty percent of the stock of which is owned, directly or indirectly, individually or collectively, by related persons of our company), directly or indirectly, is the effective beneficiary of five percent or more of the aggregate amount of each such interest payment.

Apart from the Mexican income tax law discussed in the preceding paragraph, other provisions reducing the rate of Mexican withholding taxes also may apply. Under the Tax Treaty, the rate would be 4.9% for certain holders that are residents of the United States (within the meaning of the Tax Treaty). If the requirements described in the preceding paragraph are not met and no other provision reducing the rate of Mexican withholding taxes applies, such interest payments will be subject to a Mexican withholding tax assessed at a rate of 10%.

Payments of interest made by us with respect to the Notes to non-Mexican pension or retirement funds will be exempt from Mexican withholding taxes, provided that any such fund (1) is duly incorporated pursuant to the laws of its country of origin and is the effective beneficiary of the interest accrued, (2) is exempt from income tax in such country, and (iii) is registered with the Ministry of Finance for that purpose.

We have agreed, subject to specified exceptions, to pay additional amounts, which we refer to as Additional Amounts, to the holders of the Notes in respect of the Mexican withholding taxes mentioned above. If we pay Additional Amounts in respect of such Mexican withholding taxes, any refunds received with respect to such Additional Amounts will be for the account of our company.

Holders or beneficial owners of Notes may be requested by us to provide certain information or documentation required by applicable law to facilitate the determination of the appropriate withholding tax rate applicable to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner, if requested, is not provided on a timely basis, our obligation to pay Additional Amounts may be limited.

Under existing Mexican law and regulations, a non-resident holder will not be subject to any Mexican taxes in respect of payments of principal made by us with respect to the Notes.

Taxation of Dispositions of Notes. Capital gains resulting from the sale or other disposition of the Notes are considered as interest income for income tax purposes and generally are taxable at the reduced rate of 4.9% . The application of Mexican tax law provisions to capital gains realized on the disposition of Notes by a non-resident holder is unclear. We expect that no Mexican tax will be imposed on transfers of Notes between non-resident holders effected outside of Mexico.

Tax Considerations Relating to the Series L Shares and the ADSs

Taxation of Dividends. Under Mexican income tax law, dividends, either in cash or in kind, paid with respect to the Series L Shares represented by ADSs or the Series L Shares are not subject to Mexican withholding tax.

Taxation of Dispositions of ADSs or Series L Shares. Gains from the sale or disposition of ADSs by nonresident holders will not be subject to Mexican withholding tax. Gains from the sale of Series L Shares carried out by non-resident holders through the Mexican Stock Exchange or other securities markets situated in countries that have a tax treaty with Mexico will generally be exempt from Mexican tax provided certain additional requirements are met. Also, certain restrictions will apply if the Series L Shares are transferred as a consequence of public offerings.

Gains on the sale or other disposition of Series L Shares or ADSs made in other circumstances generally would be subject to Mexican tax, regardless of the nationality or residence of the transferor. However, under the Tax Treaty, a holder that is eligible to claim the benefits of the Tax Treaty will be exempt from Mexican tax on gains realized on a sale or other disposition of Series L Shares or ADSs in a transaction that is not carried out through the Mexican Stock Exchange or other approved securities markets, so long as the holder did not own, directly or indirectly, 25% or more of our total capital stock (including Series L Shares represented by ADSs) within the 12-month period preceding such sale or other disposition. Deposits of Series L Shares in exchange for ADSs and withdrawals of Series L Shares in

exchange for ADSs will not give rise to Mexican tax.

Non-resident holders that do not meet the requirements referred to above are subject to a 5% withholding tax on the gross sales price received upon the sale of Series L Shares through the Mexican Stock Exchange. Alternatively, nonresident holders may elect to be subject to a 20% tax rate on their net gains from the sale as calculated pursuant to the Mexican Income Tax Law provisions. In both cases, the financial institutions involved in the transfers must withhold the tax.

Other Mexican Taxes

There are no Mexican inheritance, gift, succession or value added taxes applicable to the ownership, transfer, exchange or disposition of the Notes, ADSs or the Series L Shares, although gratuitous transfers of Series L Shares may in certain circumstances cause a Mexican federal tax to be imposed upon the recipient. There are no Mexican stamp, issue, registration or similar taxes or duties payable by holders of the Notes, ADSs or Series L Shares.

United States Taxation

Tax Considerations Relating to the Notes

Taxation of Interest and Additional Amounts in Respect of the Notes. A U.S. holder will treat the gross amount of interest and Additional Amounts (*i.e.*, without reduction for Mexican withholding taxes) as ordinary interest income in respect of the Notes. Mexican withholding taxes paid at the appropriate rate applicable to the U.S. holder will be treated as foreign income taxes eligible for credit against such U.S. holder's United States federal income tax liability, subject to generally applicable limitations and conditions, or, at the election of such U.S. holder, for deduction in computing such U.S. holder's taxable income. Interest and Additional Amounts generally will constitute foreign source passive income for foreign tax credit purposes.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of rules that depend on a U.S. holder's particular circumstances. U.S. holders should consult their own tax advisers regarding the availability of foreign tax credits and the treatment of Additional Amounts.

A holder or beneficial owner of Notes that is, with respect to the United States, a foreign corporation or a nonresident alien individual, which we refer to as a Non-U.S. holder, generally will not be subject to U.S. federal income or withholding tax on interest income or Additional Amounts earned in respect of Notes, unless such income is effectively connected with the conduct by the Non-U.S. holder of a trade or business in the United States.

Taxation of Dispositions of Notes. A gain or loss realized by a U.S. holder on the sale, exchange, redemption or other disposition of Notes generally will be a long-term capital gain or loss if, at the time of the disposition, the Notes have been held for more than one year. Long-term capital gain recognized by a U.S. holder that is an individual is subject to lower rates of federal income taxation than ordinary income or short-term capital gain. The deduction of capital loss is subject to limitations for U.S. federal income tax purposes.

Tax Considerations Relating to the Series L Shares and the ADSs

In general, for U.S. federal income tax purposes, holders of ADSs will be treated as the owners of the Series L Shares represented by those ADSs.

Taxation of Dividends. The gross amount of any dividends paid with respect to the Series L Shares represented by ADSs or the Series L Shares generally will be included in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the U.S. holder, in the case of the Series L Shares, or by the Depositary, in the case of the Series L Shares represented by ADSs, and will not be eligible for the dividends received deduction allowed to corporations under the Internal Revenue Code of 1986, as amended. Dividends, which will be paid in Mexican pesos, will be includible in the income of a U.S. holder in a U.S. dollar amount calculated, in general, by reference to the exchange rate in effect on the date that they are received by the U.S. holder, in the case of the Series L Shares, or by the Depositary, in the case of the Series L Shares represented by the ADSs (regardless of whether such Mexican pesos are in fact converted into U.S. dollars on such date). If such dividends are converted into U.S. dollars

on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder in respect of Series L Shares or ADSs before January 1, 2009 is subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) the issuer is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules and (2) the issuer was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, (a) a passive foreign

investment company or (b) for dividends paid prior to the 2005 tax year, a foreign personal holding company or foreign investment company. The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. Based on our audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company, foreign personal holding company or foreign investment company for U.S. federal income tax purposes with respect to our 2004 or 2005 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2006 taxable year. U.S. holders should consult their tax advisers regarding the treatment of the foreign currency gain or loss, if any, on any Mexican pesos received that are converted into U.S. dollars on a date subsequent to the date of receipt. Dividends generally will constitute foreign source passive income for U.S. foreign tax credit purposes.

Distributions to holders of additional Series L Shares with respect to their ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

A holder of Series L Shares or ADSs that is, with respect to the United States, a foreign corporation or Non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on dividends received on Series L Shares or ADSs unless such income is effectively connected with the conduct by the Non-U.S. holder of a trade or business in the United States.

Taxation of Capital Gains. A gain or loss realized by a U.S. holder on the sale or other disposition of ADSs or Series L Shares will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the disposition and such U.S. holder's tax basis in the ADSs or the Series L Shares. Any such gain or loss will be a long-term capital gain or loss if the ADSs or Series L Shares were held for more than one year on the date of such sale. Long-term capital gain recognized by a U.S. holder that is an individual is subject to lower rates of federal income taxation than ordinary income or short-term capital gain. The deduction of capital loss is subject to limitations for U.S. federal income tax purposes. Deposits and withdrawals of Series L Shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Gain, if any, realized by a U.S. holder on the sale or other disposition of Series L Shares or ADSs will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if a Mexican withholding tax is imposed on the sale or disposition of Series L Shares, a U.S. holder that does not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of these Mexican taxes. U.S. holders should consult their own tax advisers regarding the application of the foreign tax credit rules to their investment in, and disposition of, Series L Shares.

A Non-U.S. holder of Series L Shares or ADSs will not be subject to U.S. federal income or withholding tax on any gain realized on the sale of Series L Shares or ADSs, unless (1) such gain is effectively connected with the conduct by the Non-U.S. holder of a trade or business in the United States, or (2) in the case of gain realized by an individual Non-U.S. holder, the Non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

United States Backup Withholding and Information Reporting

A U.S. holder of Series L Shares, ADSs or notes may, under certain circumstances, be subject to backup withholding with respect to certain payments to such U.S. holder, such as dividends, interest or the proceeds of a sale or disposition of Series L Shares, ADSs or Notes, unless such holder (1) is a corporation or comes within certain exempt categories, and demonstrates this fact when so required, or (2) provides a correct taxpayer identification

number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules does not constitute a separate tax and will be creditable against the holder's U.S. federal income tax liability. While Non-U.S. holders generally are exempt from backup withholding, a Non-U.S. holder may, in certain circumstances, be required to comply with certain information and identification procedures in order to prove this exemption.

DOCUMENTS ON DISPLAY

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its public reference rooms in Washington, D.C., at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Filings we make electronically with the SEC are also available to the public on the Internet at the SEC's website at <http://www.sec.gov>.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Our business activities require the holding or issuing of financial instruments that expose us to market risks related to changes in interest rates, foreign currency exchange rates, equity risk and commodity price risk.

Interest Rate Risk

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. At December 31, 2005, we had total indebtedness of Ps. 20,101 million, of which 43% bore interest at fixed interest rates and 57% bore interest at variable interest rates. Swap and forward contracts held by us effectively switch a portion of our variable-rate indebtedness into fixed-rate indebtedness. After giving effect to these contracts, as of December 31, 2005, 95% of our debt was fixed-rate and 5% of our debt was variable-rate. The interest rate on our variable rate debt is generally determined by reference to the London Interbank Offer Rate, or LIBOR, a benchmark rate used for Eurodollar loans, the *Certificados de Tesorería del Gobierno Federal* (the Federal Government Treasury Certificate), or CETEs, U.S. treasury bonds and *Tasa de Interés Interbancaria de Equilibrio* (the Equilibrium Interbank Interest Rate), or TIIE. If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our financial instruments that are sensitive to changes in interest rates, without giving effect to interest rate swaps. The table presents weighted average interest rates by expected contractual maturity dates. Weighted average variable rates are based on the reference rates on December 31, 2005, plus spreads, contracted by us. The instruments' actual payments are denominated in U.S. dollars, Mexican pesos and Colombian pesos. All of the payments in the table are presented in Mexican pesos, our reporting currency, utilizing the December 31, 2005 exchange rate of Ps. 10.7109 Mexican pesos per U.S. dollar.

The table below also includes the fair value of long-term debt based on the discounted value of contractual cash flows. The discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities. Furthermore, the fair value of long-term notes payable is based on quoted market prices on December 31, 2005. As of December 31, 2005, the fair value represents a loss amount of Ps. 439 million.

Principal by Year of Maturity
(millions of constant Mexican pesos)

| | At December 31, 2005 | | | | | | At Dec. 31, 2004 | | | |
|--------------------------------------|----------------------|-------|--------|--------|--------|------------------------|---------------------|---------------|-------------------|---------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 and thereafter | Total | Fair Value | Carrying Value | Fair Value |
| Long-Term Debt: | | | | | | | | | | |
| Fixed Rate Debt | | | | | | | | | | |
| U.S. dollars | 2,142 | - | - | 3,217 | - | - | 5,359 | 5,627 | 6,366 | 6,544 |
| Interest rate ⁽¹⁾ | 8.95% | - | - | 7.25% | - | - | 7.93% | - | 7.47% | - |
| Mexican pesos | 1,425 | - | - | 500 | 1,000 | 500 | 3,425 | 3,055 | 3,034 | 6,863 |
| Interest rate ⁽¹⁾ | 8.65% | - | - | 9.90% | 10.40% | 9.87% | 9.52% | - | 9.46% | - |
| Venezuelan bolivars | 389 | - | - | - | - | - | 389 | 389 | - | - |
| Interest rate ⁽¹⁾ | 12.08% | - | - | - | - | - | 12.08% | - | - | - |
| Argentine pesos | 62 | - | - | - | - | - | 62 | 62 | - | - |
| Interest rate ⁽¹⁾ | 9.25% | - | - | - | - | - | 9.25% | - | - | - |
| Total Fixed Rate | 4,018 | - | - | 3,717 | 1,000 | 500 | 9,235 | 9,133 | 9,400 | 13,407 |
| Variable Rate Debt | | | | | | | | | | |
| U.S. dollars | 13 | 6 | - | 161 | - | 1,821 | 2,001 | 2,003 | 1,349 | 1,349 |
| Interest rate ⁽¹⁾ | 6.70% | 7.35% | - | 5.01% | - | 4.68% | 4.73% | - | 3.02% | - |
| Mexican pesos | - | 1,906 | 3,750 | - | - | 2,650 | 8,306 | 8,847 | 14,156 | 13,589 |
| Interest rate ⁽¹⁾ | - | 9.12% | 10.11% | - | - | 9.07% | 9.55% | - | 9.39% | - |
| Colombian pesos | 211 | 161 | - | - | - | - | 372 | 372 | 715 | 715 |
| Interest rate ⁽¹⁾ | 8.31% | 9.27% | - | - | - | - | 8.72% | - | 10.10% | - |
| Argentine pesos | 162 | - | - | - | - | - | 162 | 162 | - | - |
| Interest rate ⁽¹⁾ | 9.43% | - | - | - | - | - | 9.43% | - | - | - |
| Guatemalan quetzals | 25 | - | - | - | - | - | 25 | 25 | - | - |
| Interest rate ⁽¹⁾ | 6.50% | - | - | - | - | - | 6.50% | - | - | - |
| Total Variable Rate | 411 | 2,073 | 3,750 | 161 | - | 4,471 | 10,866 | 11,409 | 16,220 | 15,653 |
| Total Debt | 4,429 | 2,073 | 3,750 | 3,878 | 1,000 | 4,971 | 20,101 | 20,542 | 25,620 | 29,060 |
| Derivative | | | | | | | | | | |
| Instruments: | | | | | | | | | | |
| Interest Rate Swaps | | | | | | | | | | |
| Mexican pesos | | | | | | | | | | |
| Variable to fixed | - | 4,250 | 3,750 | - | 400 | - | 8,400 | (49) | 10,746 | (179) |
| Interest pay rate ⁽¹⁾ | - | 9.20% | 9.03% | - | 10.07% | - | 9.18% | - | 9.30% | - |
| Interest receive rate ⁽¹⁾ | - | 9.11% | 10.11% | - | 8.98% | - | 9.59% | - | 9.40% | - |
| Cross Currency Swaps | | | | | | | | | | |
| U.S. dollars to Mexican pesos | | | | | | | | | | |
| Variable to fixed | - | - | - | 161 | 1,339 | - | 1,500 | (175) | 1,612 | (1) |
| Interest pay rate ⁽¹⁾ | - | - | - | 10.91% | 11.00% | - | 10.99% | - | 10.00% | - |
| Interest receive rate ⁽¹⁾ | - | - | - | 5.02% | 4.83% | - | 4.85% | - | 2.90% | - |

| | | | | | | | | | | |
|---------------------------------------|-------|---|-------|---|---|---|-------|------|---|---|
| Mexican pesos to U.S. dollars | | | | | | | | | | |
| Variable to variable | - | - | 1,251 | - | - | - | 1,251 | 22 | - | - |
| Interest pay rate ⁽¹⁾ | - | - | 4.37% | - | - | - | 4.36% | - | - | - |
| Interest receive rate ⁽¹⁾ | - | - | 8.28% | - | - | - | 8.63% | - | - | - |
| U.S. dollars to Colombian pesos | | | | | | | | | | |
| Variable to variable | - | - | 1,233 | - | - | - | 1,232 | (16) | - | - |
| Interest pay rate ⁽¹⁾ | - | - | 7.07% | - | - | - | 7.07% | - | - | - |
| Interest receive rate ⁽¹⁾ | - | - | 4.37% | - | - | - | 4.36% | - | - | - |
| Mexican pesos to Argentine Pesos | | | | | | | | | | |
| Variable to variable | 55 | - | - | - | - | - | 55 | 3 | - | - |
| Interest pay rate ⁽¹⁾ | 8.45% | - | - | - | - | - | 8.45% | - | - | - |
| Interest receive rate ⁽¹⁾ | 8.62% | - | - | - | - | - | 8.63% | - | - | - |

| | | | | | | | | | | |
|--|-----|---|---|---|---|---|-----|---|---|---|
| Forward agreements to purchase Mexican pesos | 750 | - | - | - | - | - | 750 | 4 | - | - |
|--|-----|---|---|---|---|---|-----|---|---|---|

-
- (1) Calculated by a weighted average rate.
(2) Cross currency swaps from U.S. dollars to Mexican pesos.

A hypothetical, instantaneous and unfavorable change of 100 basis points in the average interest rate applicable to our floating-rate financial instruments held at December 31, 2005 would increase our interest expense by approximately Ps. 36 million, or 1.7% over our interest expense for 2005, assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest rate swap and cross-currency swap agreements.

Foreign Currency Exchange Rate Risk

Our principal exchange rate risk involves changes in the value of the local currencies of each country in which we operate, relative to the U.S. dollar. In 2005, the percentage of our consolidated total revenues was denominated as follows:

Total Revenues by Currency**At December 31, 2005**

| Currency | % |
|---------------------------------|----------|
| Mexican peso | 57.0 |
| Guatemalan quetzal | 1.7 |
| Nicaraguan cordoba | 1.5 |
| Costa Rican colon | 2.2 |
| Panamanian balboa (U.S. dollar) | 1.4 |
| Colombian peso | 9.3 |
| Venezuelan bolivar | 9.8 |
| Argentine peso | 5.6 |
| Brazilian real | 11.5 |

We estimate that a majority of our consolidated costs and expenses are denominated in Mexican pesos for Mexican subsidiaries and in the aforementioned currencies for our non-Mexican subsidiaries. Substantially all of our costs and expenses denominated in a foreign currency, other than the functional currency of each country in which we operate, are denominated in U.S. dollars. As of December 31, 2005 32.6% of our indebtedness was denominated in U.S. dollars (including the effect of derivative contracts held by us as of December 31, 2005, including cross currency swaps from U.S. dollars to Mexican pesos, Mexican pesos to Colombian pesos, Mexican pesos to Argentine pesos and a U.S. dollar forward position), 55.9% in Mexican pesos, 8.0% in Colombian pesos and the remaining 3.5% in Venezuelan bolivars, Argentine pesos and Guatemalan quetzals. Decreases in the value of the different currencies relative to the U.S. dollar will increase the cost of our foreign currency-denominated operating costs and expenses and of the debt service obligations with respect to our foreign currency-denominated debt. A depreciation of the Mexican peso relative to the U.S. dollar will also result in foreign exchange losses, as the Mexican peso value of our foreign currency denominated-indebtedness is increased.

Our exposure to market risk associated with changes in foreign currency exchange rates relates primarily to U.S. dollar-denominated debt obligations as shown in the interest risk table above. We occasionally utilize currency forward contracts to hedge our exposure to the U.S. dollar relative to the Mexican peso and other currencies. On December 31, 2005 and 2004 however, we did not have any forward agreements or call options to hedge our operations denominated in U.S. dollars.

As of December 31, 2005 we had outstanding cross currency swaps, through which we exchanged the originally contracted interest rates and currencies on notional amounts of US\$ 140 million related to long-term debt with a contracted weighted average exchange rate of Ps. 11.0051. During the life of the contracts, the cash flows originated by the exchange of the interest rates under the cross currency swaps match those of the underlying debt with respect to interest payments dates and conditions. The contracted weighted average interest rate was 10.99% . As of December 31, 2005 the fair value of these instruments was Ps. (175) million, and the net effect for the period ended December 31, 2005 recorded in the interest expense amounted to Ps. 126 million.

A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the Mexican peso relative to the U.S. dollar occurring on December 31, 2005, would have resulted in an increase in our net consolidated integral result of financing expense of approximately Ps. 61 million over a 12-month period of 2006, reflecting higher interest expense and foreign exchange gain generated by the cash balances held in U.S. dollars as of that date, net of the loss based on our U.S. dollar-denominated indebtedness at December 31, 2005. However, this result does not take into account any gain on monetary position that would be expected to result from an increase in the inflation rate generated by a devaluation of the Mexican peso relative to the U.S. dollar, which gain on monetary position would reduce the consolidated net integral result of financing, after giving effect to all of our interest rate swap and cross-currency swap agreements.

As of March 31, 2006, the exchange rates relative to the U.S. dollar of all the countries in which we operate have appreciated or depreciated compared to December 31, 2005 as follows:

| | Exchange Rate March 31, 2006 | (Depreciation) or Appreciation |
|------------|---|---|
| Mexico | 10.95 | -2.2% |
| Guatemala | 7.61 | -0.1% |
| Nicaragua | 17.35 | -1.2% |
| Costa Rica | 506.03 | -1.7% |
| Panama | 1.00 | 0.0% |
| Colombia | 2,289.98 | -0.3% |
| Venezuela | 2,150.00 | 0.0% |
| Argentina | 3.08 | -1.6% |
| Brazil | 2.17 | 7.2% |

A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the currencies of each of the countries in which we operate relative to the U.S. dollar at December 31, 2005, would produce a reduction in stockholders' equity of approximately the following amounts:

| | Reduction in Stockholders' equity (millions of Mexican pesos) |
|------------|--|
| Mexico | Ps. 2,047 |
| Guatemala | 35 |
| Nicaragua | 68 |
| Costa Rica | 203 |
| Panama | - |
| Colombia | 575 |
| Venezuela | 255 |
| Argentina | 46 |
| Brazil | 262 |

Equity Risk

As of December 31, 2005 we did not have any equity risk derivatives.

Commodity Price Risk

During 2003 and 2002, we entered into various derivative contracts maturing in 2004 and 2003 to hedge the cost of aluminum and carbonated gas. The result of the commodity price contracts was a loss of Ps. 25 million, a gain of Ps. 3 million as of December 31, 2005 and 2004, which was recorded in the results of operations of the year. The fair value is estimated based on quoted market prices to terminate the contracts at the reporting date.

During 2005, we entered into futures contracts with a notional value Ps. 36 million, maturing in 2005 to hedge the cost of sugar. The result of these commodity price contracts was a gain of Ps. 3 million.

Items 12-14. Not Applicable**Item 15. Controls and Procedures**

(a) We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2005. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) There has been no change in our internal control over financial reporting during 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our shareholders and our board of directors have designated José Manuel Canal Hernando, an independent director as required by the Mexican Securities Market Law and applicable New York Stock Exchange listing standards, as an audit committee financial expert within the meaning of this Item 16A. See Item 6. Directors, Senior Management and Employees Directors.

Item 16B. Code of Ethics

We have adopted a code of ethics, within the meaning of this Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at www.coca-colafemsa.com. If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

Item 16C. Principal Accountant Fees and Services**Audit and Non-Audit Fees**

The following table summarizes the aggregate fees billed to us by Galaz, Yamazaki, Ruiz Urquiza, S.C., a member firm of Deloitte Touche Tohmatsu, and its affiliates including Deloitte Consulting, which we collectively refer to as Deloitte, during the fiscal years ended December 31, 2005 and 2004:

| | Year ended December 31, | |
|------------|-----------------------------|--------|
| | 2005 | 2004 |
| | (millions of Mexican pesos) | |
| Audit fees | Ps. 40 | Ps. 35 |

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| | | | | |
|--------------------|-----|----|-----|----|
| Audit-related fees | | 2 | | 3 |
| Tax fees | | 3 | | 5 |
| Total fees | Ps. | 45 | Ps. | 43 |

Audit fees. Audit fees in the above table are the aggregate fees billed by Deloitte in connection with the audit of our annual financial statements, the review of our quarterly financial statements, and statutory and regulatory audits.

Audit-related Fees. Audit-related fees in the above table for the years ended December 31, 2005 and 2004 are the aggregate fees billed by Deloitte for financial accounting and reporting consultations.

Tax Fees. Tax fees in the above table are fees billed by Deloitte for services based upon existing facts and prior transactions in order to document, compute and obtain government approval for amounts included in tax filings such as value-added tax return assistance, transfer pricing documentation and requests for technical advice from taxing authorities.

Audit Committee Pre-Approval Policies and Procedures

We have adopted pre-approval policies and procedures under which all audit and non-audit services provided by our external auditors must be pre-approved by the audit committee as set forth in the audit committee's charter. Any service proposals submitted by external auditors need to be discussed and approved by the audit committee during its meetings, which take place at least four times a year. Once the proposed service is approved, we or our subsidiaries formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our audit committee. In addition, the members of our board of directors are briefed on matters discussed by the different committees of our board.

Item 16D. Not Applicable

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not purchase any of our equity securities in 2005. The following table presents purchases by trusts that we administer in connection with our stock incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. See Item 6. Directors, Senior Management and Employees' Stock Incentive Plan and EVA-Based Stock Incentive Plan.

Purchases of Equity Securities

| Period | Total Number of Series L Shares Purchased | Average Price Paid per Series L Share | Total Number of Shares Purchased as part of Publicly Announced Plans or Programs | Maximum Number (or Appropriate U.S. Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|-----------------|--|--|---|---|
| Jan 28 - Mar 15 | 391,600 | Ps. 29.46 | - | - |
| Total | 391,600 | 29.46 | - | - |

Item 17. Not Applicable

Item 18. Financial Statements

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits

| | |
|--|-------------|
| (a) <u>List of Financial Statements</u> | <u>Page</u> |
| <u>Report of Independent Registered Public Accounting Firm</u> | <u>F-1</u> |
| <u>Consolidated Balance Sheets at December 31, 2005 and 2004</u> | <u>F-2</u> |
| <u>Consolidated Income Statements For the Years Ended December 31, 2005, 2004 and 2003</u> | <u>F-3</u> |
| <u>Consolidated Statements of Changes in Financial Position For the Years Ended December 31, 2005, 2004 and 2003</u> | <u>F-4</u> |
| <u>Consolidated Statements of Changes in Stockholders' Equity For the Years Ended December 31, 2005, 2004 and 2003</u> | <u>F-5</u> |
| <u>Notes to the Consolidated Financial Statements*</u> | <u>F-6</u> |

* All supplementary schedules relating to the registrant are omitted because they are not required or because the required information, where material, is contained in the Financial Statements or Notes thereto.

(b) List of Exhibits

| <u>Exhibit No:</u> | <u>Description</u> |
|--------------------|---|
| Exhibit 1.1 | Amended and Restated Bylaws (<i>Estatutos Sociales</i>) of Coca-Cola FEMSA, dated May 6, 2003 (with English translation) (incorporated by reference to Exhibit 1.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)). |
| Exhibit 2.1 | Deposit Agreement, dated as of September 1, 1993, among Coca-Cola FEMSA, the Bank of New York, as Depository, and Holders and Beneficial Owners of American Depository Receipts (incorporated by reference to Exhibit 3.5 to the Registration Statement of FEMSA on Form F-4 filed on April 9, 1998 (File No. 333-8618)). |
| Exhibit 2.2 | Deposit Agreement, among FEMSA, as Registrant, The Bank of New York, and all owners and holders from time to time of any American Depository Receipts, including the form of American Depository Receipt (incorporated by reference to FEMSA's Registration Statement on Form F-6 filed on January 30, 2004 (File No. 333-112342)). |
| Exhibit 2.3 | Indenture Agreement, dated as of October 28, 1996, between Coca-Cola FEMSA and Citibank, N.A., as Trustee (incorporated by reference to Exhibit 2.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1997 (File No. 1-12260)). |
| Exhibit 2.4 | Indenture, dated July 11, 1997, by and between Corporación Interamericana de Bebidas, S.A. de C.V. and The Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.1 of Panamco's Registration Statement on Form F-4, (File No. 333-7918)). |
| Exhibit 2.5 | First Supplemental Indenture, dated October 15, 2003, between Corporación Interamericana de |

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Bebidas, S.A. de C.V., as Issuer, Coca-Cola FEMSA, as Guarantor, and JPMorgan Chase Bank, as Trustee (incorporated by reference to Exhibit 2.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).

| <u>Exhibit No:</u> | <u>Description</u> |
|--------------------|---|
| Exhibit 2.6 | Second Supplemental Indenture, dated November 19, 2003, between Corporación Interamericana de Bebidas, S.A. de C.V., as Issuer, Coca-Cola FEMSA, as Guarantor, and JPMorgan Chase Bank, as Trustee (incorporated by reference to Exhibit 2.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |
| Exhibit 2.7 | Term Loan Agreement, dated April 23, 2003, by and among Coca-Cola FEMSA, JPMorgan Chase Bank, Banco J.P. Morgan, S.A., Morgan Stanley Senior Funding, Inc., J.P. Morgan Securities Inc., Banco Nacional de México, S.A., BBVA Bancomer and ING Bank, N.V. (incorporated by reference to Exhibit 2.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)). |
| Exhibit 4.1 | Amended and Restated Shareholders Agreement dated as of July 6, 2002, by and among CIBSA, Emprex, The Coca-Cola Company and Inmex, (incorporated by reference to Exhibit 4.13 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)). |
| Exhibit 4.2 | Amendment, dated May 6, 2003, to the Amended and Restated Shareholders Agreement, dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. (incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)). |
| Exhibit 4.3 | Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the valley of Mexico (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |
| Exhibit 4.4 | Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the valley of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)). |
| Exhibit 4.5 | Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Exhibit 4.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |
| Exhibit 4.6 | Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)). |
| <u>Exhibit 4.7</u> | <u>Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico (English translation)</u> |
| <u>Exhibit 4.8</u> | <u>Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Bajío, S.A. de C.V., and the Coca-Cola Company with respect to operations in Bajío, Mexico (English translation)</u> |

| <u>Exhibit No:</u> | <u>Description</u> |
|---------------------|---|
| Exhibit 4.9 | Bottler Agreement and Letter Agreement, both dated March 18, 2000, between The Coca-Cola Company and Embotelladora Central, S.A with respect to operations in Guatemala (English translation) (incorporated by reference to Exhibit 4.9 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |
| <u>Exhibit 4.10</u> | <u>Letter of Renewal, dated December 12, 2005, between The Coca-Cola Company and Embotelladora Central, S.A. with respect to operations in Guatemala (English translation).</u> |
| Exhibit 4.11 | Bottler Agreement and Letter Agreement, both dated May 13, 2001, between The Coca-Cola Company and Panamco de Nicaragua, S.A. with respect to operations in Nicaragua (English translation) (incorporated by reference to Exhibit 4.10 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |
| <u>Exhibit 4.12</u> | <u>Letter of Renewal, dated January 4, 2006, between The Coca-Cola Company and Coca-Cola de Panamá, Compañía Embotelladora, S.A., with respect to operations in Panama (English translation).</u> |
| Exhibit 4.13 | Bottler Agreement and Letter Agreement, both dated October 1, 2002, between The Coca-Cola Company and Embotelladora Panamco Tica, S.A. with respect to operations in Costa Rica (English translation) (incorporated by reference to Exhibit 4.11 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |
| Exhibit 4.14 | Bottler Agreement, dated July 1, 1999, between The Coca-Cola Company and Panamco-Colombia, S.A., with respect to operations in Colombia (English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |
| <u>Exhibit 4.15</u> | <u>Letter of Renewal, dated December 12, 2005, between The Coca-Cola Company and Industria Nacional de Gaseosas S.A., with respect to operations in Colombia (English translation).</u> |
| Exhibit 4.16 | Bottler Agreement, dated August 16, 1996 and Letter of Renewal, dated February 9, 2001, between The Coca-Cola Company and Embotelladora Coca-Cola y Hit de Venezuela, S.A. with respect to operations in Venezuela (English translation) (incorporated by reference to Exhibit 4.13 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |
| Exhibit 4.17 | Bottler Agreement, dated August 16, 1996 and Letter of Renewal, dated February 9, 2001, between Advantage Investments, Inc. and Embotelladora Coca-Cola y Hit de Venezuela, S.A. with respect to operations in Venezuela (English translation) (incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |
| Exhibit 4.18 | Manufacturing Agreement, dated April 16, 1999, between Coca-Cola Industrias Ltda., SPAL Industria Brasileira de Bebidas, S.A. and The Coca-Cola Company with respect to operations in São Paulo, Brazil (English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |

Exhibit 4.19 Manufacturing Agreement, dated April 16, 1999, between Coca-Cola Industrias Ltda., SPAL Industria Brasileira de Bebidas, S.A. and The Coca-Cola Company with respect to operations in Campinas, Brazil (English translation) (incorporated by reference to Exhibit 4.16 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).

| <u>Exhibit No:</u> | <u>Description</u> |
|--------------------|--|
| Exhibit 4.20 | Manufacturing Agreement, dated April 16, 1999, between Coca-Cola Industrias Ltda., SPAL Industria Brasileira de Bebidas, S.A., and The Coca-Cola Company with respect to operations in Campo Grande, Brazil (English translation) (incorporated by reference to Exhibit 4.17 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)). |
| Exhibit 4.21 | Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)). |
| Exhibit 4.22 | Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)). |
| Exhibit 4.23 | Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)). |
| Exhibit 4.24 | Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)). |
| Exhibit 4.25 | Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)). |
| Exhibit 4.26 | Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)). |
| Exhibit 4.27 | Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)). |
| Exhibit 4.28 | Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.40 to FEMSA's Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)). |
| Exhibit 4.29 | Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administracion de Marcas S.A. de C.V., as proprietor, and The Coca-Cola Export |

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Corporation Mexico branch, as licensee (incorporated by reference to Exhibit 10.3 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).

Exhibit 4.30 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Exhibit 10.6 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).

| <u>Exhibit No:</u> | <u>Description</u> |
|---------------------|--|
| Exhibit 4.31 | Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajio S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Exhibit 10.7 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)). |
| Exhibit 4.32 | Supply Agreement dated June 21, 1993, between Coca-Cola FEMSA and FEMSA Empaques, (incorporated by reference to Exhibit 10.7 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)). |
| Exhibit 4.33 | Supply Agreement dated April 3, 1998, between ALPLA Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).* |
| Exhibit 4.34 | Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA and FEMSA Logística (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)). |
| Exhibit 4.35 | Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajio S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 10.8 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)). |
| Exhibit 4.36 | Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 10.9 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)). |
| Exhibit 4.37 | Memorandum of Understanding, dated as of March 11, 2003, by and among Panamco, as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Exhibit 10.14 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)). |
| Exhibit 7.1 | The Coca-Cola Company memorandum, to Steve Heyer from José Antonio Fernández, dated December 22, 2002 (incorporated by reference to Exhibit 10.1 to FEMSA's Registration Statement on Amendment No. 1 to the Form F-3 filed on September 20, 2004 (File No. 333-117795)). |
| <u>Exhibit 8.1</u> | <u>Significant Subsidiaries.</u> |
| <u>Exhibit 12.1</u> | <u>CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April, 18, 2006.</u> |
| <u>Exhibit 12.2</u> | <u>CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April, 18, 2006.</u> |
| <u>Exhibit 13.1</u> | <u>Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April, 18, 2006.</u> |

18, 2006.

* Portions of Exhibit 4.33 have been omitted pursuant to a request for confidential treatment. Such omitted portions have been filed separately with the Securities and Exchange Commission.

Omitted from the exhibits filed with this annual report are certain instruments and agreements with respect to long-term debt of Coca-Cola FEMSA, none of which authorizes securities in a total amount that exceeds 10% of the total assets of Coca-Cola FEMSA. We hereby agree to furnish to the SEC copies of any such omitted instruments or agreements as the SEC requests.

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 18, 2006

COCA-COLA FEMSA, S.A. de
C.V.

By:/s/Héctor Treviño Gutiérrez

Héctor Treviño Gutiérrez

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Report of Independent Registered Public Accounting Firm to the Board of Directors and Stockholders of Coca-Cola FEMSA, S. A. de C. V.:

We have audited the accompanying consolidated balance sheets of Coca-Cola FEMSA, S. A. de C. V. (a Mexican corporation) and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 2005, all expressed in millions of Mexican pesos of purchasing power as of December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico and the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with accounting principles generally accepted in Mexico. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Coca-Cola FEMSA, S. A. de C. V. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations, changes in their stockholders' equity and changes in their financial position for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in Mexico.

Effective January 1, 2005, the Company adopted the provisions of certain new or revised accounting standards resulting in the following changes in accounting:

- As mentioned in Note 5 q), the initial effect of adopting Bulletin C-10, *Derivative Financial Instruments and Hedging Activities*, resulted in the recognition of a net asset for derivative financial instruments of Ps. 210 million, with a corresponding increase of Ps. 63 million in the deferred income tax liability, Ps. 22 million of income was recorded in the income statement as a change in accounting principle, net of deferred taxes, and Ps. 125 million was recorded as other comprehensive income, net of deferred taxes.
- As mentioned in Note 5 l), revised Bulletin D-3, *Labor Obligations*, requires the recognition of a labor obligation for severance indemnities, other than restructuring. The liability recorded by the Company as a result of adopting this bulletin was Ps. 147 million, and the additional expense recorded in the income statement was Ps. 50 million.

As mentioned in Note 2, the Company acquired Panamerican Beverages, Inc. on May 6, 2003, incorporating its results of operations since the date of acquisition, as a result of which the consolidated statements of income and changes in financial position for the years ended December 31, 2005 and 2004 are not comparable with those for the year ended December 31, 2003.

Accounting principles generally accepted in Mexico vary in certain significant respects from accounting principles general and accepted in the United States of America. The application of the latter would have affected the determination of net income for each of the three years in the period ended December 31, 2005, and the determination of stockholders' equity as of December 31, 2005 and 2004, to the extent summarized in Note 26.

Our audit as of December 31, 2005 also comprehended the translation of the Mexican peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. The translation of the 2005 financial statement amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of readers in the United States of America.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu

/s/ C.P.C. Jorge Alamillo Sotomayor

Mexico City, Mexico

February 15, 2006

COCA-COLA FEMSA, S.A. DE C.V. AND SUBSIDIARIES*Consolidated Balance Sheets*

At December 31, 2005 and 2004.

Amounts expressed in millions of U.S. dollars (\$) and in millions of constant Mexican pesos (Ps.) as of December 31, 2005.

| | | 2005 | | 2004 |
|--|-----------------|-------------|---------------|-------------------|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 184 | Ps. | 1,958 | Ps. 3,782 |
| Accounts receivable | 237 | | 2,523 | 2,220 |
| Inventories | 204 | | 2,168 | 2,301 |
| Recoverable taxes | 44 | | 464 | 769 |
| Other current assets | 29 | | 309 | 106 |
| Total current assets | 698 | | 7,422 | 9,178 |
| Property, plant and equipment, net | 1,746 | | 18,555 | 19,588 |
| Investment in shares | 41 | | 441 | 444 |
| Other assets | 172 | | 1,829 | 1,522 |
| Deferred income tax asset | 115 | | 1,221 | 1,503 |
| Intangible assets | 3,547 | | 37,680 | 37,383 |
| TOTAL ASSETS | \$ 6,319 | Ps. | 67,148 | Ps. 69,618 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current Liabilities: | | | | |
| Bank loans | \$ 58 | Ps. | 618 | Ps. 216 |
| Interest payable | 31 | | 326 | 324 |
| Current maturities of long-term debt | 359 | | 3,810 | 3,173 |
| Suppliers | 434 | | 4,616 | 4,294 |
| Taxes payable | 88 | | 933 | 1,444 |
| Accounts payable, accrued expenses and other liabilities | 146 | | 1,545 | 1,706 |
| Total current liabilities | 1,116 | | 11,848 | 11,157 |
| Long-Term Liabilities: | | | | |
| Bank loans | 1,475 | | 15,673 | 22,447 |
| Notes payable | - | | - | 28 |
| Deferred income tax liability | 94 | | 994 | 1,430 |
| Labor liabilities | 73 | | 780 | 669 |
| Other liabilities | 293 | | 3,126 | 2,732 |

| | | | |
|---|-----------------|-------------------|------------|
| Total long-term liabilities | 1,935 | 20,573 | 27,306 |
| Total liabilities | 3,051 | 32,421 | 38,463 |
| Stockholders' Equity: | | | |
| Minority interest in consolidated subsidiaries | 90 | 959 | 740 |
| Majority interest: | | | |
| Capital stock | 272 | 2,886 | 2,886 |
| Additional paid-in capital | 1,162 | 12,349 | 12,349 |
| Retained earnings | 1,631 | 17,338 | 12,394 |
| Net income | 432 | 4,586 | 5,580 |
| Cumulative other comprehensive loss | (319) | (3,391) | (2,794) |
| Majority interest | 3,178 | 33,768 | 30,415 |
| Total stockholders' equity | 3,268 | 34,727 | 31,155 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 6,319 | Ps. 67,148 | Ps. 69,618 |

The accompanying notes are an integral part of these consolidated balance sheets.
Mexico City, Mexico, February 15, 2006.

/s/ Carlos Salazar Lomelín
Chief Executive Officer

/s/ Héctor Treviño Gutiérrez
Chief Financial Officer

COCA-COLA FEMSA, S.A. DE C.V. AND SUBSIDIARIES*Consolidated Income Statements*

For the years ended December 31, 2005, 2004 and 2003.

Amounts expressed in millions of U.S. dollars (\$) and in millions of constant Mexican pesos (Ps.) as of December 31, 2005, except per share data.

| | 2005 | | 2004 | | 2003 | | | |
|---|------|--------------|------|---------------|------|---------|-----|--------|
| Net sales | \$ | 4,690 | Ps. | 49,840 | Ps. | 47,442 | Ps. | 38,664 |
| Other operating revenues | | 34 | | 358 | | 344 | | 398 |
| Total revenues | | 4,724 | | 50,198 | | 47,786 | | 39,062 |
| Cost of sales | | 2,398 | | 25,486 | | 24,351 | | 19,614 |
| Gross profit | | 2,326 | | 24,712 | | 23,435 | | 19,448 |
| Operating expenses: | | | | | | | | |
| Administrative | | 265 | | 2,819 | | 2,824 | | 2,156 |
| Selling | | 1,243 | | 13,210 | | 12,624 | | 9,953 |
| | | 1,508 | | 16,029 | | 15,448 | | 12,109 |
| Income from operations | | 818 | | 8,683 | | 7,987 | | 7,339 |
| Integral result of financing: | | | | | | | | |
| Interest expense | | 231 | | 2,452 | | 2,622 | | 1,681 |
| Interest income | | (26) | | (280) | | (288) | | (265) |
| Foreign exchange (gain) loss | | (21) | | (223) | | 36 | | 2,206 |
| Gain on monetary position | | (76) | | (813) | | (1,537) | | (946) |
| | | 108 | | 1,136 | | 833 | | 2,676 |
| Other expenses, net | | 28 | | 303 | | 408 | | 281 |
| Income before taxes and employee profit sharing | | 682 | | 7,244 | | 6,746 | | 4,382 |
| Taxes and employee profit sharing | | 241 | | 2,562 | | 1,142 | | 1,843 |
| Income before cumulative effect of change in accounting principle | | 441 | | 4,682 | | 5,604 | | 2,539 |
| Cumulative effect of change in accounting principle, net of taxes | | (2) | | (22) | | - | | - |
| Consolidated net income | \$ | 443 | Ps. | 4,704 | Ps. | 5,604 | Ps. | 2,539 |
| Net majority income | | 432 | | 4,586 | | 5,580 | | 2,520 |
| Net minority income | | 11 | | 118 | | 24 | | 19 |

| | | | | | | | | |
|--|----|-------------|-----|--------------|-----|-------|-----|-------|
| Consolidated net income | \$ | 443 | Ps. | 4,704 | Ps. | 5,604 | Ps. | 2,539 |
| Net majority income (U.S. dollars and constant Mexican pesos) per share: | | | | | | | | |
| Before change in accounting principle | | 0.23 | | 2.47 | | 3.02 | . | 1.48 |
| Cumulative effect of change in accounting principle | | - | | 0.01 | | - | | - |
| Net majority income | | 0.23 | | 2.48 | | 3.02 | | 1.48 |

The accompanying notes are an integral part of these consolidated income statements.

COCA-COLA FEMSA, S.A. DE C.V. AND SUBSIDIARIES*Consolidated Statements of Changes in Financial Position*

For the years ended December 31, 2005, 2004 and 2003.

Amounts expressed in millions of U.S. dollars (\$) and in millions of constant Mexican pesos (Ps.) as of December 31, 2005.

| | 2005 | | 2004 | | 2003 | |
|---|------|-------|-----------|-----------|-----------|--|
| Resources Generated by (Used in) Operations: | | | | | | |
| Consolidated net income | \$ | 443 | Ps. 4,704 | Ps. 5,604 | Ps. 2,539 | |
| Depreciation | | 123 | 1,307 | 1,284 | 1,079 | |
| Amortization and other | | 117 | 1,241 | 866 | 1,144 | |
| | | 683 | 7,252 | 7,754 | 4,762 | |
| Working capital: | | | | | | |
| Accounts receivable | | (29) | (303) | (140) | 197 | |
| Inventories | | (4) | (40) | (308) | (417) | |
| Other current assets and recoverable taxes, net | | 10 | 102 | 557 | (636) | |
| Suppliers | | 30 | 322 | 506 | (48) | |
| Accounts payable, accrued expenses and other | | | | | | |
| liabilities | | (63) | (672) | (70) | (989) | |
| Labor liabilities | | (5) | (48) | (64) | (28) | |
| Net resources generated by operating activities | | 622 | 6,613 | 8,235 | 2,841 | |
| Resources Used in Investing Activities: | | | | | | |
| Panamerican Beverages, Inc. acquisition | | - | - | - | (32,228) | |
| Property, plant and equipment, net | | (112) | (1,191) | (1,405) | (1,721) | |
| Investment in shares and long-term accounts | | | | | | |
| receivable | | (5) | (52) | 160 | 68 | |
| Other assets | | (77) | (821) | (604) | (443) | |
| Net resources used in investing activities | | (194) | (2,064) | (1,849) | (34,324) | |
| Resources (Used in) Generated by Financing | | | | | | |
| Activities: | | | | | | |
| Bank loans paid during the year | | (429) | (4,556) | (4,125) | 17,130 | |
| Amortization in real terms of long-term liabilities | | (111) | (1,180) | (1,661) | 985 | |
| Notes payable, interest payable and other liabilities | | 4 | 40 | 35 | (684) | |
| Dividends declared and paid | | (60) | (636) | (557) | - | |
| Increase in minority interest | | - | - | 461 | - | |
| Increase in capital stock | | - | - | 3 | 10,674 | |
| Cumulative translation adjustment | | (4) | (41) | 95 | (492) | |
| | | (600) | (6,373) | (5,749) | 27,613 | |

Net resources (used in) generated by financing activities

Cash and cash equivalents:

| | | | | |
|-------------------------|--------|-----------|-----------|-----------|
| Net (decrease) increase | (172) | (1,824) | 637 | (3,870) |
| Initial balance | 356 | 3,782 | 3,145 | 7,015 |
| Ending balance | \$ 184 | Ps. 1,958 | Ps. 3,782 | Ps. 3,145 |

The accompanying notes are an integral part of these consolidated statements of changes in financial position.

COCA -COLA FEMSA, S.A. DE C.V. AND SUBSIDIARIES*Consolidated Statements of Changes in Stockholders' Equity*

For the years ended December 31, 2005, 2004 and 2003.

Amounts expressed in millions of constant Mexican pesos (Ps.) as of December 31, 2005.

| | Capital Stock | Additional Paid-in Capital | Retained Earning | Net Income | Cumulative Other Comprehensive Income (loss) | Minority Interest in Consolidated Subsidiaries | Total Stockholders' Equity |
|---|----------------------|----------------------------------|-----------------------|----------------------|---|---|----------------------------------|
| Balances at December 31, 2002 | Ps. 2,678 | Ps. 1,880 | Ps. 7,535 | Ps. 2,896 | Ps. (4,032) | Ps. - | Ps. 10,957 |
| Transfer of prior year net income | | | 2,896 | (2,896) | | | - |
| Minority interest from Panamco acquisition | | | | | | 161 | 161 |
| Increase in capital stock | 208 | 10,466 | | | | | 10,674 |
| Comprehensive income | | | | 2,520 | 858 | 19 | 3,397 |
| Balances at December 31, 2003 | 2,886 | 12,346 | 10,431 | 2,520 | (3,174) | 180 | 25,189 |
| Transfer of prior year net income | | | 2,520 | (2,520) | | | - |
| Increase in minority interest | | | | | | 461 | 461 |
| Dividends declared and paid | | | (557) | | | | (557) |
| Increase in capital stock | | 3 | | | | | 3 |
| Comprehensive income | | | | 5,580 | 380 | 99 | 6,059 |
| Balances at December 31, 2004 | 2,886 | 12,349 | 12,394 | 5,580 | (2,794) | 740 | 31,155 |
| Transfer of prior year net income | | | 5,580 | (5,580) | | | - |
| Dividends declared and paid | | | (636) | | | | (636) |
| Comprehensive income | | | | 4,586 | (597) | 219 | 4,208 |
| Balances at December 31, 2005 | Ps. 2,886 | Ps. 12,349 | Ps. 17,338 | Ps. 4,586 | Ps. (3,391) | Ps. 959 | Ps. 34,727 |

The accompanying notes are an integral part of these consolidated statements of changes in stockholders' equity.

COCA-COLA FEMSA, S.A. DE C.V. AND SUBSIDIARIES*Notes to the Consolidated Financial Statements*

For the years ended December 31, 2005, 2004 and 2003.

Amounts expressed in millions of U.S. dollars (\$) and in millions of constant Mexican pesos (Ps.) as of December 31, 2005.

Note 1. Activities of the Company

Coca-Cola FEMSA, S.A. de C.V. (Coca-Cola FEMSA) is a Mexican corporation whose main activity is the acquisition, holding and transferring all of types of bonds, capital stock, shares and marketable securities.

Coca-Cola FEMSA is indirectly owned by Fomento Económico Mexicano, S.A. de C.V. (FEMSA) (45.7% of the capital stock, 53.6% of the voting shares), and The Coca Cola Company, which indirectly owns 39.6% of the capital stock. The remaining 14.7% of the shares trade on the Bolsa Mexicana de Valores, S.A. de C.V. (BMV:KOFI) and The New York Stock Exchange, Inc. (NYSE:KOF).

Coca-Cola FEMSA and its subsidiaries (the Company) as economic unit, are engaged in the production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela, Brazil and Argentina.

Note 2. Acquisition of Panamerican Beverages, Inc.

On May 6, 2003, Coca-Cola FEMSA acquired 100% of the outstanding stock of Panamerican Beverages, Inc. (Panamco) for Ps. 32,084. As part of the acquisition, the Company assumed Ps. 9,875 of net debt and incurred transaction costs of Ps. 424, which consisted of financial advisory and legal fees, capitalized as adjustments to the purchase price.

At the acquisition date Panamco produced and distributed Coca-Cola trademark beverage in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Brazil, along with bottled water and other beverages in some of these territories and beer in Brazil.

The transaction was financed with an equity contribution from FEMSA of Ps. 3,020, an exchange of The Coca-Cola Company's equity interests in Panamco valued at Ps. 7,654 for new shares of Coca-Cola FEMSA, cash on hand of Ps. 3,066 and additional indebtedness of Ps. 18,768.

The exchange of equity interests of The Coca-Cola Company generated additional paid-in capital in majority stockholders' equity, since the shares were subscribed at a value greater than the book value of the shares at the subscription date.

The results of Panamco's operations were included in the consolidated financial statements since the date of acquisition, as a result of which the consolidated income statements and the consolidated statements of changes in financial position for the years ended December 31, 2005 and 2004 are not comparable with those for the year ended December 31, 2003.

The Company accounted for the acquisition by the purchase method and allocated the purchase price to the fair value of the assets acquired and the liabilities assumed. The fair value adjustments include recognition of an intangible asset with an indefinite life for a total amount of Ps. 37,154 included in the financial statements as Rights to produce and

distribute Coca-Cola trademark products and the reduction to fair value of certain assets consisting primarily of facilities that the Company considered non-strategic as well as the elimination of certain intangible assets that were generated from previous acquisitions made by Panamco.

Note 3. Basis of Presentation

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in Mexico (Mexican GAAP), which differ in certain significant respects from accounting principles generally accepted in the United States of America (U.S. GAAP), as further explained in Note 25. Reconciliation from Mexican GAAP to U.S. GAAP is included in Note 26.

The consolidated financial statements are stated in millions of Mexican pesos (Ps.). The translation of Mexican pesos into U.S. dollars (\$) is included solely for the convenience of the reader, using the noon buying exchange rate published by Bank of New York of 10.6275 pesos per U.S. dollar.

The consolidated financial statements include the financial statements of Coca-Cola FEMSA and those of all companies in which it owns directly or indirectly a majority of the outstanding voting capital stock and/or exercises control. All intercompany account balances and transactions have been eliminated in such consolidation.

Note 4. Foreign Subsidiary Incorporation

The accounting records of foreign subsidiaries are maintained in the currency of the country where they are located and in accordance with accounting principles generally accepted in each country. For incorporation into the Coca-Cola FEMSA consolidated financial statements, each foreign subsidiary's individual financial statements are adjusted to Mexican GAAP and restated to the purchasing power of the local currency applying inflation factors of the country of origin and are subsequently translated into Mexican pesos using the exchange rate in effect at the date of the most recent balance sheet presented.

The variation in the net investment in foreign subsidiaries generated by exchange rate fluctuations is included in the cumulative translation adjustment and is recorded directly in stockholders' equity as part of other comprehensive income.

The accounting treatment for the integral result of financing when the Company designates a net investment in an acquired foreign subsidiary as an economic hedge to finance its acquisition is as follows:

- The foreign exchange gain or loss is recorded as part of the cumulative translation adjustment to the extent the net investment in the foreign subsidiary covers the debt, net of taxes. The foreign exchange gain or loss associated with any unhedged portion of such debt is recorded in the integral result of financing; and
- The monetary position result is computed using the inflation factors of the country in which the acquired subsidiary is located to the extent the net investment in that subsidiary covers the debt outstanding. The monetary position result corresponding to the unhedged portion of such debt is calculated using the inflation factors of the country of the company that enters into the financing. The total effect is recorded in the integral result of financing.

As of the date of these consolidated financial statements, the Company has not designated any investment in a foreign subsidiary as an economic hedge.

The monetary position result and exchange gain or loss generated by foreign subsidiaries associated with intercompany financing foreign currency denominated balances that are considered a long-term-investment since settlement is not planned or anticipated in the foreseeable future, are recorded in the cumulative translation adjustment in stockholders' equity, net of the related tax effect, as part of other comprehensive income.

In February 2003, the Venezuelan government fixed the exchange rate at 1,600 Venezuelan bolivars per U.S. dollar. Due to the uncertainties regarding the availability of U.S. dollars at the official rate, the Company used the last available market-closing rate of 1,853 bolivars per U.S. dollar to translate the financial statements for its Venezuelan subsidiary. Since 2004, U.S. dollars have been available at the official rate, subject to compliance with the appropriate regulations.

Note 5. Significant Accounting Policies.

The Company's accounting policies are in accordance with Mexican GAAP, which require that the Company's management make certain estimates and use certain assumptions to determine the valuation of various items included in the consolidated financial statements. The Company's management believes that the estimates and assumptions used

were appropriate as of the date of these consolidated financial statements.

The significant accounting policies are as follows:

a) Recognition of the Effects of Inflation:

The recognition of the effects of inflation in the financial information consists of:

- Restating non-monetary assets such as inventories, fixed assets and intangibles, including related costs and expenses when such assets are consumed or depreciated;
- Restating capital stock, additional paid-in capital and retained earnings by the amount necessary to maintain the purchasing power equivalent in Mexican pesos on the dates such capital was contributed or income generated, through the use of the appropriate inflation factors;
- Including in stockholders' equity the cumulative effect of holding non-monetary assets, which is the net difference between changes in the replacement cost of non-monetary assets and adjustments based upon the inflation factors; and
- Including in the integral result of financing the purchasing power gain or loss from holding monetary items.

The Company restates its consolidated financial statements in currency of constant purchasing power by applying the inflation factors of the country of origin and the exchange rate in effect at the date of the most recently balance sheet presented.

b) Cash and Cash Equivalents:

Cash consists of non-interest bearing bank deposits. Cash equivalents consist principally of short-term bank deposits and fixed-rate investments with brokerage houses valued at the quoted market prices with original maturities of three months or less.

As of December 31, 2005 and 2004, the Company had restricted cash of approximately Ps. 71 and Ps. 165 (denominated in Venezuelan bolivars) which were pledged as collateral on accounts payable to suppliers.

c) Inventories and Cost of Sales:

The value of inventories is adjusted to replacement cost, without exceeding market value. Advances to suppliers to purchase raw materials are included in the inventory account and are restated by applying inflation factors, considering their average age.

Cost of sales is determined based on replacement cost at the time of sale. Cost of sales includes expenses related to raw materials used in the production process, labor (wages and other benefits), depreciation of production facilities and equipment and other costs including fuel, electricity, breakage of returnable bottles in the production process, equipment maintenance, inspection and inter and intra-plant transfer costs.

d) Other Current Assets:

Other current assets are comprised of payments for services that will be received over the next 12 months and the market value of short term derivative instruments.

Prepaid expenses are recorded at historical cost and are recognized in the income statement when the services or benefits are received. Prepaid expenses principally consist of advertising, promotional and leasing expenses.

Advertising costs consist of television and radio advertising airtime paid in advance, which are generally amortized over a 12-month period based on the transmission of the television and radio spots. The related production costs are recognized in results of operations the first time the advertising is transmitted.

Promotional costs are expensed as incurred, except for those promotional costs related to the launching of new products or presentations including the cost of the liquid and the bottles. These costs are recorded as prepaid expenses and amortized over the period during which they are estimated to increase sales of the related products or container presentations to normal operating levels, which is generally one year.

e) Property, Plant and Equipment:

Property, plant and equipment are initially recorded at their cost of acquisition and/or construction. Property, plant and equipment of domestic origin, except returnable bottles and cases (see Note 5 f), are restated by applying inflation factors. Imported equipment is restated by applying inflation factors of the country of origin and then translated using the exchange rate in effect at the date of the most recent balance sheet presented.

Depreciation is computed using the straight-line method, based on the value of the restated assets reduced by their residual values. The Company, together with independent appraisers, estimates depreciation rates, considering the estimated remaining useful lives of the assets.

The estimated useful lives of the Company's principal assets are as follows:

| | Years |
|----------------------------|--------------|
| Buildings and construction | 47 |
| Machinery and equipment | 16 |
| Distribution equipment | 11 |
| Other equipment | 7 |

f) Returnable Bottles and Cases:

Returnable bottles and cases are recorded at acquisition cost and restated to their replacement cost. The Company classifies them as fixed assets.

There are two types of returnable bottles and cases:

- Those that are in the Company's control in its facilities or under a loan agreement with customers, which are referred to as bottles and cases in plant and distribution centers; and

- Those that have been placed in the hands of customers, which are referred to as bottles and cases in the market.

For financial reporting purposes, breakage of returnable bottles and cases in plant and distribution centers is recorded as an expense as it is incurred. For the years ended December 31, 2005, 2004 and 2003 breakage expense amounted to Ps. 552, Ps. 435 and Ps. 307, respectively.

The Company's returnable bottles and cases in the market and for which a deposit from customers has been received are presented net of such deposits, and the difference between the cost of these assets and the deposits received is amortized according to their useful lives. The bottles and cases for which no deposit has been received, which represent most of the bottles and cases placed in the market, are expensed when placed in the hands of customers. Depreciation is computed only for tax purposes using the straight-line method at a rate of 10% per year.

The Company estimates that breakage expense of returnable bottles and cases in plant and distribution centers is similar to the depreciation calculated on an estimated useful life of approximately four years for returnable glass bottles and plastic cases and one year for returnable plastic bottles.

g) Investment in Shares:

Investments in shares of associated companies are initially recorded at their acquisition cost and subsequently accounted for using the equity method. Investments in affiliated companies in which the Company does not have significant influence are recorded at acquisition cost and are adjusted to market value if they have an observable market value or based upon the inflation factors of the country of origin.

h) Other Assets:

Other assets represent payments whose benefits will be received in future years and consist of the following:

- Refrigeration equipment, which is initially recorded at the cost of acquisition. Equipment of domestic origin is restated by applying domestic inflation factors. Imported equipment is restated by applying the inflation rate of the country of origin and then translated at the year-end exchange rate. Refrigeration equipment is amortized based on an estimated average useful life of approximately five years. Major refrigeration equipment repairs were initiated in Mexico in 2004. These repairs were capitalized and are being amortized over a two-year period net of the undepreciated value of the parts replaced;
- Agreements with customers for the right to sell and promote the Company's products during certain periods of time, which are considered monetary assets and amortized under the straight-line method over the life of the contract. The amortization is recorded reducing net sales, which during the years ended December 31, 2005, 2004 and 2003, amounted to Ps. 249, Ps. 278 and Ps. 272, respectively;
- Leasehold improvements, which are restated by applying inflation factors, are amortized using the straight-line method over the shorter of the useful life of the assets or a term equivalent to the minimum lease period.

i) Intangible Assets:

These assets represent payments whose benefits will be received in future years. The Company separates intangible assets between those with a finite useful life and those with an indefinite useful life, in accordance with the period over which the Company expects to receive the benefits.

Intangible assets with finite useful lives are amortized and mainly consist of information technology and management systems costs incurred during the development stage are capitalized. Such amounts are restated applying inflation factors and are amortized using the straight-line method over four years. Expenses that do not fulfill the requirements for capitalization are expensed as incurred.

Intangible assets with indefinite lives are not amortized and are subject to periodic impairment testing. The Company's intangible assets with indefinite lives mainly consist of the Company's rights to produce and distribute Coca-Cola trademark products in the territories acquired (see Note 2) through the Panamco acquisition. These rights are contained in agreements that are the standard contracts that The Coca-Cola Company enters into with bottlers outside the United States of America for the sale of concentrates for certain Coca-Cola trademark beverages. The most significant bottler agreements have terms of 10 years and are automatically renewable for 10-year terms, subject to non-renewal by either party. These agreements are recorded in the functional currency of the subsidiary in which the investment was made and restated by applying inflation factors of the country of origin using the exchange rate in effect at the date of the most recent balance sheet presented.

j) Impairment of Long-Lived Assets:

The Company reviews the carrying value of its long-lived assets for impairment and determines whether impairment exists, by comparing estimated discounted future cash flows to be generated by those assets with their carrying value.

For long-lived assets, such as property, plant and equipment, other assets and indefinite life intangible assets, the Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable through their expected future cash flows.

Impairment charges regarding long-lived assets are recognized in other expenses.

k) Payments from The Coca-Cola Company:

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Company's refrigeration equipment investment program. The contributions received for advertising and promotional incentives are included as a reduction of selling expenses. The contributions received for the refrigeration equipment investment program are recorded as a reduction of the investment in refrigeration equipment. The contributions received were Ps. 952, Ps. 958 and Ps. 1,307 during the years ended December 31, 2005, 2004 and 2003, respectively.

l) Labor Liabilities:

Beginning January 1, 2005, revised Bulletin D-3 establishes that severance payments resulting from situations other than a restructuring should be charged to the income statement in accordance with actuarial calculations based on the Company's severance indemnity history of the last three years. Labor liabilities include obligations for pension and retirement plans, seniority premiums and beginning in 2005 severance indemnity liabilities, all based on actuarial calculations by independent actuaries, using the projected unit credit method. Until December 31, 2004 such severance indemnities were charged to expenses on the date when a decision was taken. These liabilities are considered to be non-monetary and are restated using long-term assumptions. The cost for the year of labor liabilities is charged to income from operations.

Unamortized prior service costs are recorded as expenses over the period during which the employees will receive the benefits of the plan, which in the case of pension and retirement plans and seniority premiums is 14 years since 1996, and 19 years for severance indemnities since 2005.

Certain subsidiaries of the Company have established funds for the payment of pension benefits through irrevocable trusts with the employees named as beneficiaries.

Severance indemnities resulting from a restructuring program are charged to expenses on the date when a decision to retire personnel under a formal program or for specific causes is taken. These severance payments are included in other expenses, net. During the years ended December 31, 2005, 2004 and 2003, these payments amounted to Ps. 73, Ps. 94 and Ps. 33, respectively.

m) Revenue Recognition:

Revenue is recognized upon delivery to the customer and the customer has taken ownership of the goods. Net sales reflect units delivered at selling list prices reduced by promotion allowances, discounts and the amortization of the agreements with customers to obtain the rights to sell and promote the products of the Company.

n) Operating Expenses:

Administrative expenses include labor costs (salaries and other benefits) for employees not directly involved in the sale of the Company's products, professional service fees, depreciation of office facilities and amortization of capitalized information technology system costs.

Selling expenses include:

- **Distribution:** labor costs (salaries and other benefits), outbound freight costs, warehousing costs of finished products, breakage for returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. During the years ended December 31, 2005, 2004 and 2003, these distribution costs amounted to Ps. 7,008, Ps. 6,610 and Ps. 5,419, respectively;
- **Sales:** labor costs (salaries and other benefits) and sales commissions paid to sales personnel; and
- **Marketing:** labor costs (salaries and other benefits), promotions and advertising costs.

o) Income Tax, Tax on Assets and Employee Profit Sharing:

Income tax and employee profit sharing are charged to results as they are incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred income tax assets are reduced by any benefits for which there is uncertainty as to their realizability. Deferred employee profit sharing is derived from temporary differences between the accounting result and

income for employee profit sharing purposes and is recognized only when it can be reasonably assumed that the temporary differences will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

The tax on assets paid that is expected to be recovered is recorded as a reduction of the deferred tax liability.

The balance of deferred taxes is comprised of monetary and non-monetary items, based on the temporary differences from which it is derived. Deferred taxes are classified as a long-term asset or liability, regardless of when the temporary differences are expected to reverse.

The deferred tax provision to be included in the income statement is determined by comparing the deferred tax balance at the end of the year to the balance at the beginning of the year, excluding from both balances any temporary differences that are recorded directly in stockholders' equity. The deferred taxes related to such temporary differences are recorded in the same stockholders' equity account.

FEMSA has authorization from the Secretaría de Hacienda y Crédito Público (SHCP) to prepare its income tax and tax on assets returns on a consolidated basis, which includes the proportional taxable income or loss of its Mexican subsidiaries. The provisions for income taxes of the Company and all the foreign countries subsidiaries have been determined on the basis of the taxable income of each individual company.

p) Integral Result of Financing:

The integral result of financing includes:

- **Interest:** Interest income and expenses are recorded when earned or incurred, respectively;
- **Foreign Exchange Gains and Losses:** Transactions in foreign currencies are recorded in local currencies using the exchange rate applicable on the date they occur. Assets and liabilities in foreign currencies are adjusted using the exchange rate in effect at the date of the most recent balance sheet presented, recording the resulting foreign exchange gain or loss directly in the income statement, except for any foreign exchange gain or loss from financing obtained for the acquisition of foreign subsidiaries that are considered to be an economic hedge and the intercompany financing foreign currency denominated balances that are considered to be of a long-term investment nature (see Note 4); and
- **Gain or Loss on Monetary Position:** Represents the result of the effects of inflation on monetary items. The gain or loss on monetary position is computed by applying inflation factors of the country of origin to the net monetary position at the beginning of each month, excluding the financing contracted for the acquisition of any foreign subsidiaries that are considered to be an economic hedge and the intercompany financing foreign currency denominated balances that are considered to be of a long-term investment nature (see Note 4). The gain or loss on monetary position of foreign subsidiaries is translated into Mexican pesos using the exchange rate in effect at the date of the most recent balance sheet presented.

q) Derivative Instruments:

On January 1, 2005, Bulletin C-10, Instrumentos Financieros Derivados y Operaciones de Cobertura (Derivative Financial Instruments and Hedging Activities), went into effect. Accordingly, the Company values and records all derivative instruments and hedging activities (including certain derivative instruments embedded in other contracts) in the balance sheet as either an asset or liability measured at their fair value. Changes in the fair value of derivative instruments are recorded each year in the net income or as part of other comprehensive income, based on the type of

hedging instrument and the effectiveness of the hedge.

Prior to Bulletin C-10, the Company's derivative instruments entered into for hedging purposes were valued using the same valuation criteria applied to the hedged asset or liability, with their fair value being disclosed in the notes to the financial statements. Additionally, derivative instruments entered into for purposes other than hedging were valued and recorded at fair value. The difference between the derivative instrument's initial value and fair value was recorded in the income statement.

The initial effect of adopting Bulletin C-10 resulted in the recognition of a net asset for derivative financial instruments of Ps. 210, with a corresponding increase of Ps. 63 in the deferred income tax liability, Ps. 22 of income was recorded in the income statement as a change in accounting principle, net of deferred taxes, and Ps. 125 was recorded in other comprehensive income, net of deferred taxes. At December 31, 2005, the derivative financial instruments represent a net liability of Ps. 276 and a charge of Ps. 242 of other comprehensive income, net of deferred taxes.

r) Cumulative Other Comprehensive Income (Loss):

The cumulative balances of the components of other comprehensive income (loss) are as follows:

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| | 2005 | 2004 |
|--|--------------------|-------------|
| Cumulative result of holding non-monetary assets | Ps. (1,549) | Ps.(1,232) |
| Unrealized gains (losses) on cash flow hedges | (242) | - |
| Cumulative translation adjustment | (1,579) | (1,538) |
| Additional labor liability over unrecognized net transition obligation | (21) | (24) |
| | Ps. (3,391) | Ps. (2,794) |

The cumulative result of holding non-monetary assets represents the sum of the difference between book values and restatement values, as determined by applying inflation factors to non-monetary assets such as inventories and fixed assets, and their effects on the income statement when the assets are consumed or depreciated, net of the corresponding deferred income tax effect.

s) Provisions:

Provisions are recognized for obligations that result from a past event that will likely result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant.

t) Issuances of Subsidiary Stock:

The Company recognizes issuances of a subsidiary's stock as a capital transaction, in which the difference between the book value of the shares issued and the amount contributed by the minority interest holder or a third party is recorded as additional paid-in capital.

Note 6. Accounts Receivable.

| | 2005 | 2004 |
|---------------------------------|------------------|-----------|
| Trade | Ps. 1,901 | Ps. 1,806 |
| Allowance for doubtful accounts | (108) | (136) |
| Notes receivable | 69 | 37 |
| The Coca-Cola Company | 399 | 240 |
| Loans to employees | 24 | 15 |
| Travel advances to employees | 8 | 11 |
| Insurance claims | 7 | 9 |
| Other | 223 | 238 |
| | Ps. 2,523 | Ps. 2,220 |

The changes in the allowance for doubtful accounts are as follows:

| | 2005 | 2004 | 2003 |
|-------------------------------------|----------------|---------|---------|
| Initial balance | Ps. 136 | Ps. 134 | Ps. 96 |
| Provision for the period | 28 | 88 | 60 |
| Write-off of uncollectible accounts | (45) | (75) | (22) |
| Restatement of the initial balance | (11) | (11) | - |
| Ending balance | Ps. 108 | Ps. 136 | Ps. 134 |

Note 7. Inventories.

| | 2005 | 2004 |
|---------------------------------------|------------------|-----------|
| Finished products | Ps. 644 | Ps. 623 |
| Raw materials | 1,454 | 1,590 |
| Advances to suppliers | 41 | 75 |
| Work in process | 27 | 9 |
| Advertising and promotional materials | 4 | 4 |
| Allowance for obsolescence | (2) | - |
| | Ps. 2,168 | Ps. 2,301 |

Note 8. Other Current Assets.

| | 2005 | 2004 |
|--------------------------------------|----------------|---------|
| Advertising and promotional expenses | Ps. 76 | Ps. 69 |
| Derivative financial instruments | 161 | - |
| Bonus | 2 | 13 |
| Prepaid insurance | 11 | 8 |
| Prepaid services | 41 | - |
| Other | 18 | 16 |
| | Ps. 309 | Ps. 106 |

The advertising and promotional expenses recorded in the income statement for the years ended December 31, 2005, 2004 and 2003 amounted to Ps. 1,484, Ps. 1,651 and Ps. 1,236, respectively.

Note 9. Property, Plant and Equipment.

| | 2005 | 2004 |
|--|-------------------|------------|
| Land | Ps. 2,563 | Ps. 2,478 |
| Buildings, machinery and equipment | 27,781 | 27,959 |
| Accumulated depreciation | (13,888) | (13,170) |
| Construction in progress | 535 | 683 |
| Returnable bottles and cases | 1,047 | 1,075 |
| Spare parts | 337 | 300 |
| Long-lived assets stated at realizable value | 180 | 263 |
| | Ps. 18,555 | Ps. 19,588 |

The Company has identified certain long-lived assets that are not strategic to the current and future operations of the business and are available for sale, comprised of land, buildings and equipment for disposal, in accordance with an approved program for the disposal of certain investments. Such long-lived assets, which are not in use and have been recorded at their estimated realizable value without exceeding their restated acquisition cost, are as follows:

| | 2005 | 2004 |
|------------|----------------|---------|
| Colombia | Ps. 99 | Ps. 138 |
| Venezuela | 51 | 59 |
| Costa Rica | 30 | 66 |
| | Ps. 180 | Ps. 263 |

| | | |
|-----------|----------------|---------|
| Land | Ps. 124 | Ps. 90 |
| Buildings | 31 | 116 |
| Equipment | 25 | 57 |
| | Ps. 180 | Ps. 263 |

As a result of the sale of certain of the above assets, the Company recognized a loss of Ps. 8 in 2005; for the years ended December 31, 2004 and 2003 the Company did not dispose of long-lived assets. Such long-lived assets are considered monetary assets on which a loss on monetary position is computed and recorded in the income statement.

Note 10. Investment in Shares.

| Company | Ownership | 2005 | 2004 |
|--|------------------|----------------|-------------|
| Industria Envasadora de Querétaro, S.A. de C.V. (IEQSA ⁽¹⁾) | 33.68% | Ps. 150 | Ps. 150 |
| KSP Participacoes, S.A. ⁽¹⁾ | 12.14% | 81 | 102 |
| Beta San Miguel, S.A. de C.V. (Beta San Miguel ⁽²⁾) | 2.54% | 64 | 64 |
| Complejo Industrial Can, S.A. (CICAN ⁽¹⁾) | 48.10% | 35 | 37 |
| Industria Mexicana de Reciclaje, S.A. de C.V. (IMER ⁽¹⁾) | 35.00% | 83 | 54 |
| Tapón Corona de Colombia, S.A. (Tapón Corona ⁽³⁾) (1) | - | - | 25 |
| Compañía de Servicios de Bebidas Refrescantes, S.A. de C.V. (SALESKO ⁽¹⁾) | 26.00% | 21 | - |

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| | | | |
|----------------------------------|---------|----------------|---------|
| Other investments ⁽²⁾ | Various | 7 | 12 |
| | | Ps. 441 | Ps. 444 |

Valuation method:

1) Equity method.

2) Restated acquisition cost (there is no readily determinable market value).

3) At December 31, 2005 the Company did not have any investment in this entity.

Note 11. Other Assets.

| | 2005 | 2004 |
|--|------------------|-----------|
| Refrigeration equipment | Ps. 1,136 | Ps. 979 |
| Agreements with customers | 190 | 162 |
| Leasehold improvements | 16 | 32 |
| Long-term accounts receivable | 94 | 45 |
| Additional labor liabilities (see Note 15) | 156 | 6 |
| Derivative financial instruments | 35 | - |
| Commissions | 53 | 87 |
| Other | 149 | 211 |
| | Ps. 1,829 | Ps. 1,522 |

Note 12. Intangible Assets.

| | 2005 | 2004 |
|--|-------------------|------------|
| <u>Intangible assets with indefinite useful lives:</u> | | |
| Rights to produce and distribute Coca-Cola trademark products: | | |
| Territories of Panamco (see Note 2) | Ps. 37,154 | Ps. 36,990 |
| Buenos Aires, Argentina | 208 | 201 |
| Tapachula, Chiapas | 122 | 122 |
| <u>Intangible assets with finite useful lives:</u> | | |
| Cost of systems implementation | 196 | 70 |
| | Ps. 37,680 | Ps. 37,383 |

The changes in the carrying amount of amortized intangible assets are as follows:

| Investments | Amortization | Estimated |
|-------------|--------------|-----------|
|-------------|--------------|-----------|

| | Initial | Additions | Initial | For the Year | Total | Amortization Per Year |
|-----------------------------------|----------------|------------------|-----------------|-------------------------|----------------|----------------------------------|
| 2005: | | | | | | |
| Cost of systems implementation | Ps. 132 | Ps. 158 | Ps. (62) | Ps. (32) | Ps. 196 | Ps. (45) |
| 2004: | | | | | | |
| Cost of systems implementation | Ps. 69 | Ps. 63 | Ps. (55) | Ps. (7) | Ps. 70 | Ps. (30) |

Note 13. Balances and Transactions with Related Parties and Affiliated Companies.

The consolidated balance sheets and income statements include the following balances and transactions with related parties and affiliated companies:

| Balances | 2005 | 2004 |
|---|----------------|---------|
| Assets (accounts receivable) | Ps. 558 | Ps. 334 |
| Liabilities (suppliers and other liabilities) | 1,496 | 1,667 |

| Transactions | 2005 | 2004 | 2003 |
|--|----------------|-------------|-------------|
| Income: | | | |
| Sales and other revenues | Ps. 612 | Ps. 276 | Ps. 189 |
| Expenses: | | | |
| Purchase of raw material and operating expenses from FEMSA | 2,418 | 2,123 | 2,292 |
| Purchase of concentrate from The Coca-Cola Company | 7,763 | 7,221 | 6,069 |
| Purchase of sugar from Beta San Miguel | 575 | 946 | 240 |
| Purchase of canned products from IEQSA and CICAN | 590 | 486 | 302 |
| Purchases of crown caps from Tapón Corona | 113 | 206 | 125 |
| Purchase of plastic bottles from Embotelladora del Atlántico, S.A. (formerly Complejo Industrial Pet, S.A.) ⁽¹⁾ | 158 | 158 | 146 |
| Interest expense to The Coca-Cola Company | 11 | 14 | 8 |
| Interest expense related to long-term debt at BBVA Bancomer, S.A. ⁽²⁾ | - | 174 | 37 |
| Others | 15 | 20 | 13 |

(1) During the years 2004 and 2003, one or more members of our board of directors or senior management were members of the board of directors or senior management of the counterparties to these transactions.

(2) At December 31, 2005, the Company has no members of its Board of directors or senior management as members of the Board of directors or senior management of the counterparties to these transactions.

Note 14. Balances and Transactions in Foreign Currencies.

Assets, liabilities and transactions denominated in foreign currencies, other than the functional currencies of the reporting unit, translated into U.S. dollars are as follows:

| Balances | Applicable Exchange Rate ⁽¹⁾ | Short-Term | Long-Term | Total |
|---------------------------|--|-------------------|------------------|--------------|
| December 31, 2005: | | | | |
| Assets | 10.7109 | \$ 77 | \$ - | \$ 77 |
| Liabilities | | 239 | 486 | 725 |
| December 31, 2004: | | | | |
| Assets | 11.1460 | \$ 164 | \$ - | \$ 164 |
| Liabilities | | 47 | 669 | 716 |

(1) Mexican pesos per one U.S. dollar.

| Transactions | 2005 | 2004 | 2003 |
|---------------------|--------------|-------------|-------------|
| Revenues | \$ 18 | \$ 9 | \$ 5 |

Expenses:

| | | | |
|----------------------------|---------------|--------|--------|
| Purchases of raw materials | 99 | 105 | 90 |
| Financial interest | 54 | 39 | 51 |
| Other | 14 | 19 | 43 |
| | \$ 167 | \$ 163 | \$ 184 |

As of February 15, 2006, the issuance date of these consolidated financial statements, the exchange rate was 10.5258 Mexican pesos per one U.S. dollar, and the foreign currency position was similar to that as of December 31, 2005.

Note 15. Labor Liabilities.

a) Assumptions:

The 2005 and 2004 actuarial calculations for pension and retirement plan, seniority premium and severance indemnity liabilities, as well as the cost for the period, were determined using the following long-term assumptions:

| | Annual Discount Rate | Salary Increase | Return on Assets | |
|------------|-------------------------------------|----------------------------|-----------------------------|-----|
| Mexico | 6.0% | 2.0% | 6.0% | |
| Guatemala | 4.5% | 1.5% | - | (1) |
| Nicaragua | 4.5% | 1.5% | - | (1) |
| Costa Rica | 4.5% | 1.5% | 4.5% | |
| Colombia | 4.5% | 1.5% | - | (1) |
| Brazil | 4.5% | 1.5% | 4.5% | |

Measurement date: November 2005

(1) No funding established for the payment of post-retirement obligations.

The basis for the determination of the long-term rate of return is supported by a historical analysis of average returns in real terms for the last 30 years of the Certificados de Tesorería del Gobierno Federal (Mexican Federal Government Treasury Certificates) or treasury bonds of each country for other investments and the expectations of long-term returns of the actual investments of the Company.

Based on these assumptions, the expected benefits to be paid in the following years are as follows:

| | Pension and Retirement Plans | Seniority Premiums | Severance Indemnities |
|--------------|---|-------------------------------|----------------------------------|
| 2006 | Ps. 3 | Ps. 35 | Ps. 44 |
| 2007 | 3 | 36 | 33 |
| 2008 | 4 | 36 | 29 |
| 2009 | 4 | 37 | 27 |
| 2010 | 5 | 42 | 25 |
| 2011 to 2014 | 24 | 170 | 96 |

b) Balances of the Liabilities:

| | 2005 | 2004 |
|--|----------------|-------------|
| Pension and retirement plans: | | |
| Vested benefit obligation | Ps. 262 | Ps. 274 |
| Non-vested benefit obligation | 446 | 482 |
| Accumulated benefit obligation | 708 | 756 |
| Excess of projected benefit obligation over accumulated benefit obligation | 105 | 98 |
| | | 241 |

| | | |
|--|----------------|---------|
| Projected benefit obligation | 813 | 854 |
| Pension plan funds at fair value | (298) | (256) |
| Unfunded projected benefit obligation | 515 | 598 |
| Unrecognized net transition obligation | (13) | (14) |
| Unrecognized actuarial net gain | 57 | 14 |
| | 559 | 598 |
| Additional labor liability | 16 | 13 |
| Total | Ps. 575 | Ps. 611 |
| Seniority premiums: | | |
| Vested benefit obligation | Ps. 18 | Ps. 17 |
| Non-vested benefit obligation | 28 | 33 |
| Accumulated benefit obligation | 46 | 50 |
| Excess of projected benefit obligation over accumulated benefit obligation | 10 | 7 |
| Unfunded projected benefit obligation | 56 | 57 |
| Unrecognized net transition obligation | (2) | (2) |
| Unrecognized actuarial net | (25) | (24) |
| | 29 | 31 |
| Additional labor liability | 29 | 27 |
| Total | Ps. 58 | Ps. 58 |

Table of Contents**Severance indemnities:**

| | | |
|--|----------------|---------|
| Accumulated benefit obligation | Ps. 147 | Ps . - |
| Excess of projected benefit obligation over accumulated benefit obligation | 14 | - |
| Projected benefit obligation | 161 | - |
| Unrecognized net transition obligation | (156) | - |
| | 5 | - |
| Additional labor liability | 142 | - |
| Total | Ps. 147 | - |
| Total labor liabilities | Ps. 780 | Ps. 669 |

The accumulated actuarial gains and losses were generated by the differences in the assumptions used for the actuarial calculations at the beginning of the year versus the actual behavior of those variables at the end of the year.

The projected benefit obligation in some subsidiaries was less than the accumulated benefit obligation reduced by the amount of the plan assets at fair value, resulting in an additional liability, which was recorded as an intangible asset included in other assets up to an amount of the unrecognized net transition obligation services (see Note 11) and the difference was recorded as other comprehensive income.

c) Trust Assets:

Trust assets consist of fixed and variable return financial instruments, at market value. The trust assets are invested as follows:

| | 2005 | 2004 |
|--------------------------------|-------------|------|
| Fixed Return: | | |
| Traded securities | 6% | 34% |
| Bank instruments | 2% | 11% |
| Federal government instruments | 55% | 30% |
| Variable Return: | | |
| Publicly traded shares | 37% | 25% |
| | 100% | 100% |

The Company has a policy of maintaining at least 30% of the trust assets in Mexican Federal Government instruments for Mexican investment and treasury bonds of each country for other investments. Objective portfolio guidelines have been established for the remaining percentage, and investment decisions are made to comply with those guidelines to the extent that market conditions and available funds allow. The composition of the portfolio is consistent with the composition of the portfolios of five largest international companies that manage long-term funds.

The amounts and types of securities of the Company and related parties included in trust assets are as follows:

| | 2005 | 2004 |
|-----------------|--------------|-------|
| Capital: | | |
| FEMSA | Ps. 2 | Ps. 2 |

d) Cost for the Year:

| | 2005 | 2004 | 2003 |
|--|---------------|--------|--------|
| Pension and retirement plans: | | | |
| Service cost | Ps. 41 | Ps. 37 | Ps. 27 |
| Interest cost | 23 | 21 | 14 |
| Amortization of unrecognized transition obligation | 1 | - | - |

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| | | | |
|--|----------------|--------|--------|
| Amortization of net actuarial gain | (1) | (2) | (1) |
| | 64 | 56 | 40 |
| Seniority premiums: | | | |
| Service cost | 8 | 8 | 7 |
| Interest cost | 3 | 3 | 2 |
| Amortization of unrecognized transition obligation | 1 | - | 1 |
| | 12 | 11 | 10 |
| Severance indemnities: | | | |
| Service cost | 28 | - | - |
| Interest cost | 10 | - | - |
| Amortization of unrecognized transition obligation | 12 | - | - |
| | 50 | - | - |
| | Ps. 126 | Ps. 67 | Ps. 50 |

e) Changes in the Balance of the Obligations:

| | | | |
|--------------------------------------|--|----------------|---------|
| | | 2005 | 2004 |
| Pension and retirement plans: | | | |
| Initial balance | | Ps. 854 | Ps. 837 |
| Service cost | | 41 | 37 |
| Interest cost | | 23 | 21 |
| Actuarial gain | | (28) | (29) |
| Benefits paid | | (77) | (12) |
| Ending balance | | Ps. 813 | Ps. 854 |
| Seniority premiums: | | | |
| Initial balance | | Ps. 57 | Ps. 50 |
| Service cost | | 8 | 8 |
| Interest cost | | 3 | 3 |
| Actuarial gain | | (12) | (4) |
| Ending balance | | Ps. 56 | Ps. 57 |
| Severance indemnities: | | | |
| Service cost | | Ps. 28 | Ps. - |
| Interest cost | | 10 | - |

| | | |
|----------------|----------------|--------|
| Actuarial loss | 123 | - |
| Ending balance | Ps. 161 | Ps . - |

f) Changes in the Balance of the Trust Assets:

| | 2005 | 2004 |
|---|----------------|---------|
| Pension and retirement plans: | | |
| Initial balance | Ps. 256 | Ps. 238 |
| Actual return on trust assets in real terms | 46 | 38 |
| Benefits paid | (4) | (20) |
| Ending balance | Ps. 298 | Ps. 256 |

Note 16. Bonus Program.

The bonus program for executives is based on complying with certain goals established annually by management, which include quantitative and qualitative objectives and special projects.

The quantitative objectives represent approximately 50% of the bonus and are based on the Economic Value Added (EVA) methodology. The objective established for the executives is based on a combination of the EVA of the entity and EVA generated by the Company and FEMSA consolidated, calculated at approximately 70% and 30%, respectively.

The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

In addition, the Company provides a share compensation plan to certain key executives, consisting of an annual cash bonus to purchase shares under the following procedures, 50% of the annual cash bonus is used to purchase FEMSA shares or options and the remaining is to be used to purchase Coca-Cola FEMSA shares or options, based on the executive's responsibility in the organization, their business EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 20% per year.

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. The bonuses are recorded in income from operations and are paid in cash the following year. During the years ended December 31, 2005, 2004 and 2003, the bonus expense recorded amounted to Ps. 226, Ps. 251 and Ps. 203, respectively.

All shares held by the trusts are considered outstanding for earnings per share purposes and dividends on shares held by the trusts are charged to retained earnings.

Note 17. Bank Loans and Notes Payable.

As of December 31, 2005 and 2004 short-term debt consisted of revolving bank loans. The amounts and weighted average variable interest rates of which are as follows:

| | % Interest Rate ⁽¹⁾ | 2005 | % Interest Rate ⁽¹⁾ | 2004 |
|---------------------|---|----------------|---|-------------|
| Argentine pesos | 9.4 % | Ps. 224 | 5.4 % | Ps. 138 |
| Venezuelan bolivars | 12.1 % | 389 | 11.0 % | 78 |
| U.S. dollars | 4.7 % | 5 | - | - |
| | | Ps. 618 | | Ps. 216 |

(1)Weighted average rate.

The following table presents long-term bank loans and notes payable, as well as their weighted average rates and derivative instruments contracted by the Company:

| | % Interest Rate ⁽¹⁾ | 2005 | % Interest Rate ⁽¹⁾ | 2004 |
|--|---|-------------|---|-------------|
|--|---|-------------|---|-------------|

Fixed interest rate:**U.S. dollars:**

| | | | | |
|-------------|-------|-----------|-------|-----------|
| Yankee bond | 7.9 % | Ps. 5,359 | 7.9 % | Ps. 5,790 |
|-------------|-------|-----------|-------|-----------|

Mexican pesos:

| | | | | |
|----------------------------|--------|-------|--------|-------|
| Bank loans | 9.9 % | 500 | 10.0 % | 4,805 |
| Notes | 10.2 % | 1,500 | 9.0 % | 7,492 |
| Units of investment (UDIs) | 8.7 % | 1,425 | 8.7 % | 1,484 |

Variable interest rate:**U.S. dollars:**

| | | | | |
|-------------------|-------|-------|------------|-------|
| Capital leases | 7.3 % | 14 | 10 .0 % | 23 |
| Private placement | 8.8 % | 1,982 | 10.0% | 1,900 |

Mexican pesos:

| | | | | |
|------------|-------|-------|-------|-------|
| Bank loans | 9.1 % | 2,650 | 9.4 % | 568 |
| Notes | 9.8 % | 5,656 | 9.4 % | 2,843 |

| | | | | |
|--------------------------------------|-------|-------------------|-------|------------|
| Colombian pesos: | | | | |
| Notes | 8.7 % | 372 | 10.0% | 715 |
| Guatemalan quetzals: | | | | |
| Bank loans | 6.5 % | 25 | - | - |
| Long-Term Debt | | 19,483 | | 25,620 |
| Current maturities of long-term debt | | 3,810 | | 3,173 |
| | | Ps. 15,673 | | Ps. 22,447 |

Derivative Instruments**Cross currency swaps:**

| | | | | |
|---|-------|------------------|-------|-----------|
| Bank loans from U.S. dollars to Mexican pesos | | Ps. 1,500 | | Ps. 1,612 |
| Interest rate paid | 11.0% | | 10.0% | |
| Interest rate received | 4.8% | | 2.9% | |

Interest rate swaps variable to fixed:

| | | | | |
|-----------------------------------|------|--------------|-------|-------|
| Mexican pesos: Bank loans: | | 2,650 | | 4,805 |
| Interest rate paid | 9.9% | | 10.0% | |
| Interest rate received | 9.1% | | 9.4% | |
| Notes: | | 5,750 | | 5,941 |
| Interest rate paid | 8.8% | | 8.8% | |
| Interest rate received | 9.8% | | 9.3% | |

⁽¹⁾Weighted average rate.

Maturities of long-term debt as of December 31, 2005 are as follows:

| | |
|--------------------------------------|------------|
| Current maturities of long-term debt | Ps. 3,810 |
| 2007 | 2,074 |
| 2008 | 3,752 |
| 2009 | 3,877 |
| 2010 | 1,000 |
| 2011 and thereafter | 4,970 |
| | Ps. 19,483 |

The Company has financing from different institutions with different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all

restrictions and covenants contained in its financing agreements.

As of December 31, 2005, the Company has a committed and available U.S. dollar-denominated lines of credit totaling approximately \$250. It also has uncommitted lines of credit from various financial institutions totaling \$865.

Note 18. Fair Value of Financial Instruments.

a) Long-Term Debt:

The fair value of long-term bank loans and syndicated loans is based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt of similar amounts and maturities. The fair value of long-term notes is based on quoted market prices. The fair value is estimated as of the day of the most recent balance sheet presented.

| | | 2005 | | 2004 |
|-------------------------------|------------|---------------|-----|--------|
| Carrying value ⁽¹⁾ | Ps. | 19,483 | Ps. | 25,620 |
| Fair value | Ps. | 19,884 | Ps. | 25,886 |

⁽¹⁾ Include current maturities of long-term debt.

b) Equity Forward:

A subsidiary of the Company had an equity forward contract which expired in June 2004. In 2003, this contract generated a loss of Ps. 81, which was recognized in the Panamco acquisition balance sheet. On June 18, 2004, this subsidiary entered into a

new forward contract, which expired in September 2004 resulting in the recognition of a gain of Ps. 20, recorded in the 2004 income statement.

c) Interest Rate Swaps:

The Company uses interest rate swaps to manage the interest rate risk associated with its borrowings, pursuant to which it pays amounts based on a fixed rate and receives amounts based on a floating rate. The net effect is included in interest income and amounted to Ps. 23, Ps. 12, and Ps. 34 for the years ended December 31, 2005, 2004 and 2003, respectively.

The fair value is estimated based on quoted market prices to terminate the contracts at the date of the most recent balance sheet presented.

At December 31, 2005, the Company has the following outstanding interest rate swap agreements:

| Maturity Date | Notional Amount | Fair Value |
|----------------------|------------------------|-------------------|
| 2007 | Ps. 4,250 | Ps. (36) |
| 2008 | 3,750 | 4 |
| 2010 | 500 | (17) |

d) Unhedged Forward Contracts:

At the end of 2005 there were certain forward contracts that do not meet the hedging criteria for accounting purposes; consequently changes in the estimated fair value were recorded in the income statement. The table below shows the characteristics of these instruments:

| | Maturity Date | Notional Amount | Fair Value |
|----------------------------------|----------------------|------------------------|-------------------|
| U.S. Dollars to Mexican Pesos | 2006 | Ps. 70 | Ps. 4 |
| Mexican Pesos to Argentine Pesos | 2006 | 55 | - |

e) Cross Currency Swaps:

The Company also has cross currency swaps to manage the interest rate and the foreign exchange risks associated with its borrowings denominated in U.S. dollars and other currencies.

The fair value is estimated based on the quoted market exchange rates and interest rates to terminate the contracts at the day of the most recent balance sheet presented. The net effect is included in interest expense and amounted to Ps. 126 for the year ended December 31, 2005.

At December 31, 2005, the Company has the following outstanding cross currency swap agreements:

| Maturity Date | Notional Amount | Fair Value |
|----------------------|------------------------|-------------------|
| 2009 | Ps. 161 | Ps. (16) |
| 2010 | 1,339 | (159) |

f) Unhedged Cross Currency Swaps:

As of December 31, 2005 there are certain cross currency swaps instruments that do not meet the hedging criteria for accounting purposes; consequently changes in the estimated fair value were recorded in the income statement. The table below shows the characteristics of these instruments.

| | Maturity Date | Notional Amount | Fair Value |
|---------------------------------|----------------------|------------------------|-------------------|
| Mexican pesos to U.S. dollar | 2008 | Ps. 1,251 | Ps. 22 |
| U.S. dollars to Colombian pesos | 2008 | 1,232 | (16) |

g) Commodity Price Contracts:

The Company entered into various commodity price contracts to hedge the cost of certain raw materials. The result of the commodity price contracts was a loss of Ps. 25, a gain of Ps. 3 and Ps. 3 during the years ended December 31, 2005, 2004 and

2003, respectively, which were recorded in results of operations. The fair value is estimated based on quoted market prices to terminate the contracts at the day of the most recent balance sheet presented. As of December 31, 2005, the Company has a commodity price contract with maturity date ending in 2010, notional amount of Ps. 750 and a unrealized loss of Ps. 118.

h) Embedded Derivative Instruments:

The Company has determined that its leasing contracts denominated in U.S. dollars host an embedded derivative instrument and as of December 31, 2005 has recognized the fair value of such instruments amounting to Ps. 57, which is recorded in the income statement as a foreign exchange gain.

Note 19. Minority Interest in Consolidated Subsidiaries.

| | 2005 | 2004 |
|-----------------|----------------|---------|
| Mexico | Ps. 816 | Ps. 647 |
| Central America | 28 | 3 |
| Colombia | 70 | 17 |
| Brazil | 45 | 73 |
| | Ps. 959 | Ps. 740 |

On June 8, 2004, by a capital contribution, Winsa Company LLP acquired a 16.89% voting equity interest in an indirect subsidiary of Coca-Cola FEMSA, which is the holding company for its subsidiaries in Brazil, for Ps. 677.

Note 20. Stockholders Equity.

As of December 31, 2005, the capital stock of Coca-Cola FEMSA was comprised of 1,846,530,000 common shares, without par value and with no foreign ownership restrictions. Fixed capital amounts to Ps. 821 (nominal value) and the variable capital may not exceed 10 times the minimum fixed capital stock.

The characteristics of the common shares are as follows:

Series A and series D are ordinary, have unlimited voting rights, are subject to transfer restrictions, and at all times must represent a minimum of 76% of subscribed capital stock.

Series A shares may only be acquired by Mexican individuals and may not represent less than 51% of the ordinary shares.

Series D shares have no foreign ownership restrictions and cannot exceed 49% of the ordinary shares.

Series L shares have no foreign ownership restrictions and have limited voting and other corporate rights.

In addition, 98,684,857 series L shares have been authorized and issued but not subscribed.

As of December 31, 2005, Coca-Cola FEMSA's capital stock is comprised as follows:

| | Total |
|----------------------|--------------|
| Thousands of shares: | |
| A | 844,078 |
| D | 731,546 |
| L | 270,906 |
| Total shares | 1,846,530 |

The restatement of stockholders' equity for inflation is allocated to each of the various stockholders' equity accounts, as follows:

| | Historical Value | Restatement | Restated Value |
|----------------------------|-----------------------------|--------------------|---------------------------|
| Capital stock | Ps. 821 | Ps. 2,065 | Ps. 2,886 |
| Additional paid-in capital | 9,706 | 2,643 | 12,349 |
| Retained earnings | 13,072 | 4,266 | 17,338 |
| Net majority income | 4,486 | 100 | 4,586 |

During August 2004, the Company conducted a rights offering to allow existing holders of the Series L Shares to acquire newly-issued Series L Shares. The purpose of the rights offering was to permit holders of Series L Shares to subscribe on a proportionate basis at the same price per share at which FEMSA and The Coca-Cola Company subscribed in connection with the Panamco acquisition. The rights offering expired on September 1, 2004. The increase in capital stock and additional paid-in capital, net of the related expenses, was Ps. 3, represented by 156,000 Series L Shares.

The net income of the Company is not subject to the legal requirement that 5% thereof be transferred to a legal reserve since such reserve equals 20% of capital stock at nominal value. This reserve may not be distributed to stockholders during the existence of the Company, except as a stock dividend. As of December 31, 2005, this reserve for Coca-Cola FEMSA amounted to Ps. 164 (nominal value).

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect, except for the restated stockholder contributions and distributions made from consolidated taxable income, denominated Cuenta de Utilidad Fiscal Neta (CUFIN) or from reinvested consolidated taxable income, denominated Cuenta de Utilidad Fiscal Neta Reinvertida (CUFINRE).

Dividends paid in excess of CUFIN and CUFINRE are subject to income tax at a grossed-up rate based on the current statutory rate. Beginning 2003, this tax may be credited against the income tax of the year in which the dividends are paid and in the following two years against the income tax and estimated tax payments. As of December 31, 2005, the balances of CUFIN and CUFINRE amounted to Ps. 2,129 and Ps. 1,552, respectively.

At an ordinary stockholders' meeting of Coca-Cola FEMSA held on March 8, 2005, the stockholders approved a dividend of Ps. 636 that was paid in May 2005.

At an ordinary stockholders' meeting of Coca-Cola FEMSA held on March 9, 2004, the stockholders approved a dividend of Ps. 557 that was paid in May 2004 and a maximum of Ps. 400 (nominal value) for a stock repurchase program.

Note 21. Net Majority Income per Share.

This represents the net majority income corresponding to each share of the Company's capital stock, computed on the basis of the weighted average number of shares outstanding during the period.

Note 22. Tax System.

a) Income Tax:

Income tax is computed on taxable income, which differs from accounting income principally due to the treatment of the integral result of financing, the cost of labor liabilities, depreciation and other accounting provisions. The tax loss may be carried forward and applied against future taxable income.

The income tax rates applicable in 2005 in the countries where the Company operates and the years in which tax loss carry-forwards may be applied are as follows:

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| | Statutory Tax Rate | Expiration (years) |
|------------|-------------------------------|-------------------------------|
| Mexico | 30.0% | 10 |
| Guatemala | 31.0% | N/A |
| Nicaragua | 30.0% | 3 |
| Costa Rica | 30.0% | 3 |
| Panama | 30.0% | 5 |
| Venezuela | 34.0% | 3 |
| Colombia | 38.5% | 5-8 |
| Brazil | 34.0% | Indefinite |
| Argentina | 35.0% | 5 |

The statutory income tax rate in Mexico for the years ended December 31, 2005, 2004 and 2003 was 30%, 33% and 34%, respectively.

Beginning January 1, 2005, an amendment to the income tax rate in Mexico was effective and its principal changes were as follows:

- The statutory income tax rate decreased to 30% in 2005, and it will be reduced by one percentage point per year through 2007, down to 28%;
- The tax deduction for inventories is made through cost of sales, and the inventory balance as of December 31, 2004 will be taxable during the next 4 to 12 years, based on specific criteria within the tax law; and
- Paid employee profit sharing is deductible for income tax purposes.

The tax loss carryforward in other countries includes the following criteria:

- Colombia: Those generated before December 31, 2002, may be carried forward for next five years and those generated after January 1, 2003 may be carried forward eight years; both are limited to 25% of taxable income of each year;
- Brazil: Tax losses may be carried forward for an indefinite period, cannot be restated and are limited to 30% of the taxable income of each year.

b) Tax on Assets:

The operations in Mexico, Guatemala, Nicaragua, Colombia, Venezuela and Argentina are subject to a tax on assets.

The Mexican tax on assets is computed at an annual rate of 1.8% based on the average of certain assets at tax restated value less certain liabilities. The tax on assets is paid only to the extent that it exceeds the income tax of the year. If in any year a tax on assets payment is required, this amount can be credited against the excess of income taxes future payments over the tax on assets in each of the preceding three years. Additionally, this payment may be restated and credited against the excess of income taxes over asset taxes for the following 10 years. Since January 1, 2005, based on the amendment made to the tax law, bank loans and foreign debt will be deducted to determine the taxable base of the tax on assets.

In Guatemala until December 31, 2003 there was an alternative minimum tax (IEMA) equivalent to the lower of 2.25% of the prior years revenues or 3.5% of total assets as of the beginning of the year, which was paid only to the extent that it exceeded the income taxes of the year. If in any year a payment of IEMA was required, this amount was credited against the excess of income taxes over the IEMA of the following year. Such alternative minimum tax was declared unconstitutional on February 2, 2004.

On July 1, 2004, the tax reforms were approved and published by the Congress of the Republic of Guatemala through Decree 18-04 Reforms to the Income Tax and Decree 19-04 the Law of the Extraordinary and Temporary Tax of Support to the Peace Accords (Impuesto Extraordinario y Temporal de Apoyo a los Acuerdos de Paz - IETAAP). The main effects of said decrees were the following:

- The effect of a new IETAAP tax, which will be calculated on 2.5% of either of the following two bases: (a) one fourth of the net assets or (b) one fourth of the gross income. In the event assets are more than four times gross income, the tax will be paid on the income basis. This tax may be credited against income tax during the following three calendar years. The rate of this tax gradually decreases; it will be 1.25% from January 2005 to June 2006 and 1% from July 2006 to December 2007. During the year 2004, the rate was reduced by 50% if the tax was paid in a Month before its due date (September and December 2004).

- Implementation of a new general income tax regimen under which companies will pay 5% on their monthly taxable income as a definitive payment. The companies subject to this regimen are not subject to IETAAP. Additionally, there exists an optional regimen of 31% on taxable income. The operation in Guatemala selected the optional regimen of 31%.

In Nicaragua the tax on assets results from applying a 1% rate to total tax assets as of the end of the year, and it is paid only to the extent that it exceeds the income taxes of the year. If in any year a tax on assets payment is required, this tax is definitive and may not be credited in future years.

In Colombia the tax on assets results from applying a 6% rate to net tax assets as of the beginning of the year to determine the basis for the alternative minimum tax, equivalent to 38.5% of such basis. This tax is paid only to the extent that it exceeds the income taxes of the year. If a tax on assets payment was required in 2001 or 2002, the amount may be credited against the excess of income taxes over the tax on assets in the following three years. If a tax on assets payment is required subsequent to 2002, the amount may be credited against the excess of income taxes over the tax on assets in the following five years.

In Venezuela the tax on assets results from applying a 1% rate to the net average amount of nonmonetary assets adjusted for inflation and monetary assets adjusted for inflation. The tax on assets is paid only to the extent that it exceeds the income tax of the year. If in any year a tax on assets payment is required, this amount may be credited against the excess of income taxes over the tax on assets in the following three years.

The tax laws in Argentina established a Tax on Minimum Presumptive Income (TMPI) that results from applying a rate of 1% to certain productive assets, and it is paid only to the extent that it exceeds the income taxes of the year. If in any year a payment is required, this amount may be credited against the excess of income taxes over the TMPI in the following 10 years.

c) Employee Profit Sharing:

Employee profit sharing is applicable to Mexico and Venezuela. In Mexico, employee profit sharing is computed at the rate of 10% of the individual taxable income, except that depreciation of historical rather than restated values is used, foreign exchange gains and losses are not included until the asset is disposed of or the liability is due, and other effects of inflation are also excluded. In Venezuela, employee profit sharing is computed at a rate equivalent to 15% of after tax earnings.

d) Deferred Income Tax and Employee Profit Sharing:

The temporary differences that generated deferred income tax liabilities (assets) are as follows:

| Deferred Income Taxes | 2005 | | 2004 |
|--|----------------|-----|-------------|
| Inventories | Ps. 111 | Ps. | 307 |
| Property, plant and equipment ⁽¹⁾ | 1,650 | | 1,564 |
| Investment in shares | 8 | | 9 |
| Intangible and other assets | (212) | | (263) |
| Labor costs | (115) | | (82) |
| Tax loss carryforwards | (620) | | (717) |
| Other reserves | (1,049) | | (891) |

| | | | | |
|-------------------------------|------------|--------------|-----|-------|
| Deferred income tax, net | | (227) | | (73) |
| Deferred income tax asset | | 1,221 | | 1,503 |
| Deferred income tax liability | Ps. | 994 | Ps. | 1,430 |

⁽¹⁾ Includes breakage of returnable bottles and cases.

The changes in the balance of deferred income tax, net, are as follows:

| | | 2005 | | 2004 |
|---|------------|--------------|-----|-------|
| Initial balance | Ps. | (73) | Ps. | 151 |
| Provision for the year | | (90) | | (239) |
| Change in the statutory income tax rate | | 24 | | 55 |
| Result of holding non-monetary assets | | (88) | | (40) |
| Ending balance | Ps. | (227) | Ps. | (73) |

At December 31, 2005, there are no significant non-recurring temporary differences between the accounting income for the period and the bases used for Mexican employee profit sharing. As a result, the Company did not record a provision for deferred employee profit sharing.

e) Provision for the Year

| | 2005 | | 2004 | | 2003 |
|---|------------------|-----|---------|-----|-------|
| Current income tax | Ps. 2,427 | Ps. | 2,411 | Ps. | 1,080 |
| Deferred income tax | (90) | | (239) | | 522 |
| Change in the statutory income tax rate | (57) | | 55 | | - |
| Benefit from favorable tax ruling | - | | (1,355) | | - |
| Income tax | 2,280 | | 872 | | 1,602 |
| Employee profit sharing | 282 | | 270 | | 241 |
| | Ps. 2,562 | Ps. | 1,142 | Ps. | 1,843 |

f) Tax Loss Carryforwards and Recoverable Tax on Assets:

As of December 31, 2005, the subsidiaries from Mexico, Panama, Colombia, Venezuela and Brazil have tax loss carryforwards and/or recoverable tax on assets. The expiration dates of such amounts are as follows:

| Year | Tax Loss Carryforwards | Recoverable Tax on Assets |
|---------------------|-----------------------------------|--------------------------------------|
| 2006 | Ps. 272 | Ps. 13 |
| 2007 | 316 | 20 |
| 2008 | 367 | - |
| 2009 | 420 | 34 |
| 2010 | 1,755 | - |
| 2011 and thereafter | 51 | - |
| | Ps. 3,181 | Ps . 67 |

Due to the uncertainty of the realization of certain tax loss carryforwards a valuation allowance of the carryforward of Ps. 1,341 has been recorded.

The changes in the balance are as follows:

| | 2005 | | 2004 |
|--------------------------------|------------------|-----|------------|
| Initial balance | Ps. 1,349 | Ps. | 1,740 |
| Restatement of initial balance | (83) | | (183) |
| Provision of the year | 74 | | 400 |
| Cancellation of provision | 1 | | (608) |
| | | | 261 |

| | | | | |
|----------------|-----|--------------|-----|-------|
| Ending balance | Ps. | 1,341 | Ps. | 1,349 |
|----------------|-----|--------------|-----|-------|

Additionally the recoverable tax on assets has been fully reserved.

g) Reconciliation of Mexican Statutory Income Tax Rate to Consolidated Effective Income Tax Rate:

| | 2005 | 2004 | 2003 |
|---|---------------|---------|--------|
| Mexican statutory income tax rate | 30.00% | 33.00% | 34.00% |
| Gain from monetary position | (3.36) | (7.65) | (6.26) |
| Non recurring gain on tax lawsuit | - | (20.20) | - |
| Inflationary Component | 3.38 | 7.28 | 6.16 |
| Non-deductible expenses | 0.62 | 2.33 | 3.18 |
| Income taxed at other than Mexican statutory rate | 1.61 | 0.25 | (0.83) |
| Effect of change in Mexican statutory rate | (0.97) | (2.65) | - |
| Other | 0.19 | 0.56 | 0.31 |
| Consolidated effective income tax rate | 31.47% | 12.92% | 36.56% |

Note 23. Contingencies and Commitments.**a) Contingencies Recorded in the Balance Sheet:**

The Company has various loss contingencies, and reserves have been recorded as other liabilities in those cases where the Company believes an unfavorable resolution is probable. Most of these loss contingencies were recorded as a result of the Panamco acquisition. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2005:

| | Short-Term | Long-Term | Total |
|-------|-------------------|------------------|--------------|
| Tax | Ps. 4 | Ps. 1,364 | Ps. 1,368 |
| Legal | - | 168 | 168 |
| Labor | 63 | 219 | 282 |
| Total | Ps. 67 | Ps. 1,751 | Ps. 1,818 |

b) Unsettled Lawsuits:

The Company has entered into legal proceedings with its labor unions and tax authorities. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. The aggregate amount of these proceedings is \$ 81. Those contingencies were classified by legal counsel as less than probable but more than remote of being settled against the Company. However, the Company believes that the ultimate resolution of such legal proceedings will not have a material adverse effect on its consolidated financial position or result of operations.

In recent years, the Company's Mexican, Costa Rican and Brazilian territories it have been requested to present certain information regarding possible monopolistic practices. These requests are commonly generated in the ordinary course of business in the beer and soft drink industries where the Company operates.

In 2001, a labor union and several individuals from the Republic of Colombia filed a lawsuit in the U.S. District Court for the Southern Division of Florida against certain Colombian subsidiaries and The Coca-Cola Company. In the complaint, the plaintiffs alleged that the subsidiaries engaged in wrongful acts against the labor union and its members in Colombia for the amount of \$ 500. The Company has filed a motion to dismiss the complaint and believes the resolution of this matter will not have a material adverse effect on its consolidated financial position or results of operations.

As is customary in Brazil, the Company has been requested to secure tax contingencies currently in litigation in the amount of Ps. 755 by pledging fixed assets and contracting bonds backed by lines of credit which cover contingencies in the amounts of Ps. 293 and Ps. 462, respectively in favor of the tax authorities.

c) Commitments:

As of December 31, 2005, the Company has capital and operating lease commitments for the leasing of distribution equipment and computer equipment.

The contractual maturities of the lease commitments by currencies, expressed in Mexican pesos as of December 31, 2005, are as follows:

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 and thereafter | Total |
|---------------------|-------------|-------------|-------------|-------------|-------------|--------------------------------|--------------|
| | | | | | | | Ps. |
| Mexican pesos | Ps. 257 | Ps. 214 | Ps. 174 | Ps. 137 | Ps. 127 | Ps. 105 | 1,014 |
| Argentine pesos | 4 | - | - | - | - | - | 4 |
| Guatemalan quetzals | 2 | - | - | - | - | - | 2 |
| Nicaraguan cordobas | 1 | - | - | - | - | - | 1 |
| Costa Rican colons | 3 | - | - | - | - | - | 3 |
| Brazilian reals | 47 | 50 | 53 | 56 | 138 | - | 344 |

Rental expense charged to operations amounted to approximately Ps. 586, Ps. 317 and Ps. 178 for the years ended December 31, 2005, 2004 and 2003, respectively.

Note 24. Information by Segment.

| 2005 | Total Revenue | Capital Expenditures | Long-term Assets | Total Assets |
|-------------|--------------------------|---------------------------------|-----------------------------|-------------------------|
| Mexico | Ps. 28,705 | Ps. 1,021 | Ps. 40,358 | Ps. 44,210 |

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|--------------------------------|-------|-----|-------|---------|
| Central America ⁽¹⁾ | 3,428 | 145 | 4,614 | 5,568 |
| Colombia | 4,697 | 296 | 5,893 | 8,236 |
| Venezuela | 4,946 | 285 | 3,416 | 4,145 |
| Brazil | 5,819 | 179 | 4,270 | 6,297 |
| Argentina | 2,798 | 86 | 1,234 | 1,770 |
| Consolidation adjustments | (195) | - | (59) | (3,078) |

| | | | | |
|--------------|------------|-----------|------------|------------|
| Consolidated | Ps. 50,198 | Ps. 2,012 | Ps. 59,726 | Ps. 67,148 |
|--------------|------------|-----------|------------|------------|

2004

| | | | | |
|--------------------------------|------------|-----------|------------|------------|
| Mexico | Ps. 27,474 | Ps. 1,140 | Ps. 40,531 | Ps. 46,435 |
| Central America ⁽¹⁾ | 3,526 | 164 | 5,005 | 6,039 |
| Colombia | 4,294 | 126 | 5,943 | 8,178 |
| Venezuela | 4,683 | 235 | 3,486 | 4,248 |
| Brazil | 5,195 | 287 | 4,177 | 5,756 |
| Argentina | 2,614 | 57 | 1,298 | 2,014 |
| Consolidation adjustments | - | - | - | (3,052) |

| | | | | |
|--------------|------------|-----------|------------|------------|
| Consolidated | Ps. 47,786 | Ps. 2,009 | Ps. 60,440 | Ps. 69,618 |
|--------------|------------|-----------|------------|------------|

2003

| | | | | |
|--------------------------------|--|--|------------|-----------|
| Mexico | | | Ps. 25,719 | Ps. 1,625 |
| Central America ⁽¹⁾ | | | 2,314 | 155 |
| Colombia | | | 2,920 | 1 |
| Venezuela | | | 2,827 | 50 |
| Brazil | | | 3,041 | 218 |
| Argentina | | | 2,241 | 115 |

| | | | | |
|--------------|--|--|------------|-----------|
| Consolidated | | | Ps. 39,062 | Ps. 2,164 |
|--------------|--|--|------------|-----------|

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

Note 25. Differences Between Mexican GAAP and U.S. GAAP.

The consolidated financial statements of the Company are prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. A reconciliation of the reported majority net income, majority stockholders' equity and majority comprehensive income to U.S. GAAP is presented in Note 26.

It should be noted that this reconciliation to U.S. GAAP does not include the reversal of the restatement of the financial statements as required by Bulletin B-10, Reconocimiento de los Efectos de la Inflación en la Información Financiera (Recognition of the Effects of Inflation in the Financial Information), of Mexican GAAP. The application of this bulletin represents a comprehensive measure of the effects of price-level changes in the Mexican economy and, as such, is considered a more meaningful presentation than historical cost-based financial reporting in Mexican pesos

for both Mexican and U.S. accounting purposes.

The principal differences between Mexican GAAP and U.S. GAAP included in the reconciliation that affect the consolidated financial statements of the Company are described below:

a) Restatement of Prior Year Financial Statements:

As explained in Note 5 a), in accordance with Mexican GAAP, the financial statements for Mexican subsidiaries for prior years were restated using Mexican inflation factors, and for foreign subsidiaries and affiliated companies for prior years were restated using the inflation rate of the country in which the foreign subsidiary or affiliated company is located, then translated to Mexican pesos at the year-end exchange rate.

Under U.S. GAAP, the Company applies the regulations of the Securities and Exchange Commission of the United States of America (SEC), which require that prior year financial statements be restated in constant units of the reporting currency, in this case the Mexican peso, which requires the restatement of such prior year amounts using Mexican inflation factors.

Additionally, all other U.S. GAAP adjustments for prior years have been restated upon the SEC methodology.

b) Classification Differences:

Certain items require a different classification in the balance sheet or income statement under U.S. GAAP, these include:

- As explained in Note 5 c), under Mexican GAAP, advances to suppliers are recorded as inventories. Under U.S. GAAP advances to suppliers are classified as prepaid expenses;
- Impairment of intangible and other long-lived assets, the gains or losses on the disposition of fixed assets, all severance indemnity charges and employee profit sharing must be included in operating expenses under U.S. GAAP;
- Under Mexican GAAP, deferred taxes are classified as non-current, while under U.S. GAAP they are based on the classification of the related asset or liability;
- Under Mexican GAAP, leasehold improvements are recorded in other assets, while under U.S. GAAP they are classified as property, plant and equipment.

c) Deferred Promotional Expenses:

As explained in Note 5 d), for Mexican GAAP purposes, the promotional costs related to the launching of new products or presentations are recorded as prepaid expenses. For U.S. GAAP purposes, such promotional costs are expensed as incurred.

d) Intangible Assets:

As mentioned in Note 5 i), under Mexican GAAP, until January 1, 2003, all intangible assets were amortized over a period of no more than 20 years. Effective January 1, 2003, revised Bulletin C-8, Activos Intangibles (Intangible Assets), went into effect and recognizes that certain intangible assets (excluding goodwill) have indefinite lives and should not be amortized. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets , (effective January 1, 2002), goodwill and indefinite-lived intangible assets are also no longer subject to amortization, but rather are subject to periodic assessment for impairment. Accordingly, amortization of goodwill and indefinite-lived intangible assets was discontinued in 2002 for U.S. GAAP and in 2003 for Mexican GAAP.

As a result of the adoption of SFAS No. 142, the Company performed an initial impairment test as of January 1, 2002 and found no impairment. Subsequent impairment tests are performed annually by the Company, unless an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. In such case an impairment test would be performed between annual tests.

e) Restatement of Imported Equipment:

As explained in Note 5 e), under Mexican GAAP, imported machinery and equipment have been restated by applying the inflation rate of the country of origin and translated into Mexican pesos using the exchange rate in effect at the date of the most recent balance sheet presented.

Under U.S. GAAP, the Company applies the regulations of the SEC, which require that all machinery and equipment, both domestic and imported, be restated using local inflation factors.

f) Capitalization of the Integral Result of Financing:

Under Mexican GAAP, the capitalization of the integral result of financing (interest, foreign exchange and monetary position) generated by loan agreements obtained to finance investment projects is optional, and the Company has elected not to capitalize the integral result of financing.

In accordance with SFAS No. 34, Capitalization of Interest Cost, if the integral result of financing is incurred during the construction of qualifying assets, capitalization is required as part of the cost of such assets. Accordingly, a reconciling item for the capitalization of a portion of the integral result of financing is included in the U.S. GAAP reconciliation of the majority net income and majority stockholders' equity. If the borrowings are denominated in U.S. dollars, the weighted-average interest rate on all such outstanding debt is applied to the balance of construction-in-progress to determine the amount to be capitalized. If the borrowings are denominated in Mexican pesos, the amount of interest to be capitalized as noted above is reduced by the gain on monetary position associated with the debt.

g) Derivative Financial Instruments:

As of January 1, 2005, in accordance with Mexican GAAP, as mentioned in Note 5 q), the Company values and records all derivative instruments and hedging activities according to Bulletin C-10, Instrumentos Financieros Derivados y Operaciones de Cobertura (Derivative Financial Instruments and Hedging Activities), which establishes similar accounting treatment as described in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

For purposes of SFAS No. 133, the Company elected not to designate its derivative financial instruments as hedges for accounting purposes, and accordingly, the entire effect of the mark to market of those instruments entered into contracted before December 31, 2000 was recognized in the income statement at January 1, 2001.

The effects of the initial application of Bulletin C-10 were already reflected in the U.S. GAAP financial statements for 2004. Therefore, the cumulative effect of the change in accounting principle is reconciled out of the amounts presented in the U.S. GAAP income statement for 2005.

h) Deferred Income Tax and Employee Profit Sharing:

The Company calculates its deferred income tax and employee profit sharing in accordance with SFAS No. 109, Accounting for Income Taxes, for U.S. GAAP purposes, which differs from Mexican GAAP as follows:

- Under Mexican GAAP, the effects of inflation on the deferred tax balance generated by monetary items are recognized in the result of monetary position. Under U.S. GAAP, the deferred tax balance is classified as a non-monetary item. As a result, the consolidated income statement differs with respect to the presentation of the gain (or loss) on monetary position and deferred income tax provision;
- Under Mexican GAAP, deferred employee profit sharing is calculated considering only those temporary differences that arise during the year and which are expected to reverse within a defined period, while under U.S. GAAP, the same liability method used for deferred income tax is applied; and
- The differences in deferred promotional expenses, restatement of imported machinery and equipment, the capitalization of financing results, derivative instruments and pension plan mentioned in Note 25 c), e), f), g) and i) generate a difference when calculating deferred income tax under U.S. GAAP compared to that presented under Mexican GAAP (see Note 22 a)).

As explained in Note 22 a), beginning in 2005, employee profit sharing is deductible for income tax purposes in Mexico. This new deduction reduces the payments of income tax in subsequent years. Therefore, the Company recorded an additional reduction of the deferred income tax liability under U.S. GAAP in the amount of Ps. 114 due to the future tax deduction of deferred employee profit sharing.

The reconciliation of deferred income tax and employee profit sharing, as well as the changes in the balances of deferred taxes, are as follows:

| Reconciliation of Deferred Income Tax, net | 2005 | 2004 |
|---|------------------|-------------|
| Deferred income tax, net under Mexican GAAP | Ps. (227) | Ps. (73) |
| U.S. GAAP adjustments: | | |
| Deferred promotional expenses | (12) | (15) |
| Restatement of imported equipment and capitalization of financing results | 161 | 42 |
| Derivative financial instruments | - | 43 |
| Labor liabilities | (1) | 1 |
| Severance indemnities | (46) | - |
| Tax deduction for employee profit sharing | (114) | (133) |
| Total U.S. GAAP adjustments | (12) | (62) |
| Restatement of prior year financial statements | - | 101 |
| Deferred income tax, net, under U.S. GAAP | Ps. (239) | Ps. (34) |

The total deferred income tax under U.S. GAAP includes the corresponding current portion net asset as of December 31, 2005 and 2004 of Ps. (253) and Ps. (442), respectively.

| Changes in the Balance of Deferred Income Tax | 2005 | 2004 |
|--|------------------|-------------|
| Initial balance | Ps. (34) | Ps. 327 |
| Provision of the year | (94) | (481) |
| Cumulative other comprehensive income | (111) | 75 |
| Effects of inflation | - | 45 |
| Ending balance | Ps. (239) | Ps. (34) |
| | | |
| Reconciliation of Deferred Employee Profit Sharing, net | 2005 | 2004 |
| Deferred employee profit sharing, net, under Mexican GAAP | Ps. - | Ps. - |
| U.S. GAAP adjustments: | | |
| Other reserves | (53) | (55) |
| Inventories | 38 | 103 |
| Property, plant and equipment, net | 477 | 469 |
| Deferred charges | (17) | (8) |

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| | | |
|--|---------|---------|
| Labor liabilities | (38) | (32) |
| Severance indemnities | (12) | - |
| Total U.S. GAAP adjustments | 395 | 477 |
| Deferred employee profit sharing, net, under U.S. GAAP | Ps. 395 | Ps. 477 |

The total deferred employee profit sharing under U.S. GAAP includes the corresponding current portion net (asset) liability as of December 31, 2005 and 2004 of Ps. (15) and Ps. 48, respectively.

| Changes in the Balance of Deferred Employee Profit Sharing, net | 2005 | 2004 |
|--|-------------|-------------|
| Initial balance | Ps. 477 | Ps. 534 |
| Provision for the year | (82) | (56) |
| Effects of inflation | - | (1) |
| Ending balance | Ps. 395 | Ps. 477 |

i) Pension Plan:

Under Mexican GAAP, the liabilities for employee benefits are determined using actuarial computations in accordance with Bulletin D-3, which is substantially the same as SFAS No. 87, Employers' Accounting for Pensions, except for the initial year of application of both standards, which generates a difference in the unamortized net transition obligation and in the amortization expense.

In January 1997, as a result of the application of inflationary accounting, Mexican GAAP determined that labor obligations are non-monetary liabilities and required the application of real, instead of nominal, interest rates in actuarial calculations. These changes required recalculation of the accumulated transition obligation, and the difference in the transition obligation represents the sum of the actuarial gains or losses since the first year that labor obligations have been calculated.

The Company uses the same real interest rate for both U.S. GAAP and Mexican GAAP. As a result, the transition obligation has been recalculated and the difference is being amortized over the average life of employment (14 years) of the Company.

Under Mexican GAAP and U.S. GAAP, there is no difference in the liabilities for seniority premiums.

Under Mexican GAAP, as mentioned in Note 5 l), effective in 2005 revised Bulletin D-3 requires the recognition of a severance indemnity liability calculated based on actuarial computations. The same recognition criteria under U.S. GAAP is established in SFAS No. 112, Employers' Accounting for Postemployment Benefits, which has been effective since 1994. The Company had not previously recorded an amount under U.S. GAAP as it believed that an obligation could not be reasonably quantified.

Beginning in 2005, the Company applies the same considerations as required by Mexican GAAP to recognize the severance indemnity liability for U.S. GAAP purposes. However, the Company believes an obligation should have been recorded since the effective date of SFAS No. 112. The cumulative effect of the severance obligation related to vested services has been recorded in the 2005 income statement since the effect is not considered to be quantitatively or qualitatively material to the Company's consolidated U.S. GAAP financial statements taken as a whole. In addition, the transition obligation has not been recorded for U.S. GAAP purposes.

The Company has prepared a study of pension costs under U.S. GAAP based on actuarial calculations using the same assumptions applied under Mexican GAAP (see Note 15).

The reconciliation of the net pension cost and pension liability are as follows:

| Net Pension Cost | 2005 | 2004 | 2003 |
|---|---------------|--------|--------|
| Net pension cost recorded under Mexican GAAP | Ps. 64 | Ps. 56 | Ps. 40 |
| U.S. GAAP adjustments: | | | |
| Amortization of unrecognized transition obligations | 1 | 4 | 2 |
| Net pension cost under U.S. GAAP | Ps. 65 | Ps. 60 | Ps. 42 |

| Pension Liability | 2005 | 2004 |
|--|----------------|---------|
| Pension liability under Mexican GAAP | Ps .575 | Ps. 611 |
| U.S. GAAP adjustments: | | |
| Unrecognized net transition obligation | 5 | (5) |
| Restatement of prior year financial statements | - | (3) |

| | | |
|-----------------------------------|----------------|---------|
| Pension liability under U.S. GAAP | Ps. 580 | Ps. 603 |
|-----------------------------------|----------------|---------|

The reconciliation of the net severance indemnity cost and severance indemnity liability, is as follows:

| Net Severance Indemnity Cost | 2005 | 2004 | 2003 |
|---|----------------|-------|-------|
| Net severance indemnity cost recorded under Mexican GAAP | Ps. 50 | Ps. - | Ps. - |
| U.S. GAAP adjustments: | | | |
| Amortization of unrecognized transition obligations | 155 | - | - |
| Net severance indemnity cost under U.S. GAAP | Ps. 205 | Ps. - | Ps. - |
| | | | |
| Severance Indemnity Liability | 2005 | 2004 | |
| Severance indemnity liability under Mexican GAAP | Ps. 147 | Ps. - | |
| U.S. GAAP adjustments: | | | |
| Unrecognized net transition obligation | 155 | - | |
| Cancellation of the additional labor liability recorded in Mexican GAAP | (142) | - | |
| Severance indemnity liability under U.S. GAAP | Ps. 160 | Ps. - | |

j) Minority Interest:

Under Mexican GAAP, minority interest in consolidated subsidiaries is presented as a separate component within stockholders' equity in the consolidated balance sheet.

Under U.S. GAAP, this item must be excluded from consolidated stockholders' equity in the consolidated balance sheet. Additionally, the minority interest in the net earnings of consolidated subsidiaries is excluded from consolidated net income.

The U.S. GAAP adjustments shown in Note 26 a) and b) are calculated on a consolidated basis. The minority interest effect over those adjustments is not material.

k) Statement of Cash Flows:

Under Mexican GAAP, the Company presents a consolidated statement of changes in financial position in accordance with Bulletin B-12, "Estado de Cambios en la Situación Financiera" (Statement of Changes in Financial Position), which identifies the generation and application of resources by the differences between beginning and ending financial statement balances in constant Mexican pesos. Bulletin B-12 also requires that monetary and foreign exchange gains and losses be treated as cash items for the determination of resources generated by operations.

In accordance with U.S. GAAP, the Company follows SFAS No. 95, Statement of Cash Flows, which is presented in historical Mexican pesos, without the effects of inflation (see Note 25 1).

1) Financial Information Under U.S. GAAP:

| Consolidated Balance Sheets | 2005 | 2004 |
|---|------------------|-------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | Ps. 1,958 | Ps. 3,723 |
| Accounts receivable | 2,523 | 2,174 |
| Inventories | 2,127 | 2,234 |
| Recoverable taxes | 464 | 747 |
| Other current assets | 312 | 130 |
| Deferred income taxes and employee profit sharing | 268 | 748 |
| Total current assets | 7,652 | 9,756 |
| Property, plant and equipment, net | 19,093 | 19,655 |
| Deferred income taxes | 1,195 | 1,264 |

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| | | |
|--|-------------------|------------|
| Investment in shares | 441 | 432 |
| Other assets | 1,673 | 1,650 |
| Intangible assets | 37,722 | 37,429 |
| TOTAL ASSETS | Ps. 67,776 | Ps. 70,186 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Bank loans | Ps. 618 | Ps. 215 |
| Current maturities of long-term debt | 3,810 | 3,166 |
| Interest payable | 326 | 324 |
| Suppliers | 4,616 | 4,282 |
| Deferred income taxes and employee profit sharing | - | 354 |
| Taxes payable | 933 | 1,366 |
| Accounts payable, accrued expenses and other liabilities | 1,797 | 1,688 |
| Total current liabilities | 12,100 | 11,395 |
| Long-Term Liabilities: | | |
| Bank loans and notes payable | 15,673 | 22,439 |
| Labor liabilities | 798 | 661 |
| Deferred income taxes | 1,209 | 1,672 |
| Other liabilities | 3,286 | 3,043 |
| Total long-term liabilities | 20,966 | 27,815 |
| Total liabilities | 33,066 | 39,210 |
| Minority interest in consolidated subsidiaries | 959 | 733 |
| Stockholders equity | 33,751 | 30,243 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | Ps. 67,776 | Ps. 70,186 |

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| Consolidated Statements of Comprehensive Income | 2005 | 2004 | 2003 |
|---|-------------------|-------------|-------------|
| Net sales | Ps. 49,840 | Ps. 47,096 | Ps. 37,702 |
| Other operating revenues | 358 | 333 | 385 |
| Total revenues | 50,198 | 47,429 | 38,087 |
| Cost of sales | 25,738 | 24,254 | 19,063 |
| Gross profit | 24,460 | 23,175 | 19,024 |
| Operating expenses: | | | |
| Administrative | 2,862 | 2,841 | 2,106 |
| Selling | 13,520 | 12,802 | 9,856 |
| | 16,382 | 15,643 | 11,962 |
| Income from operations | 8,078 | 7,532 | 7,062 |
| Integral result of financing: | | | |
| Interest expense | 2,452 | 2,615 | 1,663 |
| Interest income | (280) | (275) | (247) |
| Foreign exchange (gain) loss | (223) | 74 | 2,204 |
| Gain on monetary position | (813) | (1,591) | (947) |
| | 1,136 | 823 | 2,673 |
| Other expenses, net | 84 | 165 | 193 |
| Income before income tax | 6,858 | 6,544 | 4,196 |
| Income tax | 2,285 | 595 | 1,676 |
| Income before minority interest | 4,573 | 5,949 | 2,520 |
| Minority interest in results of consolidated subsidiaries | (118) | (24) | (22) |
| Net income | 4,455 | 5,925 | 2,498 |
| Other comprehensive income | (311) | 906 | 691 |
| Comprehensive income | Ps. 4,144 | Ps. 6,831 | Ps. 3,189 |
| Net income per share ⁽¹⁾ | 2.41 | 3.21 | 1.47 |

⁽¹⁾ Expressed in constant Mexican pesos.

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| Consolidated Cash Flows ⁽¹⁾ | 2005 | 2004 | 2003 |
|--|------------------|-----------|-----------|
| Cash flows from operating activities: | | | |
| Net income | Ps. 4,455 | Ps. 5,925 | Ps. 2,498 |
| Adjustments to reconcile net income to net cash provided by (used in) | | | |
| operating activities: | | | |
| Minority interest | 118 | 24 | 22 |
| Inflation effect | (193) | (485) | (324) |
| Depreciation | 1,332 | 1,142 | 1,559 |
| Deferred income taxes | (94) | (476) | 338 |
| Amortization and other non-cash charges | (54) | (344) | 909 |
| Changes in operating assets and liabilities: | | | |
| Working capital investment | (259) | 1,012 | (2,552) |
| Interest payable | 12 | (62) | 169 |
| Labor obligations | (188) | (64) | (34) |
| Net cash flows from operating activities | 5,129 | 6,672 | 2,585 |
| Cash flows from investing activities: | | | |
| Panamerican Beverages, Inc. acquisition | - | - | (29,192) |
| Property, plant and equipment, net | (1,171) | (1,310) | (1,915) |
| Other assets | (883) | (539) | - |
| Net cash flows used in investing activities | (2,054) | (1,849) | (31,107) |
| Cash flows from financing activities: | | | |
| Bank loans | (4,556) | (3,992) | 15,890 |
| Increase in capital stock | - | 3 | 9,585 |
| Dividends declared and paid | (620) | (521) | - |
| Other financing activities | 456 | 507 | (974) |
| Net cash flows (used in) generated by financing activities | (4,720) | (4,003) | 24,501 |
| Cash and cash equivalents: | | | |
| Net (decrease) increase | (1,645) | 820 | (4,021) |
| Cash received in Panamco acquisition | - | - | 633 |
| Initial balance | 3,603 | 2,783 | 6,171 |
| Ending balance | Ps. 1,958 | Ps. 3,603 | Ps. 2,783 |
| Supplemental cash flow information: | | | |
| Interest paid | Ps. 2,187 | Ps. 2,268 | Ps. 1,125 |
| Income tax and tax on assets paid | 2,718 | 1,833 | 1,589 |

(1) Expressed in millions of historical Mexican pesos.

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| Consolidated Statements of Changes in Stockholders' Equity | 2005 | 2004 |
|--|-------------------|-------------|
| Stockholders' equity at the beginning of the year | Ps. 30,243 | Ps. 23,966 |
| Increase in capital | - | 3 |
| Dividends declared and paid | (636) | (557) |
| Other comprehensive income: | | |
| Cumulative translation adjustment | (41) | 104 |
| Restatement of prior year financial statements | 35 | 302 |
| Unrealized gains (losses) on cash flow hedges | (386) | 200 |
| Additional labor liability over unrecognized net transition obligation | 3 | (24) |
| Result of holding non-monetary assets | 78 | 324 |
| Total other comprehensive income | (311) | 906 |
| Net income | 4,455 | 5,925 |
| Stockholders' equity at the end of the year | Ps. 33,751 | Ps. 30,243 |

Note 26. Reconciliation of Mexican GAAP to U.S. GAAP.**a) Reconciliation of Net Income:**

| | 2005 | 2004 | 2003 |
|--|------------------|-------------|-------------|
| Net majority income under Mexican GAAP | Ps. 4,586 | Ps. 5,580 | Ps. 2,520 |
| U.S. GAAP adjustments: | | | |
| Restatement of prior year financial statements (Note 25 a) | - | 41 | (7) |
| Restatement of imported equipment (Note 25 e) | (35) | (6) | 8 |
| Capitalization of the integral result of financing (Note 25 f) | (12) | (6) | (6) |
| Derivative financial instruments (Note 25 g) | (31) | (35) | 8 |
| Deferred income taxes (Note 25 h) | 4 | 233 | 126 |
| Deferred employee profit sharing (Note 25 h) | 82 | 56 | (39) |
| Labor cost (Note 25 i) | (1) | (4) | (2) |
| Severance indemnities (Note 25 i) | (155) | - | - |
| Deferred promotional expenses (Note 25 c) | 17 | 66 | (110) |
| Total U.S. GAAP adjustments | (131) | 345 | (22) |
| Net income under U.S. GAAP | Ps. 4,455 | Ps. 5,925 | Ps. 2,498 |

Under U.S. GAAP, the monetary position effect of the income statement adjustments is included in each adjustment, except for the capitalization of the integral result of financing and intangible assets as well as pension plan liabilities, which are non-monetary.

b) Reconciliation of Stockholders' Equity:

| | 2005 | 2004 |
|--|-------------------|------------|
| Majority stockholders' equity under Mexican GAAP | Ps. 33,768 | Ps. 30,415 |
| U.S. GAAP adjustments: | | |
| Restatement of prior year financial statements (Note 25 a) | - | (35) |
| Intangible assets (Note 25 d) | 42 | 42 |
| Restatement of imported machinery and equipment (Note 25 e) | 463 | 71 |
| Capitalization of the integral result of financing (Note 25 f) | 59 | 71 |
| Deferred income taxes (Note 25 h) | 12 | 62 |
| Deferred employee profit sharing (Note 25 h) | (395) | (477) |
| Deferred promotional expenses (Note 25 c) | (38) | (55) |
| Derivative financial instruments (Note 25 g) | - | 144 |
| Pension liability (Note 25 i) | (5) | 5 |
| Severance indemnities (Note 25 i) | (155) | - |
| Total U.S. GAAP adjustments | (17) | (172) |
| Stockholders' equity under U.S. GAAP | Ps. 33,751 | Ps. 30,243 |

c) Reconciliation of Comprehensive Income:

| | 2005 | 2004 | 2003 |
|--|------------------|-----------|-----------|
| Majority comprehensive income under Mexican GAAP | Ps. 3,989 | Ps. 5,960 | Ps. 3,378 |
| U.S. GAAP adjustments: | | | |
| Net income (loss) | (131) | 345 | (22) |
| Derivative financial instruments | (144) | 200 | (73) |
| Restatement of prior year financial statements | 35 | 347 | 266 |
| Result of holding non-monetary assets | 395 | (21) | (360) |
| Comprehensive income under U.S. GAAP | Ps. 4,144 | Ps. 6,831 | Ps. 3,189 |

Note 27. Future Impact of Recently Issued Accounting Standards Not Yet in Effect.**a) In Mexican GAAP:**

As of May 31, 2004, the Mexican Institute of Public Accountants (IMCP) formally transferred the function of establishing and issuing financial reporting standards to the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), consistent with the international trend of requiring this function be performed by an independent entity.

Accordingly, the task of issuing bulletins of Mexican GAAP and circulars previously issued by the IMCP was transferred to CINIF, who subsequently renamed standards of Mexican GAAP as Normas de Información Financiera (Financial Reporting Standards, or NIFs), and determined that NIFs encompass (i) new bulletins established under the new function; (ii) any interpretations issued thereon; (iii) any Mexican GAAP bulletins that have not been amended, replaced or revoked by the new NIFs; and (iv) International Financial Reporting Standards (IFRS) that are supplementary guidance to be used when Mexican GAAP does not provide primary guidance.

One of the main objectives of CINIF is to attain greater concurrence with IFRS. To this end, it started by reviewing the theoretical concepts contained in Mexican GAAP and establishing a Conceptual Framework (CF) to support the development of financial reporting standards and to serve as a reference in solving issues arising in the accounting practice. The CF is formed by eight financial reporting standards, which comprise the NIF-A series. The NIF-A series, together with NIF B-1, were issued on October 31, 2005. Their provisions are effective for years beginning January 1, 2006, superseding all existing Mexican GAAP series A bulletins.

The most significant changes established by these standards are as follows:

- In addition to the statement of changes in financial position, NIF A-3 includes the statement of cash flows, which should be issued when required by a particular standard.
- NIF A-5 includes a new classification for revenues and expenses: ordinary and extraordinary. Ordinary revenues and expenses are derived from transactions or events that are within the normal course of business or that are inherent in the entity's activities, whether frequent or not; extraordinary revenues and expenses refer to unusual transactions and events, whether frequent or not.
- NIF A-7 requires the presentation of comparative financial statements for at least with the preceding period. Through December 31, 2004, the presentation of prior years' financial statements was optional. The financial

statements must disclose the authorized date for their issuance, and the name(s) of the officer(s) or administrative body(ies) authorizing the related issuance.

- NIF B-1 establishes that changes in particular standards, reclassifications and correction of errors must be recognized retroactively. Consequently, basic financial statements presented on a comparative basis with the current year that might be affected by the change, must be adjusted as of the beginning of the earliest period presented.

At the date of issuance of these financial statements, the Company has not fully assessed the effects of adopting these new standards on its financial information.

b) U.S. GAAP:

The following new accounting standards have been issued under U.S. GAAP, the application of which is required as indicated. The Company does not anticipate that these new standards will have a significant impact on its consolidated financial position or results of operations.

Share-Based Payments , or SFAS No. 123(R)

This Statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , to stock compensation awards issued to employees. Rather, SFAS No. 123(R) requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period

during which an employee is required to provide services in exchange for the award the requisite service period (usually the vesting period). SFAS No. 123(R) applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS No. 123(R) will be effective for the fiscal year ending December 31, 2006. The Company does not grant stock options to employees.

Inventory Costs , or SFAS No. 151

SFAS No. 151 is an amendment to Accounting Research Bulletin No. 43. This statement clarifies that the abnormal amounts of the idle capacity expense, freight, handling costs and wasted materials should be recognized as current period charges and requires the allocation of fixed production overhead cost to inventory based on the normal capacity of the production facilities. This guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application allowed for inventory costs incurred during fiscal years beginning after November 23, 2004. The company will adopt this accounting standard on January 1, 2006.

Exchanges of Non-monetary Assets - an Amendment of APB Opinion No. 29 , or SFAS No. 153

In December 2004, the FASB issued SFAS No. 153, which amends APB Opinion No. 29, Accounting for Non-monetary Transactions , to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance.

SFAS No. 153 is effective for non-monetary assets exchanges occurring in fiscal periods beginning after June 15, 2005. The Company will adopt this accounting standard on January 1, 2006.

Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 , or SFAS No. 154

In May 2005, the FASB issued SFAS No. 154. This statement replaces APB Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements and changes the requirements for the accounting for and reporting a change in accounting principle. This statement applies to all voluntary changes in accounting principle and also to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle instead of recognize voluntary changes in accounting principle by including in net income of the period the change of the cumulative effect refer to a new pronouncement. This guidance should be applied for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

EITF Issue No. 96-16, Investor s Accounting for and Investee when the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders have Certain Approval or Veto Rights

In June 2005, the Task Force agreed to amend Item 4 of the Protective Rights section of this consensus as well as Example 1 of Exhibit 96-16A to be consistent with the consensus reached in Issue 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a limited Partnership Rights . EITF 96-16 Item 4 specifies that the acquisitions or dispositions of assets that are not expected to be undertaken in the ordinary course of the business is considered as a protective right and this does not overcome the presumption of consolidation by the investor with a majority voting interest in its investee. This amendment should be applied to new investments and to investment agreements that are modified after June 29, 2005. The consensus of this amendment to EITF 96-16, does not change the Company s current equity method of accounting of for its investment in its subsidiaries in its U.S. GAAP consolidated financial statement.

EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

On November 3, 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This FASB Staff Position (FSP) addresses the determination as to when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting consideration subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and APB Opinion No.18, *The Equity method of accounting for Investments in Common Stock*. The Company will adopt the recognition and measurement guidance of EITF 03-1 in 2006, when applicable.

EITF Issue No. 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty

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In September 2005, the Board ratified the consensus reached by the Task Force regarding EITF Issue No. 04-13. This guidance addresses the circumstances under which two or more inventory transactions with the same counterparty should be viewed as a single non-monetary transaction with the scope of APB Opinion 29, Accounting for Non-monetary Transactions. The Task Force reached a consensus that non-monetary exchange whereby an entity transfers finished goods inventory in exchange for the receipt of raw materials or work-in-progress inventory within the same line of business is not considered as an exchange transaction to facilitate sales customers as described in APB Opinion 29 paragraph 20(b) and therefore should be recognized by the entity at fair value if it is determinable within reasonable limits and the transaction has commercial substance. All other non-monetary exchanges of inventory within the same line of business should be recognized at the carrying amount of the inventory transferred. The Task Force agreed that this consensus should be applied to transactions completed in reporting periods beginning after March 2006. The Company will adopt this guidance in 2006.

EITF Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination

In June 2005, the Task Force reached a consensus on EITF Issue No. 05-6. This guidance determines that leasehold improvements acquired in a business combination should be amortized over the shorter of the useful life of the assets or a term that includes required lease period and renewals that are deemed to be reasonably assured at the date of acquisition. The Task Force also agreed that leasehold improvements that are placed in service significantly after and not contemplated at or near beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date the leasehold improvement are purchased. This consensus should be applied to leasehold improvements that are purchased or acquired in reporting periods beginning after June 29, 2005.

FSP FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period

In October 2005, the Board addressed that there is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore rental costs associated with ground or building operating leases that are incurred during construction period shall be recognized as rental expense. This guidance shall be applied to the first reporting period beginning after December 15, 2005. Currently, for U.S. GAAP purposes, the Company records rental expenses in the income statement as incurred.